Denise E. Wilcox

Direct Testimony and Exhibits

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION OF NEW MEXICO GAS COMPANY, INC. FOR APPROVAL OF REVISIONS TO ITS RATES, RULES, AND CHARGES PURSUANT TO ADVICE NOTICE NO. 96	)	**Case No. 23-00255-UT**
NEW MEXICO GAS COMPANY, INC.	)	
Applicant.	)	

DIRECT TESTIMONY AND EXHIBITS

OF

DENISE E. WILCOX

September 14, 2023

I. INTRODUCTION AND PURPOSE

Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS.

A. My name is Denise E. Wilcox. I am Vice President of Human Resources and Corporate Security for New Mexico Gas Company, Inc. ("NMGC" or the "Company"). My business address is 7120 Wyoming Boulevard, NE, Suite 20, Albuquerque, New Mexico 87109.

Q. PLEASE BRIEFLY DESCRIBE YOUR BUSINESS EXPERIENCE AND EDUCATIONAL BACKGROUND.

A. My business experience and education are described in NMGC Exhibit DEW-1.

Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS VICE PRESIDENT OF HUMAN RESOURCES AND CORPORATE SECURITY FOR NMGC.

A. I am responsible for all human resources functions at NMGC, including employee and labor relations, compensation, benefits, hiring, performance review, discipline, and workforce development. I also oversee the Company's security measures, other than those that are information technology and telecommunications ("IT&T") related, such as physical security of NMGC's offices and facilities, including pipelines.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION ("NMPRC" OR THE "COMMISSION")?

A. Yes. I provided written testimony in NMGC's last two rate cases, NMPRC Case No. 19-00317-UT ("2019 Rate Case") and NMPRC Case No. 21-00267-UT ("2021 Rate Case").

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. In Section II, I explain the Company's compensation and benefits philosophy and describe the basis for compensation paid and benefits provided to employees including base pay, benefits, and incentive pay, which together make up the Company's total compensation to its employees. I discuss the conditions in the employment market that the Company saw during and has seen since the last rate case, which have created challenges and impacted the human resources decisions made by the Company. I also explain how the Company has determined the "labor escalator" which is then applied by NMGC Witness Erik C. Buchanan in the cost of service ("COS") model.

In Section III, I discuss anticipated vacancies in the Company going forward.

In Section IV, I discuss the Company's security measures undertaken in response to regulation and in order to protect its employees, customers, and facilities throughout the State.

Lastly, in Section V, I discuss the Company's compliance with the human resources related provisions of NMPRC Case No. 15-00327-UT (the "Emera Stipulation") including headcount, both current and planned, over the period covered by this case.

Q. PLEASE PROVIDE A BRIEF OVERVIEW OF HOW THE COMPANY IS CURRENTLY OPERATING FROM AN EMPLOYMENT STANDPOINT.

A. In NMGC's 2021 Rate Case, I filed supplemental testimony describing how NMGC experienced a sudden change in the employment market in March 2022 when certain NMGC employees were being heavily recruited by competing employers. Since that time, the labor market has continued to be challenging, requiring the Company to expend additional effort and funds. The Stipulation for the 2021 Rate Case settlement reflects $69.5 million of total compensation for 2023. The Company is currently on track to spend more than that in 2023 due to the challenging labor market in New Mexico and the Company's ongoing efforts to attract and retain employees and ensure the work of the business is getting done. As described in my Direct Testimony, the Company is working to fill positions and thereby decrease vacancies, in order to help reduce overtime, improve retention, and provide employees with a better work life balance.

II. COMPENSATION AND BENEFITS

Q. PLEASE DESCRIBE NMGC'S GENERAL APPROACH TO COMPENSATING ITS EMPLOYEES.

A. NMGC's compensation philosophy remains as before. The Company's goal is to compensate employees at or near the middle of the market for a particular job, taking into consideration each of the components of compensation. Middle of the market compensation for each position is determined through an analysis of national compensation data in a process called compensation benchmarking.

Q. WHAT IS COMPENSATION BENCHMARKING AND HOW IS IT USED BY NMGC?

A. Compensation benchmarking is the process by which jobs at NMGC are compared to similar jobs at other companies for the purpose of comparing the market salary data. Tampa Electric Company Inc.'s ("TEC") Human Resources Department participates in annual salary surveys and subscribes to an online service that provides national compensation data accumulated by two compensation consultants, Mercer and Willis Towers Watson. TEC works in conjunction with NMGC to match NMGC's positions to the same or similar positions in this national data. The middle of the market or midpoint compensation for NMGC's positions is derived from the position's benchmark match in the national data. In addition to giving us a comparison of how our compensation packages compare to other employers nationally, benchmarking helps provide periodic measurement against market baseline data and thus helps define reasonable salary ranges and incentive award levels for employees. All components of total compensation are evaluated using benchmarking data.

Q. WHAT ARE THE COMPONENTS OF TOTAL COMPENSATION?

A. NMGC determines and pays total compensation to employees consistent with the market. As used by NMGC, total compensation is generally the sum of three interrelated components: base salary, benefits, and incentive pay. The Company also has a supplemental pay program which allows it to supplement components of compensation in order to retain and attract certain employees. This is paid as needed at NMGC's discretion and is currently paid for approximately 130 employees.

Q. PLEASE DESCRIBE THE COMPONENTS OF COMPENSATION IN MORE DETAIL.

A. Base salary is the cash compensation employees regularly receive in their paychecks. All Company employees receive base salary. Also, based on certain job classifications, some employees are eligible for overtime and/or shift differential pay.

Benefits include all indirect and non-cash compensation provided to employees such as paid time off, holidays, 401(k) contributions, health insurance, and benefits mandated by law. All employees receive benefits.

The Company's Short-Term Incentive Plan ("STIP") is, as the name suggests, an incentive plan that compensates employees for the achievement of annual Company objectives. The achievement of the objectives of the STIP is intended to benefit customers, directly and indirectly. All employees are eligible to participate in the STIP. The Company's annual short-term incentive compensation plan is a key component of the Company's compensation program.

The Company's other incentive program, the Long-Term Incentive Plan ("LTIP"), compensates certain eligible employees for the achievement of 3-year performance objectives. The achievement of these objectives is intended to benefit customers, directly and indirectly. LTIP compensation is available to certain management employees at NMGC. Although LTIP is part of market-based compensation for certain positions and therefore needed to attract and retain qualified employees, and thus is arguably a recoverable expense, NMGC is not seeking recovery of LTIP in this rate case.

Supplemental Pay is the program that NMGC uses at its discretion, to temporarily supplement the general components of compensation for employees who work in a job market or geographic area in which the Company determines that other employers are providing materially higher wages and/or benefits than those offered by the Company for similar skillsets, and this pay difference is having an adverse effect on the ability of the Company to attract and retain a sufficient number of qualified employees.

a. <u>Base Salary</u>

Q. PLEASE DESCRIBE BASE SALARY.

A. As previously described, base salary is the cash compensation all employees regularly receive in their paychecks. Employees in certain job classifications are eligible for overtime and/or shift differential pay.

Q. DOES NMGC TYPICALLY PROVIDE ANNUAL MERIT INCREASES TO EMPLOYEE BASE SALARIES?

A. Yes. NMGC typically reviews salaries, employee performance, and other compensation related data and increases employee base salaries twice a year: in January and again later in the year.

Q. IN NMGC'S 2021 RATE CASE, YOU FILED SUPPLEMENTAL TESTIMONY DISCUSSING A SUDDEN CHANGE THE COMPANY EXPERIENCED IN THE EMPLOYMENT MARKET. CAN YOU PLEASE BRIEFLY DESCRIBE WHAT THAT CHANGE WAS?

A. In March 2022, NMGC experienced a sudden change in the employment market in the north central region when NMGC team members began being recruited to work at Los Alamos National Labs ("LANL"). I understand that the contractors for LANL were offering wage and benefit packages significantly higher (as much as 30% - 40%) than those offered by NMGC for comparable positions.

As a result of these offers, multiple NMGC team members resigned in the north central region with little to no notice to NMGC. In one instance, five NMGC team members resigned on the same day, to take positions with LANL's contractor, with no notice to NMGC. These departures primarily affected Española and Santa Fe. In Española, NMGC had four service technicians and lost all of them to LANL's contractor. Santa Fe was left with three service technicians, when it should have had six. NMGC was also aware of contractors making similar offers to NMGC team members in Albuquerque and Farmington.

In response to this sudden change, NMGC temporarily assigned service technicians from Albuquerque to the north central region to cover the areas affected by the loss of employees. NMGC also enacted a supplemental pay plan in the third week of March 2022 in the north central region, which includes Santa Fe, Española, and Taos. I will discuss supplemental pay in more detail in section II(d) of this Direct Testimony.

Q. WAS NMGC'S RESPONSE TO THE SUDDEN CHANGE IN THE EMPLOYMENT MARKET EFFECTIVE?

A. Yes. By enacting the supplemental pay plan, NMGC was able to significantly slow the loss of employees in the north central area. This, combined with the temporary reassignments, ensured that NMGC was able to continue providing customers with safe and reasonable service. Since that time, the situation in the north central region has mostly stabilized and employees in that region continue to receive supplemental pay.

Q. WHAT IMPACT DID THIS SUDDEN CHANGE HAVE ON NMGC'S 2021 RATE CASE?

A. In the 2021 Rate Case, NMGC originally requested recovery of a 5% merit increase for 2023. In light of dramatic changes in the market experienced in March 2022, the Company filed an errata requesting an additional 4% to pay for the supplemental pay program and to proactively address these employment issues on an as needed basis.

Q. DID THE COMPANY USE ALL OF THE ADDITIONAL 4% AND, IF SO, HOW?

A. Yes, NMGC used all of this money to assist with employee retainment and recruitment. By way of reference, the Stipulation for the 2021 Rate Case reflected $69.5 million in compensation expenses for the Future Test Year, which included the additional 4%. For 2023 (the Future Test Year) we are tracking to spend more than that amount which is reflective of the challenging labor market in New Mexico and the Company's ongoing efforts to attract and retain employees and ensure the work of the Company gets done. The additional 4% was spent in a variety of ways with the following areas being the most significant:

- Supplemental pay to provide more competitive salaries for highly sought positions;
- Mid-year merits that were above the historic norm aimed primarily at employees paid at the low end of their pay range;

- Retention bonuses to incentivize certain employees to remain with the Company;
- Overtime pay for employees covering for vacant positions; and
- Raising STIP pay for certain grades that were below market.

In addition to amounts spent directly on compensation, the Company has also been incurring incremental costs in the following areas to help attract employees and ensure the work of the business is getting done:

- Relocation expenses to bring new employees to New Mexico when required;
- External recruiters to assist with filling vacant positions; and
- Hiring third-party contractors to supplement internal labor.

Q. WHAT CONDITIONS ARE NMGC CURRENTLY SEEING IN THE EMPLOYMENT MARKET?

A. While NMGC is not experiencing the exact same issue with LANL recruiting employees, the Company is still experiencing conditions that are causing the Company to have difficulty attracting and retaining employees. First, NMGC is seeing increased competition, both in New Mexico and from other states. In New Mexico, NMGC has experienced increased competition for talent from competitors such as private plumbing companies, the manufacturing industry, the national laboratories, the oil and gas industry, and other employers. These competitors cause NMGC difficulty attracting and retaining highly skilled technical and professional employees such as engineers, accountants, and field technicians. In addition, the competition with employers in other states has also grown as remote work opportunities have increased in large part due to the COVID-19 Pandemic.

Second, since the COVID-19 Pandemic forced people to work from home in 2020, NMGC has seen an increased desire for and priority of remote work, which many people feel provides more flexibility and cuts out commuting. The acceptability and widespread availability of remote work has increased the pool of NMGC's competitors to include more employers across the Country. This prioritization of remote work can also decrease the desirability of work that cannot be done remotely, such as field and service technicians.

Third, in both NMGC and the employment market generally, there is a less experienced workforce. The need for additional training and experience exacerbates the increased competition NMGC is seeing, as more experienced employees are in high demand for their level of skill and their ability to help train. This issue is prevalent at NMGC as many positions require specific skill sets, training, and licensure such that new employees can require years to get up to speed. For example, NMGC service technicians require a journeyman's gas license, which takes a minimum of two years' experience, at least 4,000 hours, plus NMGC specific training before they are qualified to provide services in customer homes. Moreover, once NMGC provides this training to employees, they become more attractive to other employers and more difficult for NMGC to retain.

Due to these conditions I have described, NMGC is experiencing a high level of turnover. Although NMGC has hired many employees, a comparable number have left, resulting in difficulty lowering the vacancy rate. I will discuss this in more detail later in my Direct Testimony. Additionally, NMGC is experiencing a lot of internal movement. With many positions unfilled, employees within the Company often apply for promotional opportunities and positions in other departments. This results in one position being filled and another left empty with no net change in the vacancy number.

Q. DO YOU ANTICIPATE THAT THESE CONDITIONS WILL CONTINUE IN THE FUTURE?

A. Yes. We anticipate that these will be ongoing conditions that NMGC will have to address for the foreseeable future.

Q. ARE THE SALARIES PROVIDED BY NMGC CURRENTLY COMPETITIVE WITH THOSE OFFERED BY SIMILARLY SITUATED EMPLOYERS TO ATTRACT AND RETAIN EMPLOYEES?

A. NMGC always strives to offer competitive salaries and has a history of successfully doing so. After experiencing the employee retention and attraction difficulties described in my Direct Testimony NMGC engaged the help of an industry expert, Mercer. With this consultation, NMGC learned that its salaries are currently below the market median in New Mexico by approximately 10%.

