BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION OF NEW MEXICO GAS COMPANY, INC. FOR CONTINUED USE OF ITS PURCHASED GAS ADJUSTMENT CLAUSE,	)	
	)	**Case No. 24-_____-UT**
NEW MEXICO GAS COMPANY, INC.,	)	
Applicant.	)	

APPLICATION OF NEW MEXICO GAS COMPANY, INC.
FOR CONTINUED USE OF ITS
PURCHASED GAS ADJUSTMENT CLAUSE

New Mexico Gas Company, Inc. ("NMGC"), pursuant to 17.10.640.11 NMAC ("Rule 640.11"), respectfully applies for an order from the New Mexico Public Regulation Commission (the "Commission" or "NMPRC") allowing NMGC to continue the use of its purchased gas adjustment clause ("PGAC"). In support of its Application, NMGC states as follows:

1. NMGC has a PGAC, the continued use of which was last approved in NMPRC Case No. 20-00130-UT which application was filed on June 11, 2020.

2. Rule 640.11 requires that each utility operating with a PGAC as part of its tariff shall file an application for continued use of its PGAC at intervals of no more than four years. Rule 640.11 also provides that such an application must address the considerations described in NMSA 1978, Sections 62-8-7(E)(1) through (E)(4). In addition, it requires that the utility present evidence supporting its application for continued use of its PGAC.

3. Attached to this Application and in support of NMGC's Application for its continued use of its PGAC are the testimonies of Tom C. Bullard, NMGC's Vice President of Engineering, Gas Management and Technical Services and Erik C. Buchanan, NMGC's Vice

President of Finance, which address all the considerations identified in NMSA 1978, Sections 62-8-7(E)(1) through (E)(4).

4. As more fully set forth in the testimonies of Mr. Bullard and Mr. Buchanan, filed herewith, NMGC's PGAC: 1) is consistent with the purposes of the Public Utility Act [NMSA 1978, Section 62-13-1], by serving the goal of providing reasonable and proper service at fair, just and reasonable rates to all customer classes; 2) is designed to recover tax, gas, fuel, or purchased power costs; 3) describes which costs should be included in an adjustment clause, procedures to avoid the inclusion of costs in an adjustment clause that should not be included and methods by which the propriety of costs that are included may be determined by the Commission in a timely manner, including what informational filings are required to enable the Commission to make such a determination; and 4) is for the proper adjustment period.

5. Attached as Exhibit A is NMGC's Proposed Form of Notice to Customers.

6. The following designated corporate representatives and legal counsel for NMGC should receive all notices, discovery requests, objections and responses, briefs, and all other documents related to this case:

Nicole V. Strauser
Dominic A. Martinez
New Mexico Gas Company, Inc.
P.O. Box 97500
Albuquerque, NM 87199-7500
Office: (505) 697-3809
nicole.strauser@nmgco.com
dominic.martinez@nmgco.com

Anita L. Hart
New Mexico Gas Company, Inc.
P.O. Box 97500, MS-AC04
Albuquerque, NM 87199-7500
Office: (505) 697-3838
anita.hart@nmgco.com

Brian J. Haverly
Julianna T. Hopper
Jennings Haug Keleher McLeod
Waterfall LLP
PO Box AA
Albuquerque, NM 87103
Office: (505) 346-4646
bjh@jkwlawyers.com
jth@jkwlawyers.com

WHEREFORE, having satisfied all the requirements for a renewal of its PGAC, and having carried the burden of proof, NMGC respectfully requests an Order from the Commission allowing NMGC to continue to use its PGAC.

Respectfully submitted this 11th day of June 2024**.**

NEW MEXICO GAS COMPANY, INC.

By: */s/Nicole V. Strauser*
Nicole V. Strauser
Vice President and General Counsel
Dominic A. Martinez
P. O. Box 97500
Albuquerque, NM 87199-7500
Phone : (505) 697-3809
Fax : (505) 697-4482
nicole.strauser@nmgco.com
dominic.martinez@nmgco.com

JENNINGS HAUG KELEHER MCLEOD WATERFALL LLP
Brian J. Haverly
Julianna T. Hopper
Post Office Box AA
Albuquerque, NM 87103
Telephone : (505) 346-4646
Fax: (505) 346-1345
bjh@jkwlawyers.com
jth@jkwlawyers.com
Attorneys for New Mexico Gas Company, Inc.

