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

Form 10-Q

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

For the quarterly period ended June 30, 2002

Commission File Number 1-7850

SOUTHWEST GAS CORPORATION

(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of
incorporation or organization)

88-0085720
(I.R.S. Employer
Identification No.)

5241 Spring Mountain Road
Post Office Box 98510
Las Vegas, Nevada
(Address of principal executive offices)

89193-8510
(Zip Code)

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

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

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

Common Stock, \$1 Par Value, 33,033,279 shares as of August 1, 2002.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

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

JUNE 30,
2002

DECEMBER 31,
2001

Gas operating revenues	\$ 211,425	\$ 226,296	\$ 667,630	\$ 673,516	\$ 1,187,216	\$ 1,119,263
Construction revenues	49,698	52,664	92,994	92,942	203,638	186,833
Total operating revenues	261,123	278,960	760,624	766,458	1,390,854	1,306,096
Operating expenses:						
Net cost of gas sold	104,622	129,462	379,285	409,169	647,663	610,186
Operations and maintenance	65,033	64,051	130,335	124,261	259,100	241,769
Depreciation and amortization	31,603	29,187	63,037	58,085	123,400	112,291
Taxes other than income taxes	8,789	8,220	17,809	16,939	33,650	31,646
Construction expenses	44,032	46,929	82,797	82,787	180,914	165,559
Total operating expenses	254,079	277,849	673,263	691,241	1,244,727	1,161,451
Operating income	7,044	1,111	87,361	75,217	146,127	144,645
Other income and (expenses):						
Net interest deductions	(20,900)	(20,288)	(39,926)	(40,527)	(80,130)	(77,461)
Preferred securities distributions	(1,369)	(1,369)	(2,738)	(2,738)	(5,475)	(5,475)
Merger litigation settlements	(14,500)	--	(14,500)	--	(14,500)	--
Other income (deductions)	(3,571)	2,443	6,445	4,666	10,743	4,577
Total other income and (expenses)	(40,340)	(19,214)	(50,719)	(38,599)	(89,362)	(78,359)
Income (loss) before income taxes	(33,296)	(18,103)	36,642	36,618	56,765	66,286
Income tax expense (benefit)	(12,686)	(6,963)	14,356	13,949	19,992	20,775
Net income (loss)	\$ (20,610)	\$ (11,140)	\$ 22,286	\$ 22,669	\$ 36,773	\$ 45,511
Basic earnings (loss) per share	\$ (0.63)	\$ (0.35)	\$ 0.68	\$ 0.71	\$ 1.13	\$ 1.43
Diluted earnings (loss) per share	\$ (0.63)	\$ (0.35)	\$ 0.67	\$ 0.70	\$ 1.12	\$ 1.42
Dividends paid per share	\$ 0.205	\$ 0.205	\$ 0.41	\$ 0.41	\$ 0.82	\$ 0.82
Average number of common shares outstanding	32,897	32,000	32,759	31,911	32,542	31,717
Average shares outstanding (assuming dilution)	--	--	33,025	32,172	32,820	31,967

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands of dollars)

(Unaudited)

	SIX MONTHS ENDED JUNE 30,		TWELVE MONTHS ENDED JUNE 30,	
	2002	2001	2002	2001
CASH FLOW FROM OPERATING ACTIVITIES:				
Net income	\$ 22,286	\$ 22,669	\$ 36,773	\$ 45,511
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	63,037	58,085	123,400	112,291
Deferred income taxes	(24,663)	(5,176)	(30,662)	76,238
Changes in current assets and liabilities:				
Accounts receivable, net of allowances	59,623	20,838	19,012	(50,597)
Accrued utility revenue	35,799	32,900	(3,001)	(1,600)
Deferred purchased gas costs	103,280	(41,005)	152,848	(131,791)
Accounts payable	(56,245)	(115,079)	(26,678)	37,177
Accrued taxes	33,403	22,258	29,911	(37,093)
Other current assets and liabilities	16,895	39,883	11,063	(12,651)
Other	(6,245)	24,710	(2,827)	25,048
Net cash provided by operating activities	247,170	60,083	309,839	62,533
CASH FLOW FROM INVESTING ACTIVITIES:				
Construction expenditures and property additions	(122,770)	(119,380)	(268,970)	(239,342)
Other	12,517	(1,551)	18,386	2,693
Net cash used in investing activities	(110,253)	(120,931)	(250,584)	(236,649)

CASH FLOW FROM FINANCING**ACTIVITIES:**

Issuance of common stock, net	10,154	8,675	18,540	16,546
Dividends paid	(13,422)	(13,071)	(26,674)	(25,990)
Issuance of long-term debt, net	203,523	206,187	210,362	247,374
Retirement of long-term debt, net	(205,439)	(4,197)	(215,965)	(8,308)
Temporary changes in long-term debt	(67,000)	(21,000)	(46,000)	(21,000)
Change in short-term debt	(91,500)	(128,835)	(665)	(36,910)
Net cash provided by (used in) financing activities	(163,684)	47,759	(60,402)	171,712
Change in cash and cash equivalents	(26,767)	(13,089)	(1,147)	(2,404)
Cash at beginning of period	32,486	19,955	6,866	9,270
Cash at end of period	\$ 5,719	\$ 6,866	\$ 5,719	\$ 6,866
Supplemental information:				
Interest paid, net of amounts capitalized	\$ 37,375	\$ 34,713	\$ 76,694	\$ 69,611
Income taxes paid (received), net	1,431	(4,138)	18,755	(16,731)

The accompanying notes are an integral part of these statements.

Note 1 - Summary of Significant Accounting Policies

Nature of Operations. Southwest Gas Corporation (the Company) is comprised of two segments: natural gas operations (Southwest or the natural gas operations segment) and construction services. Southwest purchases, transports, and distributes natural gas to customers in portions of Arizona, Nevada, and California. The public utility rates, practices, facilities, and service territories of Southwest are subject to regulatory oversight. The timing and amount of rate relief can materially impact results of operations. Natural gas sales are seasonal, peaking during the winter months. Variability in weather from normal temperatures can materially impact results of operations. Natural gas purchases and the timing of related recoveries can materially impact liquidity. Northern Pipeline Construction Co. (Northern or the construction services segment), a wholly owned subsidiary, is a full-service underground piping contractor which provides utility companies with trenching and installation, replacement, and maintenance services for energy distribution systems.

Basis of Presentation. The consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, all adjustments, consisting of normal recurring items and estimates necessary for a fair presentation of the results for the interim periods, have been made. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the 2001 Annual Report to Shareholders, which is incorporated by reference into the 2001 Form 10-K, and the first quarter 2002 Form 10-Q.

Intercompany Transactions. The construction services segment recognizes revenues generated from contracts with Southwest (see Note 2 below). Accounts receivable for these services were \$6.4 million at June 30, 2002 and \$4.3 million at December 31, 2001. The accounts receivable balance, revenues, and associated profits are included in the consolidated financial statements of the Company and were not eliminated during consolidation in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation."

Note 2 – Segment Information

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

	Natural Gas Operations	Construction Services	Total
Six months ended June 30, 2002			
Revenues from external customers	\$ 667,630	\$ 62,359	\$ 729,989
Intersegment revenues	--	30,635	30,635
Total	\$ 667,630	\$ 92,994	\$ 760,624
Segment net income	\$ 20,657	\$ 1,629	\$ 22,286
Six months ended June 30, 2001			
Revenues from external customers	\$ 673,516	\$ 61,506	\$ 735,022
Intersegment revenues	--	31,436	31,436
Total	\$ 673,516	\$ 92,942	\$ 766,458
Segment net income	\$ 20,964	\$ 1,705	\$ 22,669

Note 3 – Merger-related Litigation Settlements

Litigation in Arizona related to the now terminated acquisition of the Company by ONEOK, Inc. (ONEOK) and the rejection of competing offers from Southern Union Company (Southern Union) was recently resolved. For additional background information, see Item 3 “Legal Proceedings” in the 2001 Form 10-K filed by the Company with the SEC.

In August 2002, the Company reached final settlements with both Southern Union and ONEOK related to this litigation. The Company will pay Southern Union \$17.5 million to resolve all remaining Southern Union claims against the Company and its officers. ONEOK will pay the Company \$3 million to resolve all claims between the Company and ONEOK.