Q. PLEASE DESCRIBE YOUR CONSULTATION WITH MERCER REGARDING BASE SALARIES.

A. As described above, NMGC has been experiencing many conditions in the employment market causing difficulty attracting and retaining employees and resulting in increased vacancies. These conditions began in March 2022, as described in NMGC's last rate case, and have been and still are ongoing. To help NMGC address this challenging labor market, NMGC engaged Mercer, an industry consulting firm who has provided actuarial reports and forecasts for NMGC's health, dental, and pension costs in this and prior rate cases.

NMGC asked Mercer to conduct an analysis of the competitiveness of NMGC's compensation levels. NMGC provided Mercer with national market data reviewed and organized by TEC.[1] Mercer reviewed the benchmarking data compiled by TEC

[1] TEC has a subscription to access national market data collected by Mercer and Willis Towers Watson through surveys. TEC reviews information from these databases and determines what is relevant for NMGC compensation benchmarking then conducts benchmarking analysis.

and compared it to the market in New Mexico and to NMGC's salaries. Mercer's analysis indicated that 1) median salaries in New Mexico are currently higher than those nationally and 2) that NMGC's salaries are approximately 10% below the New Mexico market median, even factoring in supplemental pay for certain employees. A copy of Mercer's analysis of the Market Competitiveness of NMGC's Compensation is attached to my Direct Testimony as NMGC Exhibit DEW-2. Mercer's analysis of the competitiveness of NMGC's compensation provides valuable insight into why NMGC is struggling to attract and retain employees. It confirms what NMGC has been experiencing in the New Mexico labor market - mainly, that NMGC's compensation levels are below market.

Mercer also analyzed the current economic environment and provided projections for the 2024 and 2025 base salaries in the United States. Mercer's projections expect the 2024 national salary increase budget to be around 4% and the 2025 national salary increase budget to be between 3% and 3.5%. A copy of Mercer's 2024-2025 Salary Escalation Projections Memorandum is attached to my Direct Testimony as NMGC Exhibit DEW-3.

Q. HOW IS NMGC PLANNING TO ADDRESS THE FACT THAT ITS SALARIES ARE BELOW THE MARKET MEDIAN?

A. NMGC plans to bring its salaries in line with the market median between now and 2025. Specifically, NMGC plans to raise base salaries overall by approximately 17% by January 2025, subject to the discretion of NMGC management and on an employee by employee basis. We have determined that this salary adjustment is necessary to get total compensation at or near the market so that NMGC can attract and retain talent through the period covered by this rate case.

Q. HOW IS BASE SALARY TREATED IN THE COMPANY'S FUTURE TEST YEAR MODEL?

A. Base salaries are escalated at a labor escalation rate. As described by NMGC Witness Buchanan, when the Company is not separately forecasting an amount, the Company applies escalators to advance operations and maintenance ("O&M") costs from year-to-year to get to the O&M amounts in the Future Test Year period. The Company uses two types of escalators, one for labor expenses and one for non-labor. These two types of escalators are developed independently, based on different inputs and by different subject matter experts. Given the different factors that the labor analysis entails, the labor escalator is separate from and determined independently of the non-labor escalator.

Q. PLEASE EXPLAIN HOW THIS SALARY ADJUSTMENT WAS DETERMINED.

A. NMGC executive leadership developed this salary adjustment after considering all the market data available, including the Mercer analyses. I was fully engaged in these discussions. NMGC executive leadership reviewed Mercer's finding that base salaries are approximately 10% below the market median in New Mexico and found that it was consistent with and would help explain the problems NMGC is experiencing. NMGC also reviewed Mercer's salary escalation projections and found them reasonable. Mercer's projections are consistent with my understanding of what companies are seeing in year-to-year increases to base salaries.

In addition to Mercer's analysis, many factors were taken into consideration, including inflation and general economic conditions, as well as anticipated wage and salary increases in similarly situated or competitive industries, labor wage and salary demands by employees, competition for employees including talent shortages, talent retention and talent movement, as well as benefit comparisons, and factors which employees and employers analyze when asking for and setting compensation.

Based on Mercer's recommendation and on NMGC's experiences in the unprecedented local market, NMGC determined that it would be prudent and reasonable to raise current base salaries overall by 10%, and then to escalate base salaries, based on Mercer's projections for 2024 and 2025, by 7% over 2 years, for a total adjustment of 17% between now and January 2025.

Q. WILL NMGC APPLY THIS SALARY ADJUSTMENT EQUALLY TO THE SALARIES OF ALL EMPLOYEES?

A. No. This salary adjustment will be applied to employee's salaries as merit increases at the discretion of NMGC's management group. Merit increases are not generally applied uniformly to all employees. Rather, the Company evaluates salaries, employee performances, and other compensation related data to determine how much individual employees or grades of employees should be raised depending on the circumstances. The Company will also consider Mercer's analysis, which indicated that while overall, NMGC employees are approximately 10% below the market median in New Mexico, some grades are closer to market than others. This will factor into how this salary adjustment is applied across NMGC's employees. This examination of various compensation related factors is not new and is part of NMGC's normal business management process.

b. <u>Benefits</u>

Q. PLEASE DESCRIBE THE BENEFITS THAT ARE GENERALLY OFFERED TO FULL-TIME EMPLOYEES BY NMGC.

A. Obviously, benefits are a necessary component of compensation to attract and retain a well-qualified workforce. We offer the following benefits to full-time employees: medical, dental, vision, retirement savings plan 401(k), pension plan, life insurance, accidental death & dismemberment insurance, short-term and long-term disability, flexible spending accounts, health savings accounts, educational assistance program, employee assistance program, paid time off, holiday pay, wellness program, and retiree medical plan (grandfathered plan).

Q. HOW ARE BENEFIT LEVELS SET?

A. The Company considers the appropriate design and administration of its benefits programs each year. The Company strives each year to provide employees with a benefits package that is competitive in the market while recognizing the importance of controlling the Company's expenses in this area. Among other things, our consumer-driven health plan options drive employee engagement by putting more responsibility and flexibility into the hands of employees to ensure that they make the most appropriate, cost-effective decisions when it comes to their healthcare.

Q. DOES THE COMPANY PROVIDE A 401(K) PLAN, AND IF SO, DOES THE COMPANY MATCH THE EMPLOYEES' CONTRIBUTIONS?

A. Yes. As part of the 401(k) plan, employees receive the Company fixed match which is $0.75 for every dollar contributed to the 401(k) plan up to the first 6% of their eligible compensation. Based on the achievement of certain business financial goals, the Company will add a performance match up to $0.25 for every dollar contributed up to the first 6% of eligible pay. Together, the fixed match and the performance match result in a potential match of $1.00 for every $1.00 the employee contributes, up to a maximum of 6% of the employee's eligible pay. Although the performance match is arguably a recoverable expense, for the purposes of this rate case, the Company is not seeking recovery of this performance match.

Q. ARE THE BENEFITS PROVIDED BY NMGC COMPETITIVE WITH THOSE OFFERED BY SIMILARLY SITUATED EMPLOYERS TO ATTRACT AND RETAIN EMPLOYEES?

A. Yes.

Q. PLEASE EXPLAIN WHAT RULE 630 SCHEDULE H-4 PROVIDES WITH REGARD TO EMPLOYEE COMPENSATION, AND PLEASE IDENTIFY WHAT INFORMATION YOU PROVIDED FOR ITS PREPARATION.

A. Rule 630 Schedule H-4 is sponsored by NMGC Witness Buchanan. Rule 630 Schedule H-4 identifies the level of compensation provided to employees at NMGC including benefits, and projects forward such compensation and benefits through the test period. I provided background compensation information for the preparation of Rule 630 Schedule H-4.

Q. PLEASE DISCUSS YOUR INPUT INTO THE HEALTH AND DENTAL BENEFIT COST INCREASES REFLECTED IN RULE 630 SCHEDULE H-4.4.

A. The increases reflected in Rule 630 Schedule H-4.4 are predicated on an actuarial report prepared for NMGC by Mercer. At our request, Mercer prepared an actuarial forecast of NMGC's health and dental costs based on our past experience. A copy of this report is attached to my Direct Testimony as NMGC Exhibit DEW-4. The projections from Mercer are consistent with my understanding of what companies are seeing in year-to-year increases to medical and dental insurance costs.

Q. PLEASE DISCUSS YOUR INPUT INTO THE BASIS FOR THE INCREASE IN PENSION COSTS REFLECTED IN RULE 630 SCHEDULE H-4.4 IN THE FUTURE TEST YEAR.

A. NMGC has historically, and continues to, rely on outside actuaries to determine its pension calculations. At our request Mercer prepared a report regarding pension cost increases and a copy of the Mercer report related to pension calculations is attached as NMGC Exhibit DEW-5. The increase in pension costs in Rule 630

Schedule H-4.4 are based upon the information contained in NMGC Exhibit DEW-5.

Q. PLEASE DISCUSS YOUR INPUT INTO THE REASON FOR THE INCREASES IN 401(K) BENEFITS REFLECTED IN RULE 630 SCHEDULE H-4 IN THE FUTURE TEST YEAR.

A. The cost related to the Company's 401(k) plan will increase commensurate with the projected merit increases. For example, if an employee receives a 3% merit increase, they are also eligible for a 6% match up to $0.75 cents per dollar, for that 3% increase. This information was provided to NMGC Witness Buchanan, and changes were made in the COS model, and those changes flow through the COS model related to the 401(k) for 2024 and the first three quarters of 2025 along the lines described herein.

Q. IN RULE 630 SCHEDULE H-4, NMGC WITNESS BUCHANAN APPLIES AN ESCALATOR TO VARIOUS BENEFITS – OTHER THAN HEALTH, DENTAL, PENSION AND 401(K). BASED ON YOUR EXPERIENCE, IS THIS A REASONABLE ASSUMPTION?

A. Yes. Certain benefit expenses such as health and dental expenses, pension costs, or 401(k) are separately forecasted, as discussed above. For benefits other than those separately forecasted, we applied the non-labor escalators. In his Direct

Testimony, NMGC Witness Buchanan provides detail about how the non-labor escalators were determined. Based on my experience, I think such escalators are reasonable and appropriate and that it is a reasonable method to project future expenses for benefits that are not separately forecasted.

c. Incentive Pay

Q. WHAT INCENTIVE PAY DOES THE COMPANY OFFER?

A. In addition to base pay as described in section II(a) above, NMGC offers incentive compensation through two programs: STIP and LTIP.

Q. PLEASE DESCRIBE THE COMPANY'S STIP.

A. The Company's STIP is, as the name suggests, an incentive plan that compensates employees for the achievement of annual Company performance objectives. The achievement of the objectives of the STIP is intended to benefit customers, directly and indirectly. All employees are eligible to participate in the STIP and the STIP is a key component of the Company's compensation program.

Q. PLEASE DESCRIBE WHAT PERFORMANCE OBJECTIVES ARE USED TO DETERMINE STIP PAYOUTS.

A. The Company's STIP goals are centered around customer satisfaction, asset management and operational efficiency and safety, and include items such as call center metrics, safety-related metrics, system integrity and reliability measures, and cost containment measures. Payouts for the STIP are based on meeting goals in the following categories: 1) safety; 2) environmental; 3) people (employee); 4) customer; 5) asset management; and 6) financial.

Q. HOW ARE STIP PAYMENTS TREATED IN THE COMPANY'S FUTURE TEST YEAR MODEL?

A. STIP expense is based on employees' target STIP and is escalated at the labor escalation rate.

Q. PLEASE DESCRIBE THE COMPANY'S LTIP.

A. The Company's other incentive program, the LTIP, is an incentive plan to compensate certain eligible employees for the achievement of 3-year performance objectives. The achievement of these objectives is intended to benefit customers, directly and indirectly. LTIP compensation is available to certain management employees at NMGC. Although LTIP does help attract and retain qualified employees, and thus is arguably a recoverable expense, NMGC is not seeking recovery of LTIP in this rate case.

d. Supplemental Pay

Q. IS NMGC STILL UTILIZING THE SUPPLEMENTAL PAY PROGRAM?

A. Yes.

Q. PLEASE DESCRIBE THE SUPPLEMENTAL PAY PROGRAM.

A. Supplemental Pay is the program that NMGC uses at its discretion, to temporarily supplement the general components of compensation for employees who work in a job market or geographic area in which the Company determines that other employers are providing materially higher wages and/or benefits than those offered by the Company for similar skillsets, and this pay difference is having an adverse effect on the ability of the Company to attract and retain a sufficient number of qualified employees.

NMGC has had a supplemental pay program since 2018 when the Company saw increased competition for employees with the oil and gas industry in the Permian Basin. When NMGC began experiencing the employment market changes in March 2022, the Company implemented the program in the north central region to try to retain employees who were being heavily recruited. Since then, the Company expanded the program to the Albuquerque area in November 2022, when it experienced increased competition for skilled workers there.

Currently, the Company supplements the general compensation of approximately 130 employees. These employees are primarily in operations positions, such as service technicians and construction forepersons.

Q. HOW DOES NMGC DETERMINE HOW MUCH TO SUPPLEMENT AN EMPLOYEE'S PAY?

A. The amount of supplemental pay varies based upon the Company's assessment of what is required to attract and/or retain qualified employees in the relevant job market or geographic area. NMGC determines a percentage increase to a participant's salary or hourly rate based on considerations such as the level of competition in a geographic area, the level of difficulty the Company has had recruiting in that area, and the level of technical skill and training required for that position.

