SOUTHWEST GAS CORP
Form DEF 14A
March 28, 2007
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SCHEDULE 14A INFORMATION

(RULE 14A-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ Confidential, for Use of the Commission Only(as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Under Rule 14a-11(c) or Rule 14a-12

Southwest Gas Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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Notice of 2007 Annual Meeting of Shareholders

and Proxy Statement

SOUTHWEST GAS CORPORATION

Annual Meeting 2007

May 3, 2007 Las Vegas, Nevada

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SOUTHWEST GAS CORPORATION

5241 Spring Mountain Road

Las Vegas, Nevada 89150

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To be Held Thursday, May 3, 2007

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Southwest Gas Corporation (Company) will be held on Thursday, May 3, 2007, at 10:00 a.m. in the conference facilities at the Palms Casino Resort, 4321 West Flamingo Road, Las Vegas, Nevada, for the following purposes:

(1) To elect 12 directors of the Company;

(2) To consider and act upon a proposal to approve the 2006 Restricted Stock/Unit Plan, as set forth in Exhibit A to the Proxy Statement;

(3) To consider and act upon a proposal to amend the Restated Articles of Incorporation of the Company to increase the authorized shares of Common Stock from 45,000,000 to 60,000,000 shares;

(4) To consider and act upon a proposal to ratify the selection of PricewaterhouseCoopers LLP as independent accountants of the Company; and

(5) To transact such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors of the Company has established March 6, 2007, as the record date for the determination of shareholders entitled to vote at the Annual Meeting and to receive notice thereof.

Shareholders are cordially invited to attend the Annual Meeting in person. WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE VOTE THE ACCOMPANYING PROXY BY TELEPHONE, INTERNET, OR MAIL AT YOUR EARLIEST CONVENIENCE. IF YOU MAIL IN YOUR PROXY, PLEASE USE THE ENCLOSED POSTAGE-PAID ENVELOPE.

The Annual Report to Shareholders for the year ended December 31, 2006, is also enclosed.

George C. Biehl
Executive Vice President/Chief Financial Officer &
Corporate Secretary

March 26, 2007

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Jeffrey W. Shaw, C.E.O.

March 26, 2007

Dear Shareholders:

You are cordially invited to the Annual Meeting of Shareholders of Southwest Gas Corporation scheduled to be held on Thursday, May 3, 2007, in the conference facilities at the Palms Casino Resort, 4321 West Flamingo Road, Las Vegas, Nevada, commencing at 10:00 a.m. Your Board of Directors looks forward to greeting personally those shareholders able to attend.

At the meeting you will be asked to elect 12 directors, adopt the 2006 Restricted Stock/Unit Plan, increase the authorized shares of Company common stock and ratify the selection of PricewaterhouseCoopers LLP as the Company s independent accountants for 2007. Your Board of Directors asks you to support the director nominees listed in the proxy materials and to vote FOR adoption of the new equity based compensation plan, the increase in authorized shares, and the selection of PricewaterhouseCoopers LLP.

It is important that your shares are represented and voted at the meeting regardless of the number of shares you own and whether or not you plan to attend. Accordingly, we request you vote the accompanying proxy by telephone, internet, or mail at your earliest convenience.

Your interest and participation in the affairs of the Company are sincerely appreciated.

Sincerely,

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LOCATION OF 2007

SOUTHWEST GAS CORPORATION

ANNUAL MEETING OF SHAREHOLDERS

PALMS CASINO RESORT

4321 West Flamingo Road

Las Vegas, Nevada

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SOUTHWEST GAS CORPORATION

5241 Spring Mountain Road • P.O. Box 98510

• Las Vegas, Nevada 89193-8510 •

PROXY STATEMENT

March 26, 2007

GENERAL INFORMATION

We are providing these proxy materials to you in connection with the solicitation of proxies by the Board of Directors of Southwest Gas Corporation for the 2007 Annual Meeting of Shareholders and for any adjournment or postponement of the Annual Meeting. In this proxy statement, we refer to Southwest Gas Corporation as the Company, the Board of Directors as we, our, us, or the Bo and the committees of the Board of Directors as the name of the specific committee or as the committee.

We intend to mail this proxy statement and a proxy card to shareholders on or about March 26, 2007.

What is the purpose of the Annual Meeting?

At the Annual Meeting, shareholders will act upon the matters outlined in the notice of meeting in these materials, including the election of directors, approval of the 2006 Restricted Stock/Unit Plan (the 2006 Plan), amending the Articles of Incorporation to increase authorized shares of Company common stock, and ratifying the selection of our independent accountants, and the transaction of other business, if properly presented at the meeting.

Who is entitled to vote at the Annual Meeting?

Only shareholders of record at the close of business on March 6, 2007, the record date for the Annual Meeting, are entitled to receive notice of and participate in the meeting. If you were a shareholder of record on that date, you are entitled to vote all of the shares that you held on that date at the meeting, or any adjournment or postponement of the meeting.

If your shares are registered directly in your name, you are the holder of record of these shares and we are sending these proxy materials directly to you. As the holder of record, you have the right to mail your proxy directly to us, to give your voting instructions on the internet or by telephone, or to vote in person at the Annual Meeting.

If you hold your shares in a brokerage account or through a bank or other holder of record, you are the beneficial owner of the shares and hold the shares in street name, and your broker, bank or other holder of record is sending these proxy materials to you. As the beneficial owner, you have the right to direct your brokers, banks, or other holders of record, how to vote by following the instructions that accompany your proxy materials.

If you hold your shares indirectly in the Southwest Gas Corporation Employees Investment Plan (the EIP), you have the right to direct the trustee of the EIP how to vote your shares by following the instructions that accompany your proxy materials.

How many votes do I have?

You have one vote for each share of Company common stock you owned as of the record date for the Annual Meeting.

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How do I vote?

You can vote either in person at the Annual Meeting or by proxy whether or not you attend the meeting. To vote by proxy, you must either:

* Complete the enclosed proxy card, sign it and return it in the enclosed postage-paid envelope;
* Vote by telephone by calling toll-free 1-800-660-7809 on a touch-tone telephone and following the instructions on the enclosed proxy card; or
* Vote over the internet at our internet address: *www.proxyvoting.com/swg* by following the instructions on the enclosed proxy card.

Can I change my vote?

Yes, you can change your vote by (a) sending a new proxy card with a later date; (b) casting a new vote by telephone or over the internet; (c) sending a written notice of revocation to our Corporate Secretary by mail to Shareholder Services, Southwest Gas Corporation, P.O. Box 98510, Las Vegas, NV 89193-8510, or by facsimile at 702-871-9942; or (d) voting by ballot at the Annual Meeting.

What are the Board s recommendations?

The Board s recommendations are set forth with the description of each item in this proxy statement. In summary, the Board recommends a vote:

* FOR election of the nominated slate of directors (see Item 1);
* FOR approval of the 2006 Plan (see Item 2);
* FOR increasing authorized shares of Company common stock to 60,000,000 shares (see Item 3); and
* FOR ratification of the selection of PricewaterhouseCoopers LLP as our independent accountants (see Item 4).

With respect to any other matter that properly comes before the Annual Meeting, LeRoy C. Hanneman, Jr. and James J. Kropid, our proxies, will vote as recommended by the Board or, if no recommendation is given, at their discretion.

How many votes must be present to hold the Annual Meeting?

We will have a quorum, and we will be able to conduct the business of the Annual Meeting, if the holders of majority of the shares entitled to vote are represented in person or by proxy at the meeting. As of the record date, 42,041,680 shares of Company common stock were outstanding and the presence of the holders of at least 21,020,841 shares of Company common stock will be required to establish a quorum. Proxies received but marked as abstentions and broker non-votes will be included in the calculation of the votes considered being present at the meeting.