EXHIBIT A

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION OF NEW MEXICO GAS COMPANY, INC. FOR CONTINUED USE OF ITS PURCHASED GAS ADJUSTMENT CLAUSE,	**Case No. 24-_____-UT**
NEW MEXICO GAS COMPANY, INC., Applicant.	

NEW MEXICO GAS COMPANY INC.'S
PROPOSED FORM OF NOTICE TO CUSTOMERS

To customers of New Mexico Gas Company, Inc. ("NMGC"): this document is required by the New Mexico Public Regulation Commission ("NMPRC" or the "Commission"). The purpose of this document is to provide you with notice of NMGC's request that the NMPRC allow NMGC the continued use of its purchased gas adjustment clause ("PGAC"). This notice:

- Describes the NMPRC process for considering NMGC's request; and
- Describes how you can participate in this process if you want to participate.

PARTICIPATION IS COMPLETELY VOLUNTARY. IF YOU DO NOT WANT TO PARTICIPATE IN THIS PROCESS, YOU DO NOT NEED TO DO ANYTHING FURTHER. IF YOU WANT TO PARTICIPATE, PLEASE READ THE FOLLOWING INFORMATION AND INSTRUCTIONS.

NOTICE is hereby given by the Commission of the following:

NMGC filed with the Commission an Application pursuant to 17.10.640 NMAC ("Rule 640"), which requires that each utility operating with a PGAC as part of its tariff shall file an application for continued use of its PGAC at intervals of no more than four years. Through its Application, NMGC requests that the Commission approve the continued use of NMGC's PGAC.

EXHIBIT A

NEW MEXICO GAS COMPANY INC.'S
PROPOSED FORM OF NOTICE TO CUSTOMERS

Rule 640 defines a PGAC as the mechanism which allows a utility to set gas cost billing rates for the purpose of recovering gas costs on a continuing basis and allows for levelization of the gas cost factor reflected in the PGAC component of the customer's bill. The PGAC is intended to ensure the stability of the utility's annual earnings consistent with the utility's duty to provide adequate service at just and reasonable rates.

Rule 640 further requires that an application must address the considerations described in Section 62-8-7(E)(1) through E(4) of the New Mexico Public Utility Act. In addition, Rule 640 requires that the utility present evidence supporting its application for continued use of its PGAC.

Attached to and in support of NMGC's Application are the testimonies of Tom C. Bullard, NMGC's Vice President of Engineering, Gas Management and Technical Services and Erik C. Buchanan, NMGC's Vice President of Finance.

NMGC last filed for continuation of its PGAC on June 11, 2020, and the continued use by NMGC of its PGAC was approved by the Commission in Case No. 20-00130-UT on December 16, 2020.

The Hearing Examiner has established the following schedule for this case:

A. Any person who desires to become a party to this case must file a Motion for Leave to Intervene, pursuant to 1.2.2.23 NMAC, by _____.

B. A public hearing to hear and receive testimony, exhibits, arguments is set to commence at _____A.M. on _____. The hearing will take place [at the Commission's offices located at the Bokum Building at 142 W Palace Santa Fe, NM 87505] [via the Zoom platform in whole or in part depending on potential space considerations in the Commission offices.] The hearing may be vacated, however, and the Commission may approve the Application

without a formal hearing if it is determined, after the time for filing motions to intervene and for filing of Staff and Intervenor testimony, that good cause exists to submit a decision in this matter to the Commission without a formal hearing.

C. Staff shall, and any intervener may, file direct testimony by _____.

D. Rebuttal Testimony may be filed by _____.

E. The Commission has assigned Case No. 24-_____-UT to this proceeding and all inquiries or written comments concerning this proceeding should refer to that case number.