For example, in the Carlsbad and Lovington areas, NMGC competes for employees heavily with the oil and gas industry in Permian Basin. Therefore, based on the considerations described, the Company determined that construction and maintenance positions in those areas get 40% supplemental pay, gas systems technicians get 30%, and other employees in those areas get 20%.

Q. HAS THE SUPPLEMENTAL PAY PROGRAM HELPED NMGC RETAIN AND RECRUIT EMPLOYEES?

A. Yes, the supplemental pay program has been successful in the areas where it has been implemented. As the market continues to evolve the Company will continue to evaluate whether to extend it to other areas as necessary.

Q. WHY IS THE SUPPLEMENTAL PAY PROGRAM STILL NECESSARY?

A. The supplemental pay program is still necessary because the Company is still experiencing many of the same pressures as it was in March 2022. Moreover, the Company is experiencing these pressures in new areas geographically and among various types of employees.

Q. DO YOU ANTICIPATE THE COMPANY WILL CONTINUE TO NEED THE SUPPLEMENTAL PAY PROGRAM?

A. Yes. While the Company is still having difficulty attracting and retaining employees, the supplemental pay program is necessary to ensure that NMGC has enough employees to continue providing safe reasonable service to customers.

III. VACANCIES

Q. HOW MANY VACANCIES DOES NMGC CURRENTLY HAVE AND HOW MANY VACANCIES HAS IT AVERAGED IN 2023?

A. As of the filing of this Application, NMGC had 93.

Q. IS THIS MORE THAN THE COMPANY HAD FORECASTED FOR 2023?

A. Yes. In its 2021 Rate Case, the Company had projected that its vacancy rate in 2023 would be approximately 36. The Company based this projection on its belief that the vacancy rate in 2023 would return to pre-COVID-19 Pandemic numbers.

Q. WHY IS THE ACTUAL VACANCY RATE HIGHER IN 2023 THAN WHAT THE COMPANY HAD PROJECTED FOR 2023?

A. In 2021 and 2022 we had approximately 749 positions at the Company. In 2022 and 2023, we added 44 positions, for a total of 793 positions. We did this in an effort to better serve our customers. These additional positions are primarily in the call center and customer service, engineering, operations, inspection, safety as well as a number of positions in corporate services. NMGC opened these positions with the reasonable expectation that these positions would be filled. However, due to the challenging labor market as described above, we have had difficulty filling positions and retaining employees and the Company’s headcount has remained at around 700. The difference between headcount and position level results in our current vacancy rate of approximately 93.

Q. WHAT DOES NMGC INTEND TO DO TO REDUCE THIS VACANCY RATE?

A. First and foremost, it is our expectation that closing the pay-gap between what NMGC pays and the New Mexico pay scale will reduce this vacancy level. In line with Mercer's analysis, NMGC will bring salaries closer to the market in New Mexico. This will include increasing starting pay, continuing to provide the opportunity for merit increases and incentive pay, and continuing the supplemental pay program. Raising salaries is critical to NMGC being more competitive on both the State and regional level, which we believe will help retain and recruit talent.

Additional efforts that we have and will continue to undertake to reduce the vacancy rate includes engaging external recruiters to help find quality candidates and fill positions. NMGC is finding that posting positions is often not enough to find candidates in the current employment market. External recruiters have enabled the identification and hiring of quality candidates both from New Mexico and other states.

Q. WITH THESE EFFORTS IN MIND, WHAT VACANCY RATE IS NMGC AIMING FOR THE FUTURE TEST YEAR IN THIS CASE?

A. We anticipate that the Company's efforts, including the compensation increases requested in this case, will allow the Company to substantially reduce the number of vacancies. We anticipate that the vacancy rate in the Future Test Year will be approximately 63.

Ultimately, the Company's goal is to get the vacancy rate back down to a level more consistent with its pre-COVID-19 Pandemic level; however, we anticipate that these efforts will need to continue past the time periods in this filing.

Q. IN THE MEANTIME, IS NMGC ABLE TO PROVIDE SAFE RELIABLE SERVICE WITH THE CURRENT LEVEL OF HEADCOUNT?

A. Yes. NMGC continues to provide safe and reliable service to its customers for several years with a similar level of headcount and will continue to do so. That said, the vacancy rate is higher than we would like and has caused NMGC to increase overtime and increase reliance on third-party contractors. While we can and are providing safe and reliable service, the level of overtime is financially challenging and operationally challenging, and not sustainable in the long term.

Q. DOES NMGC'S REVENUE REQUIREMENT INCLUDE RECOVERY OF EXPENSES RELATED TO EXPECTED VACANCIES IN THE FUTURE TEST YEAR?

A. No, the revenue requirement does not include expenses related to the projected vacancies for the Future Test Year.

Q. IF NMGC INCREASES HEADCOUNT, ARE YOU EXPECTING TO DECREASE OVERTIME?

A. Yes. I anticipate that as NMGC increases headcount, there will also be a decrease in the amount of overtime that employees work.

IV. <u>SECURITY MEASURES</u>

Q. WHAT SECURITY MEASURES ARE YOU RESPONSIBLE FOR?

A. I am responsible for the Company's security measures, other than those that are IT&T related. This includes the Company's planning and implementation of physical security of NMGC's offices and facilities, including pipelines. My responsibilities also include ensuring compliance with requirements of the Transportation Security Administration ("TSA"). This area includes a component of cybersecurity as it directly relates to NMGC's pipelines and TSA compliance. However, cybersecurity more generally falls under the IT&T security measures discussed in the testimony of NMGC Witness Kevin I. Farr.

Q. WHAT IS NMGC DOING WITH RESPECT TO SECURITY EXPENSES IN THIS CASE?

A. NMGC has numerous offices and payment centers, approximately 12,400 miles of pipe, and hundreds of related facilities throughout the state. We take very seriously our obligation to protect our employees, our customers, and our facilities. Toward that end, and consistent with industry trends, and regulations, we have developed and are implementing enhanced plans and programs to increase the physical strength and security of our facilities, including offices and payment centers, pipelines, and pipeline related facilities.

We discussed this in our 2019 Rate Case and consulted with security experts prior to that case. We are continuing this effort in this case as described below. I have provided these numbers to NMGC Witness Tom C. Bullard and NMGC Witness Buchanan for inclusion in the capital and O&M numbers in this case.

NMGC is expending capital to continue to harden facilities throughout the State. Briefly, we are enhancing the physical security at our offices; improving security at critical sites on our pipeline facilities; and we will continue to evaluate expanding these services in coming years. In addition to enhanced physical security of offices and pipeline facilities, physically protecting the Company's IT&T assets is a critical component of the Company's security efforts.

Q. WHAT IS NMGC PLANNING TO DO WITH SECURITY IN THE FUTURE?

A. NMGC will continue utilizing contracted security guards, hardening the physical security at each of its office locations, and deploying enhanced technology. As part of these efforts, NMGC has been implementing an integrated security solution at what we have identified as our critical pipeline facilities. This process is ongoing as security measures require updates every year in order to remain up to date.

Q. PLEASE EXPLAIN WHAT THIS INTEGRATED SECURITY SOLUTION IS.

A. The integrated security solution is a perimeter detection and assessment solution. The intent of the solution is to minimize the physical infrastructure footprint while maximizing the surveillance performance. The security layers are designed to detect, delay or deter, and respond to any potential aggression directed at a critical facility. The end goal of the implemented layers of security measures is to bring a "defend and deter" posture to the defensiveness of a facility.

Q. HOW WAS THE INTEGRATED SECURITY SOLUTION DEVELOPED?

A. In developing the integrated security solution, NMGC Corporate Security and Engineering personnel worked with representatives of TSA to create and implement a process whereby critical facilities were identified, and then vulnerabilities of those facilities were assessed. We consulted with other utilities in our geographical region. All of this evaluation, assessment and information was used when developing the integrated security solutions that we are deploying across the Company. Much of this information is confidential in as much as it would be counterproductive to publicly identify high security assets or actions taken to secure these assets. In fact, the Company is precluded from providing this information generally.

Q. HAVE THE INTEGRATED SECURITY SOLUTIONS ENHANCED THE SECURITY AT NMGC FACILITIES?

A. Yes, within the confines of what we can disclose, at the facilities where the integrated security solution has been installed, the security of the facility is now in what is referred to as a "defend and deter" posture, which is where we want to be. The funds we have expended have placed us in this position. Also, we continue to implement the integrated security solution at other critical facilities.

Q. BRIEFLY IDENTIFY THE COSTS INCURRED FOR COMPANY SECURITY FOR WHICH YOU ARE RESPONSIBLE.

A. The cost of the Company's security investments at its pipeline facilities, including the integrated security solutions for 2024 and the first three quarters of 2025 is projected at $1,070,249.

At Company facilities other than pipelines, the cost of security investments to harden such facilities is projected to be $852,092 for 2024 and the first three quarters of 2025.

Q. RECENTLY THE TSA ISSUED SECURITY DIRECTIVES RELATED TO CYBER SECURITY. PLEASE DESCRIBE THESE DIRECTIVES.

A. Under the provision of the U.S. Aviation and Transportation Security Act, the U.S. Department of Homeland Security's TSA has broad security responsibilities over "modes of transportation." Since 2002, TSA has exercised oversight of pipeline security efforts. Historically, TSA's oversight has involved issuance of guidelines and performing corporate security reviews and critical facility reviews. In 2021, in response to recent events and changing risks in the world of cyber security, TSA issued two cyber security directives aimed at pipelines and pipeline systems. These directives are applicable to NMGC. I will briefly describe what the directives require us to do.

In May 2021, TSA issued Pipeline Cyber Security Directive 01. It required that owners and operators of critical pipelines: (1) report confirmed and potential cyber security incidents; (2) designate a Cybersecurity Coordinator; (3) review current practices; and (4) identify any gaps and related remediation measures to address cyber-related risks and report the results.

In July 2021, TSA issued Pipeline Cyber Security Directive 02 which required owners and operators of critical pipelines to implement protections against cyber intrusions. Specific mitigation measures are required to protect against ransomware attacks and other known threats to information technology and operational technology ("OT") systems. Additionally, pipelines must develop and implement a cyber security contingency and recovery plan and conduct a cyber security architecture design review.

In July 2022, TSA issued Security Directive 02-C, which canceled and superseded the prior directives. Under this directive, pipeline owners are required to:

1) establish and execute a TSA-approved Cybersecurity Implementation Plan ("CIP") that describes the specific cybersecurity measures the pipeline owners and operators are utilizing to achieve the security outcomes set forth in the Security Directive;
2) develop and maintain a Cybersecurity Incident Response Plan ("CIRP") to reduce the risk of operational disruption or significant business degradation caused by a cybersecurity incident; and
3) establish a Cybersecurity Assessment Program ("CAP") to proactively test, assess, and regularly audit the effectiveness of cybersecurity measures and identify and resolve vulnerabilities within devices, networks, and systems.

In July 2023, TSA issued Security Directive 02-D, which is a continuation of the Security Directive series and canceled and superseded Security Directive 02-C. This directive added new requirements for CIRP exercises, submitting CAP updates for review and approval, providing a CAP schedule for assessing and auditing measures, and submitting an annual CAP report, all in accordance with TSA guidelines.

Q. PLEASE DESCRIBE WHAT THE COMPANY IS DOING TO RESPOND TO THESE ADDITIONAL AND NEW DIRECTIVES.

A. Security Directives 01 and 02 had specific 30/90/120/180-day implementation requirements, which NMGC complied with.

With respect to Security Directive 02-C, NMGC has completed all three requirements. NMGC worked with affiliates at TEC and Peoples Gas System to develop a CIP, which was submitted to and approved by TSA in December 2022. NMGC also developed and submitted its CIRP to TSA in April 2023. The CAP was established and submitted to TSA in April 2023. TSA acknowledged receipt of the CAP, and NMGC will be required to submit an annual update to TSA.

A review of Security Directive 02-D is in progress, as it came out very recently. NMGC will develop a plan to ensure compliance with this directive.

Additionally, NMGC is participating in American Gas Association activities including security directive inspection forums and informational sessions providing clarification on directives.

Q. HAS THE COMPANY SEEN INCREASED COSTS IN RESPONDING TO THE TSA DIRECTIVES?

A. Yes. NMGC is actively working with TEC to respond to the directives. The shared service work that is being performed by TEC is being assessed to NMGC based on headcount as is consistent with the Cost Allocation Manual. The full scope of the TSA security directives, and the obligations they place on companies is somewhat uncertain at this time, so we took the Base Period TSA costs of approximately $150,000 and escalated them at the non-labor escalation rate. I believe these numbers are reasonable and have provided them to NMGC Witness Buchanan.

V. REQUIREMENTS FROM PRIOR COMMISSION ORDERS

Q. IN THE EMERA STIPULATION, AT PARAGRAPH 6, NMGC AGREED "THAT THE NUMBER OF FULL-TIME POSITIONS IN NEW MEXICO AT NMGC WILL BE MAINTAINED AT NO LESS THAN 675 FULL-TIME POSITIONS FOR THREE YEARS AFTER CLOSING, AND ON A GO-FORWARD BASIS WILL NOT DROP BELOW THIS LEVEL WITHOUT EXPRESS PRIOR NMPRC APPROVAL." NMGC ALSO AGREED THAT

IT WOULD "EXERCISE BEST EFFORTS TO MINIMIZE THE NUMBER AND LENGTH OF VACANCIES … [AND THAT IF THE] UNPLANNED VACANCIES CAUSE A REDUCTION IN WORKFORCE BELOW 675 FOR MORE THAN THREE CONSECUTIVE MONTHS, NMGC AGREES TO INFORM THE SIGNATORIES AND MAKE BEST EFFORTS TO RESTORE THE WORKFORCE TO 675." IS NMGC IN COMPLIANCE WITH THIS PROVISION?

