

FIRST REVISED RULE NO. 16
CANCELING ORIGINAL RULE NO. 16

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LINE EXTENSION POLICY
(x)

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I. Purpose

In accordance with 17.10.650.10(G) NMAC, this Line Extension Policy ("LXP") outlines the procedures of New Mexico Gas Company, Inc. ("NMGC" or the "Company") for addressing requests by Customers for extending the Company's gas Distribution Mains and determining the responsibility of the Company and its Customers for the cost of installing the field equipment necessary to provide Customers with reliable natural gas service that best satisfies their service needs.

In accordance with this LXP, the Company is required to invest in extensions to satisfy a Customer's natural gas service needs only when it is economically prudent for the Company to do so based on the probable revenues and expenses to be incurred.

This LXP does not apply to a Customer that is not an End-user, as that term is defined in 17.10.660.7(J) NMAC (such as a Customer requesting Off-System Transportation Service under the Company's Rate Schedule No. 70). In addition, this LXP does not apply to Changes in Service that do not result in incremental revenues to the Company. The Company's Rule No. 10 – Service Connections – covers the cost responsibility for the Service Line piping and regulating equipment, connections, and meter.

Nothing in this LXP shall be construed in a manner inconsistent with the Company's obligations set forth in NMSA 1978, Section 62-8-2 to furnish adequate, efficient and reasonable service.

II. Definitions

The following definitions shall apply to this Rule:

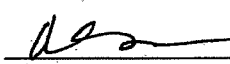
1. Actual Minimum Line Extension Cost: Means that portion of the final constructed and installed cost of a Line Extension relating to the Minimum Line Extension, but does not include the Special Economic Study fee provided for in this LXP.
2. Advantage Program Advance: Means an advance a Customer may be eligible for under the Advantage Program defined in Section V of this LXP towards the cost of constructing Line Extensions and/or Service Lines.
3. Advantage Program Participant: Means a person or entity who establishes or maintains an account with the Company for Gas Service to a Premise that participates in the Advantage Program, or a Property Owner who owns a Premise that participates in the Advantage Program.
4. Carrying Charge: Means the charge applied to the Advantage Program Advance. The Carrying Charge rate used to make this calculation shall be equal to the pre-tax cost of capital utilized in the Company's most recent Commission approved rate case in effect at the time the Advantage Program Agreement is

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executed. The Carrying Charge rate applicable at the time the Advantage Program Agreement is executed will remain the same throughout the reimbursement period regardless of whether a subsequent Advantage Program Participant becomes obligated to repay the Advantage Program Advance.


5. Change in Service: Means a request by a Customer for an extension of the Company's Distribution Mains for the purpose of making a physical change to the Customer's current gas delivery service, such as a meter relocation, a service line relocation, change in delivery pressure, etc. The Company shall not be required to invest in a Change in Service unless a Special Economic Study demonstrates that such investment results in incremental revenues.
6. Cost Estimate: Means an estimate of the Company's total Distribution Main Line Extension construction and installation costs, including any Minimum Line Extension costs as defined in this LXP, prepared by the Company, and provided to the Customer in accordance with this LXP. Cost Estimates shall be in sufficient detail to allow a Customer to evaluate the scope of the work and the reasonableness of the estimated costs of the work.
7. Customer: Means, for the purposes of this Rule, a person or entity requesting a Line Extension under this LXP.
8. Customer Owned Piping: Means the natural gas pipe downstream of the meter. The Customer is responsible for maintaining this portion of the pipe.
9. Customer Provided Trench: Means a trench dug by a Customer for the installation of the Line Extension. When the Line Extension is to be built in a trench provided by the Customer, the trench shall be built in accordance with Company specifications.
10. Distribution Main: Means units of property and equipment properly includable in accounts 375, 376, 377, 378, 379, 386 and 387 as defined in the Uniform System of Accounts identified in 17.3.610.10 NMAC.
11. Franchise Customer: Means a franchise business, which requests new or incremental service under this LXP. A "franchise" is an agreement in which the franchisee agrees to undertake certain business activities or to sell a particular type of product or service in accordance with methods and procedures prescribed by the franchisor, and the franchisor agrees to assist the franchisee through advertising, promotion and other advisory services.
12. Gas Service: Means natural gas utility service provided by the Company.