F. The procedural dates and requirements provided herein are subject to further Order of the Commission or the Hearing Examiner. Interested persons should contact the Commission for confirmation of the hearing date, time, and place since hearings are occasionally rescheduled.

G. The Commission's Utility Division Procedures, 1.2.2 NMAC, shall apply to this case except as modified by Order of the Commission or Hearing Examiner.

H. Any interested party may appear at the time and place of hearing and make written or oral comment pursuant to 1.2.2.23(F) NMAC without becoming an intervener. Such comments will not be considered as evidence in this case.

I. Any person may examine NMGC's filing together with any exhibits and related papers that may be filed in this case at NMGC's office, 7120 Wyoming Blvd. NE, Suite 20, Albuquerque, New Mexico 87109, telephone: (505) 697-3831, or at the Commission's offices, 142 W Palace Ave Santa Fe, New Mexico 87501. Further information can be obtained at the Commission's website, https://www.prc.nm.gov or at NMGC's website, www.nmgco.com/en/regulatory_filings.

J. Any person filing pleadings or testimony shall serve copies through U.S. Mail and

EXHIBIT A

NEW MEXICO GAS COMPANY INC.'S
PROPOSED FORM OF NOTICE TO CUSTOMERS

via e-mail on all parties, Commission Staff, and the Hearing Examiner. Any person whose testimony has been pre-filed shall attend the hearing and submit to examination under oath.

K. ANY PERSON WITH A DISABILITY REQUIRING SPECIAL ASSISTANCE IN ORDER TO PARTICIPATE IN THIS PROCEEDING SHOULD CONTACT THE COMMISSION AT (505) 827-4084 AT LEAST 24 HOURS PRIOR TO THE COMMENCEMENT OF THE HEARING.

I S S U E D at Santa Fe, New Mexico this ___day of _____.

NEW MEXICO PUBLIC REGULATION COMMISSION

_____

Hearing Examiner

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION OF NEW MEXICO GAS COMPANY, INC. FOR CONTINUED USE OF ITS PURCHASED GAS ADJUSTMENT CLAUSE,	)	
NEW MEXICO GAS COMPANY, INC.,	)	**Case No. 24-_____-UT**
Applicant.	)	

DIRECT TESTIMONY AND EXHIBITS

OF

TOM C. BULLARD

June 11, 2024

DIRECT TESTIMONY OF
TOM C. BULLARD
NMPRC CASE NO. 24-_____-UT

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Tom C. Bullard. My business address is 7120 Wyoming Boulevard, NE, Suite 20, Albuquerque, New Mexico 87109.

Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

A. I am the Vice President of Engineering, Gas Management and Technical Services for New Mexico Gas Company, Inc. ("NMGC" or the "Company").

Q. PLEASE DESCRIBE YOUR DUTIES AND RESPONSIBILITIES AS VICE PRESIDENT OF ENGINEERING, GAS MANAGEMENT AND TECHNICAL SERVICES FOR NMGC.

A. I am responsible for the following divisions at NMGC: (i) Engineering, (ii) Gas Management, (iii) Environmental, and (iv) Land Services. My responsibility for NMGC's Gas Management division is most relevant to this case, as Gas Management conducts all of the Company's activities related to gas acquisitions, gas supply, system planning, market development, and the gas control and compression functions of the Company.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE AND STATE WHETHER YOU HAVE PREVIOUSLY TESTIFIED BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION.

A. My educational background and work experience are described in NMGC Exhibit TCB-1. I have filed testimonies in NMPRC Case Nos. 19-00317-UT, 19-00318-UT, 20-00130-UT, 21-00267-UT, 22-00309-UT, and 23-00255-UT.

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

A. I am the policy witness in this case and will also be providing testimony specific to the natural gas market relative to gas costs recovered through NMGC's purchased gas adjustment clause ("PGAC"). My testimony will provide the information required by NMPRC Rule 640.11 (17.10.640.11 NMAC) and related to the considerations described in NMSA 1978, Section 62-8-7(E)(1), including gas commodity market volatility, as well as discuss the status of initiatives the Company has taken to utilize PGAC related assets to better benefit NMGC's sales customers and the Company. Matters described in NMSA 1978, Sections 62-8-7(E)(2) through (4) are addressed by NMGC Witness Erik C. Buchanan.