A broker non-vote occurs when a broker lacks discretionary voting power to vote on a non-routine proposal and a beneficial owner fails to give the broker voting instructions on that matter. The rules of the New York Stock Exchange (the NYSE) determine whether matters presented at the Annual Meeting are routine or non-routine in nature. The election of directors, the increase in

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authorized shares of Company common stock, and the ratification of the selection of PricewaterhouseCoopers LLP as our independent accountants are currently considered routine matters and a broker has the discretionary voting power to vote on these matters without any instructions from the beneficial owner. Beneficial owners of Company common stock will have to give voting instructions to a broker in order for a broker to vote on the proposed 2006 Plan.

What vote is required to approve each item?

Directors are elected by a plurality of the votes cast. Adoption of the proposed 2006 Plan and ratification of PricewaterhouseCoopers LLP s selection requires the affirmative vote of a majority of shares of Company common stock represented at the Annual Meeting and entitled to vote. Increasing the authorized number of shares of Company common stock to 60,000,000 shares requires the affirmative vote of a majority of shares outstanding on the Record Date.

Do I have an opportunity to cumulate my votes for director nominees?

Shareholders have cumulative voting rights for the election of directors, if certain conditions are met. Shareholders entitled to vote may cumulate their votes for a candidate or candidates placed in nomination at the meeting if, prior to the voting at the meeting, notice has been given that a shareholder intends to cumulate his or her votes. Shareholders deciding to cumulate their votes may cast as many votes as there are directors to be elected, multiplied by the number of shares of Company common stock held on the Record Date. The votes may be cast for one candidate or allocated among two or more candidates in any manner the shareholders choose. If any shareholder has given notice of cumulative voting, all shareholders may cumulate their votes for candidates in nomination.

If sufficient numbers of shareholders exercise cumulative voting rights to elect one or more other candidates, our proxies will:

* determine the number of directors they can elect;
* select such number from among the named candidates;
* cumulate their votes; and
* cast their votes for each candidate among the number they can elect.

How are my votes counted?

* **Election of Directors:** You may vote FOR ALL, FOR ALL EXCEPT or WITHHOLD AUTHORITY FOR ALL of the director nominees. If you mark FOR ALL EXCEPT, your votes will be counted for every other director nominee.

* **Approval of the proposed 2006 Plan:** You may vote FOR, AGAINST, or ABSTAIN the proposed 2006 Plan. If you ABSTAIN or if your shares are treated as a broker non-vote, your votes will be counted for purposes of establishing a quorum and will have no effect on the ratification of the proposal.

* **Approval to Increase Authorized Shares of Company Common Stock:** You may vote FOR, AGAINST, or ABSTAIN the increase of authorized shares of Company common stock. If you ABSTAIN or if your shares are treated as a broker non-vote, your votes will be

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counted for purposes of establishing a quorum and will be treated as voting AGAINST approval of the proposal.

* **Ratification of the selection of PricewaterhouseCoopers LLP:** You may vote FOR, AGAINST, or ABSTAIN the selection of our independent accountants. If you ABSTAIN or if your shares are treated as a broker non-vote, your votes will be counted for purposes of establishing a quorum and will have no effect on the ratification of the proposal.

We will appoint either one or three inspectors of election in advance of the meeting to tabulate votes, to ascertain whether a quorum is present, and to determine the voting results on all matters presented to Company shareholders.

What if I do not vote for some of the matters listed on my proxy card?

If you return a signed proxy card or vote by telephone or the internet without indicating your vote on any or all of the matters to be considered at the Annual Meeting, your shares will be voted FOR the director nominees listed on the proxy card and FOR each of the proposals.

Can the shares that I hold in a brokerage account or the EIP be voted if I do not instruct my broker or the EIP trustee?

* **Shares held in street name:** If you do not instruct your broker to vote your shares of Company common stock held in street name, your broker has the discretion to vote your shares on all routine matters scheduled to come before the Annual Meeting. If any matters to be considered at the meeting are viewed as non-routine, your broker does not have discretion to vote your shares and, if you do not give your broker voting instructions, your broker will vote your shares as broker non-votes. The election of directors, the increase in authorized shares of Company common stock, and the ratification of the selection of our independent accountants are routine and your broker will have the discretion to vote your shares unless you provide voting instructions. Approval of the proposed 2006 Plan is viewed as non-routine and your broker will need instructions from you in order to vote on this proposal.

* **Shares held in the EIP:** If you do not provide instructions to the EIP trustee for the shares of Company common stock you hold in the EIP, then the EIP trustee will vote your shares in the same proportion as the shares for which timely instructions were received.

Could other matters be decided at the Annual Meeting?

We do not know of any other matters that will be considered at the Annual Meeting. If any other matters are properly brought before the meeting, your shares will be voted at the discretion of the proxies, unless otherwise instructed.

What Rules of Conduct will govern the Annual Meeting?

To ensure that our Annual Meeting is conducted in an orderly fashion and the shareholders wishing to speak at the meeting have a fair opportunity to do so, we will have certain guidelines and rules for the conduct of the meeting, which we will provide to those attending the meeting.

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What happens if the Annual Meeting is postponed or adjourned?

If the Annual Meeting is postponed or adjourned, your proxy will still be good and may be voted at the postponed or adjourned meeting. You will still be able to change or revoke your proxy until it is voted.

Who is soliciting my proxy?

Your proxy is being solicited by the Board. Morrow & Co. has been employed to assist in obtaining proxies from certain larger and other shareholders at an estimated cost of $6,500.00 plus certain expenses. Arrangements have also been made with brokerage houses and other custodians, nominees, and fiduciaries to send proxies and proxy materials to you, if your shares are held in a street name, and Morrow & Co. will reimburse them for their expenses in providing the materials to you.

GOVERNANCE OF THE COMPANY

Board of Directors

Under the provisions of the California Corporations Code and the Company s Bylaws, the Company s business, property and affairs are managed by or are under our direction. We are kept informed of the Company s business through discussions with the Chief Executive Officer and other officers, by reviewing materials provided to us and by participating in our regular Board and committee meetings.

We have determined that directors Chestnut, Comer, Gardner, Hanneman, Kropid, Mariucci, Melarkey, Sparks, and Wright have no material relationships with the Company and are independent. We reached the same conclusion with respect to directors Thomas Y. Hartley and Manuel J. Cortez, while they served on the Board during 2006. We have also determined that members of the Audit, Compensation, and Nominating and Corporate Governance Committees are independent. In making this determination, we have reviewed all transactions or relationships with the Company using a definition of material relationships to include the criteria listed in Section 303A of the Listing Rules of the NYSE and have presumed that matters not subject to disclosure pursuant to Item 404 of Regulation S-K of the Securities Exchange Act of 1934 (the Exchange Act) and authorized by the Company s regulatory tariffs above the Item 404 threshold are not material relationships. The definition of material relationships for directors on the Audit Committee also includes the criteria listed in Section 10A(m)(3) of the Exchange Act. The definition of material relationships for directors serving on the Compensation Committee, also includes the criteria listed in Section 16(b) of the Exchange Act and Section 162(m) of the Internal Revenue Code (the Code). The independence criteria we use is included in the Company s corporate governance guidelines, which are available on the Company s website at: *http://www.swgas.com/investorrelations*.

We based our determination primarily on a review of the responses of the directors and executive officers to questions regarding employment and compensation history, affiliations and family relationships and on discussions with directors. In concluding that the named directors are independent, we did review transactions involving directors Comer and Wright. During 2006, the Company contracted with Deloitte & Touche LLP to assist in developing a program to manage a component of the Company s gas purchasing activities. The Deloitte contract was concluded in 2006 before Mr. Comer was elected to the Board. The Company also used one of Mr. Wright s companies to secure title insurance for the purchase of a piece of real property in southern Nevada.

Our Board meetings are scheduled for the third Tuesday of January and September, the fourth Tuesday of February, the fifth Tuesday of July, the second Wednesday of November, and the

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Wednesday before the Annual Meeting in May. An organizational meeting is held immediately following the Annual Meeting. We held six regular meetings and one organizational meeting in 2006. Each incumbent director attended more than 75% of the Board and committee meetings on which he or she served during 2006. Non-management directors are expected to meet in an executive session at least four times a year, and the independent directors are expected to meet at least once a year. These sessions are presided over by LeRoy C. Hanneman, Jr., Chairman of the Board, who is the current Presiding Director.