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13. Incremental Load: Means additional annual throughput i) related to the anticipated Gas Service requirements of a New Customer or, ii) above the baseline, three-year average annual historic throughput at an existing Customer's current service location.
14. Incremental Revenue: Means additional annual revenue to the Company, including any additional monthly Access Fee revenue, i) related to the anticipated Gas Service requirements of a new Customer; or, ii) above the baseline, three-year average annual historic revenue generated by Gas Services delivered by the Company at an existing Customer's current service location.
15. Line Extension: Means the installation of all distribution field equipment (excluding any service line and service line equipment) necessary to provide Gas Service. Physical components of Line Extensions may include all Distribution Main equipment.
16. Line Extension Cost: Means the costs including all labor, materials, vehicles, and reasonably allocated and direct overheads required to design and construct the Line Extension, and to acquire easements, permits, and rights-of-way necessary for its construction (except for service line and customer billing meters) and the cost of upgrading any facilities necessary to provide service. Line Extension Costs also include the costs of changing existing facilities to provide the Gas Service.
17. Line Extension Credit: Means a credit a Customer may be eligible for, the amount of which is related to the current and possible future gas usage resulting from the relevant Line Extension.
18. Lot Credit: Means the credit a Customer may be eligible for as defined in Section IV.2 of this LXP.
19. Minimum Line Extension: Means the Line Extension that would be designed solely to meet the needs of the Customer requesting service and is consistent with Company and industry design and safety standards. Sound engineering and economic considerations may require systems to be designed and built which exceed the needs of the Customer requesting service. In cases where the Company chooses to install greater capacity for area-wide system improvements, the Company shall bear those portions of the costs of gas system work. "Area-wide system improvement" shall be construed to mean any system capacity beyond what is specifically required for the particular Customer in question.
20. Premise: Means a single-metered structure which receives Gas Service under the Advantage Program.
21. Property Owner: Means a person or entity who owns a Premise which will or does receive Gas Service under the Advantage Program.
22. Revenue Credit: Means a credit a Customer may be eligible for as defined in Section IV.1 of this LXP.

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23. **Service Line:** Means a Company-owned natural gas line that transports natural gas from a Distribution Main to the meter or service connection. The Company is responsible for maintaining this portion of the pipe.
24. **Special Contract:** Means a written agreement between the Company and the Customer to establish a rate and/or conditions of a Line Extension that, due to size or load characteristics, or both, differ from those established for general classes of Customers and has a Cost Estimate which is equal to or greater than \$100,000. In such instances a Customer may request a Special Economic Study. If the result of the Special Economic Study, including the allocation of costs for the Line Extension between the Customer and Company is acceptable to both parties, the Company and Customer shall enter into a Special Contract. All Special Contracts provided for in this LXP shall be filed by the Company as an attachment to the report due under 17. 5.440.10 NMAC with the New Mexico Public Regulation Commission (the "Commission") within twenty (20) calendar days of execution by the Company and the Customer. The Special Contract shall contain: (a) payment provisions (including mutually acceptable installments and/or phased payments, each installment to be paid in advance of the commencement of construction of each phased segment); (b) acceptable arrangements to assure security for payments (such as a letter of credit, corporate parental guarantee, etc.); (c) an option for the Customer to either accept the Cost Estimate for the Minimum Line Extension or elect to pay the Actual Minimum Line Extension Cost; (d) reasonable completion date; (e) a guarantee by the Customer of the amount of gas the Customer will use, including liquidated damage provisions to ensure future usage and timely completion of the Line Extension; and (f) any other terms mutually acceptable to the Company and Customer not inconsistent with the LXP or the Rules of the Commission. In the event Customer elects to pay the Actual Minimum Line Extension Cost, within ninety (90) calendar days following the completion of the Line Extension, the Company shall provide a reconciliation statement reconciling the Actual Minimum Line Extension Cost and any amount advanced by the Customer under the Special Contract. The Company or Customer shall pay the other party the amount due based on the reconciliation statement within thirty (30) calendar days of receipt of such statement. The Customer's payment of any amount due shall not waive the Customer's right to challenge, in an appropriate Commission proceeding, whether the Company determined the amount in accordance with this LXP.
25. **Special Economic Study:** Means a study that the Company will perform, at the request of a Customer in accordance with this LXP, to determine the Revenue Credits to which the Customer shall be entitled based on the net present value of future cash flows taking into account probable revenue and expenses incurred.
26. **Temporary Service:** Means Gas Service to a property where a permanent structure does not exist. Service to a mobile home shall be considered Temporary Service unless the wheels and axles have been removed, skirting is installed and the mobile home permanently installed on the property.