The net after-tax impact of the settlements was a \$9 million, or \$0.28 per share, charge and was reflected in the second quarter 2002 financial statements. Prior to 2002, the impact to Company financial results for merger litigation costs was not significant as most defense costs were reimbursed by insurance. However, recently the Company exhausted its first layer of insurance coverage and began filing claims with a different insurance provider for reimbursement under its second layer of coverage. The Company and the insurance provider are in dispute over the type of coverage and whether it applies to the Southern Union settlement or related litigation defense costs. Because of this dispute, the Company recognized the full amount of the Southern Union settlement in the second quarter charge. Management cannot predict the amount, if any, of insurance cost reimbursement the Company may receive.

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

The Company is principally engaged in the business of purchasing, transporting, and distributing natural gas. Southwest is the largest distributor in Arizona, selling and transporting natural gas in most of central and southern Arizona, including the Phoenix and Tucson metropolitan areas. Southwest is also the largest distributor and transporter of natural gas in Nevada, serving the Las Vegas metropolitan area and northern Nevada. In addition, Southwest distributes and transports natural gas in portions of California, including the Lake Tahoe area and the high desert and mountain areas in San Bernardino County.

Southwest purchases, transports, and distributes natural gas to approximately 1,417,000 residential, commercial, industrial and other customers, of which 56 percent are located in Arizona, 35 percent are in Nevada, and 9 percent are in California. During the twelve months ended June 30, 2002, Southwest earned 57 percent of operating margin in Arizona, 35 percent in Nevada, and 8 percent in California. During this same period, Southwest earned 83 percent of operating margin from residential and small commercial customers, 9 percent from other sales customers, and 8 percent from transportation customers. The percentage of transportation margin when compared to previous years reflects a shift by a number of large commercial and industrial customers from transportation service to sales service.

Northern is a full-service underground piping contractor which provides utility companies with trenching and installation, replacement, and maintenance services for energy distribution systems.

Capital Resources and Liquidity

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

Southwest continues to experience significant customer growth. Financing this growth has required large amounts of capital to pay for new transmission and distribution plant, to keep up with consumer demand. During the twelve-month period ended June 30, 2002, capital expenditures for the natural gas operations segment were \$253 million. Approximately 70 percent of these current-period expenditures represented new construction and the balance represented costs associated with routine replacement of existing transmission, distribution, and general plant. Cash flows from operating activities of Southwest (net of dividends) fully funded the required capital resources pertaining to these construction expenditures. Such cash flows were favorably impacted by changes in the purchased gas adjustment (PGA) recovery rates resulting in the collection of previously deferred purchased gas costs from customers and general rate relief.

In June 2002, the Company announced an agreement to purchase Black Mountain Gas Company (BMG), a gas utility serving Cave Creek and Page, Arizona. BMG has approximately 7,300 natural gas customers in a rapidly growing area north of Phoenix, Arizona. Regulatory approvals by the Arizona Corporation Commission (ACC) and the SEC are needed to consummate the purchase, which is expected to be completed in early 2003. The acquisition will be financed using existing credit facilities.

In March 2002, the Job Creation and Worker Assistance Act of 2002 (Act) was signed into law. This Act provides a three-year, 30 percent “bonus” tax depreciation deduction for businesses. Southwest estimates the bonus depreciation deduction will reduce federal income taxes paid by approximately \$40 million to \$50 million over the years 2002 through 2004.

Southwest estimates construction expenditures during the three-year period ending December 31, 2004 will be approximately \$675 million. Of this amount, \$225 million are expected to be incurred in 2002. During the three-year period, cash flow from operating activities (net of dividends) is estimated to fund approximately 80 percent of the gas operations total construction expenditures, including the impacts of the Act. The remaining cash requirements are expected to be provided by external financing sources. The timing, types, and amounts of these

additional external financings will be dependent on a number of factors, including conditions in the capital markets, timing and amounts of rate relief, growth levels in Southwest service areas and earnings. These external financings may include the issuance of both debt and equity securities, bank and other short-term borrowings, and other forms of financing.

In May 2002, the Company issued \$200 million in Senior Unsecured Notes, due 2012, bearing interest at 7.625%. The net proceeds from the sale of the Senior Unsecured Notes were used to redeem the \$100 million 9 ¾% Debentures, Series F, in June 2002, and to reduce outstanding revolving credit loans.

In May 2002, the Company replaced the existing \$350 million revolving credit facility that expired in June 2002 with a \$125 million three-year facility and a \$125 million 364-day facility. Of the total \$250 million facility, \$100 million will be designated as long-term debt. Interest rates for the new facility are calculated at either LIBOR plus or minus a competitive margin, or the greater of the prime rate or one-half of one percent plus the Federal Funds rate.

The rate schedules in all of the service territories contain PGA clauses, which permit adjustments to rates as the cost of purchased gas changes. On an interim basis, Southwest generally defers over or under collections of gas costs to PGA balancing accounts. In addition, Southwest uses this mechanism to either refund amounts over-collected or recoup amounts under-collected as compared to the price paid for natural gas during the period since the last PGA rate change went into effect. At December 31, 2001 the combined balances in PGA accounts totaled an under collection of \$84 million. At June 30, 2002 the combined balances reflected an over collection of \$20 million. Southwest utilizes short-term borrowings to finance PGA under-collected balances. Southwest has short-term borrowing capacity of \$150 million, which is considered adequate to meet anticipated needs. See **Rates and Regulatory Proceedings** for the status of current PGA filings.

In January 2002, the Company sold all of its interests in undeveloped property located in northern Arizona. The property was originally acquired as a potential site for underground natural gas storage during the gas supply shortages of the 1970s, but was never developed. Proceeds from the sale were \$20 million including a \$5 million receivable due September 2002. The sale resulted in a one-time pre-tax gain of \$8.9 million, which was recognized in the first quarter of 2002.

Results of Consolidated Operations

	Period Ended June 30,					
	Three Months		Six Months		Twelve Months	
	2002	2001	2002	2001	2002	2001
<u>Contribution to net income</u> (Thousands of dollars)						
Natural gas operations	\$ (21,830)	\$ (12,365)	\$ 20,657	\$ 20,964	\$ 32,319	\$ 41,457
Construction services	1,220	1,225	1,629	1,705	4,454	4,054
Net income (loss)	\$ (20,610)	\$ (11,140)	\$ 22,286	\$ 22,669	\$ 36,773	\$ 45,511
<u>Earnings (loss) per share</u>						
Natural gas operations	\$ (0.67)	\$ (0.39)	\$ 0.63	\$ 0.66	\$ 0.99	\$ 1.30
Construction services	0.04	0.04	0.05	0.05	0.14	0.13
Consolidated	\$ (0.63)	\$ (0.35)	\$ 0.68	\$ 0.71	\$ 1.13	\$ 1.43

See separate discussion at **Results of Natural Gas Operations**.

Construction services earnings per share for the three, six and twelve months ended June 30, 2002 were relatively unchanged when compared to the same periods ended June 30, 2001. Stable earnings and revenues were primarily attributable to the retention and renewal of a high percentage of existing contracts during the twelve-month period.

The following table sets forth the ratios of earnings to fixed charges for the Company:

	For the Twelve Months Ended	
	June 30, 2002	December 31, 2001
Ratio of earnings to fixed charges	1.59	1.59

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

Results of Natural Gas Operations

Quarterly Analysis

Three Months Ended June 30,	
2002	2001

	(Thousands of dollars)	
Gas operating revenues	\$ 211,425	\$ 226,296
Net cost of gas sold	104,622	129,462
Operating margin	106,803	96,834
Operations and maintenance expense	65,033	64,051
Depreciation and amortization	27,938	25,798
Taxes other than income taxes	8,789	8,220
Operating income (loss)	5,043	(1,235)
Merger litigation settlements	(14,500)	--
Other income (expense)	(3,939)	2,119
Income (loss) before interest and income taxes	(13,396)	884
Net interest deductions	20,533	19,753
Preferred securities distributions	1,369	1,369
Income tax expense (benefit)	(13,468)	(7,873)
Contribution to consolidated net income (loss)	\$ (21,830)	\$ (12,365)

Contribution from natural gas operations declined \$9.5 million in the second quarter of 2002 compared to the same period a year ago. The impact of the merger litigation settlements, coupled with higher operating expenses and an unfavorable change to other income (expense), was partially offset by increased operating margin.

Operating margin increased \$10 million, or ten percent, in the second quarter of 2002 compared to the same period in 2001. The increase was the result of general rate relief and customer growth, partially offset by the impacts of weather between periods. General rate relief granted in Arizona and Nevada during the fourth quarter of 2001 added \$10 million of operating margin. The Company served 56,000, or four percent, more customers than a year ago, who contributed \$5 million in incremental margin. Operating margin was reduced by \$5 million between periods due to near record warm temperatures experienced throughout the Southwest during April 2002.