Committees of the Board

Our permanent Board committees consist of Audit, Compensation, Nominating and Corporate Governance, and Pension Plan Investment. Each committee has established responsibilities, while Audit, Compensation, and Nominating and Corporate Governance have detailed charters designed to satisfy the Listing Rules of the NYSE. The members of the Audit, Compensation, and Nominating and Corporate Governance committees are composed solely of independent directors as outlined above.

The *Audit Committee*, whose functions are discussed here and below under the captions Selection of Independent Accountants and Audit Committee Report, is a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. It consists of directors Gardner (Chair), Chestnut, Comer, Kropid, Mariucci and Sparks. The committee meets periodically with management to consider, among other things, the adequacy of the Company s internal controls and financial reporting process. The committee also discusses these matters with the Company s independent accountants, internal auditors, and Company financial personnel. We determined that directors Comer, Gardner, and Mariucci, who are independent, each qualifies as an *audit committee financial expert,* as the term is defined in Item 401(h) of Regulation S-K under the Exchange Act.

The *Compensation Committee* is responsible for determining CEO compensation and making recommendations to us annually, on such matters as directors fees and benefit programs, executive compensation and benefits, and compensation and benefits for all other Company employees. The committee s charge, as outlined in its charter, cannot be delegated without Board approval. The committee does receive recommendations from management on the amount and form of executive and director compensation; however, the committee does have the ability to directly employ consultants to assess the executive compensation program. The committee is also responsible for the Executive Compensation Report. The committee consists of directors Chestnut (Chair), Gardner, Hanneman, and Mariucci.

The *Nominating and Corporate Governance Committee* is responsible for making recommendations to us regarding nominees to be proposed for election as directors; evaluating the Board s size, composition, organization, processes, practices, and number of committees; and recommending the criteria for the selection of directors. The committee considers written suggestions from shareholders regarding potential nominees for election as directors. The process for selecting directors is addressed in more detail below under the caption Selection of Directors. The committee is also charged with the responsibility of developing and recommending corporate governance principles and compliance programs for the Company. The committee consists of directors Kropid (Chair), Hanneman, Melarkey, Sparks, and Wright.

The *Pension Plan Investment Committee* establishes, monitors, and oversees, on a continuing basis, asset investment policy and practices for the Company s retirement plan. The committee consists of directors Melarkey (Chair), Biehl, Comer, Maffie, and Wright.

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During 2006, the Audit Committee held six meetings, the Compensation Committee held five meetings, the Nominating and Corporate Governance Committee held four meetings, and the Pension Plan Investment Committee held three meetings.

The charters for the Audit, Compensation, and Nominating and Corporate Governance Committees, the Company s corporate governance guidelines, and the Company s code of business conduct that applies to all employees, officers and directors are available on the Company s website at: *http://www.swgas.com/investorrelations.* Print versions of these documents are available to shareholders upon request directed to the Corporate Secretary, Southwest Gas Corporation, 5241 Spring Mountain Road, Las Vegas, NV 89150.

Selection of Directors

We believe our Board should be composed of individuals with varied, complementary backgrounds, who possess certain core competencies, some of which may include broad experience in business, finance or administration, and familiarity with national and international business matters and the energy industry. Additional factors that will be considered in the selection process include the following:

* Independence from management;
* Diversity, age, education, and geographic location;
* Knowledge and business experience;
* Integrity, leadership, reputation, and ability to understand the Company s business;
* Existing commitments to other businesses and boards; and
* The current number and composition of our existing directors.

The Nominating and Corporate Governance Committee will consider candidates for directors suggested by shareholders applying the criteria for candidates described above and considering the additional information referred to below. Shareholders who would like to suggest a candidate should write to the Company s Corporate Secretary and include:

* A statement that the writer is a shareholder and is proposing a candidate for consideration as a director nominee;
* The name of and contact information for the candidate;
* A statement of the candidate s business and educational experience;

* Information regarding each of the factors listed above, in sufficient detail to enable the committee to evaluate the candidate;

* A statement detailing any relationship between the candidate and the Company, Company affiliates, and any competitor of the Company;

* Detailed information about any relationship or understanding between the proposing shareholder and the candidate; and

* The candidate s written consent to being named a nominee and serving as a director if elected.

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When seeking a candidate for director, the Nominating and Corporate Governance Committee may solicit suggestions from incumbent directors, management or others. The committee may also retain a search firm to identify potential candidates.

As a result of director Cortez s unexpected death in June 2006, the committee asked the committee chairman, director Kropid, and the CEO, Mr. Shaw, to initiate a search for his replacement from potential candidates in southern Nevada. In addition to the above-described factors, the committee also directed these individuals to take into consideration the regulatory requirements imposed on the board in selecting potential candidates. Two potential candidates were identified and the committee selected Stephen C. Comer as director Cortez s replacement. Mr. Comer was elected at the January 2007 Board meeting. Mr. Comer and the directors you elected at last year s Annual Meeting of Shareholders make up the slate of director nominees for your consideration at this year s Annual Meeting.

Shareholders may also nominate a person for election to the Board at an annual meeting by giving written notice to the Company not less than 20 days prior to the first anniversary of the preceding year s annual meeting, or within 10 days after notice is mailed or public disclosure is made regarding either a change of the annual meeting by more than 30 days or a special meeting at which directors are to be elected. For this year s Annual Meeting, the required notice must be received by the Company on or before April 12, 2007. In order to make such a nomination, a shareholder is required to include in the written notice the following:

* As to each person whom the shareholder proposes to nominate for election or reelection as a director all the information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required pursuant to Regulation 14A of the Exchange Act, as amended;

* Each person s written consent to being named a nominee and serving as a director, if elected;

* The name and address of the proposing shareholder or beneficial owner; and

* The class and number of shares of the Company held directly or indirectly by the proposing shareholder.

Shareholder Nominees

There were no director nominee candidates submitted by shareholders for consideration by the Nominating and Corporate Governance Committee for this year s Annual Meeting.

Related Party Transactions

We have adopted a written policy and are in the process of implementing written procedures for the review, approval, or ratification of any related party transactions. The policy addresses transactions in which the Company was or is a participant, the amount exceeds $120,000, and a related party, which includes any director, executive officer, nominee for director or their immediate family members, had or will have a direct or indirect material interest. These transactions will be reported to the Company s general counsel, reviewed by the Nominating and Corporate Governance Committee, and approved or ratified only if the committee determines that the transaction is not inconsistent with the best interests of the Company. The policy is included in the Company s corporate governance guidelines, which is available on the Company s website at: *http://www.swgas.com/investorrelations*.

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Directors and Officers Share Ownership Guidelines

In order to align our interests with that of all shareholders, we have adopted Company common stock ownership guidelines for the directors and Company officers.

The outside directors are expected to acquire and retain a minimum of 3,000 shares of Company common stock. New outside directors elected at or after the 2006 Annual Meeting will be expected to satisfy the share ownership guidelines within two years of becoming a director. Management directors are expected to purchase and retain specific share minimums tied to their positions with the Company.

Company officers are expected to acquire and retain the following minimum levels of Company common stock.

*	Chief Executive Officer	25,000 shares
*	President	15,000 shares
*	Executive Vice President	12,500 shares
*	Senior Vice President	10,000 shares
*	Vice President	5,000 shares

Current executives have five years to satisfy these guidelines. Newly named executives and executives promoted to positions requiring a greater number of shares will have an additional two years to reach the new levels.

Compensation Committee Interlocks and Insider Participation

The members of the Compensation Committee through the 2006 Annual Meeting were directors Sparks, Cortez, Hanneman, Melarkey, and Wright. After the 2006 Annual Meeting of Shareholders, the members of the committee were directors Chestnut, Cortez, Gardner, Hanneman, and Mariucci, and except for director Cortez, these directors are the current members of the committee. Director Cortez died in June 2006 and was not replaced on the committee. None of the members has ever been an officer or employee of the Company or any of its subsidiaries and no compensation committee interlocks existed during 2006.