A. Yes, NMGC is in full compliance with this paragraph of the Stipulation. Since the Emera Stipulation we have maintained at least 675 positions in New Mexico.

Q. IN THE EMERA STIPULATION, AT PARAGRAPH 12, NMGC AGREED THAT IT "WILL MAINTAIN WAGES, BENEFITS AND OTHER TERMS AND CONDITIONS OF EMPLOYMENT FOR NMGC EMPLOYEES THAT ARE AT LEAST SUBSTANTIALLY COMPARABLE TO THOSE CURRENTLY EXISTING FOR NMGC EMPLOYEES." IS NMGC IN COMPLIANCE WITH THIS PROVISION?

A. Yes. Since 2016, NMGC has taken this commitment into account when making any changes to wages, benefits and other terms and conditions of employment for NMGC employees. It is our understanding that this provision was never intended to freeze the employee wages, benefits, and conditions of employment as they were in 2016, and since 2016, wages, benefits, and conditions of employment have been routinely evaluated and changes have been made. We have made all such changes while maintaining substantial comparability in wages, benefits and other terms and conditions of employment.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

NMGC Exhibit DEW-1

Qualifications of Denise E. Wilcox

EDUCATIONAL AND PROFESSIONAL SUMMARY

Name:	Denise E. Wilcox	
Address:	7120 Wyoming Boulevard, N.E., Suite 20 Albuquerque, New Mexico 87109	
Education & Certifications:	Master of Public Administration Degree University of New Mexico, Albuquerque New Mexico	
	Bachelor of University Studies Degree University of New Mexico, Albuquerque New Mexico	
	Senior Professional in Human Resources (SPHR) SHRM Senior Certified Professional (SHRM-SCP)	
Professional Experience:	New Mexico Gas Company, Inc. Albuquerque, New Mexico	
	Vice President, Human Resources and Corporate Security	2020 - Present
	Vice President, Human Resources	2019 - 2020
	Director, CRM Strategic Solutions and Human Resources	2016 - 2019
	Manager, Human Resources	2009 - 2016
	City of Albuquerque Albuquerque, New Mexico	
	Deputy Director, Municipal Development	2007 - 2008
	Associate Director, Environmental Health	2004 - 2007
	Manager, Risk Management, Finance	1999 - 2004
	Manager, Customer Service, Public Works	1998 - 1999
	Manager, Labor Relations, Public Works	1995 - 1998

Testimony Before the New Mexico Public Regulation Commission:

Case No. 19-00317-UT – 2019 NMGC Rate Case Application
Case No. 21-00267-UT – 2021 NMGC Rate Case Application

NMGC Exhibit DEW-2

Mercer Memo re Market Competitiveness of NMGC's Compensation

- Discussion draft dated August 25, 2023 welcome to brighter

Kenneth Yung, CFA
Partner

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Memo

To: Denise Wilcox, New Mexico Gas Company ("NMGC")

Date: 25 August 2023

From: Kenneth Yung, Mercer

Subject: Market Competitiveness of NMGC's Compensation – **Discussion Draft**

Mercer (Canada) Limited ("Mercer") has been asked by New Mexico Gas Company ("NMGC") to summarize the competitiveness of its compensation levels based on information provided by NMGC and its affiliate Tampa Electric Company ("TECO").

This memo outlines our review of NMGC's benchmarking methodology, geographic salary differential adjustments to market data, summary of key findings after applying the geographic salary differentials, and a high-level review of incentive targets.

1. Mercer's Review of NMGC's Benchmarking Methodology:
   - NMGC benchmark matches used by NMGC and TECO were initially provided by Mercer as part of Mercer's compensation review in 2019.
   - Year-over year, matches have been adjusted by NMGC and TECO as needed when there has been a better match, job evolution, or new matches based on the review of job descriptions (if old matches are no longer available).
   - Once benchmark matches are determined, NMGC's compensation levels for each job are compared against the median ("P50") of US national survey data from Mercer and Willis Towers Watson, weighted 50/50 for each survey source.
   - Analysis is conducted for each NMGC job, and the results are averaged across all jobs in each NMGC grade.
   - Over 80% of the NMGC jobs are covered in the market review. This excludes term employees.

2. Geographic Salary Differentials Adjustment to Market Data:
   - After reviewing the benchmarking methodology used by NMGC, Mercer applied geographic differentials to the average median market data by grade and then organized by career stream in order to estimate pay levels seen in the New Mexico area.

The table below summarizes the following items (from left to right):

- Career streams (Para-Professional, Professional and Management) that correspond to job grades at NMGC
- Average 2023 NMGC salary (including allowances) by career stream
- Average median 2022 market salary data by career stream (2022 market data has been aged forward at a rate of 4%, the median 2023 actual salary increase in the US as per Mercer's US Compensation Planning Survey). Market data was sourced from the internal benchmarking review completed by NMGC and TECO
- Range (minimum to maximum) of geographic salary differences by grade (further organized by career stream), rounded to the nearest 5% (represents the salary differential between the State of New Mexico and national US across different salary ranges). These differentials have been sourced from Mercer's 2022 US Geographic Salary Differentials Tool which consolidates survey data from eight different Mercer compensation surveys in the US. The data is effective Q4 2022
- Market data after geographic differential adjustments
- Market competitiveness by career stream, calculated as average NMGC salary (including allowances) divided by geo-adjusted market data
- The number of employees per career stream used to calculate the employee weighted average competitiveness

Salary by Career Stream						
Career Stream	New Mexico Gas Data	Market Data	Geographic Salary Difference	Market Data - Adjusted	Market Competitiveness	Number of Employees
Para-Professional	$59,423	$60,496	0% - 5%	$63,514	0.94	332
Professional	$90,018	$93,960	5% - 15%	$101,406	0.89	240
Management	$151,566	$156,662	10% - 15%	$175,538	0.86	44
Overall Employee Weighted-Average Competitiveness					**0.91**	616

3. Summary of Key Findings:
   - After applying the geographic salary adjustments, NMGC's salaries for all career streams (Para-Professional, Professional and Management) are at least 5% below the market median, and in two cases more than 10% below the market median.
   - Overall, NMGC is ~10% below the market median (because majority of the employees are in career streams of Para-Professional and Professional).

4. High-Level Review of Incentive Targets:
   - Mercer also conducted a high-level review of NMGC's short-term and long-term incentive targets by career stream using position class data from the US Mercer Benchmark Database.
   - NMGC's STI targets (as a % of base salary) for the Para-Professional and Professional career streams are generally aligned with the market. The Management career stream is below market by ~5% to ~15% of salary.
   - NMGC does not grant LTI to employees in the Para-Professional and Professional career streams. This is in line with the market. NMGC's LTI targets (as a % of base salary) for the Management career stream are below market by ~10% to ~20% of salary.
   - Overall, adding short-term and long-term incentive targets would not improve NMGC's positioning or reduce the gap to market median.

Denise, we trust this meets your needs at this time. Please contact me if you have any questions.

Sincerely,

Kenneth Yung

Kenneth Yung, CFA

Partner

NMGC Exhibit DEW-3

Mercer Memo re 2024-2025 Salary Escalation Projections
- Discussion draft dated August 15, 2023

Mercer

welcome to brighter

Kenneth Yung, CFA
Partner

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www.mercer.ca

Memo

To: Denise Wilcox, New Mexico Gas Company ("NMGC")

Date: 15 August 2023

From: Kenneth Yung, Mercer

Subject: 2024-2025 Salary Escalation Projections – **Discussion Draft**

Dear Denise:

Mercer (Canada) Limited ("Mercer") has been asked by New Mexico Gas Company ("NMGC") to provide 2024-2025 base salary projections for the United States.

This letter outlines salary increase projections that might reasonably be expected for employees during the period of 2024 to 2025 in the context of the current (2023) and near-term (2024-2025) economic environment in the U.S.

2024 Projected Salary Increase Budget

Mercer's Global Compensation Planning Report ("GCPR") suggests a median 2024 salary increase budget of 4.0%. In Mercer's view, the GCPR result is the most relevant projection as it reflects the most recent market data available for 2024 salary increase budgets as of Q2 2023.

2025 Projected Salary Increase Budget

Since most organizations do not complete the salary budgeting process more than a year in advance, salary increase projections for 2025 are not yet collected in any of Mercer's published surveys. In developing our projections, Mercer considered select economic indicators: 1) unemployment rate, 2) real GDP growth, and 3) inflation rate, including both historical and forecast data from a number of reputable sources (i.e., The Federal Reserve System, the United States Bureau of Labour Statistics and major U.S. banks). The projected salary increase takes into account all three economic indicators. The following summarizes our observations on the data:

- New Mexico's unemployment rate has improved year over year since mid-2020 (peak of 9.3%) and is expected to stabilize going forward (3.5% in May 2023).
  - National unemployment rate dropped significantly from its peak of 14.7% in April 2020 to 3.6% in June 2023. It is expected that the unemployment rate will increase slightly to 4.0% in 2023, and increase again to 4.4% in 2024 and in 2025.

- Major US banks and institutions expect a slow down in economic growth across U.S. in 2024, in part due to recession fears, the ongoing economic impacts of the Russia-Ukraine conflict, and the effect of significant inflation in 2022.
  - The economic forecast suggests a lower economic growth in the near-term.
  - As of July 2023, national real GDP growth for 2023 is expected to drop to 1.3%, a modest decrease from 2.1% in 2022. It is forecasted to fall slightly to 1.1% in 2024 before rebounding to 2% in 2025.
- Inflation rates are expected to be lower in 2023 and going forward compared to 2022.
  - National inflation rate for all items (from Consumer Price Index of U.S. Bureau of Labor Statistics) was 3% in June 2023. Major US banks and institutions[1] expect inflation in 2024 and 2025 to be lower than in 2023. The inflation rate for all items in the West Region (which includes New Mexico) is 4.5% in May 2023, down from the peak of 8.7% in March 2022.
  - While Mercer has not identified a causal relationship between the recent spike in inflation and employer decisions around salary adjustments, historical data does imply a degree of correlation between inflation and salary increase budgets. In years with lower inflation, salary increase budgets tend to be lower than historical averages and in years with higher inflation, salary increase budgets tend to be higher than historical averages.

In summary, as all three economic indicators (unemployment rate, real GDP growth, and inflation rate) show signs of transition to more normal levels, we expect salary increase budgets for 2025 to also revert back to the long-term national average of 3.0 to 3.5%.

In conclusion, we expect 2024 national salary increase budget to be around **4%** and 2025 to be in the **3.0% to 3.5% range**.

Denise, we trust this meets your needs at this time. Please contact me if you have any questions.

Sincerely,

Kenneth Yung

Kenneth Yung, CFA

Partner

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[1] Goldman Sachs, Citi Group, Wells Fargo and the Federal Reserve.

NMGC Exhibit DEW-4

Mercer Actuarial Forecast of NMGC's Medical and Dental Costs 2023-2025

Mercer

Budget/ Cost Projection

2023 – 2025 Active Projections

Medical and Dental

New Mexico Gas Company

May 2023

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NMGC Exhibit DEW-4
Page 1 of 22

Summary

- New Mexico Gas Company (NMGC) has asked Mercer to project the active medical/Rx and dental cost for 2023, 2024, and 2025.
- Mercer has used standard actuarial assumptions and methods to project the cost and the details of the projections are outlined in this report.

NMGC Exhibit DEW-4
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Medical / Rx
Active

1

NMGC Exhibit DEW-4
Page 3 of 22

Plan Designs

PLAN OPTION	Current / Proposed		Current / Proposed		Proposed	
PLAN OPTION NAME	2020 - 2023 HRA mid pt funds		2023 HSA Active HSA 80% match		2024 HSA Active HSA 80% match - mandatory	
PLAN DESIGN	In Network	Out of Network	In Network	Out of Network	In Network	Out of Network
Deductible	$950 / $1,900 / $2,850	$1,900 / $3,800 / $5,700	$1,500 / $3,350 / $4,400 (True Family)	$3,000 / $6,700 / $8,800	$1,600 / $3,450 / $4,500 (True Family)	$3,200 / $6,900 / $9,000
Out of Pocket Max (incl. deductible)	$2,400 / $4,700 / $6,000	$4,800 / $9,400 / $12,000	$4,400 / $6,200 / $8,000 (True Family)	$8,800 / $12,400 / $16,000	$4,400 / $6,200 / $8,000 (True Family)	$8,800 / $12,400 / $16,000
Coinsurance	20%	40%	20%	50%	20%	50%
Account Funding	HRA: $400 / $800 / $1,200		HSA: $590 / $1,180 / $1,690		HSA: $590 / $1,180 / $1,690	
Office Visits						
Preventive	Free	Ded. & coin.	Free	Ded. & coin.	Free	Ded. & coin.
Primary Care	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.
Specialist	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.
Hospital Facility						
Inpatient	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.
Outpatient	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.
Hospital Physician						
Inpatient	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.
Outpatient	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.
Emergency						
Emergency Room	Ded. & coin.	20% coin. after ded.	Ded. & coin.	20% coin. after ded.	Ded. & coin.	20% coin. after ded.
Mental Health						
Inpatient	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.
Outpatient	$20 copay	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.
Substance Abuse						
Inpatient	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.
Outpatient	$20 copay	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.
Other Services	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.
Prescription Drugs	Retail	Mail Order	Retail	Mail Order	Retail	Mail Order
	OOP: $3,000 / $4,000 / $6,000					
ACA Preventive	Free	Free	Free	Free	Free	Free
Generic	$5 copay, 15% coin. $45 Max]	$10 copay, 15% coin. $90 Max]	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.
Formulary	$10 copay, coin. $60 Max]	$20 copay, coin. $120 Max]	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.
Non-Formulary	$25 copay, 25% coin. $75 Max]	$50 copay, 25% coin. $150 Max]	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.
HDHP Preventive Generic	-	-	-	-	-	-
HDHP Preventive Brand	-	-	-	-	-	-
Specialty	$25 copay, 25% coin. $75 Max]	$25 copay, 25% coin. $75 Max]	Ded. & coin.	Ded. & coin.	Ded. & coin.	Ded. & coin.
Actuarial Value	84.9%		78.3%		78.1%	
With Account Funding	88.9%		84.8%		84.6%	
ACA Compliance Warning	AV(s) shown cannot be used to determine ACA minimum value compliance (see caveats page for details).		AV(s) shown cannot be used to determine ACA minimum value compliance (see caveats page for details).			

