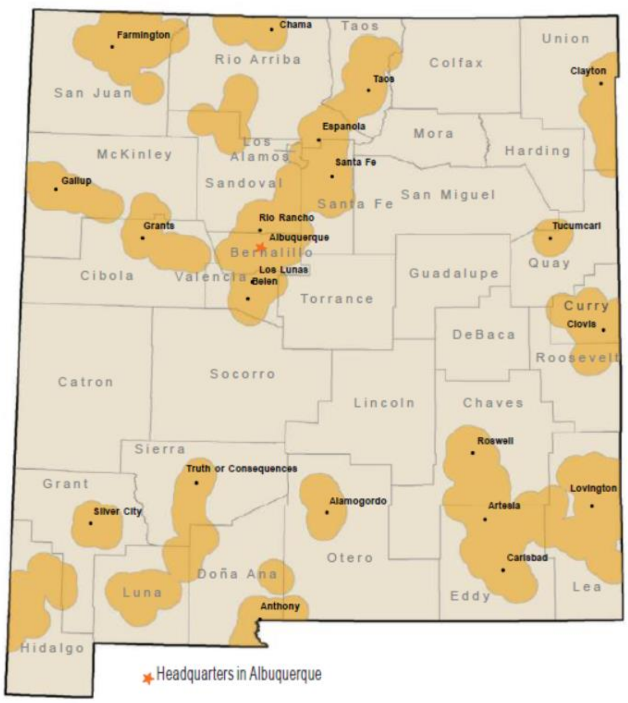
New Mexico GAS COMPANY®
AN EMERA COMPANY

CASE OVERVIEW
2018 Rate Case

► New Mexico Gas Company is requesting its first rate increase since 2012:

- **The Company is requesting an $8 million increase in annual base revenues, which correlates to approximately a 1.4% increase in an average residential customer bill.**
- **Over the last seven years, NMGC has done an excellent job of containing its operating expenses while maintaining service levels. The Company's operations and maintenance costs are actually lower now than they were in 2012.**
- **Since 2012, the Company has invested over $250 million in upgrading and maintaining its gas system and business operations. These investments are a primary reason for the Company's revenue requirement.**
- **This rate request applies the benefits of recently enacted federal tax reform to our customers and is $9.6 million lower as a result of passing through the tax reform benefits. The request would have been $17.6 million before application of the tax reform benefits.**



► **Company Background**: The Company currently has approximately 715 employees and serves approximately 524,000 customers in 27 counties throughout New Mexico. NMGC is headquartered in Albuquerque, operates under a local Board of Directors – a majority being New Mexicans – and is locally managed with 26 offices throughout the State.

- Approximately 92% of the Company's customer base is comprised of residential customers; the remainder are commercial and industrial customers. Because its business involves only the delivery and sale of natural gas, and gas is most commonly used by customers to heat their homes and businesses, the Company's business is seasonal, with the bulk of the Company's revenues and earnings realized during the winter heating season which typically runs from October through April. NMGC charges for its service only, and the cost of gas is passed through to customers without markup by the Company.

► **Rate Increase:** If approved, this request would result in approximately a 1.4% increase in an average residential customer bill. Under normal regulatory procedures, new rates will not likely go into effect before January 2019. Key factors to consider include:

- Since 2012, NMGC has invested approximately $250 million to maintain and improve its system and performance. NMGC has approximately 12,000 miles of transmission and distribution pipe and related facilities in its system throughout the State and is continually investing in its system to provide safe, reliable and cost-effective service. This capital investment is a primary driver for this rate request.
- Over the last seven years, NMGC has been able to effectively control operating expenses, including operations and maintenance costs. NMGC's operating expenses are essentially flat since 2012, and following acquisitions in 2014 and 2016, NMGC is now able to share costs and services with its parent and sister utilities and companies. As a result, the Company's operations and maintenance costs are actually lower now than they were in 2012.

- **Rate Design Changes:** Another primary reason for this rate case is the Company's need to improve and update its rate structure to allow the Company to better recover its costs and expenses.

  - **Weather Normalization Adjustment Mechanism:** The Company's current rate structure relies heavily on usage-based rates. As a result, NMGC's customer bills are greatly affected by fluctuations in winter weather. The Company is proposing a new rate design that will even out – year to year – this variability in bills and revenues resulting from warmer or colder than normal weather. The mechanism proposed to accomplish this is a Weather Normalization Adjustment Mechanism and is commonly used throughout the gas utility. Briefly, the way this mechanism would work is that "normal" weather is determined, and then fluctuations from normal weather in one season are accounted for and rates in the subsequent year are adjusted through a rider to either reduce or increase bills to even up bills and revenues year to year. Put another way, weather-related revenue gains or losses in one year are evened out by revenue adjustments in the next year[s]. This applies to both warmer or colder than normal weather, so bills can be adjusted up or down, depending on the weather. While it is impossible to predict, it is estimated that a 7% fluctuation from "normal" weather in one year would result in approximately a $1.00 adjustment to an average residential customer bill in each of the following season's biggest billing months.

  - **Integrity Management Cost Recovery Mechanism:** A portion of NMGC's annual spend on infrastructure is for integrity management programs – replacement and update of legacy systems that are better and safer when replaced. These programs are driven both by Company integrity management plans and federal and state regulatory mandates. This integrity-program spending is relatively consistent annually. NMGC is proposing that a recovery mechanism be implemented to a) recover these amounts annually – without need for an annual rate case, b) allow for better planning and budgeting, and c) allow for better interaction with and involvement of regulators in these programs. Like the weather mechanism, integrity management cost recovery mechanisms are common in the industry. The anticipated bill impact of approval of this mechanism is anticipated not to be greater than .50/month in the biggest billing months in years between rate cases.

  - **Rate Design Including Fixed Access Fee Increase:** NMGC is proposing that as part of its rate design coming out of this case, the fixed portion of its bills – the access fee – be increased, and the variable/usage-based portion of its bills be reduced. This will more closely match revenues with fixed costs and allow the Company to better plan, budget, and operate.

  - **Economic Development Rate**: As a result of the Emera acquisition in 2016, Emera, as owner of NMGC, has committed $20 million of shareholder dollars to help with economic development in New Mexico. This money is currently being spent in the State. Now, NMGC is proposing to initiate an economic development rate to further help attract or expand business to and in New Mexico. The intent of this rate is to provide eligible businesses with a discount on their gas bill to help promote economic growth in New Mexico.

- **Federal Tax Reform:** In late 2017, the Federal Government passed tax reform legislation (the Tax Cut and Job Act "TCJA"). The TCJA cut corporate tax rates from 35% to 21% and these savings are reflected in this case. As a result of the TCJA, the Company's revenue request is reduced from approximately $17.6 million before tax reform to $8 million after tax reform.

  - **State Tax Reductions:** Recent State tax reductions are likewise included in this case and reduce the Company's utility rate increase.

- **NMGC'S Return on Equity:** The requested revenue increase would provide a fair and reasonable return on equity of 10.2%, enabling NMGC to attract new capital on reasonable terms, as well as bring NMGC's actual ROE in line with other gas companies.

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