Director Attendance at Annual Meetings

We normally schedule Board meetings in conjunction with each annual meeting and we expect each director to attend the meetings. Last year, all of the directors attended the 2006 Annual Meeting of Shareholders.

Shareholder Communications with Directors

Any shareholders who would like to communicate with the Board, the Presiding Director, or any individual directors can write to:

Southwest Gas Corporation

Corporate Secretary

5241 Spring Mountain Road

P.O. Box 98510

Las Vegas, NV 89193-8510

Depending on the subject matter, management will either:

* forward the communication to the director or directors to whom it is addressed;

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* attempt to handle the inquiry directly, for example, where it is a request for information about the Company or a stock-related matter; or

* not forward the communication, if it is primarily commercial in nature, or if it relates to an improper or irrelevant topic.

If the communication is addressed to the Presiding Director, the communication will be forwarded directly to the Presiding Director and will not be processed by management. At each of our meetings, a member of management will present a summary of all communications received since the last meeting that were not forwarded and make such communications available to the directors.

ELECTION OF DIRECTORS

(Item 1 on the Proxy Card)

The Board of Directors Recommends a Vote FOR Election of the Director Nominees.

Names and Qualifications of Nominees

Each director elected at an annual meeting will serve until the next annual meeting and until his or her successor is elected and qualified. Eleven of the nominees were elected to their present term of office at the last Annual Meeting on May 4, 2006. Manuel J. Cortez, who died unexpectedly in June 2006, was replaced by Stephen C. Comer in January 2007. Mr. Cortez served as a director for over 15 years and his counsel, insight, and advice will be missed.

The 12 nominees for director receiving the highest number of votes, a plurality, will be elected to serve until the next Annual Meeting. The names of the nominees, their principal occupation, and recent employment history are set forth on the following pages.

George C. Biehl

Executive Vice President, Chief Financial Officer & Corporate Secretary

Southwest Gas Corporation

Director Since: 1998

Board Committees: Pension Plan Investment

Mr. Biehl, 59, joined the Company in 1990 as Senior Vice President and Chief Financial Officer after serving in a number of capacities with Deloitte Haskins & Sells (now Deloitte &Touche) and as chief financial officer for PriMerit Bank for the five years before joining the Company. He assumed the responsibilities as Corporate Secretary for the Company in 1996 and was named Executive Vice President in 2000. Mr. Biehl graduated from The Ohio State University with a degree in accounting and earned his MBA with an emphasis in finance from Columbia University. He is a member of the American Institute of Certified Public Accountants, a member of the Las Vegas Chamber of Commerce Leadership Las Vegas Program, and serves on various committees of several trade associations.

Thomas E. Chestnut

Owner, President and CEO

Chestnut Construction Company

Director Since: 2004

Board Committees: Audit, Compensation (Chair)

Mr. Chestnut, 56, after serving in Vietnam with the U.S. Army, began a career in the construction industry in 1972 with Del Webb Corporation. Leaving Webb in 1980 as Manager of Commercial

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Operations, Mr. Chestnut took a position with The Wray Company, a commercial contractor and wholly-owned subsidiary of Weyerhaeuser Company. He remained with Wray until 1990 when he founded Chestnut Construction Company in Tucson, Arizona. Mr. Chestnut is a past president and life director of the Arizona Builders Alliance and a past president of the Arizona Building Chapter of the Associated General Contractors of America. He is the past chair and life trustee of the Carondelet Foundation, a member of the Tucson Conquistadors, a member and past director of the Centurions of St. Mary s Hospital, and a member of the Alexis de Toqueville Society of United Way of Greater Tucson. Mr. Chestnut was named the 2001 Tucson Small Business Leader of the Year by the Tucson Metropolitan Chamber of Commerce and the 2002 Arizona Small Business Person of the Year by the United States Small Business Administration.

Stephen C. Comer

Retired Managing Partner

Deloitte & Touche LLP

Director Since: January 2007

Board Committees: Audit, Pension Plan Investment

Mr. Comer, 57, received his degree in accounting from Cal State University Northridge in 1972. He began his career with Arthur Andersen LLP in Los Angeles and established Arthur Andersen s Las Vegas office, as its managing partner, in 1985. Leaving Arthur Andersen in 2002, Mr. Comer took a position as partner with Deloitte & Touche LLP and was promoted to managing partner of its Nevada operations in 2004. He retired in December 2006. He is a member of the American Institute of Certified Public Accountants and Nevada Society of Certified Public Accountants. He is active in numerous civic, educational, and charitable organizations.

Richard M. Gardner

Retired Partner

Deloitte & Touche LLP

Director Since: 2004

Board Committees: Audit (Chair), Compensation

Mr. Gardner, 69, obtained his degree in accounting from Brigham Young University in 1963 and was employed by Deloitte & Touche in its Los Angeles and Phoenix offices until his retirement in 2000. As an audit partner for 27 years, he served clients in various industries and in several management capacities including Professional Practice Director for the Los Angeles area offices. He is a member of the American Institute of Certified Public Accountants and has been active in numerous civic, educational and charitable boards.

LeRoy C. Hanneman, Jr.

Chairman and Chief Executive Officer

Element Homes, LLC

Director Since: 2003

Chairman of Board of Directors

Board Committees: Compensation, Nominating & Corporate Governance

Mr. Hanneman, 60, received his undergraduate degree in construction engineering from Arizona State University. He is the chief executive officer of Element Homes, a homebuilding and real

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estate development company with projects in the metropolitan Phoenix, Arizona area. Mr. Hanneman is a 30-year veteran of the housing industry and former president, chief operating and executive officer of Del Webb Corp. He has served on a number of charitable organization boards including the United Way, Boy Scouts of America and Boys and Girls Club of America.

James J. Kropid

President

James J. Kropid Investments

Director Since: 1997

Board Committees: Audit, Nominating & Corporate Governance (Chair)

Mr. Kropid, 69, received his undergraduate degree from DePaul University and participated in the executive development program at the University of Illinois. He joined Centel Corporation in 1961 and became president of its Central Telephone Company-Nevada/Texas division in 1987. In 1993, the Governor of Nevada appointed him to the position of general manager of the Nevada State Industrial Insurance System, a position in which he served for almost two years. He is currently president of his own investment company. Mr. Kropid is involved in many civic and charitable organizations. In 2003, Mr. Kropid served as the interim executive director of the United Way of Southern Nevada and is on the board and executive committee of that organization. He is a past president of the Las Vegas Area Council of the Boy Scouts of America and presently serves on that board and executive committee. He is past chairman of the YMCA of Southern Nevada and serves as a trustee and on the executive committee of the Desert Research Institute Foundation and chairs that organization s Green Power Project.

Michael O. Maffie

Retired Chief Executive Officer

Southwest Gas Corporation

Director Since: 1988

Board Committees: Pension Plan Investment

Mr. Maffie, 59, joined the Company in 1978 as Treasurer after seven years with Arthur Andersen & Co. He was named Vice President/Finance and Treasurer in 1982, Senior Vice President and Chief Financial Officer in 1984, Executive Vice President in 1987, President and Chief Operating Officer in 1988, President and Chief Executive Officer in 1993 and Chief Executive Officer in 2003, until his retirement in 2004. He received his undergraduate degree in accounting and his MBA in finance from the University of Southern California. He serves as a director of Boyd Gaming Corporation and is a former director of Del Webb Corporation and Wells Fargo Bank/Nevada Division. A member of various civic and professional organizations, he served as chairman of the board of trustees of the UNLV Foundation and is the past chairman of the Board of United Way of Southern Nevada. He also is a past director of the Western Energy Institute and the American Gas Association.