Mercer

NMGC Exhibit DEW-4
Page 4 of 22

2023 Medical Reforecast Summary

2023 RE-PROJECTION: 1/1/2023 - 12/31/2023			NMG HRA		NMG HSA		Combined Using Proj. Enrollment
			Current	Prior	Current	Prior	
Per Capita Claims Development	Rolling 12 Months		4/22 - 3/23	4/21 - 3/22	4/22 - 3/23	4/21 - 3/22	
	Claims		$6,477,518	$6,824,873	$2,204,205	$2,918,472	
	Large Claims Credit	-	-$41,101	-$353,946	$0	-$6,697	
	Non-Pooled Claims	=	*$6,436,417*	*$6,470,927*	*$2,204,205*	*$2,911,775*	
	Prior Plan Change Adjustment	x	0.9988	0.9949	0.9980	0.9955	
	Effective Trend	x	1.0574	1.1322	1.0571	1.1301	
	Projected Claims	=	*$6,797,741*	*$7,288,616*	*$2,325,406*	*$3,275,870*	
	Average Setback Lives	/	303	311	275	289	
	Unadjusted Per Capita Claims	=	$1,869.57	$1,953.01	$705.81	$944.60	
	Experience Weighting		75.6%	24.4%	75.6%	24.4%	
	Weighted Unadjusted Per Capita Claims			*$1,889.96*		*$764.17*	$9,422,178
	Plan Design Changes for Projection Period	x		1.0000		1.0000	$0
	Year End Seasonality Factor	x		1.0000		1.0000	$0
	Claims Fluctuation Margin	x		1.0249		1.0249	$234,972
	Subtotal Per Capita Claims	=		*$1,937.09*		*$783.23*	*1397.561483*
Additional Per Capita Claim	Rx Rebates	+		-$74.24		-$74.24	-$512,965
	Projected Per Capita Claims	=		*$1,862.85*		*$708.99*	*$1,323*
Migration & Contract Size Adjustments	Migration Adjustment	x		0.9918		0.9918	-$74,732
	Contract Size Adjustment	x		1.0026		0.9770	-$34,773
	Projected Per Capita Claims	=		*$1,852.39*		*$687.01*	*$1,307*
Projected Claims	Current Year Average Enrollment	x		307		269	576
	Number of Months to Project	x		12		12	12
	Projected Incurred Claims	=		*$6,814,949*		*$2,219,731*	$9,034,680
Other Cost to Include in Rates	Fixed Cost	+		$193,283		$164,910	$358,193
	Stop Loss	+		$304,763		$241,000	$545,764
	HSA Funding	+				$277,097	$277,097
Plan Specific Gross Cost for Rate Setting		=		$7,312,995		$2,902,739	$10,215,733
Projected Enrollment	EE			117		134	251
	EE + Sp			87		36	123
	EE + Ch(n)			20		30	50
	Family			83		69	152
Current Rates	EE			$802.92		$750.71	
	EE + Sp			$1,605.85		$1,501.47	
	EE + Ch(n)			$1,525.57		$1,426.41	
	Family			$2,489.07		$2,327.30	
Current Accruals				$5,636,693		$4,307,775	$9,944,468
Current Plan Year Loss Ratio							*2.7%*
Dollar Difference Compared to Rates							*$271,266*

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NMGC Exhibit DEW-4
Page 5 of 22

2024 Underwriting Detail

2024 STATUS QUO PROJECTION: 1/1/2024 - 12/31/2024			NMG HRA		NMG HSA		Combined Using Proj. Enrollment
			Current	Prior	Current	Prior	
Per Capita Claims Development	Rolling 12 Months		4/22 - 3/23	4/21 - 3/22	4/22 - 3/23	4/21 - 3/22	
	Claims		$6,477,518	$6,824,873	$2,204,205	$2,918,472	
	Large Claims Credit	-	-$41,101	-$353,946	$0	-$6,697	
	Non-Pooled Claims	=	*$6,436,417*	*$6,470,927*	*$2,204,205*	*$2,911,775*	
	Prior Plan Change Adjustment	x	0.9988	0.9949	0.9980	0.9955	
	Effective Trend	x	1.1329	1.2130	1.1315	1.2097	
	Projected Claims	=	*$7,283,077*	*$7,808,999*	*$2,489,070*	*$3,506,428*	
	Average Setback Lives	/	303	311	275	289	
	Unadjusted Per Capita Claims	=	$2,003.05	$2,092.44	$755.49	$1,011.08	
	Experience Weighting		70.0%	30.0%	70.0%	30.0%	
	Weighted Unadjusted Per Capita Claims			*$2,029.87*		*$832.17*	$10,139,901
	Plan Design Changes for Projection Period	x		1.0000		0.9976	-$6,403
	Claims Fluctuation Margin	x		1.0300		1.0300	$304,005
	Subtotal Per Capita Claims	=		*$2,090.76*		*$855.09*	*$1,512.68*
Additional Per Capita Claim	Rx Rebates	+		-$74.24		-$74.24	-$512,223
	Projected Per Capita Claims	=		*$2,016.53*		*$780.85*	*$1,438.45*
Migration & Contract Size Adjustments	Migration Adjustment	x		0.9919		0.9919	-$80,880
	Contract Size Adjustment	x		1.0032		0.9753	-$38,166
	Projected Per Capita Claims	=		*$2,006.54*		*$755.33*	*$1,421.19*
Projected Claims	Current/Projected Lives	x		306		269	575
	Number of Months to Project	x		12		12	12
	Projected Incurred Claims	=		*$7,368,031*		*$2,438,204*	$9,806,235
Other Cost to Include in Rates	Fixed Cost	+		$195,813		$167,311	$363,123
	Stop Loss	+		$364,961		$288,368	$653,330
	HSA Funding	+				$276,840	$276,840
Plan Specific Gross Cost for Rate Setting		=		**$7,928,805**		**$3,170,723**	**$11,099,528**
Projected Enrollment	EE			117		134	251
	EE + Sp			86		36	122
	EE + Ch(n)			20		30	50
	Family			83		69	152
Current Rates	EE			$802.92		$750.71	
	EE + Sp			$1,605.85		$1,501.47	
	EE + Ch(n)			$1,525.57		$1,426.41	
	Family			$2,489.07		$2,327.30	
Current Accruals				**$5,629,787**		**$4,296,289**	**$9,926,076**
Needed Adjustment to Current Rates							*11.8%*
Dollar Change in Rates							*$1,173,452*

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2025 Underwriting Detail

2025 STATUS QUO PROJECTION: 1/1/2025 - 12/31/2025			NMG HRA Current	NMG HRA Prior	NMG HSA Current	NMG HSA Prior	Combined Using Proj. Enrollment
Per Capita Claims Development	Rolling 12 Months		4/22 - 3/23	4/21 - 3/22	4/22 - 3/23	4/21 - 3/22	
	Claims		$6,477,518	$6,824,873	$2,204,205	$2,918,472	
	Large Claims Credit	-	-$41,101	-$353,946	$0	-$6,697	
	Non-Pooled Claims	=	*$6,436,417*	*$6,470,927*	*$2,204,205*	*$2,911,775*	
	Prior Plan Change Adjustment	x	0.9988	0.9949	0.9980	0.9955	
	Effective Trend	x	1.2138	1.2996	1.2112	1.2948	
	Projected Claims	=	*$7,803,064*	*$8,366,536*	*$2,664,252*	*$3,753,213*	
	Average Setback Lives	/	303	311	275	289	
	Unadjusted Per Capita Claims	=	$2,146.06	$2,241.84	$808.66	$1,082.24	
	Experience Weighting		70.0%	30.0%	70.0%	30.0%	
	Weighted Unadjusted Per Capita Claims			*$2,174.79*		*$890.74*	$10,861,127
	Plan Design Changes for Projection Period	x		1.0000		0.9976	-$6,853
	COVID-19 Future Claims Adjustment	x		1.0000		1.0000	$0
	Claims Fluctuation Margin	x		1.0300		1.0300	$325,628
	Subtotal Per Capita Claims	=		*$2,240.03*		*$915.27*	*$1,620.28*
Additional Per Capita Claim	Rx Rebates	+		-$74.24		-$74.24	-$512,223
	Projected Per Capita Claims	=		*$2,165.80*		*$841.04*	*$1,546.04*
Migration & Contract Size Adjustments	Migration Adjustment	x		0.9919		0.9919	-$86,930
	Contract Size Adjustment	x		1.0032		0.9753	-$41,179
	Projected Per Capita Claims	=		*$2,155.08*		*$813.54*	*$1,527.47*
Projected Claims	Current/Projected Lives	x		306		269	575
	Number of Months to Project	x		12		12	12
	Projected Incurred Claims	=		*$7,913,450*		*$2,626,120*	$10,539,570
Other Cost to Include in Rates	Fixed Cost	+		$201,687		$172,330	$374,017
	Stop Loss	+		$437,954		$346,042	$783,996
	HSA Funding	+				$276,840	$276,840
Plan Specific Gross Cost for Rate Setting		=		$8,553,091		$3,421,332	$11,974,423
Projected Enrollment	EE			117		134	251
	EE + Sp			86		36	122
	EE + Ch(n)			20		30	50
	Family			83		69	152
Current Rates	EE			$802.92		$750.71	
	EE + Sp			$1,605.85		$1,501.47	
	EE + Ch(n)			$1,525.57		$1,426.41	
	Family			$2,489.07		$2,327.30	
Current Accruals				$5,629,787		$4,296,289	$9,926,076
Needed Adjustment to Current Rates							*20.6%*
Dollar Change in Rates							*$2,048,347*

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Projected Cost Summary

Enrollment	2023 Projected Cost			2023 Projected Cost PEPM		
	Gross Cost	Employer Cost	EE Contrib.	Gross Cost	Employer Cost	EE Contrib.
576	$10,215,733	$8,658,323	$1,557,411	$1,478	$1,253	$225

Enrollment	2024 Projected Cost			2024 Projected Cost PEPM		
	Gross Cost	Employer Cost	EE Contrib.	Gross Cost	Employer Cost	EE Contrib.
575	$11,099,528	$9,462,216	$1,637,312	$1,608.63	$1,371	$237

Enrollment	2025 Projected Cost			2025 Projected Cost PEPM		
	Gross Cost	Employer Cost	EE Contrib.	Gross Cost	Employer Cost	EE Contrib.
575	$11,974,423	$10,208,053	$1,766,370	$1,735	$1,479.43	$256.00

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Dental

2023 Dental Reforecast Summary

2023 RE-PROJECTION: 1/1/2023 - 12/31/2023			NMG DPPO Current	NMG DPPO Prior	NMG EPP Current	NMG EPP Prior	Combined Using Proj. Enrollment
Per Capita Claims Development	Rolling 12 Months		4/22 - 3/23	4/21 - 3/22	4/22 - 3/23	4/21 - 3/22	
	Non-Pooled Claims	=	*$483,766*	*$534,839*	*$35,118*	*$22,166*	
	Prior Plan Change Adjustment	x	1.0235	1.0293	1.0237	1.0293	
	Effective Trend	x	1.0394	1.0888	1.0394	1.0888	
	Projected Claims	=	*$514,679*	*$599,386*	*$37,368*	*$24,841*	
	Average Setback Lives	/	709	723	67	64	
	Unadjusted Per Capita Claims	=	$60.49	$69.09	$46.48	$32.34	
	Experience Weighting		75.6%	24.4%	75.6%	24.4%	
	Weighted Unadjusted Per Capita Claims			*$62.59*		*$43.02*	$568,929
	Plan Design Changes for Projection Period	x		1.0000		1.0000	$0
	Claims Fluctuation Margin	x		1.0249		1.0249	$14,188
	Subtotal Per Capita Claims	=		*$64.15*		*$44.10*	*$62.36*
Migration & Contract Size Adjustments	Migration Adjustment	x		1.0000		1.0000	$0
	Contract Size Adjustment	x		1.0000		1.0000	$0
	Projected Per Capita Claims	=		*$64.15*		*$44.10*	*$62.36*
Projected Claims	Current Year Average Enrollment	x		710		70	779
	Number of Months to Project	x		12		12	12
	Projected Incurred Claims	=		*$546,209*		*$36,909*	$583,118
Other Cost to	Fixed Cost	+		$38,313		$3,767	$42,080
Plan Specific Gross Cost for Rate Setting		=		**$584,522**		**$40,675**	**$625,197**
Projected Enrollment	EE			253		37	290
	EE + Sp / EE + 1			235		10	245
	EE + Ch(n)			58		7	65
	Family			163		16	179
Current Rates	EE			$40.12		$17.09	
	EE + Sp / EE + 1			$80.26		$34.14	
	EE + Ch(n)			$86.27		$36.69	
	Family			$126.39		$53.79	
Current Accruals				**$656,066**		**$25,004**	**$681,070**
Current Plan Year Loss Ratio							*-8.2%*
Dollar Difference Compared to Rates							*-$55,873*