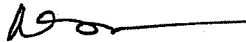
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III. Cost Responsibility

The Customer shall be responsible for the costs associated with the Minimum Line Extension. Except in the event the parties enter into a Special Contract, the amount paid by the Customer will be the difference between the Cost Estimate and any Lot Credits and/or Revenue Credits, as determined by Company in accordance with this LXP. The Customer must pay this amount, in full and in advance of any Line Extension construction, unless the Customer is approved for the Advantage Program as provided in Section V of this LXP. The Customer will be required to execute a gas line extension agreement, in the form on file with the Commission, if the Cost Estimate exceeds any applicable Line Extension Credits and any advance provided under the Company's Advantage Program.

The Company will review, on a regular basis, its procedures and assumptions for calculating the Cost Estimate to ensure that the Cost Estimate is as close as reasonable to the actual cost incurred by Company. Except as expressly provided in this section, the amount paid by the Customer is non-refundable once construction activities have commenced.

Upon receipt of a written request by a Customer to terminate construction of a requested Line Extension after an advance for Line Extension construction has been paid by the Customer, the Company shall terminate all construction activities associated with the Line Extension as soon as reasonably practicable. The Company shall refund any unexpended portion of the advance paid by the Customer within thirty (30) calendar days of its receipt of all final invoices for work actually performed before termination of construction, including any expenditures reasonably necessary to suspend the work and necessary to ensure the safety of persons and property and the integrity of the pipeline system. If the Customer participated in the Advantage Program, the Customer must repay to the Company any portion of an advance provided by the Company in connection with the Advantage Program within thirty (30) calendar days of the date the Customer submitted the written request to terminate construction.

IV. Line Extension Credit

All Customers are eligible to receive a Line Extension Credit. Line Extension Credits are established to give consideration to the current and possible future gas usage of Customers served by the Line Extension. The Line Extension Credit will be an offset against the amount of the Line Extension Cost to be paid by the Customer.

The total Line Extension Credit given will never exceed the Company's Cost Estimate.

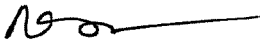
The Line Extension Credit will include consideration for a Revenue Credit and, if applicable, credits for platted lots:

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1. Revenue Credit

- a. The Revenue Credit shall be based on the Customer's estimated annual gas usage. The Revenue Credit shall equal four (4) times the annual distribution gas revenue received by the Company from either 1) the Customer's estimated annual gas usage, excluding cost of gas; or 2) or the average annual gas usage from the Company's most recent Commission approved rate case, excluding the cost of gas. Except where the Company and Customer enter into a Special Contract, the Revenue Credit shall be based on the Customer's estimated annual gas usage.
- b. In the event the Cost Estimate is equal to or greater than \$100,000, Customers may request a Special Economic Study to be performed by the Company to determine the amount of Revenue Credit applicable. In the Special Economic Study, the Company will calculate the Revenue Credit based on the present value of future cash flows over an appropriate period up to ten (10) years, based on the Customer's reasonably anticipated service requirements. In the event Customer believes that the appropriate period should be longer than ten (10) years, Customer may direct the Company to study a longer period and the Company shall perform the Study. Cash flows will not be considered for buildings or loads that do not exist or are not under construction at the time of the LXP Agreement unless a Special Contract is executed based on the Customer's reasonably anticipated service requirements.

The Customer shall pay the actual cost for the performance of a Special Economic Study. After the Customer has provided all information requested by the Company, the Company will provide a cost estimate of the Special Economic Study and the LXP Customer shall advance the amount of the cost estimate prior to the commencement of the Special Economic Study. The actual cost of the Special Economic Study shall not exceed 110% of the cost estimate unless Customer-imposed modifications cause additional work to be done. If such Customer-imposed modifications would cause the cost of the Special Economic Study to exceed 110% of the cost estimate, the Company shall advise the Customer of such additional cost and not proceed with the Study unless the Customer authorizes the Company to continue with the Special Economic Study. If the Customer does not authorize the additional expenditures, the Company shall terminate the Special Economic Study and provide the results of the Study to Customer. The internal Company labor costs to be used for the Special Economic Study shall be based on the same methodology as the Company used in establishing its labor rates in the Company's Rate No. 11 (Miscellaneous Fees and Charges) approved by the Commission. Within ninety (90) calendar days following receipt of the final invoices for the Special Economic Study, the Company will provide a final statement for the cost of the Special Economic Study and a refund to or payment from the requesting Customer shall be made within thirty (30) calendar days of the final statement.