NMSA 1978, SECTION 62-8-7(E)(1)

Q. WHAT DOES SECTION 62-8-7(E)(1) REQUIRE?

A. This section requires that a mechanism like the PGAC be consistent with the goals of the Public Utility Act, including serving the goal of providing reasonable and proper service at fair, just, and reasonable rates.

Q. WHAT IS THE PGAC AND HOW DOES IT RELATE TO THE REQUIREMENTS OF SECTION 62-8-7(E)(1)?

A. Natural gas is a commodity that is bought and sold via various markets across the county, and across the globe. Short-term and long-term influences cause natural gas prices to change day-to-day, and month-to-month. Changes in natural gas supplies generally react slowly compared to changes in demand. The market finds equilibrium by changes in price, either up or down, which affect overall demand. We see these changes in price as price volatility. The larger and faster the prices change, the higher the volatility. Higher volatility means more price uncertainty in the market. Volatility affects NMGC because the purchase prices can be significantly higher or lower during periods of high volatility.

Shifts in supply and demand caused by short-term and long-term influences can cause changes in the natural gas price. Temporary influences like weather, storage, geopolitical events, and pipeline capacity have the greatest impact on the short-term market. Long-term influences such as new regulations and public policy changes have the greatest impact on forward pricing past one year. Economic pressures can also play a role in volatility. Economic contractions can decrease the demand for petroleum-related products, while expansions can increase demand. Finally, unpredictable events, such as the COVID-19 pandemic and geopolitical conflicts, can cause significant price swings in the short-term, with unknown long-term impacts.

The PGAC is a mechanism allowed under the Public Utility Act wherein NMGC charges sales customers on a monthly basis for the cost associated with acquiring the natural gas commodity for customers' use. The PGAC allows NMGC to take the actions it believes are necessary to provide reliable gas service to customers without requiring it to take on

the risk of a volatile commodities market. The PGAC also ensures that sales customers only pay for the cost for acquiring natural gas, with no mark-up for profit by the Company. As explained in this Application, NMGC maintains a broad portfolio of gas suppliers, which works to ensure that sales customers pay a market-based price for natural gas, and are able to realize the benefit when gas costs decrease.

Witness Buchanan's direct testimony addresses how costs are recovered through the PGAC.

Q. YOU STATED THAT NATURAL GAS IS A COMMODITY WITH MARKETS ALL OVER THE COUNTRY. DO THE NATURAL GAS MARKETS ACROSS THE COUNTRY HAVE SIMILAR PRICING PRESSURES?

A. The markets are not identical. While there are large-scale dynamics which impact all natural gas markets, each market also has unique factors that help determine the price for gas originating in each market. Those factors can include regional weather, regional customer demand and customer type, and the type of gas production supplying the markets.

Q. WHICH BASINS OR MARKETS DOES NMGC PRIMARILY USE AS SOURCES OF NATURAL GAS?

A. NMGC obtains the vast majority of its gas from two basins within New Mexico: the Permian Basin ("Permian") and the San Juan Basin ("San Juan"). Each basin has its own dynamics and price pressures.

The primary driver for exploration in the Permian is the extraction of oil. While natural gas that is associated with oil production is a benefit for the producer, natural gas does not drive exploration in the Permian. Therefore, the production of natural gas in the Permian is closely linked to the price of oil. If oil prices are high, there will be significant activity in the Permian. In such a dynamic, the supply of natural gas coming out of the Permian will increase, and if the increase in supply is greater than demand, natural gas prices will decrease. Because the Permian production is based on oil, the associated natural gas in the Permian continues to be produced even when natural gas prices turn negative – i.e. producers have to pay customers to take delivery of natural gas – as the price of the oil component makes the entire process economical.

Natural gas production in the San Juan, on the other hand, is not associated with oil. Thus, the price for natural gas in the San Juan is not tied to oil production. Rather, the price of production, changes in demand, and larger macro events impact the pricing for natural gas coming out of the San Juan. When gas prices decrease, producers in the San Juan have less incentive to develop new wells or otherwise take steps to maximize production.