Anne L. Mariucci

Private Investor

Director Since: June 2006

Board Committees: Audit, Compensation

Ms. Mariucci, 49, received her undergraduate degree in accounting and finance from the University of Arizona and completed the corporate finance program at the Stanford University

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Graduate School of Business. She spent the majority of her professional career in the large-scale community development and homebuilding business. Ms. Mariucci was employed by Del Webb Corporation in 1984 and served in a variety of senior management capacities, culminating in President. She retired from Del Webb s successor, Pulte Homes, Inc., in 2003 and with two partners founded Inlign Capital Partners, a private equity firm investing in privately held companies. She is also affiliated with Hawkeye Partners in Dallas, TX and Glencoe Capital in Chicago, IL. Ms. Mariucci is on the boards of the Arizona State Retirement System and the Arizona Board of Regents. She also serves as a director of Scottsdale Healthcare, the Arizona University Foundation and the Fresh Start Women s Foundation.

Michael J. Melarkey

Partner

Avansino, Melarkey, Knobel & Mulligan

Director Since: 2004

Board Committees: Nominating & Corporate Governance, Pension Plan Investment (Chair)

Mr. Melarkey, 57, a partner in the law firm of Avansino, Melarkey, Knobel & Mulligan received his undergraduate degree from the University of Nevada, Reno, his law degree from the University of San Francisco and his masters in laws in taxation from New York University. He has been in private legal practice in Reno, Nevada, since 1976. Mr. Melarkey is a member of the American Bar Association, the International Association of Gaming Lawyers and the State Bar of Nevada. He is a trustee of the Bretzlaff Foundation, the Robert S. and Dorothy J. Keyser Foundation, the Roxie and Azad Joseph Foundation, and the E. L. Wiegand Trust. He is vice president of Miami Oil Producers, Inc. and serves as a director of the Gabelli Dividend and Income Trust, the Gabelli Global Utility and Income Trust, the Gabelli Global Gold, Natural Resources & Income Trust, and the Gabelli Global Deal Fund, all closed-end mutual funds.

Jeffrey W. Shaw

Chief Executive Officer

Southwest Gas Corporation

Director Since: 2004

Board Committees: None

Mr. Shaw, 48, joined the Company in 1988 as Director of Internal Audit. He was promoted to Controller and Chief Accounting Officer in 1991, Vice President/Controller and Chief Accounting Officer in 1993, Vice President and Treasurer in 1994, Senior Vice President/Finance and Treasurer in 2000, Senior Vice President/Gas Resources and Pricing in 2002, President in 2003 and Chief Executive Officer in June 2004. Mr. Shaw received his degree in accounting from the University of Utah and worked for Arthur Andersen & Co., in its Dallas and Las Vegas offices prior to joining Southwest Gas. He is a member of the American Institute of Certified Public Accountants, the Nevada Society of CPAs, and the Leadership Las Vegas Alumni Association. Mr. Shaw serves on the boards of the American Gas Association, the Western Energy Institute, the UNLV Foundation, the Desert Research Institute and the Las Vegas Area Council of the Boy Scouts of America.

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Carolyn M. Sparks

President

International Insurance Services, Ltd.

Director Since: 1988

Board Committees: Audit, Nominating & Corporate Governance

Mrs. Sparks, 65, graduated from the University of California Berkeley in 1963, and with her husband, co-founded International Insurance Services, Ltd., in Las Vegas, Nevada, in 1966. She served on the University and Community College System of the Nevada Board of Regents from 1984 to 1996, and in 1991 was elected to a two-year term as chair of the Board of Regents. Mrs. Sparks is actively involved with numerous charitable and civic organizations, including founding and chairing the University Medical Center Foundation and the Children s Miracle Network Telethon. She is the chairperson of the Nevada Children s Center Foundation, past president of the Salvation Army Advisory Board, vice president of Nevada Ballet Theater and was the founding president of the Nevada International Women s Forum. She also serves on the Foundation Boards of the University of Nevada Las Vegas and the Community College of Southern Nevada. In 2004, she was appointed by the Governor of Nevada to the Nevada Taxicab Authority Board and was reappointed in 2006. She was recently selected to serve on the new statewide University of Nevada Health Sciences Center Advisory Board.

Terrence Terry L. Wright

Owner/Chairman of the Board of Directors

Nevada Title Company

Director Since: 1997

Board Committees: Nominating & Corporate Governance, Pension Plan Investment

Mr. Wright, 57, received his undergraduate degree in business administration and his juris doctor from DePaul University. He joined Chicago Title Insurance Company while in law school and after graduation remained with the company and eventually moved to the Las Vegas, Nevada office. In 1978, he acquired the assets of Western Title to form what is now known as Nevada Title Company. Mr. Wright is the chairman of the board and majority owner of Westcor Land Title Insurance Company, which has operations in Alabama, Arizona, California, Florida, Texas and Utah. He is a member of the California and Illinois bar associations and has served on the board of directors for Nevada Land Title Association, the Las Vegas Monorail and the Tournament Players Club at Summerlin. He is a past-chairman of the Nevada Development Authority and the Nevada Chapter of the Young President s Organization. Mr. Wright is also the former chairman of the UNLV Foundation.

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Securities Ownership by Directors, Director Nominees, Executive Officers, and Certain Beneficial Owners

Directors, Director Nominees and Executive Officers. The following table discloses all Company common stock beneficially owned by the Company s directors, the nominees for director and the executive officers of the Company, as of March 6, 2007.

Directors, Nominees & Executive Officers	No. of Shares Beneficially Owned (1)	Percent of Outstanding Common Stock (2)
George C. Biehl	67,749(3)(4)	*
Thomas E. Chestnut	10,300(5)	*
Stephen C. Comer	0	
Manuel J. Cortez	21,873(6)	*
Richard M. Gardner	10,728(7)	*
LeRoy C. Hanneman, Jr.	10,273(8)	*
Thomas Y. Hartley	408(9)	*
James J. Kropid	24,850(10)	*
Michael O. Maffie	12,936(11)	*
Anne L. Mariucci	1,200(12)	*
Michael J. Melarkey	12,265(13)	*
Jeffrey W. Shaw	81,003(3)(14)	*
Carolyn M. Sparks	29,296(15)	*
Terrence L. Wright	19,300(16)	*
James P. Kane	35,572	*
Thomas R. Sheets	20,269(3)	*
Dudley J. Sondeno	25,991	*
Other Executive Officers	189,731(17)	*
Total	573,744	1.36%

(1) The Company common stock holdings listed in this column include performance shares granted to the Company s executive officers under the Company s Management Incentive Plan (the MIP) for 2004, 2005, and 2006.

(2) No individual officer or director owned more than 1% of Company common stock.

(3) Number of shares does not include 6,618 shares held by the Southwest Gas Corporation Foundation, which is a charitable trust. Messrs. Biehl, Shaw and Sheets are trustees of the Foundation but disclaim beneficial ownership of said shares.

(4) Mr. Biehl has pledged 23,911 shares of Company common stock as loan collateral.

(5) The holdings include 6,300 shares (3,000 of which will become exercisable within 60 days) which Mr. Chestnut will have the right to acquire through the exercise of options under the 1996 and the 2002 Stock Incentive Plans (collectively, referred to as Option Plans).

(6) The holdings include 19,300 shares which Mr. Cortez s beneficiaries will have the right to acquire through the exercise of options under the Option Plans.

(7)

The holdings include 6,300 shares (3,000 of which will become exercisable within 60 days) which Mr. Gardner will have the right to acquire through the exercise of options under the Option Plans and 4,428 shares over which he has shared voting and investment power with his spouse through a family trust.

(8) The holdings include 3,973 shares over which Mr. Hanneman has shared voting and investment control with his spouse through a family trust and 6,300 shares (3,000 of which will become exercisable within 60 days) which he has the right to acquire through the exercise of options under the Option Plans.

(9) Mr. Hartley has shared voting and investment control with his spouse through a family trust. Mr. Hartley also holds 8,000 shares of preferred trust securities issued by the Company s financing subsidiary, Southwest Gas Capital II (SWG II Securities).

(10) The holdings include 20,300 shares (3,000 of which will become exercisable within 60 days) which Mr. Kropid has the right to acquire through the exercise of options under the Option Plans and 4,550 shares over which he has shared voting and investment power with his spouse through a family trust. Mr. Kropid holds 1,000 shares of SWG II Securities in an individual retirement account and 1,500 shares of SWG II Securities in a family trust. Mrs. Kropid s separate property trust holds 2,500 shares of SWG II Securities.