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2. Lot Credit

- a. If the Line Extension passes and can serve directly lots not presently receiving Gas Service, a Lot credit may be provided to the Customer. The Lot Credit will be determined by the number of lots platted, filed and recorded with the County Clerk which the Company determines can be reasonably served by the Line Extension. For each vacant lot passed by a new Line Extension, which is not presently receiving Gas Service, a nine hundred fifty dollar (\$950.00) Lot Credit will be applied. A four hundred seventy-five dollars (\$475.00) Lot Credit will be applied for each additional lot with existing facilities or structures not presently receiving Gas Service.
- b. Customers will NOT receive Lot Credits for any lots eligible for Revenue Credits.

V. Advantage Program

The Advantage Program is designed to increase the availability of Gas Service in New Mexico by providing an advance for potential Customers to apply towards the cost of Line Extensions and/or new Service Lines. The Advantage Program is offered as a service of the Company subject to the Commission's rules and regulations. The conditions set forth below shall govern the Advantage Program:

1. The Advantage Program Advance is available only in situations where the sum of any applicable Lot Credits and Revenue Credits are less than the Minimum Line Extension and new Service Line costs. The Advantage Program Participant shall be responsible for paying to the Company any and all Line Extension Costs and Service Line costs in excess of the sum of the applicable Lot Credit(s), Revenue Credit(s), and Advantage Program Advance prior to the start of construction.
2. The Advantage Program is available in any amount between one hundred dollars (\$100) and five thousand dollars (\$5,000).
3. Advantage Program Participants shall repay the Advantage Program Advance to the Company over a period of time not to exceed 120 months. The minimum monthly repayment shall be twenty dollars (\$20) per month unless the total outstanding obligation related to the Advantage Program Advance is less than twenty dollars.
4. A Carrying Charge shall apply to all outstanding balances related to the Advantage Program Advance beginning on the date the Line Extension and any Service Line construction is completed.
5. The Advantage Program is only available to potential residential or Rate No. 54 sales customers.
6. In the event an Advantage Program Advance is utilized to cover the initial cost of the installation of a Service Line beyond the AP Participant's property line, the Company's meter shall be installed directly

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adjacent to the Premise. Advantage Program funds shall not be used to construct or install any gas lines downstream of the Company's meter.

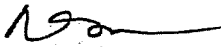
7. Participation in the Advantage Program must be memorialized in a written agreement (the "Advantage Program Agreement") signed by the Property Owner. The Advantage Program Agreement shall contain terms and conditions consistent with this LXP. The Company may rely on the representations of the person that executes the Advantage Program Agreement that he or she is the Property Owner, and the Company shall have no affirmative duty whatsoever to confirm the ownership of the Premise.
8. The AP Agreement shall contain the schedule for the reimbursement to the Company of the Advantage Program Advance provided to the AP Participant, which shall consist of reimbursement to the Company of all amounts advanced and the applicable Carrying Charges.
9. The liability for the reimbursement to the Company of all amounts advanced under the Advantage Program shall remain with the Premise, which received Gas Service under this LXP, regardless of the identity of the Advantage Program Participant at the Premise. In the event a subsequent Advantage Program Participant requests Gas Service at the Premise, that Advantage Program Participant shall agree to be responsible for continuing to make payments to the Company for any outstanding obligation associated with the Advantage Program as a condition for the Company continuing to provide Gas Service at the Premise. The Company shall notify any subsequent Advantage Program Participant at the Premise, upon request for Gas Service that the Advantage Program Participant's account will be subject to any remaining balance associated with the Advantage Program.
10. Any Premise participating in the Advantage Program cannot participate in any way in the Company's transportation program until the Advantage Program obligation is satisfied in full.
11. Advantage Program Participants shall have the option to make a lump sum pay-off of any remaining obligation associated with the Advantage Program at any time without penalty.
12. Any Advantage Program Participant who leases a Premise subject to the Advantage Program shall enroll in the Company's Landlord Standby Program and enter into a Landlord Standby Service Agreement.
13. If an Advantage Program Participant fails to make payment(s) to the Company for an Advantage Program obligation, the Company shall have all remedies provided by the Commission's rules and regulations, including disconnection of service.
14. The Company will provide the following information in the Advantage Program Agreement and to the Advantage Program Participant when first presenting the Advantage Program:
 - a. The Carrying Charge rate applicable to the Advantage Program Advance;