Operations and maintenance expense increased \$1 million, or two percent, reflecting general cost increases and costs associated with the continued expansion and upgrading of the gas system to accommodate customer growth. Operations and maintenance expenses overall are expected to trend higher for the calendar year, consistent with the year-to-date results.

Depreciation expense and general taxes increased \$2.7 million, or eight percent, as a result of construction activities. Average gas plant in service increased \$197 million, or eight percent, as compared to the second quarter of 2001. The increase reflects ongoing capital expenditures for the upgrade of existing operating facilities and the expansion of the system to accommodate continued customer growth.

During the second quarter 2002, the Company recorded a net \$14.5 million nonrecurring pretax charge related to the settlements of merger-related litigation. See **Merger-related Litigation Settlements** for additional information.

Other income (expense) declined \$6.1 million between periods. The current period includes a \$1.6 million reduction in interest income primarily earned on the deferred PGA account balances, a \$1.5 million charge for a potential regulatory disallowance in California and a \$2.5 million increase in merger litigation costs.

Six-Month Analysis

	Six Months Ended June 30,	
	2002	2001
	(Thousands of dollars)	
Gas operating revenues	\$ 667,630	\$ 673,516
Net cost of gas sold	379,285	409,169
Operating margin	288,345	264,347
Operations and maintenance expense	130,335	124,261
Depreciation and amortization	55,740	51,442
Taxes other than income taxes	17,809	16,939
Operating income	84,461	71,705
Merger litigation settlements	(14,500)	--
Other income (expense)	5,758	4,095
Income before interest and income taxes	75,719	75,800
Net interest deductions	39,168	39,528
Preferred securities distributions	2,738	2,738
Income tax expense	13,156	12,570
Contribution to consolidated net income	\$ 20,657	\$ 20,964

Contribution from natural gas operations declined \$307,000 in the first six months of 2002 compared to the same period a year ago. The decrease was principally the result of the merger litigation settlements and increased operating expenses,

partially offset by higher operating margin and improved other income (expense).

Operating margin increased \$24 million, or nine percent compared to the same period a year ago. The increase was the result of general rate relief and customer growth, partially offset by the impacts of weather between periods. General rate relief granted in Arizona and Nevada during the fourth quarter of 2001 added \$25 million of operating margin. Customer growth contributed \$10 million of incremental operating margin. Differences in heating demand caused by weather variations between periods resulted in an \$11 million margin decrease. Near record warm temperatures during April 2002 negatively impacted current period margin while the prior period benefited from temperatures which were on average seven percent colder than normal.

Operations and maintenance expense increased \$6.1 million, or five percent, reflecting general increases in labor and maintenance costs, along with other operating expenses incurred to provide service to a steadily growing customer base.

Depreciation expense and general taxes increased \$5.2 million, or eight percent, as a result of construction activities. Average gas plant in service increased \$195 million, or eight percent, as compared to the first six months of 2001. The increase reflects ongoing capital expenditures for the upgrade of existing operating facilities and the expansion of the system to accommodate continued customer growth.

During the second quarter 2002, the Company recorded a net \$14.5 million nonrecurring pretax charge related to the settlements of merger-related litigation. See **Merger-related Litigation Settlements** for additional information.

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Other income (expense) improved \$1.7 million between periods. The current period includes a one-time pre-tax gain of \$8.9 million on the sale of undeveloped property, partially offset by a \$3 million reduction in interest income primarily earned on the deferred PGA account balances, a \$1.5 million charge for a potential regulatory disallowance in California and a \$2.1 million increase in merger litigation costs.

Twelve-Month Analysis

	Twelve Months Ended June 30,	
	2002	2001
	(Thousands of dollars)	
Gas operating revenues	\$ 1,187,216	\$ 1,119,263
Net cost of gas sold	647,663	610,186
Operating margin	539,553	509,077
Operations and maintenance expense	259,100	241,769
Depreciation and amortization	108,796	99,295
Taxes other than income taxes	33,650	31,646
Operating income	138,007	136,367
Merger litigation settlements	(14,500)	--
Other income (expense)	9,357	3,795
Income before interest and income taxes	132,864	140,162
Net interest deductions	78,386	75,535
Preferred securities distributions	5,475	5,475
Income tax expense	16,684	17,695
Contribution to consolidated net income	\$ 32,319	\$ 41,457

Contribution to consolidated net income decreased \$9.1 million in the current twelve-month period compared to the same period a year ago. The impact of the merger litigation settlements, coupled with higher operating and financing costs, was partially offset by growth in operating margin and improvement in other income (expense).

Operating margin increased \$30 million between periods. Customer growth, coupled with increased margin from electric generation and industrial customers during the second half of 2001, contributed \$26 million in incremental margin, while rate relief added \$30 million. Differences in heating demand caused by weather variations between periods resulted in a \$26 million margin decrease. Warmer-than-normal temperatures experienced during the fourth quarter of 2001 and second quarter of 2002 negatively impacted margin by \$13 million. Prior-period margin was \$13 million higher than expected due to temperatures that were ten percent colder than normal.

Operations and maintenance expense increased \$17.3 million, or seven percent, reflecting general increases in labor and maintenance costs, higher uncollectible expenses, and incremental operating expenses associated with providing service to a steadily growing customer base.

Depreciation expense and general taxes increased \$11.5 million, or nine percent, as a result of additional plant in service. Average gas plant in service for the current twelve-month period increased \$190 million, or eight percent, compared to the corresponding period a year ago. This was attributable to the upgrade of existing operating facilities and the expansion of the system to accommodate new customers.

During the second quarter 2002, the Company recorded a net \$14.5 million nonrecurring pretax charge related to the settlements of merger-related litigation. See **Merger-related Litigation Settlements** for additional information.

Other income (expense) improved \$5.6 million between periods. The current period includes a one-time pretax gain of \$8.9 million for the sale of undeveloped property and a \$3 million nonrecurring pretax gain on the sale of certain assets recognized in the fourth quarter of 2001. These gains were partially offset by a \$1.2 million decrease in interest income

primarily earned on deferred PGA account balances, a \$1.5 million charge for a potential regulatory disallowance in California and a \$3.2 million increase in merger litigation costs.

Net interest deductions increased \$2.9 million, or four percent, due primarily to incremental borrowings to finance construction expenditures.

Income tax expense in the current period includes \$2.5 million of income tax benefits recognized in 2001 associated with the resolution of state income tax issues. The prior period includes \$4.4 million of income tax benefits recognized in 2000 associated with the favorable resolution of certain federal tax issues and the statutory closure of open federal tax years.

Rates and Regulatory Proceedings

Nevada General Rate Cases. In July 2001, Southwest filed general rate applications with the Public Utilities Commission of Nevada (PUCN) seeking approval to increase annualized revenues by \$21.7 million in its southern Nevada rate jurisdiction and \$7.7 million in its northern Nevada rate jurisdiction. In November 2001, Southwest received approval from the PUCN to increase rates by \$13.5 million, or five percent, annually in southern Nevada and \$5.9 million, or five percent, annually in northern Nevada effective December 2001. In January 2002, the PUCN settled several open issues in the case regarding rate design. Changes included increasing the residential basic service charge by \$2.00 per month in both jurisdictions, which should improve revenue stability in Nevada. The changes were effective February 2002 and did not impact the amount of rate relief granted.

California General Rate Cases. In February 2002, Southwest filed general rate applications with the California Public Utilities Commission (CPUC) for its northern and southern California jurisdictions. The application seeks annual increases over a five-year period beginning January 2003, which cumulatively amount to \$6.3 million in northern California and \$17.2 million in southern California. For 2003, an annualized \$2.7 million, or 13 percent, revenue increase was requested for the northern jurisdiction and an annualized \$6.7 million, or eight percent, revenue increase was requested for the southern jurisdiction. Additional smaller annual revenue increases are proposed in the subsequent years of the application through 2007.

In July 2002, the Office of Ratepayer Advocates (ORA) filed testimony in the rate case recommending significant reductions to the rate increases sought by Southwest. The ORA did concur with the majority of the Southwest rate design proposals including a margin tracking mechanism to mitigate weather-related usage variations. Hearings are scheduled to begin in August 2002 with a decision expected by year-end. The last general rate increases received in California were January 1998 in northern California and January 1995 in southern California.

Arizona Capacity Issues. Southwest arranges for transportation of gas to its Arizona service territories exclusively through the El Paso Natural Gas Company (El Paso) pipeline system. In its Arizona service territories, Southwest receives the contractual benefit of being a full-requirements shipper on the El Paso system. The capacity needs of a full-requirements shipper are met before those of other shippers. Certain filings by El Paso with the Federal Energy Regulatory Commission (FERC) during 2001 prompted non full-requirements shippers to file a complaint with the FERC. This complaint alleges among other things that unlimited rights of full-requirements shippers cause damage to other shippers because there is insufficient pipeline capacity to serve all firm requirements for all shippers.