The different dynamics in these two basins can also be seen in long-term production trends. The Permian has, over the last decade, increased production of natural gas despite relative low prices for the commodity over that time. The San Juan, however, has experienced declining production over the same time.

The price differences for the last year for these two basins, including the volatility in price, can be seen on NMGC Exhibit TCB-2.

Q. HOW WOULD YOU CHARACTERIZE THE OVERALL NATURAL GAS MARKET?

A. Generally, the natural gas market over the last decade has been characterized by abundant supplies and generally low prices but historic volatility. Market dynamics have shifted significantly over the past fifteen years due to the development of domestic shale gas resources. The advancement of cost-effective horizontal drilling has allowed for new supply to enter the market with the ability to exceed demand. The result has been prices which are currently near twenty-year lows. In the Permian, additional drilling is focused on crude oil with natural gas being a by-product, commonly referred to as associated gas.

Q. HOW WOULD YOU CHARACTERIZE THE NATURAL GAS MARKETS NMGC PRIMARILY PARTICIPATES IN?

A. In the Southwest**,** the market continues to be saturated with supply due in large part to the development of production from shale formations and associated gas from new oil production, especially production occurring in the Permian in Southeastern New Mexico and West Texas. Additionally, continuing constraints on natural gas interstate pipelines further increases the downward pressure on natural gas prices in the Southwest, as gas producers are unable to arrange transportation of the full amount of natural gas produced in the Permian to markets outside of the Southwest. NMGC understands that several projects are in development or construction to increase takeaway capacity from the

Permian basin, but that interstate pipeline constraints may continue to impact natural gas pricing until additional pipeline capacity can come online or in response to maintenance or force majeure events affecting those pipelines.

The natural gas market NMGC uses to purchase gas exhibited extreme volatility between June 2020 and June 2024. While there have been periods of general stability, the prior four years have exhibited record highs for the daily and monthly gas prices. For gas from the Permian Basin, the daily high price for the El Paso Permian index was $191.92 per MMBtu, and the highest price paid by NMGC for gas in the Permian was $205.74 per MMBtu. The daily low price for the El Paso Permian Index was negative $4.11 per MMBtu and the lowest price paid by NMGC for gas in the Permian was negative $3.83– meaning that gas producers paid $3.83 per MMBtu to NMGC. The monthly high El Paso Permian index was $8.40 per MMBtu and monthly low was negative $0.46.

For the El Paso San Juan index, the daily high was $163.39 per MMBtu, and the daily low was $0.30 per MMBtu. The monthly high was $32.97 per MMBtu and the monthly low was $1.02 per MMBtu.

Overall, the highest price NMGC paid for gas between January 2020 and June 2024 was $252 per MMBtu, and the lowest priced gas was negative $3.83 per MMBtu.

Q. HOW DO YOU SEE THE NATURAL GAS PICTURE GOING FORWARD?

A. The consensus of industry analysts is that average major market hub prices are likely to be

in the $2.50 to $5.00 per MMBtu range over the next 2 to 5 years with price volatility over that time.

Q. WHAT ARE SOME CONTRIBUTING FACTORS TO VOLATILITY?

A. Expectations of near-term supply and demand as well as warmer or colder than normal weather forecasts are factors in price volatility. A colder than normal winter and warmer than normal summer can lead to greater natural gas demand and can lead to upward pressure on prices. When prices change in response to these factors, the result is volatility in the market.

Also, markets see the rates of storage withdrawals and injections as a leading short-term price indicator. When storage levels are ahead of the historical averages, supplies are saturating the market, leading to downward pressure on prices. When storage levels fall behind historic averages, supplies within the market are tight, leading to higher prices and volatility.

When supplies are threatened by hurricanes or extreme weather events, prices can increase dramatically. Examples are the price spikes of 2000, 2003, 2006, 2008, 2010, 2014, 2021, 2022, 2023, and 2024 which are shown in NMGC Exhibit TCB-2. In 2017, the United States became a net exporter of natural gas supplies through the export of liquefied natural gas ("LNG") into the global market. Weather disturbances in the Gulf of Mexico, such as hurricanes, can potentially reduce transportation of natural gas as cargos would not be able

to transport supplies out of the United States creating a constraint and putting downward pressure on natural gas prices.