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- b. The full amount of the Advantage Program Advance and the Carrying Charge amounts over the duration of the reimbursement period;
 - c. Notice of the right to make a lump sum payment at any time during the duration of the reimbursement period in order to extinguish the Advantage Program obligation; and
 - d. A phone number to address any Advantage Program questions.
15. In the event provisions of the Advantage Program Agreement conflict with this LXP, this LXP shall govern.

VI. Residential Service Construction

Within thirty (30) calendar days after a residential Customer has complied with all the reasonable utility requirements, the Company shall provide to the residential Customer a written Cost Estimate. The Company shall complete construction of the Line Extension within sixty (60) calendar days after the residential Customer signs a Line Extension agreement in the form on file with the Commission, pays the required payment, and the Company has secured all applicable permits, rights-of-way, materials and labor necessary for the Line Extension.

VII. Non-Residential Service Construction

Construction of extensions for non-residential Gas Service will commence within a reasonable time in accordance with the Company's construction schedule and after any required payment by the non-residential Customer for construction of the Line Extension is made. The Company shall provide to such non-residential Customer a written Cost Estimate, and propose a reasonable time schedule for the Company's completion of construction of the Line Extension.

VIII. Easements and Rights-of-Way

For all facilities installed on private property not owned by the Customer requesting such facilities, the Customer shall provide the Company with all necessary private easements in a Company approved format suitable for recording, which reflects the "as built" configuration and location of the facilities. If requested by the Customer, the Company will obtain all private easements required for the installation of facilities. The Customer shall pay the Company for all costs incurred by the Company in providing such assistance. In the event the Company incurs costs associated with obtaining rights-of-way or permits and the Customer terminates the Line Extension prior to the start of construction, the Customer remains liable for such costs unless the right-of-way is used or useful immediately by the Company. The Customer shall pay the Company for all costs incurred to approve the format of such documents and to verify property ownership involved with such documents.

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Unless otherwise agreed to, the Company will obtain all right-of-way permits from local, county, state, federal, and tribal agencies. The Customer must pay the Company for all costs incurred by the Company in obtaining such permits.

IX. Temporary Service

Applicants for Temporary Service must make a non-refundable contribution of the entire cost of facilities required to provide service including service line and Customer's meter, plus cost of removal of such facilities, and less salvage value of removed materials and equipment.

X. Dispute Resolution

In the event of any dispute between the Customer and the Company concerning the meaning of any provisions in this LXP or the manner in which the Company performs, or intends to perform, a Special Economic Study in accordance with this LXP, the Customer may request an informal meeting to resolve the disputes with a Company representative located in the service area who is authorized by the Company to resolve such disputes on behalf of the Company. In the event such an informal meeting fails to resolve the dispute, the Customer may seek resolution of that dispute by the Commission, in which case the Company and Customer shall support the most expeditious resolution of the dispute reasonably practicable in accordance with the dispute resolution procedures then available under the Commission's Rules. A Customer which pays the Company the Minimum Line Extension Cost determined by the Company in accordance with this LXP may request that the Company proceed with the Line Extension requested without waiving the Customer's right under this section to seek resolution of any such dispute. A Customer which pays the cost of performance of a Special Economic Study determined by the Company may request that the Company proceed with that Study without waiving the Customer's right to challenge, in an appropriate Commission proceeding, whether the Company properly determined that cost and/or performed that Study in accordance with this LXP. In the event of any dispute between the Customer and the Company concerning the meaning of any terms and conditions in a Special Contract executed under this LXP, or concerning the Company's or the Customer's performance of their respective obligations under such a Special Contract, after that Special Contract is filed with the Commission in accordance with this LXP, the Customer or the Company may seek resolution of that dispute, including, but not limited to claims for appropriate relief, in the Commission or in any court of competent jurisdiction.

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