Virtually all of El Paso's customers in Arizona, New Mexico and Texas are full requirements customers, while El Paso transports natural gas for its customers in California and Nevada subject to a specific maximum daily quantity, or contract demand limitation. Over the past two years, the demand for natural gas on the El Paso system has risen; primarily due to increased electric power generation fuel needs and market area growth. As a result, shippers are increasingly having their available quantity reduced.

In May 2002, the FERC issued an order requiring that full requirements service be terminated as of November 2002. In addition, it was ordered that full requirements transportation service agreements would be converted to contract demand-type service agreements as of November 2002, and that the full requirements customers would have an opportunity to negotiate an allocation of the system capacity determined by El Paso to be in excess of the capacity needed to fully serve the contract demand shippers. If the customers fail to agree upon an allocation, then the FERC will establish an allocation methodology for the customers. Management believes that although it is difficult to

predict the impact of the FERC action on Southwest, sufficient capacity will probably be available on the El Paso system to serve the needs of Arizona customers. However, additional costs are likely to be incurred to acquire such capacity. It is anticipated that these additional costs would be collected from customers, principally through the PGA mechanism.

PGA Filings

Arizona PGA Filings. In Arizona, Southwest adjusts rates monthly for changes in purchased gas costs, within pre-established limits. In January 2002, Southwest filed an advice letter with the ACC to eliminate a temporary rate adjustment surcharge, which was otherwise set to expire at the end of the second quarter of 2002. This action was taken in recognition of moderating gas costs and projections of PGA balancing account activity. The filing was approved effective February 2002, and reduces revenues by \$31.9 million annually with no reduction to margin.

Nevada PGA Filings. In December 2001, Southwest submitted an out-of-cycle PGA filing to the PUCN for a \$29.2 million decrease for southern Nevada customers. In January 2002, an additional decrease of \$13.9 million was requested. The total of the two filings, \$43.1 million, was agreed to in a settlement among all parties and approved by the PUCN effective February 2002. The filings were made in advance of the scheduled annual date to allow customers to receive the benefit of decreases experienced in natural gas costs. PGA changes impact cash flows but have no direct impact on profit margin. In June 2002, Southwest filed its annual PGA, which requested no change in effective rates for either the southern or northern Nevada rate jurisdiction. The annual PGA is expected to go to hearing during the fourth quarter of 2002.

California Order Instituting Investigation (OII). In July 2001, the CPUC ordered an investigation into the reasonableness of Southwest natural gas procurement practices and costs from June 1999 through May 2001, and related measures taken to

minimize gas costs beyond May 2001. During the third quarter of 2001, Southwest filed a detailed report and testimony with the CPUC on these matters for both its northern and southern California service territories. The OII resulted from complaints by southern California customers about the size of monthly PGA rate increases that were necessary due to the unusually high cost of natural gas during the winter of 2000-2001. In regards to the southern California jurisdiction, the ORA and County of San Bernardino recommended disallowances of \$7.3 million and \$11.7 million, respectively. No issues were raised related to the northern California rate jurisdiction. The proposed disallowances were based solely on decisions by Southwest not to purchase additional gas for storage during the winter of 2000-2001. Hearings were held in January 2002. Southwest defended its decisions related to storage, based on testimony which demonstrated that injecting additional volumes of natural gas into storage during the 2000 injection season (April through September) could not be economically justified based on market conditions and price forecasts that existed at the time decisions were made.

During May 2002, the Administrative Law Judge issued a proposed decision and the Presiding Commissioner issued an alternate decision (AD) related to this matter. The proposed decision recommended that Southwest be disallowed \$3.2 million, while the AD recommended a \$5.8 million disallowance. Both draft decisions concluded that Southwest should have had a higher gas storage inventory level than it had going into the winter of 2000-2001. During July 2002, a second AD was drafted by another Commissioner, recommending a disallowance of nearly \$1.5 million. Although Southwest continues to assert that no disallowance is warranted in the proceeding, an estimated \$1.5 million liability was recognized in its second quarter 2002 financial statements based on management's belief that a disallowance will be ordered. All three proposed decisions are scheduled to be on the Commission's agenda during late August 2002, at which time the Commission may act or postpone action until a later date.

Merger-related Litigation Settlements

Litigation in Arizona related to the now terminated acquisition of the Company by ONEOK, Inc. (ONEOK) and the rejection of competing offers from Southern Union Company (Southern Union) was recently resolved. For additional background information, see Item 3 "Legal Proceedings" in the 2001 Form 10-K filed by the Company with the SEC.

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In August 2002, the Company reached final settlements with both Southern Union and ONEOK related to this litigation. The Company will pay Southern Union \$17.5 million to resolve all remaining Southern Union claims against the Company and its officers. ONEOK will pay the Company \$3 million to resolve all claims between the Company and ONEOK.

The net after-tax impact of the settlements was a \$9 million, or \$0.28 per share, charge and was reflected in the second quarter 2002 financial statements. Prior to 2002, the impact to Company financial results for merger litigation costs was not significant as most defense costs were reimbursed by insurance. However, recently the Company exhausted its first layer of insurance coverage and began filing claims with a different insurance provider for reimbursement under its second layer of coverage. The Company and the insurance provider are in dispute over the type of coverage and whether it applies to the Southern Union settlement or related litigation defense costs. Because of this dispute, the Company recognized the full amount of the Southern Union settlement in the second quarter charge. Management cannot predict the amount, if any, of insurance cost reimbursement the Company may receive.

Recently Issued Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The asset retirement obligations included within the scope of SFAS No. 143 are those that are unavoidable as a result of the acquisition, construction, development, or normal operation of long-lived assets. The standard requires that a legal obligation associated with the retirement of tangible long-lived assets be recognized as a liability when incurred. When a liability for an asset retirement obligation is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Entities are also required to recognize period-to-period changes for the liability related to asset retirement obligations resulting from the passage of time and/or revisions to either the timing or the amount of the original estimate of undiscounted cash flows. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss. Upon initial application of SFAS No. 143, entities are required to recognize the following items in the statement of financial position: a liability for any existing asset retirement obligations adjusted for cumulative accretion to the date of adoption of SFAS No. 143, an asset retirement cost capitalized as an increase to the carrying amount of the associated long-lived asset, and accumulated depreciation for the capitalized cost. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002, with early adoption encouraged. Management has not yet quantified the effects of the new standard on the financial position or results of operations of the Company.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." The rescission of SFAS Nos. 4 and 64 is effective for fiscal years beginning after May 15, 2002. All other provisions of SFAS No. 145 are effective for transactions entered into, or financial statements issued, after May 15, 2002. The effective portions of the standard were adopted without impact during the second quarter of 2002 and management believes the remaining portions of the new standard will have no material effect on the financial position or results of operations of the Company.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires that a liability be recognized at fair value for a cost associated with an exit or disposal activity when the liability is incurred. Exit or disposal activities include a sale or termination of a line of business, the closure of business activities in a particular location, the relocation of business activities from one location to another, changes in management structure, and a fundamental reorganization that affects the nature and focus of operations. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. Management believes the new standard will have no material effect on the financial position or results of operations of the Company.

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Forward-Looking Statements

This report contains statements which constitute "forward-looking statements" within the meaning of the Securities Litigation Reform Act of 1995 (Reform Act). All such forward-looking statements are intended to be subject to the safe harbor protection provided by the Reform Act. A number of important factors affecting the business and financial results of the Company could cause actual results to differ materially from those stated in the forward-looking statements. These factors include, but are not limited to, the impact of weather variations on customer usage, customer growth rates, natural gas prices, the effects of regulation/deregulation, the timing and amount of rate relief, changes in gas procurement practices, changes in capital requirements and funding, the impact of conditions in the capital markets on financing costs, acquisitions and competition.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Merger-related Litigation Settlements

Litigation in Arizona related to the now terminated acquisition of the Company by ONEOK and the rejection of competing offers from Southern Union was recently resolved. For additional background information, see Item 3 "Legal Proceedings" in the 2001 Form 10-K filed by the Company with the SEC.

In August 2002, the Company reached final settlements with both Southern Union and ONEOK related to this litigation. The Company will pay Southern Union \$17.5 million to resolve all remaining Southern Union claims against the Company and its officers. ONEOK will pay the Company \$3 million to resolve all claims between the Company and ONEOK. The net after-tax impact of the settlements was a \$9 million, or \$0.28 per share, charge and was reflected in the second quarter 2002 financial statements.