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2024 Underwriting Detail

2024 STATUS QUO PROJECTION: 1/1/2024 - 12/31/2024			NMG DPPO		NMG EPP		Combined Using Proj. Enrollment
			Current	Prior	Current	Prior	
Per Capita Claims Development	Rolling 12 Months		4/22 - 3/23	4/21 - 3/22	4/22 - 3/23	4/21 - 3/22	
	Non-Pooled Claims	=	*$483,766*	*$534,839*	*$35,118*	*$22,166*	
	Prior Plan Change Adjustment	x	1.0235	1.0293	1.0237	1.0293	
	Effective Trend	x	1.0888	1.1405	1.0888	1.1405	
	Projected Claims	=	*$539,126*	*$627,857*	*$39,143*	*$26,020*	
	Average Setback Lives	/	709	723	67	64	
	Unadjusted Per Capita Claims	=	$63.37	$72.37	$48.69	$33.88	
	Experience Weighting		70.0%	30.0%	70.0%	30.0%	
	Weighted Unadjusted Per Capita Claims			*$66.07*		*$44.24*	$599,263
	Plan Design Changes for Projection Period	x		1.0000		1.0000	$0
	Claims Fluctuation Margin	x		1.0300		1.0300	$17,978
	Subtotal Per Capita Claims	=		*$68.05*		*$45.57*	*$66.03*
Migration & Contract Size Adjustments	Migration Adjustment	x		1.0000		1.0000	$0
	Contract Size Adjustment	x		1.0000		1.0000	$0
	Projected Per Capita Claims	=		*$68.05*		*$45.57*	*$66.03*
Projected Claims	Current/Projected Lives	x		709		70	779
	Number of Months to Project	x		12		12	12
	Projected Incurred Claims	=		*$578,961*		*$38,280*	$617,241
Other Cost to	Fixed Cost	+		$40,200		$3,969	$44,169
Plan Specific Gross Cost for Rate Setting		=		**$619,161**		**$42,249**	**$661,410**
Projected Enrollment	EE			253		37	290
	EE + Sp / EE + 1			233		10	243
	EE + Ch(n)			61		7	68
	Family			162		16	178
Current Rates	EE			$40.12		$17.09	
	EE + Sp / EE + 1			$80.26		$34.14	
	EE + Ch(n)			$86.27		$36.69	
	Family			$126.39		$53.79	
Current Accruals				**$655,063**		**$25,094**	**$680,157**
Needed Adjustment to Current Rates							-2.8%
Dollar Change in Rates							-$18,748

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2025 Underwriting Detail

2025 STATUS QUO PROJECTION: 1/1/2025 - 12/31/2025			NMG DPPO Current	NMG DPPO Prior	NMG EPP Current	NMG EPP Prior	Combined Using Proj. Enrollment
Per Capita Claims Development	Rolling 12 Months		4/22 - 3/23	4/21 - 3/22	4/22 - 3/23	4/21 - 3/22	
	Non-Pooled Claims	=	*$483,766*	*$534,839*	*$35,118*	*$22,166*	
	Prior Plan Change Adjustment	x	1.0235	1.0293	1.0237	1.0293	
	Effective Trend	x	1.1405	1.1947	1.1405	1.1947	
	Projected Claims	=	*$564,735*	*$657,680*	*$41,002*	*$27,256*	
	Average Setback Lives	/	709	723	67	64	
	Unadjusted Per Capita Claims	=	$66.38	$75.80	$51.00	$35.49	
	Experience Weighting		70.0%	30.0%	70.0%	30.0%	
	Weighted Unadjusted Per Capita Claims			*$69.21*		*$46.35*	$627,728
	Plan Design Changes for Projection Period	x		1.0000		1.0000	$0
	Claims Fluctuation Margin	x		1.0300		1.0300	$18,832
	Subtotal Per Capita Claims	=		*$71.28*		*$47.74*	*$69.17*
Migration & Contract Size Adjustments	Migration Adjustment	x		1.0000		1.0000	$0
	Contract Size Adjustment	x		1.0000		1.0000	$0
	Projected Per Capita Claims	=		*$71.28*		*$47.74*	*$69.17*
Projected Claims	Current/Projected Lives	x		709		70	779
	Number of Months to Project	x		12		12	12
	Projected Incurred Claims	=		*$606,462*		*$40,098*	$646,560
Other Cost to	Fixed Cost	+		$42,210		$4,167	$46,378
Plan Specific Gross Cost for Rate Setting		=		**$648,672**		**$44,266**	**$692,937**
Projected Enrollment	EE			253		37	290
	EE + Sp / EE + 1			233		10	243
	EE + Ch(n)			61		7	68
	Family			162		16	178
Current Rates	EE			$40.12		$17.09	
	EE + Sp / EE + 1			$80.26		$34.14	
	EE + Ch(n)			$86.27		$36.69	
	Family			$126.39		$53.79	
Current Accruals				**$655,063**		**$25,094**	**$680,157**
Needed Adjustment to Current Rates							*1.9%*
Dollar Change in Rates							*$12,780*

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Projected Cost by Group

Enrollment	2023 Projected Cost			2023 Projected Cost PEPM		
	Gross Cost	Employer Cost	EE Contrib.	Gross Cost	Employer Cost	EE Contrib.
779	$625,197	$486,367	$138,830	$67	$52	$15

Enrollment	2024 Projected Cost			2024 Projected Cost PEPM		
	Gross Cost	Employer Cost	EE Contrib.	Gross Cost	Employer Cost	EE Contrib.
779	$661,410	$520,784	$140,625	$71	$56	$15

Enrollment	2025 Projected Cost			2025 Projected Cost PEPM		
	Gross Cost	Employer Cost	EE Contrib.	Gross Cost	Employer Cost	EE Contrib.
779	$692,937	$545,609	$147,329	$74	$58	$16

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Appendix

Active Medical Underwriting Details and Assumptions

Underwriting Assumption Details	NMG HRA			NMG HSA		
Annual Trend						
Medical		6.75%			6.75%	
Rx		8.25%			8.25%	
Months of Lag						
Medical		1.00			1.00	
Rx		0.00			0.00	
Claims Margin						
All Lines of Coverage		3.00%			3.00%	
Administrative Fee Details	**Current**	**Projected**	**% of Chg**	**Current**	**Projected**	**% of Chg**
Fee Components						
Base Admin Fee	$31.97	$31.97	0.0%	$31.97	$31.97	0.0%
MHA	$11.04	$11.13	0.8%	$11.04	$11.13	0.8%
Rally Platform	$0.00	$0.00		$0.00	$0.00	
Claim Fiduciary	$0.85	$0.85	0.0%	$0.85	$0.85	0.0%
HRA/HSA	$4.00	$4.00	0.0%	$2.60	$2.60	0.0%
Mercer Rx Fee + UM	$4.23	$4.93	16.5%	$4.13	$4.83	17.0%
SL Integration	$0.45	$0.45	0.0%	$0.45	$0.45	0.0%
Total Fees	**$52.54**	**$53.33**	**1.5%**	**$51.04**	**$51.83**	**1.5%**

New Mexico Gas Company

Stop Loss Details	Current	Projected
Specific Stop Loss		
ISL Level	$300,000	$300,000
Contract Basis	Paid	Paid
Coverage Includes	Medical/Rx	Medical/Rx
Lifetime Maximum	Unlimited	Unlimited
Aggr. Specific Liability	$0	$0
Stop Loss Premiums		
ISL Single Rate	$38.12	$45.74
ISL Family Rate	$110.50	$132.60
Total Composite Rate	**$78.98**	**$94.69**

Projected SL Premiums assumes 19.9% increase over current.

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Active Medical Experience

MOST RECENT 12 MONTHS	NMG HRA				
	EE	CLAIMS			PEPM CLAIMS
		Medical	Rx	OTHER	
Apr 2022	298	$321,862	$79,394	$0	$1,346.50
May 2022	295	$593,690	$150,010	$0	$2,521.01
Jun 2022	297	$354,728	$170,480	$0	$1,768.38
Jul 2022	303	$496,507	$112,709	$0	$2,010.61
Aug 2022	305	$360,708	$141,534	$0	$1,646.70
Sep 2022	303	$458,636	$183,759	$0	$2,120.12
Oct 2022	304	$414,962	$140,485	$0	$1,827.13
Nov 2022	302	$291,927	$114,622	$0	$1,346.19
Dec 2022	303	$450,634	$184,419	$0	$2,095.89
Jan 2023	309	$139,883	$100,516	$0	$777.99
Feb 2023	308	$437,391	$225,166	$0	$2,151.16
Mar 2023	308	$404,784	$148,713	$0	$1,797.07
TOTAL	**3,635**	**$4,725,712**	**$1,751,806**	**$0**	**$1,781.99**

FIRST PRIOR 12 MONTHS	NMG HRA				
	EE	CLAIMS			PEPM CLAIMS
		Medical	Rx	OTHER	
Apr 2021	309	$656,695	$130,667	$0	$2,548.10
May 2021	309	$513,241	$93,083	$0	$1,962.22
Jun 2021	311	$455,481	$144,963	$0	$1,930.69
Jul 2021	312	$353,813	$78,245	$0	$1,384.80
Aug 2021	311	$497,990	$82,926	$0	$1,867.90
Sep 2021	311	$413,271	$183,927	$0	$1,920.25
Oct 2021	311	$438,215	$57,761	$0	$1,594.78
Nov 2021	312	$358,444	$153,963	$0	$1,642.33
Dec 2021	310	$369,979	$146,365	$0	$1,665.63
Jan 2022	310	$261,658	$126,249	$0	$1,251.31
Feb 2022	311	$414,483	$110,184	$0	$1,687.03
Mar 2022	310	$582,836	$200,435	$0	$2,526.68
TOTAL	**3,727**	**$5,316,107**	**$1,508,766**	**$0**	**$1,831.20**

MOST RECENT 12 MONTHS	NMG HSA				
	EE	CLAIMS			PEPM CLAIMS
		Medical	Rx	OTHER	
Apr 2022	276	$148,969	$52,972	$0	$731.67
May 2022	272	$263,387	$47,199	$0	$1,141.86
Jun 2022	270	$155,542	$35,997	$0	$709.41
Jul 2022	276	$151,213	$13,352	$0	$596.25
Aug 2022	273	$176,183	$48,340	$0	$822.43
Sep 2022	275	$89,402	$39,144	$0	$467.44
Oct 2022	274	$119,736	$55,520	$0	$639.62
Nov 2022	278	$103,490	$49,044	$0	$548.68
Dec 2022	276	$115,312	$31,969	$0	$533.63
Jan 2023	266	$126,393	$39,347	$0	$623.08
Feb 2023	271	$171,585	$37,909	$0	$773.04
Mar 2023	273	$94,175	$38,025	$0	$484.25
TOTAL	**3,280**	**$1,715,387**	**$488,819**	**$0**	**$672.01**

FIRST PRIOR 12 MONTHS	NMG HSA				
	EE	CLAIMS			PEPM CLAIMS
		Medical	Rx	OTHER	
Apr 2021	286	$145,168	$12,414	$0	$550.99
May 2021	286	$181,477	$36,907	$0	$763.58
Jun 2021	288	$231,354	$32,122	$0	$914.84
Jul 2021	287	$222,468	$42,433	$0	$923.00
Aug 2021	289	$271,079	$38,322	$0	$1,070.59
Sep 2021	295	$207,635	$13,811	$0	$750.66
Oct 2021	294	$406,019	$66,578	$0	$1,607.47
Nov 2021	289	$159,654	$16,311	$0	$608.88
Dec 2021	291	$190,659	$60,562	$0	$863.30
Jan 2022	287	$160,797	$31,272	$0	$669.23
Feb 2022	288	$228,631	$37,237	$0	$923.15
Mar 2022	287	$109,911	$15,652	$0	$437.50
TOTAL	**3,467**	**$2,514,851**	**$403,621**	**$0**	**$841.79**

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Active Large Claims Exhibit

NMG HRA					
Most Recent Exp Pd: 4/22 - 3/23 Large Claimant Info/Diagnosis	Claimant Type	Ongoing Claim?	Spec. Ded. Total	$300,000 Current Yr	$300,000 Proj. Yr
			$332,389	$32,389	$32,389
			$308,712	$8,712	$8,712
Claims Eligible for Stop Loss Reimbursement Before any Aggregating Specific Corridor				-$41,101	-$41,101
% of Stop Loss Credit Reimbursable After Accounting for Aggregating Corridor				100%	100%
Stop Loss Credit to Apply to Current Experience Period				-$41,101	-$41,101

NMG HRA					
1st Prior Exp Pd: 4/21 - 3/22 Large Claimant Info/Diagnosis	Claimant Type	Ongoing Claim?	Spec. Ded. Total	$300,000 Current Yr	$300,000 Proj. Yr
			$567,811	$267,811	$267,811
			$386,135	$86,135	$86,135
Claims Eligible for Stop Loss Reimbursement Before any Aggregating Specific Corridor				-$353,946	-$353,946
% of Stop Loss Credit Reimbursable After Accounting for Aggregating Corridor				100%	100%
Stop Loss Credit to Apply to Current Experience Period				-$353,946	-$353,946