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(11) The holdings include 3,300 shares (2,100 of which will become exercisable within 60 days) which Mr. Maffie has the right to acquire through the exercise of options under the Option Plans and 1,101 shares over which his spouse has voting and investment control.

(12) The holdings include 1,200 shares (which will become exercisable within 60 days) which Ms. Mariucci has the right to acquire through the exercise of options under the Option Plans.

(13) The holdings include 700 shares over which Mr. Melarkey has shared voting and investment control through a profit-sharing plan and 6,300 shares (3,000 of which will become exercisable within 60 days) which he has the right to acquire through the exercise of options under the Option Plans.

(14) The holdings include 20,000 shares which Mr. Shaw has a right to acquire through the exercise of options under the Option Plans.

(15) The holdings include 22,300 shares (3,000 of which will become exercisable within 60 days) which Mrs. Sparks has the right to acquire through the exercise of options under the Option Plans.

(16) The holdings include 16,300 shares (3,000 of which will become exercisable within 60 days) which Mr. Wright has the right to acquire through the exercise of options under the Option Plans.

(17) The holdings of other executive officers include 99,731 shares that may be acquired through the exercise of options under the Option Plans.

Beneficial Owners. Barclays Global Investors, NA and various related entities (collectively, Barclays) reported on Schedule 13G, filed on January 23, 2007, that they own in excess of 5% of Company common stock. T. Rowe Price Associates, Inc. (T. Rowe Price) reported on Schedule 13G, filed on February 14, 2007, that it owns in excess of 5% of Company common stock. Gabelli Asset Management Inc. and various related entities (collectively, GAMCO) have reported on Schedule 13D, filed on December 5, 2006, that they own in excess of 5% of Company common stock. Lord, Abbett & Co., LLC (Lord Abbett) reported on Schedule 13G, filed on February 14, 2007, that it owns in excess of 5% of Company common stock. The holdings of these entities on the dates noted herein and as a percentage of the shares outstanding on the Record Date are as follows:

Beneficial Owners	**No. of Shares Beneficially Owned**	**Percent of Outstanding Common Stock**
Barclays	4,035,192	9.60%
45 Fremont Street, 17th Floor		
San Francisco, California 94105		
T. Rowe Price	2,722,780	6.48%
100 E. Pratt Street		
Baltimore Maryland 21202		
GAMCO	2,466,942	5.87%
c/o Gabelli Asset Management Co.		
One Corporate Center		
Rye, New York 10580		
Lord Abbett	2,390,104	5.69%
90 Hudson Street		
Jersey City, New Jersey 07302		

Section 16(a) Beneficial Ownership Reporting Compliance

The Company has adopted procedures to assist our directors and executive officers in complying with Section 16(a) of the Exchange Act, as amended, which include assisting in the preparation of forms for filing. For 2006, the Company believes that all reports were timely filed.

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COMPENSATION DISCUSSION AND ANALYSIS

Compensation Objectives

As a public utility, Southwest Gas is a regulated entity and the compensation it pays is evaluated as part of its regulatory review. Our compensation program has to be responsive to market conditions and the regulatory environment we face as a regulated utility. Compensation costs, like all our operating expenses, are subject to reasonableness reviews by regulatory bodies in the states and jurisdictions in which we operate. In addition, regulatory review of our operations and customer satisfaction levels recognizes the value of providing compensation incentives for operational efficiencies and overall customer satisfaction.

Our executive compensation program is designed to reward know-how, problem solving, and accountability for a given position and to elicit long-term employment commitments and performance. Base compensation levels are set to ensure reasonableness, competitiveness, and internal equity for each position. Performance awards, retirement benefit opportunities, and post-termination benefits support our goal of attaining long-term executive employment commitments, while at the same time increasing shareholder value, achieving operational efficiencies, and maintaining customer satisfaction levels.

Long-term employment commitments by Company executives parallel our long-term customer service obligations. The long-term nature of our obligations, which is unique to public utilities, shapes the overall structure of the Company s executive compensation program. We seek to ensure that long-term corporate and customer goals are achieved. We also recognize that we are in a competitive environment for executives, and our compensation program has to recognize and reward performance. Non-equity incentive compensation, restricted stock awards, and stock options are designed to address performance and provide added support for long-term employment commitments.

The executive compensation program is prospective. The results of previously earned performance awards and the deferral of cash compensation are not taken into consideration in establishing the appropriate level of future base compensation. Past performance, however, is taken into consideration in setting new performance targets.

The executive compensation program is administered by the Compensation Committee of the Board of Directors (the Committee). The Committee annually reviews and approves the Company s corporate goals and objectives relevant to the principal executive officer s (PEO) compensation, the PEO s performance in relation to such goals and objectives and, together with the other independent directors of the Board of Directors, the PEO s actual compensation. The Committee also reviews with the PEO and approves the salaries for the remaining officers of the Company.

Management provides information to the Committee, annually, regarding the appropriate compensation levels and performance programs and awards. This information is gathered from external independent surveys and publicly available compensation comparisons. Consultants may also be used to independently assess the compensation program. Management, including the named executive officers (NEOs), provides guidance to, and receives direction from, the Committee regarding the Company s executive compensation program. In addition, the Committee has the authority, independent of management, to employ and retain consultants to assist it in establishing the executive compensation program objectives and in determining whether the objectives have been satisfied.

Elements of Compensation

The executive compensation program consists of salary, stock awards, option awards, non-equity incentive plan compensation, perquisites, welfare benefits, retirement benefits, and post-termination

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benefits. Welfare benefits available to executive officers, which include group life, health, hospitalization, and medical reimbursement programs, are similar in scope, terms, and operation to the benefits available to all Company employees. Retirement benefits include both tax-qualified and non-tax-qualified defined benefit and contribution retirement plans. Post-termination benefits consist of employment and change in control agreements.

Decision to Pay Each Element of Compensation

Our decision to pay each element of compensation is based on the market conditions necessary to attract and retain qualified executives. As previously discussed, one of the primary objectives of our executive compensation program is to elicit long-term employment commitments. To fulfill this objective, the Company responds to market dictates and offers a broad spectrum of compensation opportunities. As discussed in greater detail below, these compensation opportunities are tailored to the characteristics of a public utility.

Determination of the Amount to be Paid for Each Element of Compensation

The nature of the Company s operations has led the Committee to design and employ a compensation program that is comparable to compensation programs widely used in industry, weighted for public utilities, and accepted by various utility regulatory agencies. This process focuses on similar-sized national energy and gas utilities and general industry companies with annual revenues of $500 million to $1.5 billion. Compensation surveys prepared by the American Gas Association, Watson Wyatt, and William M. Mercer are used to ensure that our compensation programs are within industry norms.

Salaries. Base salaries for our executives are established based on the scope of their responsibilities, taking into account competitive market compensation paid by other companies for similar positions. Salary design is established using the Hay Group method. The Hay Group method values the substance of the positions based on know-how, problem solving, and accountability. Input from the Hay Group and utility and general industry surveys are used by the Committee to determine that salaries are reasonable, competitive, and properly address position responsibility. The range of salaries available through this review provides an objective standard to determine the appropriate level of executive position salaries. Salaries are then set relative to the midpoint, the 50^{th} percentile of market. Base salaries are reviewed annually and adjusted from time to time to realign salaries with market levels after taking into account individual responsibilities, performance, and experience.

Performance-Based Compensation. The performance components of the Company s executive compensation program consist of non-equity incentive plan compensation and restricted stock awards provided through the Management Incentive Plan (MIP), restricted stock awards provided through the proposed 2006 Plan, and stock option awards provided through the Option Plans (collectively, the Incentive Plans). Compensation provided through the Incentive Plans, when coupled with salaries, is designed to provide levels of total compensation set relative to the 75^{th} percentile of market based on the above-described comparison.