ITEMS 2-3. None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Annual Meeting of Shareholders was held on May 9, 2002. Matters voted upon and the results of the voting were as follows:

- (1) Cumulative voting became effective for all shareholders when the intent to cumulatively vote shares was announced at the Annual Meeting of Shareholders. Each shareholder/proxy was entitled to give one nominee for director a number of votes equal to the number of directors to be elected (in this case 11) multiplied by the number of votes to which the shareholder's shares were normally entitled. A shareholder/proxy could distribute their votes on the same principle among as many of the nominees for director as the shareholder/proxy desired. Withholding votes or voting against a nominee had no legal effect. The 11 nominees that received the highest allocation of affirmative votes were elected as indicated below.

<u>Name</u>	<u>Votes</u>	<u>Elected</u>
George C. Biehl	26,038,231	Yes
Manuel J. Cortez	26,041,091	Yes
Mark M. Feldman	17,600,000	Yes
David H. Gunning	26,038,231	Yes
Thomas Y. Hartley	26,038,231	Yes
Michael B. Jager	26,038,231	Yes
Leonard R. Judd	26,038,231	Yes
James J. Kropid	26,038,231	Yes
Michael O. Maffie	26,038,231	Yes
Carolyn M. Sparks	26,038,231	Yes
Terrance L. Wright	26,038,231	Yes
Michael Melarkey	12,540,616	No

- (2) The 2002 Stock Incentive Plan was approved. Shareholders voted 20,806,717 shares in favor, 4,549,089 against, and 3,092,348 abstentions.
- (3) The amended and restated Management Incentive Plan was approved. Shareholders voted 21,517,944 shares in favor, 3,801,504 against, and 3,128,706 abstentions.

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ITEM 5. OTHER INFORMATION

Until further notice, any shareholder planning to nominate an individual as a director nominee must identify themselves and disclose information regarding their nominee(s). The nominee specific information must parallel the information required to be disclosed in soliciting proxies for election of directors under SEC regulations, including the nominee's written consent to be named in the proxy statement and to serving as a director, if elected. Notice must be received at the principal executive offices of the Company 20 days before the Annual Meeting or within 10 days following the notice of any (i) postponement of the Annual Meeting by more than 30 days and (ii) Special Meeting at which directors are to be elected.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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

[Exhibit 3\(ii\)](#) -- Amended Bylaws of Southwest Gas Corporation.

[Exhibit 12](#) -- Computation of Ratios of Earnings to Fixed Charges.

(b) Reports on Form 8-K:

On May 6, 2002, the Company filed a Form 8-K with exhibits pertaining to the final Prospectus Supplement for the \$200,000,000 7.625% Senior Unsecured Notes due 2012. Exhibits included the Underwriting Agreement, the Pricing Agreement, the Fourth Supplemental Indenture, the Form of 7.625% Senior Unsecured Notes due 2012, and the Opinion of O'Melveny & Myers LLP.

On May 28, 2002, the Company filed a Form 8-K reporting the dismissal of Arthur Andersen LLP and the hiring of PricewaterhouseCoopers LLP as auditors for Southwest Gas Corporation effective May 28, 2002.

On August 12, 2002, the Company reported summary financial information for the quarter, year to date and twelve months ended June 30, 2002 pursuant to Item 9 of Form 8-K.

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

Southwest Gas Corporation

(Registrant)

Date: August 13, 2002

/s/ Roy R. Centrella

Roy R. Centrella
Vice President/Controller and Chief Accounting Officer

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BYLAWS
OF
SOUTHWEST GAS CORPORATION

ARTICLE I

Section 1. Principal Office

The principal office for the transaction of the business of the corporation is hereby fixed and located at 5241 Spring Mountain Road, in the City of Las Vegas, County of Clark, State of Nevada.

Section 2. Other Offices

Branch or subordinate offices may at any time be established by the Board of Directors at any place or places where the corporation is qualified to do business.

Section 3. Terminology

All personal pronouns used herein are employed in a generic sense and are intended and deemed to be neutral in gender.

ARTICLE II

MEETING OF SHAREHOLDERS

Section 1. Regular Meeting

Commencing in May, 1988, the regular annual meeting of the shareholders shall be held at the principal office of the corporation, or at such other place within or without the State of California as the officers of the corporation may deem convenient and appropriate, at 10 a.m. on the second Thursday of May of each year, if not a legal holiday, and if a legal holiday, then at 10 a.m. on the next succeeding business day, for the purpose of electing a Board of Directors and transacting such other business as properly may come before the meeting; provided, however, that the Board of Directors may, by resolution, establish a different date not more than 120 days thereafter if, in its sole discretion, it deems such postponement appropriate.

Section 2. Special Meetings

Except in those instances where a particular manner of calling a meeting of the shareholders is prescribed by law or elsewhere in these Bylaws, a special meeting of the shareholders may be called at any time by the Chief Executive Officer or other officers acting for him or

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by the Board of Directors, or by the holders of not less than one-third of the voting shares then issued and outstanding. Each call for a special meeting of the shareholders shall state the time, place, and the purpose of such meeting; if made by the Board of Directors, it shall be by resolution duly adopted by a majority vote and entered in the minutes; if made by an authorized officer or by the shareholders, it shall be in writing and signed by the person or persons making the same, and unless the office of Secretary be vacant, delivered to the Secretary. No business shall be transacted at a special meeting other than as is stated in the call and the notice based thereon.

Section 3. Notice of Regular and Special Meetings of the Shareholders

Notice of each regular and special meeting of the shareholders of the corporation shall be given by mailing to each shareholder a notice of the time, place and purpose of such meeting addressed to him at his address as it appears upon the books of the corporation. Each such notice shall be deposited in the United States Mail with the postage thereon prepaid at least ten days prior to the time fixed for such meeting. If the address of any such shareholder does not appear on the books of the corporation and his post office address is unknown to the person mailing such notices, the notice shall be addressed to him at the principal office of the corporation.

Section 4. Quorum

At any meeting of the shareholders, the presence in person or by proxy of the holders of a majority of the shares entitled to vote at any meeting shall constitute a quorum for the transaction of business, except when it is otherwise provided by law. Any regular or special meeting of the shareholders may adjourn from day to day or from time to time if, for any reason, there are not present in person or by proxy the holders of a majority of the shares entitled to vote at said meeting. Such adjournment and the reasons therefor shall be recorded in the minutes of the proceedings.

Section 5. Waiver of Notice

When all the shareholders of the corporation are present at any meeting, or when the shareholders not represented thereat give their written consent to the holding thereof at the time and place the meeting is held, and such written consent is made a

part of the records of such meeting, the proceedings had at such meeting are valid, irrespective of the manner in which the meeting is called or the place where it is held.

Section 6. Proper Business for Shareholder Meetings

1. At a meeting of the shareholders, only such business shall be proper as shall be brought before the meeting: (i) pursuant to the corporation's notice of meeting; (ii) by or at the direction of the Board of Directors of the corporation; or (iii) by any shareholder of the

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corporation who is a shareholder of record at the time of giving the notice provided for herein, who shall be entitled to vote at such meeting and who complies with the notice procedures set forth herein.

2. For business to be properly brought before a meeting by a shareholder pursuant to clause (iii) above, the shareholder must have given timely notice thereof in writing to the Secretary. To be timely as to an annual meeting of shareholders, a shareholder's notice must be received at the principal executive office of the corporation not less than 120 calendar days before the date of the corporation's proxy statement released to shareholders in connection with the previous year's annual meeting; provided however, that if the date of the meeting is changed by more than 30 days from the date of the previous year's meeting, notice by shareholder to be timely must be received no later than the close of business on the 10th day following the earlier of the day on which notice of the date of the meeting was mailed to shareholders or public disclosure of such date was made. To be timely as to a special meeting of shareholders, a shareholder notice must be received not later than the call of the meeting as provided for in Section 2 of this Article II. Such shareholder notice shall set forth as to each matter the shareholder proposes to bring before the meeting: (a) a brief description of and the reasons for proposing such matter at the meeting; (b) the name and address, as they appear on the corporation's books, and the name and address of the beneficial owner, if any, on whose behalf the proposal is made; (c) the class and number of shares of the corporation which are owned beneficially and of record by such shareholder of record and by the beneficial owner, if any, on whose behalf the proposal is made; and (d) any material interest of such shareholder of record and the beneficial owner, if any, on whose behalf the proposal is made, in such proposal.