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Dental Underwriting Details and Assumptions

Underwriting Assumption Details	NMG DPPO			NMG EPP		
Annual Trend						
Dental	4.75%			4.75%		
Months of Lag						
Dental	1.00			1.00		
Claims Margin						
All Lines of Coverage	3.00%			3.00%		
Administrative Fee Details	**Current**	**Projected**	**% of Chg**	**Current**	**Projected**	**% of Chg**
Fee Components						
Admin	$4.50	$4.73	5.0%	$4.50	$4.73	5.0%
Total Fees	$4.50	$4.73	5.0%	$4.50	$4.73	5.0%

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Dental Experience

MOST RECENT 12 MONTHS	NMG DPPO				
	EE	CLAIMS			PEPM CLAIMS
		Dental	N/A	OTHER	
Apr 2022	707	$35,016	N/A	$0	$49.53
May 2022	701	$34,007	N/A	$0	$48.51
Jun 2022	702	$43,756	N/A	$0	$62.33
Jul 2022	707	$38,449	N/A	$0	$54.38
Aug 2022	705	$41,965	N/A	$0	$59.52
Sep 2022	710	$39,613	N/A	$0	$55.79
Oct 2022	710	$32,189	N/A	$0	$45.34
Nov 2022	710	$35,106	N/A	$0	$49.45
Dec 2022	709	$39,197	N/A	$0	$55.28
Jan 2023	707	$49,639	N/A	$0	$70.21
Feb 2023	717	$40,346	N/A	$0	$56.27
Mar 2023	709	$54,484	N/A	$0	$76.85
TOTAL	**8,494**	**$483,766**	**$0**	**$0**	**$56.95**

FIRST PRIOR 12 MONTHS	NMG DPPO				
	EE	CLAIMS			PEPM CLAIMS
		Dental	N/A	OTHER	
Apr 2021	727	$42,547	N/A	$0	$58.52
May 2021	722	$39,318	N/A	$0	$54.46
Jun 2021	726	$50,854	N/A	$0	$70.05
Jul 2021	726	$49,414	N/A	$0	$68.06
Aug 2021	723	$43,224	N/A	$0	$59.78
Sep 2021	724	$43,458	N/A	$0	$60.02
Oct 2021	725	$30,603	N/A	$0	$42.21
Nov 2021	722	$33,941	N/A	$0	$47.01
Dec 2021	717	$49,921	N/A	$0	$69.63
Jan 2022	718	$50,200	N/A	$0	$69.92
Feb 2022	719	$45,069	N/A	$0	$62.68
Mar 2022	722	$56,290	N/A	$0	$77.96
TOTAL	**8,671**	**$534,839**	**$0**	**$0**	**$61.68**

MOST RECENT 12 MONTHS	NMG EPP				
	EE	CLAIMS			PEPM CLAIMS
		Dental	N/A	OTHER	
Apr 2022	66	$1,808	N/A	$0	$27.40
May 2022	65	$1,708	N/A	$0	$26.27
Jun 2022	65	$2,938	N/A	$0	$45.21
Jul 2022	68	$1,529	N/A	$0	$22.48
Aug 2022	66	$9,283	N/A	$0	$140.65
Sep 2022	69	$3,681	N/A	$0	$53.34
Oct 2022	68	$1,893	N/A	$0	$27.83
Nov 2022	68	$731	N/A	$0	$10.74
Dec 2022	68	$2,452	N/A	$0	$36.05
Jan 2023	68	$2,413	N/A	$0	$35.48
Feb 2023	69	$3,074	N/A	$0	$44.56
Mar 2023	70	$3,609	N/A	$0	$51.56
TOTAL	**810**	**$35,118**	**$0**	**$0**	**$43.36**

FIRST PRIOR 12 MONTHS	NMG EPP				
	EE	CLAIMS			PEPM CLAIMS
		Dental	N/A	OTHER	
Apr 2021	57	$740	N/A	$0	$12.99
May 2021	60	$2,203	N/A	$0	$36.72
Jun 2021	61	$1,353	N/A	$0	$22.18
Jul 2021	61	$1,177	N/A	$0	$19.30
Aug 2021	64	$1,637	N/A	$0	$25.57
Sep 2021	67	$2,900	N/A	$0	$43.29
Oct 2021	69	$3,767	N/A	$0	$54.59
Nov 2021	70	$777	N/A	$0	$11.10
Dec 2021	69	$2,476	N/A	$0	$35.89
Jan 2022	66	$1,507	N/A	$0	$22.83
Feb 2022	66	$1,714	N/A	$0	$25.97
Mar 2022	68	$1,912	N/A	$0	$28.12
TOTAL	**778**	**$22,166**	**$0**	**$0**	**$28.49**

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Methodology

Mercer uses underwriting techniques, based on actuarial guidelines, to project the future plans costs for the self-funded plans.

The key factor in projecting future results is the prior experience of a group, especially when the group consists of a large population. The process of forecasting past claims experience into the future takes into account plan designs, member demographics, trends and group credibility. These processes are widely accepted within the insurance market as the standard to establishing budget and premium levels that are appropriate to cover future risks.

As a starting point to developing the funding rates, Mercer collected monthly paid claims and enrollment for medical and pharmacy self-funded plans from the respective vendors (as stated in the Assumptions section).

Mercer has utilized the information provided by you and/or your vendors/carriers to develop the enclosed budget projections. As such, Mercer has not independently verified this information for accuracy.

The average cost per enrolled employee was then calculated by dividing the total claims paid by the average number of enrolled employees in each plan on an incurred or lagged basis as stated in the Assumptions section and/or Underwriting Details section.

Once the average claims costs per employee were calculated, claims costs were projected by application of trend factors. The trend factors used in the projections are within the acceptable trend ranges published by Mercer's Actuarial and Financial Group.

These guidelines are published for active and retiree populations, by benefit plan and product. They fall within the framework established by the Actuarial Standards Board, which has responsibility for the development of actuarial standards of practice used by all professional organizations.

The primary components of medical trend include the following:

- Inflation in unit prices for the same services
- Changes in utilization of the same services
- Out-of-pocket leveraging
- New technology/services (increases or decreases depending on the mix and cost of services)
- Cost shifting from public payors (Medicare and Medicaid) to private plan payors
- Population aging

After application of trend, margin was added as stated in the Assumptions section and/or Underwriting Details section.

Credibility reflects a degree of confidence and accuracy in using the past group's specific information in projecting future costs. A mixture of the size of the group and the period of time the data reflects, determines a group's credibility. Generally, the larger the group and/or the longer the period of available historical information, the greater the degree of confidence and accuracy of using a past group's specific data to project the future costs. Higher margin levels are required for smaller groups since it is designed to cover the potential variation and volatility in actual cost relative to the projected costs.

The last step is the addition of the administrative fees to the projected costs. These fees include medical and pharmacy administrative costs, and the addition of stop loss premiums.

The combination of the administrative fees and trended claims costs allows us to establish funding levels that are appropriate to cover future risks. It is important to remember that these projections are only estimates. As with all estimates, they are based upon the information available at the point in time and are subject to unforeseen and random events. They must be interpreted as having a likely range of variability from the point estimate.

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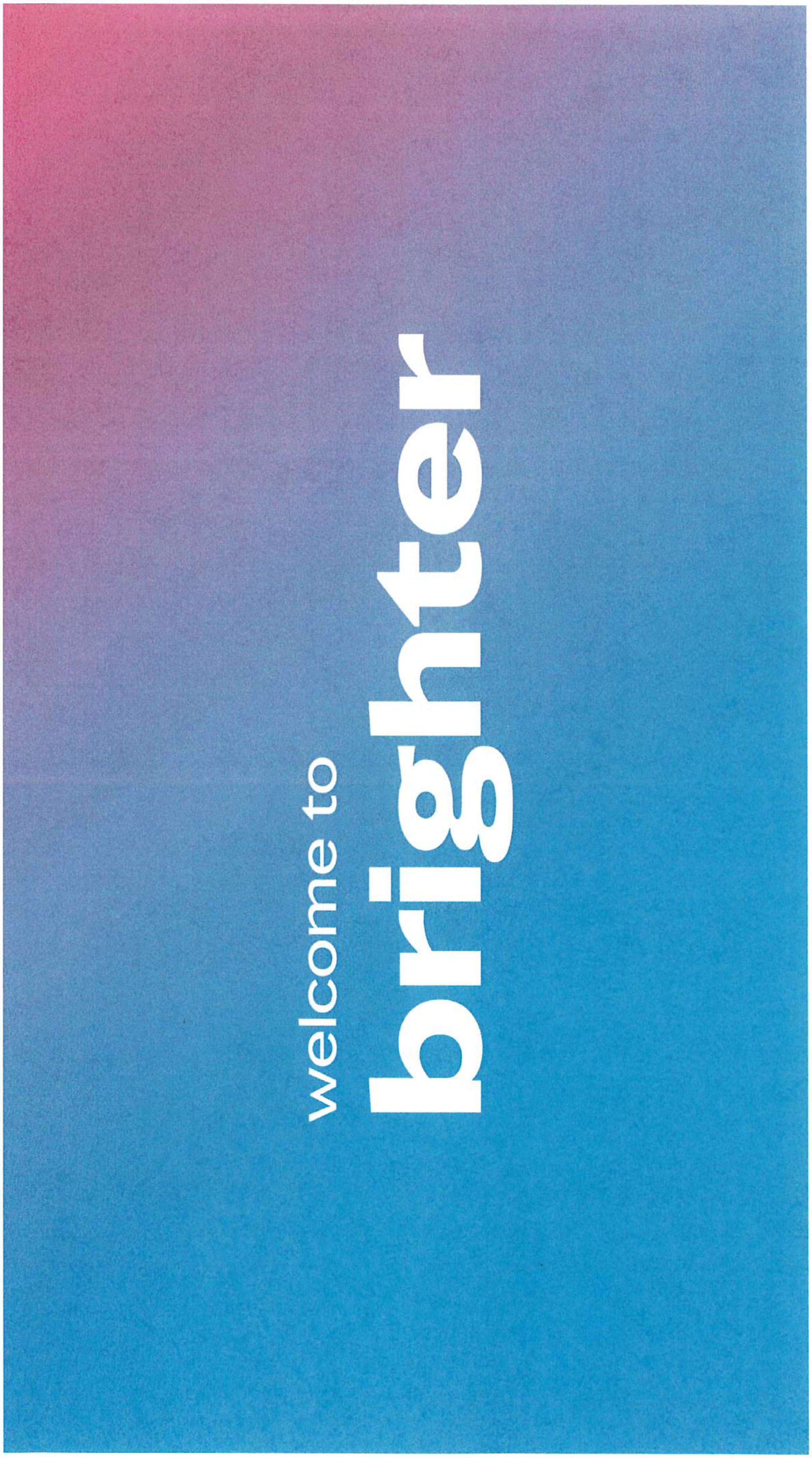

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NMGC Exhibit DEW-5

Mercer Report on NMGC Pension – 2023 Costs and 2024-2025 Retirement Forecasts

Mercer

welcome to brighter

New Mexico Gas Company

2023 Costs and 2024 - 2025 Retirement Forecasts (August 2023 Update)

August 25, 2023

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Purpose

- The purpose of this report is to present 2023 costs and 2024 – 2025 projected costs for New Mexico Gas Company's participation in the following plans sponsored by TECO Energy
  - TECO Energy Group Retirement Plan
  - TECO Energy Group Benefit Restoration Plan

  as well as standalone costs for the New Mexico Gas Company Retiree Medical Plan
- Costs have been calculated separately for New Mexico Gas Company reflecting the allocation methods TECO Energy employs for all its operating companies within the Retirement Plan and the Restoration Plan:
  - PBO, Service Cost, Interest Cost and Expected Benefit Payments are calculated explicitly for each operating company
  - Assets are rolled forward by operating company each year based on actual contributions, actual benefit payments and actual return on assets (allocated in proportion to each operating company's beginning of year allocated assets adjusted for contributions and benefit payments throughout the year). The asset values for each operating company are used for allocation purposes only and do not represent actual assets to any operating company. The market-related value of assets (MRVA) is allocated to each operating company based on the beginning of year allocated assets. Expected Return on Assets is calculated explicitly for each operating company based on their beginning of year allocated MRVA, allocated contributions (see below) and expected benefit payments.
  - The gain/loss amortization is allocated to each operating company based on their unrecognized gain or loss net of the deferred asset amount.
  - For fiscal years where the estimated contribution is greater than the accounting service cost, the service cost is allocated to each operating company and any excess contribution above the service cost is allocated to each operating company in proportion to their unfunded liability.
  - For fiscal years where the estimated contribution is less than or equal to the accounting service cost, the contribution is allocated in proportion to each operating company's service cost.