The Committee has designed the Incentive Plans to focus on specific annual and long-term Company financial and productivity performance goals. Financial performance, productivity, and customer satisfaction factors are incorporated in the MIP and the proposed 2006 Plan, while the Option Plans are designed to align the economic interests of Company executives with those of shareholders.

Annually, the Committee establishes incentive opportunities under the MIP, expressed as a percentage of salary, and determines the performance goals to be measured against these

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opportunities. For 2006, the incentive opportunities for the named executive officers (NEOs) were set at the following percentages of salary:

	Incentive Opportunities (% of salary)
Jeffrey W. Shaw	115%
George C. Biehl	90%
James P. Kane	100%
Thomas R. Sheets	75%
Dudley S. Sondeno	75%

The performance measures for 2006 were tied to the Company s financial performance, productivity, and customer satisfaction. This mix of five performance goals is designed to address shareholder interests through the Company s financial performance, and customer interests through productivity and customer satisfaction. In prior regulatory proceedings, the Company s regulatory commissions have insisted that these productivity measures and customer satisfaction levels be included in the MIP in order to recover the cost of the program in our natural gas rates.

The two financial performance measures selected by the Committee address the Company s average return-on-equity over the last three years (which is weighted and adjusted for inflation) and the Company s current utility return on equity in comparison to a peer group of natural gas distribution companies. The target for 2006 for the Company s three-year average return on equity before weighting and adjusting for inflation, was 8%. The target for the comparison of the Company s 2006 return on equity relative to the peer group of utilities was set at the 50th percentile. The productivity performance measures address a specific customer-to-employee ratio target and actual customer-to-employee ratios in comparison to a peer group of natural gas distribution companies. The target for 2006 for the Company s customer to employee ratio was set at 591 customers per employee. The target for the comparison of the Company s 2006 customer to employee ratio relative to the peer group of utilities was set at the 76th percentile. The customer service satisfaction level target for 2006 was set at 85% and measured individually for each of the Company s operating divisions.

Each of the five performance measures is equally weighted and the actual performance award can range from 70% to 140% of the assigned incentive opportunity for each measure. If the threshold percentage for any measure is achieved, a percentage of annual performance awards will have been earned. Regardless of whether such awards are earned, no awards will be paid in any year unless dividends paid on Company common stock for such year equal or exceed the prior year s dividends. The success in achieving the performance measures for 2006 are discussed in the narrative following the Summary Compensation Table.

If annual performance awards are earned and payable, payment of the awards will be subject to a reduction depending upon satisfaction of a MIP participant s individual performance goals. The Committee reviews the CEO s individual performance. The CEO, in turn, will make a like determination for the other executive officers. Furthermore, the annual awards will be split, with 40% paid in cash (which is disclosed as non-equity incentive plan compensation in the Summary Compensation Table) and the remaining 60% converted into performance shares (which is disclosed as stock awards in the Summary Compensation Table) tied to a 5-day average value of Company common stock for the first five trading days in January. The performance shares are restricted for three years and the ultimate payout in Company common stock is subject to continued employment during this restricted period.

Grants under the Option Plans were provided to our executive officers and key employees during 2006. The option grants were issued at 100% of the fair market value of Company common stock on

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the date of grant, which has been the practice in granting options since the inception of the plan. The option grants, during the life of the Option Plans, were not based upon a predetermined formula, but rather, on the Committee s judgment as to the individual s anticipated contribution to the future success of the Company. In establishing award levels, we generally did not consider the equity ownership levels of the recipients or prior equity awards. It was and is our belief that competitors who might try to hire away our employees would not give credit for equity ownership in the Company and, accordingly, to remain competitive, we could not afford to give credit for that factor either.

This year s option grants consumed the remaining options that could be delivered under the Option Plans. The grants under the Option Plans were made on August 1, at the time salaries are set for Company officers. The timing of the option grants to Company officers has occurred at that time each year since the inception of the Option Plans. Given the timing of our fiscal year and the setting of base salaries, grants have been made after the close of our second quarter and prior to our announcement of the quarter s results. Such grants have been made without regard to the second quarter performance.

Historically, we selected the use of stock options because of the favorable accounting and tax treatment and the customary practice of their use as a retention tool in our industry. However, beginning in 2006, the accounting treatment for stock options changed as a result of the adoption of Statement of Financial Accounting Standard No. 123R, Share-Based Payment (FAS 123R) making the accounting treatment of stock options less attractive. As a result, we assessed the desirability of granting shares of restricted stock to employees and concluded that restricted stock would provide an equally motivating form of incentive compensation, while permitting us to issue fewer shares, thereby reducing potential dilution. The Company will not be seeking shareholder approval to extend the Option Plans.

Shareholders will be asked to approve the proposed 2006 Plan in 2007. The 2006 Plan is designed to provide incentives for maintaining performance and strengthening shareholder value. The award opportunities, like that of the MIP, are based on a percentage of salary. If shareholders approve the 2006 Plan at this year s Annual Meeting, the target Stock Plan incentive opportunities, as a percentage of salary, are as follows:

	Incentive Opportunities (% of salary)
Jeffrey W. Shaw	45%
George C. Biehl	25%
James P. Kane	30%
Thomas R. Sheets	20%
Dudley S. Sondeno	20%

The performance goal used to determine whether an award is earned will be the average MIP payout percentage for the three years immediately preceding the award determination date. The target is set at an average payout percentage of 100%; however, no award will be earned unless the average payout percentage exceeds 90%. If an award is earned, it can range from 50% to 150% of the incentive opportunity. Once earned, the award will be converted into Restricted Stock or Restricted Stock Units, based on the fair market value of Company common stock on the date of the award, and will vest in percentages (40%, 30%, and 30%) over the next three years. The success in achieving the performance measures for 2006 is discussed in the narrative following the Summary Compensation Table. If shareholders do not approve the proposed 2006 Plan, no awards will be made.

Perquisites. We provide a limited number of perquisites to our executives. Officers receive car allowances, cell phones, cable internet access, annual physical examinations, and a $3,000 allowance once every three years to do financial planning. Senior officers are also provided country club

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memberships. The costs associated with the personal use of company cars, cell phones, cable internet access, and the charges for personal use of the country club memberships are the responsibility of the individual officers.

Retirement Benefits. Four post-retirement benefit plans are available to our executive officers. Two of the plans, the Retirement Plan for Employees of Southwest Gas Corporation (the Retirement Plan) and the Employees Investment Plan (EIP), both tax-qualified plans, are available to all of our employees of the Company. Two additional plans are offered to our executives: the Supplemental Retirement Plan (SRP) and the Executive Deferral Plan (EDP). These additional plans were established to attract and retain qualified executives and to address the dollar limitations imposed on the two tax-qualified plans.

Benefits under the Retirement Plan are based on the (i) executive s years of service with the Company, up to a maximum of 30 years, and (ii) average of the executive s highest five consecutive years salary, within the final ten years of service, not to exceed a maximum compensation level established by the Internal Revenue Service. The SRP is designed to supplement the benefits under the Retirement Plan to a level of up to 60% of salary. To qualify for benefits under the SRP, which is based on a 12-month average of the highest 36-months of salary, an executive is required to have either (i) 20 years of service with the Company prior to attaining age 65 or (ii) 10 years of service at age 65 and qualify to receive retirement benefits under the Retirement Plan.

Executives may participate in the EIP and defer salary up to the maximum annual dollars permitted for 401(k) plans under the Code. Investments of these deferrals are controlled by the individual executives from a selection of investment options offered through the EIP. We do not match contributions for executive deferrals into the EIP. The EDP supplements the deferral opportunities by permitting executives to defer up to 100% of their annual salary and non-equity incentive plan compensation. As part of the plan, we provide matching contributions that parallel the contributions made under the EIP to non-executives, up to 3% of their annual salary. Amounts deferred and our matching contributions bear interest at 150% of the Moody s Seasoned Corporate Bond Rate. At retirement or termination, with five years of service with the Company, EDP balances will be paid out at the election of the participant over a period of 10, 15, or 20 years and will be credited during the applicable payment period with interest at 150% of the average of the Moody s Seasoned Corporate Bond Rate on each January 1 for the five years prior to the start of retirement.