3. Notwithstanding anything in these Bylaws to the contrary, no business shall be proper at a meeting unless brought before it in accordance with the procedures set forth herein.

Further, a shareholder shall also comply with all applicable requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder with respect to the matters set forth herein.

4. The Chairman of the Board of Directors of the corporation or the individual designated as chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the procedures proscribed herein, and if the chairman should so determine, that any such business not properly brought before the meeting shall not be transacted.

5. Notwithstanding anything provided herein to the contrary, the procedures for submission of shareholder proposals have not expended, altered or affected in any manner, whatever rights or limitations may exist regarding the ability of a shareholder of the corporation to submit to a proposal for consideration by shareholders of the corporation under California or federal law.

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ARTICLE III

BOARD OF DIRECTORS

Section 1. Number--Quorum

The business of the corporation shall be managed by a Board of Directors, whose number shall be not fewer than eleven (11) nor greater than fourteen (14), as the Board of Directors or the shareholders by amendment of these Bylaws may establish, provided, however, that a reduction in the authorized number of directors shall not remove any director prior to the expiration of his term of office, and provided further that the shareholders may, pursuant to law, establish a different and definite number of directors or different maximum and minimum numbers of directors by amendment of the Articles of Incorporation or by a duly adopted amendment to these Bylaws. A majority of the prescribed number of directors shall be necessary to constitute a quorum for the transaction of business. At a meeting at which a quorum is present, every decision or act of a majority of the directors present made or done when duly assembled shall be valid as the act of the Board of Directors, provided that a minority of the directors, in the absence of a quorum, may adjourn from day to day but may transact no business.

Section 2. Exact Number of Directors

The number of directors of the corporation is hereby established, pursuant to the provisions of Section 1 of this Article III, as eleven (11).

Section 3. Director Nominating Procedure

1. Except for the filling of vacancies, as provided for in Section 6 of this Article III, only persons who are nominated in accordance with the procedures set forth herein shall be qualified to serve as directors. Nominations of persons for election to the Board may be made at a meeting of shareholders (a) by or at the direction of the Board or (b) by any shareholder of the corporation who is a shareholder of record at the time of giving of notice provided for in this Bylaw, who shall be

entitled to vote for the election of directors at the meeting and who complies with the notice procedures set forth in this Bylaw.

2. Nominations by shareholders shall be made pursuant to timely notice in writing to the Secretary. To be timely as to an annual meeting, a shareholder's notice must be received at the principal executive offices of the corporation not less than 20 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that if the date of the annual meeting is changed by more than 30 days from such anniversary date, notice by the shareholder to be timely must be so received not later than the close of business on the 10th day following the earlier of the day on which notice of the date of the meeting was mailed to shareholders or public disclosure of such date was made. To be timely as to a special meeting at which directors are to be elected, a shareholder's notice must be received not later than the close of business on the 10th day following the earlier of the day on which notice of the date of the meeting was mailed to shareholders or public disclosure of such date was made. Such shareholder's notice shall set forth (a) as to each person whom the shareholder proposes to

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nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) as to the shareholder giving the notice (i) the name and address, as they appear on the corporation's books, of such shareholder and (ii) the class and number of shares of the corporation which are beneficially owned by such shareholder and also which are owned of record by such shareholder; and (c) as to the beneficial owner, if any, on whose behalf the nomination is made, (i) the name and address of such person and (ii) the class and number of shares of the corporation which are beneficially owned by such person. At the request of the Board, any person nominated by the Board for election as a director shall furnish to the Secretary that information required to be set forth in the shareholder's notice of nomination which pertains to the nominee.

3. Except for the filling of vacancies, as provided for in Section 6 of this Article III, no person shall be qualified to serve as a director of the corporation unless nominated in accordance with the procedures set forth in this Bylaw. The Chairman of the Board of Directors of the corporation or the individual designated as chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by these Bylaws, and if the chairman should so determine, that the defective nomination shall be disregarded. Notwithstanding the foregoing provisions of this Bylaw, a shareholder shall also comply with all applicable requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder with respect to the matters set forth in this Bylaw.

Section 4. Qualification of Directors

The majority of directors of the Board of Directors shall not be officers or employees of the corporation or any of its subsidiaries and shall not have held such positions at any time during the three years prior to election or selection to the Board of Directors. Whether an individual, who is an officer or employee of the corporation or any of its subsidiaries, satisfies this qualification requirement will be determined at the time of his or her election or selection.

Section 5. Election and Term of Office

The directors shall be elected at each annual meeting of shareholders, but if any such annual meeting is not held, or the directors are not elected thereat, the directors may be elected at any special meeting of shareholders held for that purpose. All directors shall hold office until their respective successors are elected and qualified.

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Section 6. Vacancies

Vacancies in the Board of Directors may be filled by a majority of the remaining directors, though they be less than a quorum, and each director so elected shall hold office until his successor is qualified following the election at the next annual meeting of the shareholders or at any special meeting of shareholders duly called for that purpose prior to such annual meeting. A vacancy shall be deemed to exist in case the shareholders (or the Board of Directors, within the provisions of Section 1 of this Article III) shall increase the authorized number of directors, but shall fail, for a period of thirty days from the effective date of such increase, to elect the additional directors so provided for, or in case the shareholders fail at any time to elect the full number of authorized directors. When one or more of the directors shall give notice to the Board of Directors of his or their resignation from said Board, effective at a future date, the Board of Directors shall have the power to fill such vacancy or vacancies to take effect when such resignation or resignations become effective. Each director so appointed shall hold office during the remainder of the term of office of the resigning director or directors or until their successors are appointed and qualify.

Section 7. First Meeting of Directors

Immediately following each annual meeting of shareholders, the Board of Directors shall hold a regular meeting for the purpose of organization, election of officers, and the transaction of other business. Notice of such meeting is hereby dispensed with.

Section 8. Regular Meetings

Commencing in 1991, the time for other regular meetings of the Board of Directors, when held, shall be 8 a.m. on the third Tuesday of January, July, September and November, the first Tuesday of March and the second Wednesday of May, unless a different schedule is established by a resolution of the Board. If any regular meeting date shall fall on a legal holiday, then the regular meeting date shall be the business day next following.

Section 9. Special Meetings

A special meeting of the Board of Directors shall be held whenever called by the Chief Executive Officer or other officer acting for him, or by three directors. Any and all business may be transacted at a special meeting. Each call for a special meeting shall be in writing, signed by the person or persons making the same, addressed and delivered to the Secretary, and shall state the time and place of such meeting.

Section 10. Notice of Regular and Special Meetings of the Directors

No notice shall be required to be given of any regular meeting of the Board of Directors, but each director shall take notice thereof. Notice of each special meeting of the Board of Directors shall be given to each of the directors by: (i) mailing to each of them a copy of such notice at least five days; or (ii) delivering personally or by telephone, including voice messaging system or other system or technology

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designed to record and communicate messages, telegraph, facsimile, electronic mail or other electronic means such notice at least 48 hours, prior to the time affixed for such meeting to the address of such director as shown on the books of the corporation. If his address does not appear on the books of the corporation, then such notice shall be addressed to him at the principal office of the corporation.

Section 11. Waiver of Notice

When all the directors of the corporation are present at any meeting of the Board of Directors, however called or noticed, and sign a written consent thereto on the record of such meeting, or if the majority of the directors are present, and if those not present sign in writing a waiver of notice of such meeting, whether prior to or after the holding of such meeting, which waiver shall be filed with the Secretary of the corporation, the transactions of such meeting are as valid as if had at a meeting regularly called and noticed.

Section 12. Action by Unanimous Consent of Directors

Any action required or permitted to be taken by the Board of Directors may be taken without a meeting if all members of the Board shall individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board, and such action by written consent shall have the same force and effect as if approved or taken at a regular meeting duly held. Any certificate or other document which relates to action so taken shall state that the action was taken by unanimous written consent of the Board of Directors without a meeting, and that these Bylaws authorize the directors to so act.

Section 13. Telephonic Participation in Meetings

Members of the Board may participate in a meeting through use of conference telephone or similar communications equipment, so long as all members participating in such meeting can hear one another. Participation in a meeting pursuant to this section shall constitute presence in person at such meeting.

ARTICLE IV

POWERS OF DIRECTORS

Section 1. The directors shall have power:

1. To call special meetings of the shareholders when they deem it necessary, and they shall call a meeting at any time upon the written request of shareholders holding one-third of all the voting shares;
2. To appoint and remove at pleasure all officers and agents of the corporation, prescribe their duties, fix their compensation, and require from them as necessary security for faithful service;

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3. To create and appoint committees, offices, officers and agents of the corporation, and to prescribe and from time to time change their duties and compensation, but no committee shall be created and no member appointed thereto except upon approval of a majority of the whole Board of Directors; and

4. To conduct, manage, and control the affairs and business of the corporation and to make rules and regulations not inconsistent with the laws of the State of California, or the Bylaws of the corporation, for the guidance of the officers and management of the affairs of the corporation.