Regional price spikes due to localized weather events also occur which can affect local prices as well. An example is prices that reached over $100 per MMBtu for short periods due to the polar vortex weather phenomenon, which impacted the Midwest and Eastern United States in 2011. Prices reached above the $100 level again in January 2018 in the East Coast and in March 2019 in the Pacific Northwest, which elevated both San Juan and Permian index prices. Prices soared again, particularly in the Southwest, in February 2021 with prices exceeding the $250 level during Winter Storm Uri.

Q. CAN VOLATILITY IN THE NATURAL GAS MARKETS IMPACT SALES CUSTOMERS?

A. Yes, volatility could cause significant financial impacts to the Company's sales customers if the cost of natural gas was set in NMGC's base rate cases. Periods of price decreases would cause the Company to over-collect and deprive customers the benefit of low gas prices and periods of price increases or price spikes would result in rate shock.

The PGAC allows the Company to pursue measures, such as hedging, that help limit exposure to price increases, while allowing the customers to obtain the benefit of decreasing prices. If the PGAC was eliminated, NMGC would have to put in place long-term supply contracts for most, if not all, of its base load requirements. These fix-priced contracts would require an extra cost premium in order to entice producers to take on the

risk of price volatility and would deny customers the ability to take advantage of decreases in pricing. The end result would be that in many cases over the last decade sales customers would likely have paid a premium for natural gas compared to the price paid with the PGAC in place.

Finally, as described in greater detail in Witness Buchanan's testimony, if NMGC were required to take on the risk associated with a volatile natural gas commodities market, the result would likely be a higher cost of debt and cost of equity for NMGC, which would lead to higher rates for customers.

Q. HOW DOES NMGC MITIGATE AGAINST HIGH PRICES AND HIGH VOLATILITY TO HELP ENSURE CUSTOMERS PAY A FAIR RATE FOR NATURAL GAS?

A. NMGC uses a blended contract approach to create a diversified portfolio among suppliers and between supply basins. Gas is contracted for through a competitive procurement process to ensure that reliable supplies are bought at the lowest reasonable price to the consumer while also maintaining reliability. Contracting for baseload supplies allows NMGC to obtain the lowest reasonable monthly price for the minimum amount of gas that customers will use every day for any given month. Also, during periods of rapidly changing prices and/or demand, NMGC can at times meet portions of its supply needs with gas from storage, which has a known cost and therefore mitigates volatility. Finally, NMGC has a gas price hedging program to offer a degree of protection should large price spikes come during the high usage period in the winter. NMGC hedges the peak usage months of

December through February by purchasing financial call options to cover 100% of the baseload volume of gas. NMGC continues to evaluate possible hedging opportunities for swing gas, and recently issued a solicitation of interest to seven significant counterparties in the financial energy markets regarding their interest in different types of hedging transactions based on daily pricing indexes. As of the filing of this case, NMGC has received responses from four of the seven companies and is working with these entities to determine if they can provide hedging solutions for swing gas that would benefit customers.

Q. BRIEFLY DESCRIBE NMGC'S DIVERSIFIED PORTFOLIO.

A. NMGC's gas supply strategy consists of diversifying supplies between supply basins, among multiple suppliers, differing contract types, and contracting for gas storage. Sourcing supplies from multiple supply basins provides alternatives in the event a supply basin underperforms due to production or processing reductions. By having multiple sources and supply contract options, NMGC increases its flexibility in the way it sources gas and supplies its systems. Gas purchased in advance of need and placed in storage provides a source of firm gas that can be used for short-term peak demand needs.

In summary:

- Gas Basin Diversity: NMGC contracts for firm transportation and gas supplies that access production in the San Juan, Permian, Piceance, and Green River Basins to allow for supply diversity and flexibility in sourcing. Should one supply basin become

constrained due to regional weather conditions or other production issues, supplies can be increased from other basins.

