THIS AMENDMENT:

______ Passed ___________ Passed as amended by ________

______ Failed ______ Not Offered ______ Withdrawn

ORIGINAL

PIERCE PROPOSED AMENDMENT # 2

DATE PREPARED: December 10, 2008

COMPANY: Southwest Gas Corporation

DOCKET NOs: G-01551A-07-0504

OPEN MEETING DATES: December 16, 17, 18 and 19, 2008 AGENDA ITEM: U-29

Page 25, Line 3

STRIKE lines 3 through 9 and INSERT "We believe that a cost of equity of 10.9 percent in this proceeding achieves an appropriate result that is supported by the evidence in the record. The parties' expert analyses and use of proxy groups provides a broad range of results that is useful for assessing the reasonableness of this cost of equity."

Lines 16 and 17

STRIKE "Staff's cost of equity capital recommendation" and INSERT "a cost of equity capital of 10.9 percent"

Lines 18 and 19

STRIKE "Staff's overall COE calculation of 9.90 percent, with an upward adjustment of 10 basis points to 10.0 percent," and INSERT "A COE of 10.9 percent"

Page 26, Line 10

STRIKE "Staff's recommendation" and INSERT "a COE of 10.9 percent"

Page 31, Line 25

STRIKE line 25, page 31 through line 13, page 33 and INSERT the following:

"While Staff's methodology of identifying a FVRB Increment is instructive, we do not believe that the FVRB Increment should be assigned a "cost" of 2.05 percent or any other positive amount. As the parties recognize, the FVRB Increment—by definition—was not created with investor-supplied funds. It is as if a third-party interloper decided to gratuitously inject additional value into the company. Investors are made better off, not worse off, by the costless increase in the value of the Company. Shareholder risk declines as the amount of the FVRB Increment increases. The foregoing analysis suggests that the "cost," if any, that is applied to the FVRB Increment, should be a negative percentage.

Under the regulatory regime proposed by the Company, its shareholders would be rewarded with above-cost returns when the value of its assets appreciate in value and would be punished with below-cost returns when the value of its assets become obsolete or decline in value. Such a system of compounding-the-gain and compounding-the-loss, would inject additional risk into the regulatory framework than exists under the traditional OCRB and WACC methodology. By assigning a small, but negative cost rate to the FVRB Increment, we can counteract, to some extent, the risk that investors face that the Company's assets will become obsolete or decline in value. Thus, we will adopt a negative 0.25 percent cost on the FVRB Increment. For these reasons, we adopt a 10.9 percent cost of equity, and an overall 7.03 percent FVROR.

We note that the record in this proceeding contains a range of various FVRORs. The Company initially proposed a FVROR of 7.04 percent and then later submitted an amended proposal of 7.74 percent. Staff proposed two options: 6.79 percent and 7.08 percent. Finally, RUCO proposed a FVROR of 6.57 percent. We note that the FVROR that we adopt in this matter of an overall 7.03 percent falls well within this range."

Page 33, Line 15

STRIKE "10.0" and INSERT "10.9"; STRIKE "3.33" and INSERT "3.63"

Line 18

STRIKE "1.00" and INSERT "- 0.25"; STRIKE ".23" and INSERT "- 0.06"

Line 19

STRIKE "7.02" and INSERT "7.04"

Page 57, Line 22

STRIKE lines 22 beginning with ", as is Staff's" through 27 and INSERT the following:

"24. A 10.9 percent cost of equity is adopted, as is a –0.25 percent cost on the FVRB Increment. Assigning the applicable values to the actual capital structure produces a FVROR of 7.03 percent."

Conforming changes.