ARTICLE V

DUTIES OF DIRECTORS

Section 1. It shall be the duty of the directors:

1. To cause to be kept a complete record of all their minutes and acts, and of the proceedings of the shareholders, and present a full statement at the regular annual meeting of the shareholders, showing in detail the assets and liabilities of the corporation, and generally the condition of its affairs. A similar statement shall be presented at any other meeting of the shareholders when theretofore required by persons holding at least one-half of the voting shares of the corporation;

2. To declare dividends out of the profits arising from the conduct of the business, whenever such profits shall, in the opinion of the directors, warrant the same;
3. To oversee the actions of all officers and agents of the corporation, see that their duties are properly performed; and
4. To cause to be issued to the shareholders, in proportion to their several interests, certificates of stock.

ARTICLE VI

OFFICERS

Section 1. The officers shall include a Chairman of the Board of Directors, a Chief Executive Officer, who may be designated Chairman, a President, a Secretary, a Treasurer, a Controller, and may include one or more Executive Vice Presidents, Senior Vice Presidents, Vice Presidents, Assistant Vice Presidents, Assistant Secretaries, and Assistant Treasurers. All such officers shall be elected by and hold office at the pleasure of the Board of Directors, provided that the Chief Executive Officer shall have authority to dismiss any other officer. Any director shall be eligible to be the Chairman of the Board of Directors and any two or more of such offices may be held by the same person, except that the Chief Executive Officer or President may not also hold the office of Secretary. Any officer may exercise any of the powers of any other officer in the manner specified in these Bylaws, as specified from time to time by the Board of Directors, and/or as specified

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from time to time by the Chief Executive Officer or senior officer acting in his or her absence or incapacity, and any such acting officer shall perform such duties as may be assigned to him or her.

ARTICLE VII

FEES AND COMPENSATION

Section 1. Directors shall be reimbursed for their expenses, and shall be compensated for their services as directors in such amounts as the Board may fix by resolution. Nothing herein contained shall be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee, or otherwise, and receiving compensation therefor.

ARTICLE VIII

INDEMNIFICATION

Section 1. Indemnification of Directors and Officers

Each person who was or is a party or is threatened to be made a party to or is involved in any threatened, pending or completed action, suit or proceeding, formal or informal, whether brought in the name of the corporation or otherwise and whether of a civil, criminal, administrative or investigative nature (hereinafter a "proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is an alleged action or inaction in an official capacity or in any other capacity while serving as a director or officer, shall, subject to the terms of any agreement between the corporation and such person, be indemnified and held harmless by the corporation to the fullest extent permissible under California law and the corporation's Articles of Incorporation, against all costs, charges, expenses, liabilities and losses (including attorneys' fees, judgments, fines, ERISA excise tax or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith, and such indemnification shall continue as to a person who has ceased to be a director or officer and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that (a) the corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board of the corporation, (b) the corporation shall indemnify such person seeking indemnification in connection with a proceeding (or part thereof) other than a proceeding by or in the name of the corporation to procure a judgment in its favor only if any settlement of such a proceeding is approved in writing by the corporation, and (c) that no such person shall be indemnified (i) except to the extent that the aggregate of losses to be indemnified exceeds the amount of such losses for which the director or officer is paid pursuant to

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any directors' and officers' liability insurance policy maintained by the corporation; (ii) on account of any suit in which judgment is rendered against such person for an accounting of profits made from the purchase or sale by such person of securities of the corporation pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any federal, state or local statutory law; (iii) if a court of competent jurisdiction finally determines that any indemnification hereunder is unlawful; (iv) for acts or omissions involving intentional misconduct or knowing and culpable violation of law; (v) for acts or omissions that the director or officer believes to be contrary to the best interests of the corporation or its shareholders or that involve the absence of good faith on the part of the director or officer; (vi) for any transaction for which the director or officer derived an improper personal benefit; (vii) for acts or omissions that show a reckless disregard for the director's or officer's duty to the corporation or its shareholders in

circumstances in which the director or officer was aware, or should have been aware, in the ordinary course of performing his or her duties, of a risk of serious injury to the corporation or its shareholders; (viii) for acts or omissions that constitute an unexcused pattern of inattention that amounts to an abdication of the director's or officer's duties to the corporation or its shareholders; (ix) for costs, charges, expenses, liabilities and losses arising under Section 310 or 316 of the General Corporation Law of California (the "Law"); and (x) as to circumstances in which indemnity is expressly prohibited by Section 317 of the Law. The right to indemnification conferred in this Article shall be a contract right and shall include the right to be paid by the corporation expenses incurred in defending any proceeding in advance of its final disposition; provided, however, that if the Law requires the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, such advances shall be made only upon delivery to the corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts to the corporation if it shall be ultimately determined that such person is not entitled to be indemnified.

Section 2. Indemnification of Employees and Agents

A person who was or is a party or is threatened to be made a party to or is involved in any proceedings by reason of the fact that he or she is or was an employee or agent of the corporation or is or was serving at the request of the corporation as an employee or agent of another enterprise, including service with respect to employee benefit plans, whether the basis of such action is an alleged action or inaction in an official capacity or in any other capacity while serving as an employee or agent, may, subject to the terms of any agreement between the corporation and such person, be indemnified and held harmless by the corporation to the fullest extent permitted by California law and the corporation's Articles of Incorporation, against all costs, charges, expenses, liabilities and losses (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement), reasonably incurred or suffered by such person in connection therewith. The immediately preceding sentence is not intended to be and shall not be considered to confer a contract right on any employee or agent (other than directors and officers) of the corporation.

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Section 3. Right of Directors and Officers to Bring Suit

If a claim under Section 1 of this Article is not paid in full by the corporation within 30 days after a written claim has been received by the corporation, the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall also be entitled to be paid the expense of prosecuting such claim. Neither the failure of the corporation (including its Board, independent legal counsel, or its shareholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is permissible in the circumstances because he or she has met the applicable standard of conduct, if any, nor an actual determination by the corporation (including its Board, independent legal counsel, or its shareholders) that the claimant has not met the applicable standard of conduct, shall be a defense to the action or create a presumption for the purpose of an action that the claimant has not met the applicable standard of conduct.

Section 4. Successful Defense

Notwithstanding any other provision of this Article, to the extent that a director or officer has been successful on the merits or otherwise (including the dismissal of an action without prejudice or the settlement of a proceeding or action without admission of liability) in defense of any proceeding referred to in Section 1 or in defense of any claim, issue or matter therein, he or she shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred in connection therewith.

Section 5. Non-Exclusivity of Rights

The right to indemnification provided by this Article shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, bylaw, agreement, vote of shareholders or disinterested directors or otherwise.

Section 6. Insurance

The corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under the law.

Section 7. Expenses as a Witness

To the extent that any director, officer, employee or agent of the corporation is by reason of such position, or a position with another entity at the request of the corporation, a witness in any action, suit or proceeding, he or she shall be indemnified against all costs and expenses actually and reasonably incurred by him or her on his or her behalf in connection therewith.

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Section 8. Indemnity Agreements

The corporation may enter into agreements with any director, officer, employee or agent of the corporation providing for indemnification to the fullest extent permissible under the law and the corporation's Articles of Incorporation.

Section 9. Separability

Each and every paragraph, sentence, term and provision of this Article is separate and distinct so that if any paragraph, sentence, term or provision hereof shall be held to be invalid or unenforceable for any reason, such invalidity or

unenforceability shall not affect the validity or unenforceability of any other paragraph, sentence, term or provision hereof. To the extent required, any paragraph, sentence, term or provision of this Article may be modified by a court of competent jurisdiction to preserve its validity and to provide the claimant with, subject to the limitations set forth in this Article and any agreement between the corporation and claimant, the broadest possible indemnification permitted under applicable law.

Section 10. Effect of Repeal or Modification

Any repeal or modification of this Article shall not adversely affect any right of indemnification of a director or officer existing at the time of such repeal or modification with respect to any action or omission occurring prior to such repeal or modification.”

ARTICLE IX

CHAIRMAN OF THE BOARD

Section 1. If there shall be a Chairman of the Board of Directors, he shall, when present, preside at all meetings of the stockholders and the Board of Directors, and perform such other duties as the Bylaws or the Board of Directors shall require of him.