Post-Termination Benefits. The Company enters into employment agreements (Employment Agreements) with its senior officers, including each of the NEOs, and change in control agreements (Change in Control Agreements) with its remaining officers. The Employment Agreements generally provide for payment, upon termination without cause or a significant reduction in an officer s duties, responsibilities, location, or compensation (collectively, referred to as Termination Event), of up to one and one-half years of compensation for the NEOs other than the PEO and up to three years of total compensation for the PEO. Compensation includes salary, a predetermined level of incentive compensation and fringe benefits, re-employment/relocation expense, office, and secretarial support expense. All unvested restricted stock and stock option awards vest and the options will remain exercisable for 90 days after a Termination Event. Additional credits will also be provided that may affect eligibility, vesting and calculation of benefits under the SRP. The Employment Agreements also provide for the lump sum payment, upon a Termination Event within two years following a change in control of the Company, of an amount equal to two to two and one-half times total compensation, as outlined above. Under these latter circumstances, the PEO would be entitled to a payment equal to three times his total compensation.

The Change in Control Agreements for the remaining officers parallel the change in control provisions of the Employment Agreements, and provide that such officers would be entitled to an amount equal to two times their annual compensation as defined above. A change in control event

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under both forms of agreements is generally defined to include an acquisition by one person (or group of persons) of at least 20% of the ownership of the Company, the replacement of the majority of the members of the incumbent Board of Directors (excluding replacement directors nominated by the incumbent Board), or mergers and similar transactions which result in more than a 50% change in ownership. Restricted stock awards and stock options may vest and become immediately exercisable upon a change in control event.

If any payment under these agreements or plans would constitute a parachute payment subject to any excise tax under the Code, the Company will pay the tax.

These agreements are for 24 months for each of the officers other than Mr. Shaw, whose agreement is for 36 months. The agreements automatically extend for successive one-year periods, unless canceled by the Company.

Interaction of the Compensation Elements in Relation to the Compensation Objectives

The Company s executive compensation program rewards long-term employment commitments and rewards performance from its executives. Salary, retirement benefits, and the opportunity to be rewarded for performance provide the incentives to secure long-term commitments to the Company. Being rewarded for actual performance recognizes the Company s commitments to increasing shareholder value, implementing operational efficiencies, and maintaining customer satisfaction. Taken as a whole, the program supports the Company s commitment to its shareholders and its long-term commitment to its customers.

Deductibility of Compensation

Our executive compensation program is being administered to maintain the tax deductibility of compensation paid to the named executive officers. Section 162(m) of the Code provides that compensation paid to the officers in excess of $1,000,000 cannot be deducted by the Company for federal income tax purposes unless, in general, such compensation is performance-based, is established by an independent committee of directors, is objective, and the plan or agreement providing for such performance-based compensation has been approved in advance by shareholders or is otherwise exempt from such limitation. The ability of the Company to continue to expense compensation payments for tax purposes (i.e., satisfying the requirements of Section 162(m) of the Code) is considered in designing the performance-based component of the compensation program. In the future, however, the Company may pay compensation that is nondeductible in limited circumstances if sound management of the Company so requires.

COMPENSATION COMMITTEE REPORT

As a part of the Committee s duties, it is charged with the responsibility for producing a report on executive compensation for inclusion in the Annual Report on Form 10-K and this Proxy Statement. This report is based on the Committee s review of the Compensation Discussion and Analysis (CD&A) and the discussion of its content with management.

The Committee, in reliance on its review of the CD&A and its discussions with management, recommended to the Board (and the Board has approved and directed) that the CD&A be included in the Company s Annual Report for the year ended December 31, 2006, and this Proxy Statement.

Compensation Committee

Thomas E. Chestnut, Chair	*Richard M. Gardner*
LeRoy C. Hanneman, Jr.	*Anne L. Mariucci*

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EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)(1)	Stock Awards ($)(2)	Option Awards ($)(3)	Non-Equity Incentive Plan Compensation ($)(1)(4)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)(5)	All Other Compensation ($)(6)(7)	Total ($)
Jeffrey W. Shaw Chief Executive Officer	2006	522,055	317,854	156,291	283,360	430,581	38,511	1,748,652
George C. Biehl Executive Vice President/ Chief Financial Officer & Corporate Secretary	2006	337,058	289,911	100,609	139,507	236,859	23,748	1,127,692
James P. Kane President	2006	356,263	317,236	172,046	164,864	163,534	26,858	1,200,801
Thomas R. Sheets Senior Vice President/ General Counsel	2006	252,852	181,926	82,834	87,024	159,770	11,371	775,777
Dudley J. Sondeno Senior Vice President/ Chief Knowledge & Technology Officer	2006	248,852	149,243	37,609	85,680	159,550	24,795	705,729

(1) Amounts shown include any deferrals made by the NEOs into the EIP and Executive Deferral Plan.

(2) The amounts in this column represent costs recognized by the Company during 2006 for performance shares granted in 2004, 2005, and 2006 under the MIP. Performance shares vest three years after grant and costs are recognized equally during the vesting period (except for grants to retirement-eligible participants beginning in 2006, which were expensed upon grant).

(3) The amounts in this column represent costs recognized by the Company during 2006 for options granted in 2003, 2004, 2005, and 2006 under the Option Plans. Options vest 40% at the end of year one and 30% at the end of years two and three and costs are recognized in the same proportions (except for grants to retirement-eligible participants beginning in 2006, which were expensed upon grant). The assumptions made in the valuation are described in Note 10 of the notes to Consolidated Financial Statements of the 2006 Annual Report to Shareholders.

(4) Amounts shown in this column represent amounts paid under the MIP in 2007 for services performed in 2006.

(5) The aggregate change in the actuarial present value of the NEOs accumulated benefit under the Retirement Plan and the SRP for 2006 and the above-market interest (in excess of 120% of the applicable federal long-term rate) earned on EDP balances are as follows:

	Increase in Pension Values	Above-Market Interest
Mr. Shaw	$ 405,811	$ 24,770
Mr. Biehl	187,360	49,499
Mr. Kane	143,429	20,105
Mr. Sheets	114,067	45,703
Mr. Sondeno	110,026	49,524

Amounts shown in Increase in Pension Values column are an estimate of the increase in actuarial value of accrued benefits under the Company s retirement plans for 2006. No amount is payable from the plans before a participant attains age 55.

(6) Company matching contributions equal to one-half of the amount deferred by the NEOs under the EDP, up to 3% of their annual salary are as follows:

	Matching Contributions
Mr. Shaw	$ 15,635
Mr. Biehl	10,103
Mr. Kane	10,677
Mr. Sheets	1,145
Mr. Sondeno	7,460

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(7) The aggregate incremental costs of the perquisites and personal benefits provided to the NEOs are based on the taxable value of the personal use of company cars, internet access, and cell phone, while club dues and physicals are based on the cost to the Company. The perquisites and personal benefits, by type and amount, for 2006 are as follows:

	Car Allowance	Club Dues	Cable Internet	Physicals	Cell Phones
Mr. Shaw	$ 9,790	$ 4,780	$ 0	$ 6,686	$ 240
Mr. Biehl	8,430	4,020	0	0	240
Mr. Kane	10,631	3,814	480	0	240
Mr. Sheets	2,992	3,814	480	1,985	240
Mr. Sondeno	10,423	1,860	480	3,628	240

GRANTS OF PLAN-BASED AWARDS

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units(#) (1)	All Other Option Awards: Number of Securities Underlying Options(#) (1)	Exercise or Base Price of Option Awards($ /Sh)	Grant Date Fair Value of Stock and Option Awards ($)
Jeffrey W. Shaw	01/17/2006	10,360			279,450
	08/01/2006		36,600	33.07	220,698
George C. Biehl	01/17/2006	5,351			144,342
	08/01/2006		11,000	33.07	66,330
James P. Kane	01/17/2006	6,252			168,642
	08/01/2006		18,300	33.07	110,349
Thomas R. Sheets	01/17/2006	3,351			90,396