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2023 Costs & 2024 – 2025 Forecasts

Assumptions and Provisions Used

2023 Benefit Costs

- Key economic assumptions include:
  - 5.55% discount rate for Retirement Plan
  - 5.48% discount rate for Restoration Plan for January 1st through May 31st; 5.30% for June 1st through July 31st; 5.49% for remainder of year
  - 5.55% discount rate for NMGC Retiree Medical Plan
  - 7.05% expected return on Retirement Plan assets
  - 2.50% expected return on NMGC VEBA assets
  - Lump sum interest rates are based on actual 2023 rates and, after 2023, implied forward rates derived from estimated future lump sum segment rates of 5.10% for the first five years, 5.83% for the next fifteen years, 5.68% thereafter
  - 6.39% pre-65 initial health care cost trend rate grading to 4.00% in 2047
- The NMGC OPEB retiree premiums for medical and dental were frozen at the 2020 levels through 2023
- All other data, assumptions, methods and plan provisions, are outlined in our January 1, 2023 “DAMP” reports for each plan issued in July 2023

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Assumptions and Provisions Used

Estimate of 2024 & 2025 Benefit Costs

- Key economic assumptions include:
  - 5.44% discount rate for Retirement Plan
  - 5.30% discount rate for Restoration Plan
  - 5.46% discount rate for NMGC Retiree Medical Plan
  - 7.05% expected return on Retirement Plan assets
  - 3.75% expected return on NMGC VEBA assets for 2024 and 4.00% for 2025
  - Lump sum interest rates are based on implied forward rates derived from estimated lump sum segment rates of 4.77% for the first five years, 4.97% for the next fifteen years, 5.13% thereafter
  - 6.09% pre-65 initial health care cost trend rate grading to 4.00% in 2047
- For the Retirement Plan and VEBA, year-end 2023 assets were projected from the unaudited May 31, 2023 asset values with expected contributions, benefit payments, and asset return for the remainder of the year
- The NMGC OPEB retiree premiums for medical and dental were frozen at the 2020 levels through 2024
- All other data, assumptions, methods and plan provisions, are outlined in our January 1, 2023 “DAMP” reports for each plan issued in July 2023

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Projected Benefit Costs for NMGC

TECO Retirement Plan

	2023	2024	2025
Fair Value of Assets	17,068,172	17,966,155	19,226,171
Market-related Value of Assets	20,707,744	21,089,421	22,016,412
Projected Benefit Obligation	22,422,270	22,874,444	24,091,208
Net Periodic Benefit Cost			
Service Cost	2,556,800	2,777,139	2,887,630
Interest Cost	1,200,093	1,241,692	1,309,423
Expected Return on Assets	(1,444,508)	(1,506,272)	(1,574,428)
Amortization of Prior Service Cost	-	-	-
Amortization of (Gain) Loss	-	-	-
Amortization of Regulated Asset/(Liability)	65,720	101,326	143,824
Net Periodic Benefit Cost	2,378,105	2,613,885	2,766,449
Expected Employer Contributions	3,020,000	2,776,000	2,884,000

Key Assumptions:

Discount rate - 5.55% for 2023 and 5.44% for 2024 & 2025

Lump sum interest rates:

2023 - actual 2023 rates and, after 2023, implied forward rates derived from estimated future lump sum segment rates of 5.10% for the first five years, 5.83% for the next fifteen years, 5.68% thereafter

2024 & 2025 - implied forward rates derived from estimated future lump sum segment rates of 4.77% for the first five years, 4.97% for the next fifteen years, 5.13% thereafter

Salary scale - for 2023: the age-graded scale from the 2022 experience study plus an additional 2% from 2022 to 2023 to reflect TECO's expectations

Salary scale - for 2024 & 2025: the age-graded scale from the 2023 experience study plus an additional 2% from 2022 to 2023 to reflect TECO's expectations

Expected return on assets - 7.05% for all years

Mortality - PRI-2012 separate employee, annuitant and contingent survivor tables with MMP-2021 projection scale

Lump Sum Mortality - 2023 417(e) mortality with future years reflecting annual static updates based on MP-2021

Average future service - 11.45 years

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Projected Benefit Costs for NMGC

TECO Restoration Plan

	2023	2024	2025
Fair Value of Assets	-	-	-
Market-related Value of Assets	-	-	-
Projected Benefit Obligation	318,666	385,797	353,660
Net Periodic Benefit Cost			
Service Cost	28,676	31,321	32,980
Interest Cost	19,328	19,069	18,360
Expected Return on Assets	-	-	-
Amortization of Prior Service Cost	-	-	-
Amortization of (Gain) Loss	-	-	-
Amortization of Regulated Asset/(Liability)	11,874	12,184	8,732
Settlement Charge	-	-	-
Net Periodic Benefit Cost	59,878	62,574	60,072

Key Assumptions:

Discount rate - 5.48% for 1/1/2023 to 5/31/2023, 5.30% for 6/1/2023 to 7/31/2023, 5.49% for 8/1/2023 to 12/31/2023, and 5.30% thereafter

Lump sum interest rates:

- 2023 - actual 2023 rates and, after 2023, implied forward rates derived from estimated future lump sum segment rates of 5.10% for the first five years, 5.83% for the next fifteen years, 5.68% thereafter
- 2024 & 2025 - implied forward rates derived from estimated future lump sum segment rates of 4.77% for the first five years, 4.97% for the next fifteen years, 5.13% thereafter

Salary scale - for 1/1/2023 to 7/31/2023: the age-graded scale from the 2022 experience study plus an additional 2% from 2022 to 2023 to reflect TECO's expectations

Salary scale - for 8/1/2023 to 12/31/2023 and thereafter: the age-graded scale from the 2023 experience study plus an additional 2% from 2022 to 2023 to reflect TECO's expectations

Mortality - PRI-2012 separate employee, annuitant and contingent survivor tables with MMP-2021 projection scale

Lump Sum Mortality - 2023 417(e) mortality with future years reflecting annual static updates based on MP-2021

Average future service - 7.71 years for 1/1/2023 to 7/31/2023, 8.40 years for 8/1/2023 to 12/31/2023, 8.36 years thereafter

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Projected Benefit Costs for NMGC

NMGC Retiree Medical Plan

	2023	2024	2025
Fair Value of Assets	34,241,659	33,987,219	33,692,088
Market-related Value of Assets	38,239,118	35,729,356	33,623,674
Accumulated Postretirement Benefit Obligation	16,643,094	16,225,177	15,528,247
Net Periodic Benefit Cost			
Service Cost	4,614	-	-
Interest Cost	881,435	843,832	805,672
Expected Return on Assets	(936,888)	(1,310,962)	(1,314,053)
Amortization of Prior Service Cost	-	-	-
Amortization of (Gain) Loss	-	-	-
Amortization of Post-acquisition Regulated Asset/(Liability)	(1,109,222)	(521,168)	(98,747)
Net Periodic Benefit Cost	(1,160,061)	(988,298)	(607,128)
Pre 1/30/09 Regulated Asset/(Liability)	-	-	-
Pre 8/31/14 Regulated Asset/(Liability)	-	-	-
Total Benefit Cost	(1,160,061)	(988,298)	(607,128)
Expected Employer Contributions	-	-	-

Key Assumptions:

Discount rate - 5.55% for 2023 and 5.46% for 2024 & 2025
Healthcare cost trend rates - 6.39% in 2023, grading down to an ultimate rate of 4.00% in 2047
Expected return on assets - 2.50% in 2023, 3.75% in 2024 and 4.00% in 2025
Mortality - PRI-2012 separate employee, annuitant and contingent survivor tables with MMP-2021 projection scale
Average future service - 4.61 years in 2023, decreasing 0.25 years in each future year

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Certification

Certification

Mercer has prepared this report exclusively for New Mexico Gas Company; subject to this limitation, New Mexico Gas Company may direct that this report be provided to another audience for another purpose. Mercer is not responsible for use of this report by any other party.

Mercer has prepared this report to present projected accounting valuation results for New Mexico Gas Company's participation in the TECO Energy Group Retirement Plan, the TECO Energy Group Benefit Restoration Plan, and the New Mexico Gas Company Retiree Medical Plan. This report may not be used for any other purpose; Mercer is not responsible for the consequences of any unauthorized use. Its content may not be modified, incorporated into or used in other material, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's permission.

All parts of this report, including any documents incorporated by reference, are integral to understanding and explaining its contents; no part may be taken out of context, used or relied upon without reference to the report as a whole. Except as described herein, this report is based on the participant data, assumptions, methods, and provisions summarized in the reports titled Data, Assumptions, Methods and Provisions (DAMP documents) which Mercer issued in July 2023. Those documents are incorporated herein by reference. Copies of these reports are available from Mercer upon request by an authorized user of this report.

Decisions about benefit security, granting new benefits, investment policy, funding policy, benefit security and/or benefit-related issues should not be made solely on the basis of this report, but only after careful consideration of alternative economic, financial, demographic and societal factors, including financial scenarios that assume future sustained investment losses.

This report is not an AFTAP certification under IRC Section 436.

New Mexico Gas Company is ultimately responsible for selecting the plans' funding policy, actuarial valuation methods, and asset valuation methods. The policies and methods reflected in this valuation are those that have been so selected and are referenced or described in the DAMP documents. New Mexico Gas Company is responsible for reviewing and confirming that these policies and methods are accurate and is solely responsible for communicating to Mercer any changes required thereto. The DAMP documents also reference or reflect the assumptions that have been selected for funding purposes as of the valuation date.

This report was prepared in accordance with generally accepted actuarial principles and procedures. Certain actuarial assumptions for funding, including discount rates, mortality tables and others identified in this report are prescribed by regulation or statute. Based on the information provided to us, we believe the remaining actuarial assumptions are reasonable for the purposes described in this report. New Mexico Gas Company is responsible for reviewing the funding assumptions referenced and advising Mercer as to any information it deems worthy of consideration in the determination of funding assumptions.

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Certification (continued)

New Mexico Gas Company is ultimately responsible for selecting the plans' accounting policies, methods and assumptions. This information is referenced or described in the DAMP documents referred to earlier. New Mexico Gas Company is solely responsible for communicating to Mercer any changes required to those policies, methods and assumptions.

This report was prepared in accordance with generally accepted actuarial principles and procedures. The actuarial assumptions were selected by New Mexico Gas Company. Based on the information provided to us, we believe that the actuarial assumptions are reasonable for the purposes described in this report.

This report is based on our understanding of applicable law and regulations as of the valuation date. Mercer is not an accountant or auditor and is not responsible for the interpretation of, or compliance with, accounting standards; citations to, and descriptions of accounting standards provided in this report are for reference purposes only. As you know, Mercer is not a law firm, and this analysis is not intended to be a legal opinion. You should consider securing the advice of legal counsel with respect to any legal matters related to this document and any attachments.

New Mexico Gas Company is solely responsible for selecting the plans' investment policies, asset allocations and individual investments. The Mercer actuaries who prepared this report have not provided any investment advice to New Mexico Gas Company.

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Certification (continued)

We used financial data submitted by the trustee as of December 31, 2022 and by TECO as of May 31, 2023 without further audit. Customarily, this information would not be verified by a plan's actuary. We have reviewed the information for internal consistency and general reasonableness.

To prepare this report, we have employed Mercer's suite of proprietary valuation software and tools. The purpose of these models is to measure the Plans' liabilities, reflecting the Plans' census data and provisions, using the methods and assumptions prescribed or selected for the Plans' valuation, under the applicable laws, regulations, and other guidance in effect as of the valuation date.

We have relied on the experts who developed each of the following models:

- Mercer's combined discount curves workbook
- Mercer's portfolio return calculator
- Mercer's capital market assumptions

These tools were used in the development of the discount rate and liabilities and in evaluating the reasonableness of the expected return on assets assumption for accounting expense under ASC 715.

Actuarial Standard of Practice No. 56 requires the actuary to identify and disclose any material inconsistencies among actuarial assumptions, and, for assumptions that are not prescribed by applicable law, the reason for such inconsistencies. To our knowledge, there are no material inconsistencies in assumptions.

New Mexico Gas Company should notify Mercer promptly after receipt of this report if New Mexico Gas Company disagrees with anything contained herein or is aware of any information that would affect these results that has not been communicated to Mercer or incorporated herein.

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Certification (continued)

We are available to answer any questions on the material in this report or to provide explanations or further details as appropriate. Collectively, the undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report. We are not aware of any direct or material indirect financial interest or relationship, including investment consulting or other services provided to New Mexico Gas Company by the actuaries signing the report, that we believe would create a conflict of interest or impair the objectivity of our work. To the extent that other Mercer professionals may have provided investment services to New Mexico Gas Company, we do not believe those services would result in a conflict of interest nor affect the objectivity of our work herein.

Barbara Ruel

August 25, 2023

Barbara Ruel, FSA, EA
Enrollment Number 23-05746

Date

Matthew Kumpf

August 25, 2023

Matthew Kumpf, ASA, EA
Enrollment Number 23-07351

Date

Parker Cramer

August 25, 2023

Parker Cramer, FSA, MAAA

Date

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BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION OF NEW MEXICO GAS COMPANY, INC. FOR APPROVAL OF REVISIONS TO ITS RATES, RULES, AND CHARGES PURSUANT TO ADVICE NOTICE NO. 96	)	**Case No. 23-00255-UT**
NEW MEXICO GAS COMPANY, INC.	)	
Applicant.	)	

ELECTRONICALLY SUBMITTED AFFIRMATION OF DENISE E. WILCOX

STATE OF NEW MEXICO)
)ss.
COUNTY OF BERNALILLO)

In accordance with 1.2.2.10(E) NMAC, Denise E. Wilcox, Vice President of Human Resources and Corporate Security for New Mexico Gas Company, Inc., upon being duly sworn according to law, under oath, deposes and states under penalty of perjury under the laws of the State of New Mexico: I have read the foregoing Direct Testimony and Exhibits, and they are true and accurate based on my personal knowledge and belief.

SIGNED this 14th day of September 2023.

/s/ Denise E. Wilcox
Denise E. Wilcox
Vice President of Human Resources and
Corporate Security
New Mexico Gas Company, Inc.