- Suppliers: NMGC works very closely with all of its suppliers to acquire a mixture of short-term and long-term natural gas supply contracts. Contract terms vary from seasonal to multi-year and are negotiated individually according to factors such as price, volumes, level of service, reliability, and delivery points. Contracts are put in place and diversified among suppliers to help protect against supplier default.
- Baseload Contracts: These contracts consist of a fixed monthly quantity and prices are typically tied to a published monthly index price. NMGC has an obligation to purchase this gas each day.
- Swing Contracts: When customer demand exceeds the baseload volumes, a supply requirement is created. NMGC meets this need by using prearranged swing contracts (peaking, flex, and short-notice contracts). These contracts are typically based off a published daily index price.
- Intraday Purchases: During periods of rapidly changing demand or supply performance, supplies are purchased in the daily spot market throughout scheduling Cycles 1 - 5. They are priced based on the market for that day.
- Storage Services Contracts: NMGC has storage services contracts, representing 2.7 billion cubic feet ("Bcf") of capacity, that provide for injection and withdrawal of specified quantities of natural gas throughout the year. Natural gas storage is primarily used for supply reliability and system balancing needs. Storage can help to reduce price volatility by supplying fixed price gas to the NMGC system.
- Interstate Pipeline Transportation Contracts: NMGC has firm transportation contracts

on El Paso Natural Gas, Transwestern, TransColorado, and Oktex pipelines. These interstate pipeline contracts provide the ability to move gas from the supply basins to NMGC's pipelines and town plants throughout the state. Where possible, NMGC diversifies its interstate transportation contracts among suppliers.

ADDITIONAL BENEFITS TO CUSTOMERS

Q. ARE THERE ADDITIONAL PROGRAMS RELATED TO THE PGAC WHICH BENEFIT CUSTOMERS?

A. Yes. As discussed in greater detail in my testimony in the 2020 PGAC continuation filing (Case No. 20-00130-UT), the Company has entered into 1) asset management agreements ("AMA" or "AMAs") relating to the Company's capacity on interstate transmission pipelines, and 2) storage optimization arrangements ("Storage Contract"). These agreements relate to the PGAC because the cost of the transportation capacity on the interstate pipelines and storage capacity at the storage facility is collected from sales customers through the PGAC, and as I discuss further below, the Company shares the revenues generated by these agreements with sales customers via the PGAC.

Q. PLEASE DESCRIBE HOW THE AMA WORKS.

A. NMGC contracts for firm transportation rights on multiple interstate pipelines to ensure adequate gas supplies can be delivered to the Company's systems on the coldest day of any particular month during the heating season. Because the transportation is contracted for based on an expected peak customer demand, there are many days when the entire capacity on these interstate pipelines is not utilized by NMGC. The AMAs allows a third party, on

a daily basis, to use any excess capacity NMGC has on El Paso Natural Gas' ("EPNG") and Transwestern's ("TW") interstate pipelines that is not being used to serve the Company's load.

Q. WITH WHOM DOES NMGC CONTRACT FOR THE AMAS?

A. The Company currently has two AMAs in place. One AMA is with Tenaska Marketing Ventures ("TMV"), which utilizes NMGC's capacity on EPNG's pipelines in and around the San Juan Basin. The second AMA is with BP, which utilizes NMGC's capacity on EPNG and TW pipelines leading to and from the Permian basin.

Q. ARE CUSTOMERS AT RISK BY ALLOWING A THIRD PARTY TO USE NMGC'S CAPACITY ON THE INTERSTATE PIPELINES?

A. No, the AMA actually decreases risk for NMGC's customers. First, under the terms of the AMA, NMGC has first right to all of its capacity on the interstate pipelines. The counterparty is only able to utilize any capacity NMGC does not need each day. Second, the AMA is a full requirements contract, which means the counterparty has the obligation to sell gas to NMGC and to deliver that gas to specified delivery points up to the full Maximum Daily Quantity of the released capacity, priced at a fair, index-based market price for our customers. Having the same third-party supply our system that holds NMGC's released transport adds reliability because there is a motivation to perform because this contract is fully recallable at NMGC's sole discretion.