ARTICLE X

CHIEF EXECUTIVE OFFICER; OTHER EXECUTIVE OFFICERS

Section 1. The Board of Directors shall, at their first regular meeting, elect such officers as are required by Article VI hereof and such additional officers authorized by Article VI hereof as the Board, in its discretion, may choose to elect. If at any time the Chief Executive Officer shall be unable to act, the President (if there shall be one who is not also the Chief Executive Officer) shall act in his place and perform his duties; if the President or next most senior officer is unable to perform such duties, then the vice presidents, in such sequence as the Board of Directors may specify, shall act. If all the foregoing shall be unable to act, the senior officer among them shall appoint some other person in whom shall be vested, for the time being, all the duties and functions of Chief Executive Officer, to act until the Board of Directors can be convened and elect appropriate officers. The Chief Executive Officer (or person acting as such) shall:

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1. Preside (if there shall be no Chairman of the Board of Directors or in his absence) over all meetings of the shareholders and directors;
2. Sign in behalf of the corporation contracts and other instruments in writing within the scope of his authority or if, when, and as directed so to do by the Board of Directors, but nothing herein shall limit the power of the Board of Directors to authorize such contracts and other instruments in writing to be signed by any other officer or person or limit the power of the Chief Executive Officer to delegate his authority in any such matter to another officer or other officers of the corporation. The Chief Executive Officer or any other officer specified by the Board of Directors may sign certificates of stock as provided in Article XIII hereof;
3. Delegate duties and responsibilities to any other officers and/or employees of the corporation in any manner not prohibited by these Bylaws or by the Board of Directors, and change such duties and responsibilities so delegated from time to time at will;
4. Call the directors together when he deems it necessary, and have, subject to the advice of the directors, direction of the affairs of the corporation; and
5. Generally discharge such other duties as may be required of him by the Bylaws of the corporation.

ARTICLE XI

SECRETARY

Section 1. The Board of Directors shall elect a Secretary:

1. It shall be the duty of the Secretary to keep a record of proceedings of the Board of Directors and of the shareholders, and to keep the corporate seal of the corporation. He shall be responsible for maintaining proper records showing the number of shares of stock of all classes and series issued and transferred by any shareholder, and the dates of such issuance and transfer;
2. Whenever it is provided in these Bylaws that notice shall be given either of regular or special meetings of the shareholders, regular or special meetings of the directors, or otherwise, such notice shall be given by the Secretary or by the Chief Executive Officer or by any person designated by either of them, or by any authorized person who shall have signed the call for such meeting. Any notice which the Secretary may give or serve, or act required to be done by him, may with like effect be given or served or done by or under the direction of an Assistant Secretary;
3. The Secretary shall discharge such other duties as pertain to his office or which may be prescribed by the Board of Directors.

ARTICLE XII

TREASURER

Section 1. The Treasurer shall receive and keep all the funds of the corporation and pay them out only on checks or otherwise, as directed by the Board of Directors; provided, however, that the Board of Directors may provide for a depository of the funds of the corporation, and may by resolution prescribe the manner in which said funds shall be drawn from said depository.

ARTICLE XIII

CERTIFICATES OF STOCK

Section 1. Certificates of stock shall be of such form and device as the Board of Directors may direct, and shall be signed by the genuine or facsimile signatures of the Chairman and Chief Executive Officer or the President or any authorized Vice President and the Secretary or an Assistant Secretary. Each certificate shall express on its face its number, date of issuance, the number of shares for which and the person to whom it is issued, the kind of shares represented by said certificate, and such other matters as may be required by law. Certificates of stock may be issued prior to full payment, in harmony with all permits issued by regulatory authorities having jurisdiction in the premises, or as is otherwise allowed by law, but any certificate issued prior to full payment must show on its face what amount has been paid thereon.

ARTICLE XIV

TRANSFER OF STOCK

Section 1. Shares of stock of the corporation may be transferred at any time by the holders, or by power of attorney, or by their legal representative, by endorsement on the certificate of stock, but no transfer is valid until the surrender of the endorsed certificate. A surrendered certificate shall be delivered up for cancellation before a new one is issued in lieu thereof, and the Secretary shall preserve the certificate so canceled or a suitable record thereof. If, however, a certificate is lost or destroyed, the Board of Directors may order a new certificate issued as is by law required or permitted.

ARTICLE XV

VOTING

Section 1. At all corporate meetings, each shareholder, either in person or by proxy, shall be entitled to as many votes as he owns shares of stock; however, every shareholder entitled to vote at any election for directors shall have the right to cumulate his votes.

Section 2. Proxies

Every person entitled to vote or execute consents shall have the right to do so either in person or by one or more agents authorized by a written proxy executed by such person or his duly authorized agent and filed with the Secretary of the corporation; provided that no such proxy shall be valid after the expiration of eleven (11) months from the date of its execution, unless the person executing it specifies therein the length of time for which such proxy is to continue in force, which in no case shall exceed seven (7) years from the date of its execution.

ARTICLE XVI

INDEBTEDNESS

Section 1. The Board of Directors shall have power to incur indebtedness, and the terms and amount thereof shall be entered in the minutes. The Board of Directors shall have the power to secure said indebtedness, or any obligation or obligations of the corporation, by pledge, mortgage, deed of trust, or other security given upon any property owned by it or in which it has any interest.

ARTICLE XVII

REGISTRAR AND/OR TRANSFER AGENT

Section 1. The Board of Directors may designate and appoint one or more registrars and/or transfer agents for the registration of the stock of the corporation, and make such rules and regulations for the registrations of stock at the office of such registrars and/or transfer agents as may to the Board of Directors seem desirable. The corporation may act as its own transfer agent, at the direction of the Board of Directors. The Board of Directors may, in its discretion, fix a transfer fee for transfer of stock certificates.

ARTICLE XVIII

MISCELLANEOUS

Section 1. Meetings. Notice. When Conclusive.

An entry made in the minutes of the directors or shareholders, pursuant to resolution or recital, to the effect that the notice of such meeting required by these Bylaws to be given has been given, shall be conclusive upon the corporation, its directors, shareholders, and all other persons that such notice has been duly given in proper form and substance to the proper persons and for the requisite length of time.

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ARTICLE XIX

SEAL

Section 1. The Board of Directors shall provide a suitable seal containing the name of the corporation, the years of its creation, and other appropriate words, and may alter the same at pleasure.

ARTICLE XX

AMENDMENTS TO BYLAWS

Section 1. Power of Shareholders

New Bylaws may be adopted or these Bylaws may be amended or repealed by the vote of shareholders entitled to exercise a majority of the voting power of the corporation or by the written assent of such shareholders, except as otherwise provided by law or by the Articles of Incorporation.

Section 2. Power of Directors

Subject to the right of the shareholders as provided in Section 1 of this Article XX to adopt, amend or repeal Bylaws, the Board of Directors may adopt, amend or repeal any of the Bylaws of this corporation, except that the powers of the Board of Directors to change, and/or establish the authorized number of directors of this corporation shall be as set forth in Article III of these Bylaws.

I hereby certify that the foregoing is a full, true, and correct copy of the Bylaws of Southwest Gas Corporation, a California corporation, as in effect on the date hereof.

WITNESS my hand this 16th day of July, 2002.

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

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BYLAWS

OF

SOUTHWEST GAS CORPORATION

(As amended 7/16/02)

SOUTHWEST GAS CORPORATION
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES
(Thousands of dollars)

		For the Twelve Months Ended				
		December 31,				
	June 30, 2002	2001	2000	1999	1998	1997
1. Fixed charges:						
A) Interest expense	\$ 79,587	\$ 80,139	\$ 70,659	\$ 63,110	\$ 63,416	\$ 63,247
B) Amortization	2,074	1,886	1,564	1,366	1,243	1,164
C) Interest portion of rentals	9,313	9,346	8,572	8,217	7,531	6,973
D) Preferred securities distributions	5,475	5,475	5,475	5,475	5,475	5,475
Total fixed charges	\$ 96,449	\$ 96,846	\$ 86,270	\$ 78,168	\$ 77,665	\$ 76,859
2. Earnings (as defined):						
E) Pretax income from continuing operations	\$ 56,765	\$ 56,741	\$ 51,939	\$ 60,955	\$ 83,951	\$ 21,328
Fixed Charges (1. above)	96,449	96,846	86,270	78,168	77,665	76,859
Total earnings as defined	\$ 153,214	\$ 153,587	\$ 138,209	\$ 139,123	\$ 161,616	\$ 98,187
	1.59	1.59	1.60	1.78	2.08	1.28