Q. HOW DO NMGC'S CUSTOMERS BENEFIT FROM THE AMAS?

A. In addition to the reliability benefits associated with the counterparties' obligation(s) to sell NMGC gas as part of the AMAs, NMGC also charges the counterparties for the right to participate in the AMAs. This means that the AMAs reduce the overall costs sales customers pay by offsetting transportation costs and other PGAC costs.

NMGC has entered into several AMAs over the last four years, with various terms that were negotiated with counterparties each time. AMAs have included fixed payments from counterparties to NMGC, as well as sharing mechanisms that allow NMGC and its customers to share in the revenues the counterparty realizes though using any available NMGC excess capacity on the interstate pipelines. The sharing mechanism with counter parties have ranged from a 50/50 split of revenues to a split of 80% revenues to NMGC and its customers and 20% to the counterparty. If there is a revenue loss, the burden is solely on the counterparty and is never charged to NMGC and its customers. The terms of the AMAs change based on the market dynamics each time NMGC issues a request for proposals for AMAs.

The current AMA with TMV will provide a capacity payment of approximately $92,600 per month through April of 2026.

The AMA with BP provides a monthly capacity payment of $500,000 per month and shares revenue generated with the released capacity with NMGC in two phases. Initially, the revenue generated using the released capacity will be evenly split between BP and NMGC until BP recovers the full cost of the fixed monthly payments to NMGC – approximately

$12.5 million. Once revenues exceed the full cost of the fixed monthly payment, the split becomes 80/20 with 80% going to NMGC and its customers and 20% retained by BP.

NMGC splits the revenues it receives from the AMAs with sales customers in the form of a credit to the PGAC. NMGC provides 70% of the revenues received due to the AMAs to sales customers and retains 30% of these revenues for the Company's shareholder. Between September 1, 2020, and May 31, 2024, sales customers have received a credit of $79,170,233 arising from the AMAs.

Finally, NMGC's customers also benefit through decreased costs for some supply options. The AMA has imbedded day-ahead and intraday gas supply options. These options add value to our supply portfolio because this type of service usually requires a demand fee, which is waived due to the AMA. Thus, NMGC's customers are able to save these costs.

Q. CAN YOU PLEASE PROVIDE SOME ADDITIONAL CONTEXT TO THE SIGNIFICANCE OF THE CREDITS THAT ARE FLOWING TO CUSTOMERS THROUGH THE PGAC AS A RESULT OF THE AMA?

A. Yes. Over the last four years, the credits customers received through the PGAC were approximately 91% of the total fees paid by the PGAC to the interstate pipelines transporting gas to NMGC's system.

Q. WHY IS NMGC SPLITTING REVENUES WITH BP?

A. Through its arrangement with BP, NMGC is allowing BP to utilize NMGC's assets to take

advantage of price discrepancies in natural gas in other markets resulting from constrained capacity on transportation of natural gas production out of the Permian. This potentially short-term opportunity arises because of the unique opportunity presented by NMGC's assets and BP's expertise. In order to replicate what BP brings to the table, at a similar level, NMGC would have to hire multiple employees, take on significant risk, and devote resources to developing expertise in selling gas to market participants. These efforts would likely take years, by when the opportunity may have passed, and would be a significant cost to NMGC and customers.

BP is also already well situated in selling natural gas across markets. NMGC and its customers are able to obtain the benefit of pre-existing market know-how, business contacts, and specialized labor force necessary to generate revenues on the natural gas markets. Moreover, BP has accepted all of the risk that certain transactions may lose money, which is a significant benefit provided to NMGC and customers.

Q. PLEASE DESCRIBE THE STORAGE CONTRACT.

A. NMGC subleases a portion of its capacity at an underground gas storage facility located in Winkler, Texas. NMGC currently has the right to store up to 2.7 Bcf of gas at this facility. NMGC has entered into a sublease agreement with Koch Energy Services ("KES") that allows KES to use 1.0 Bcf of NMGC's storage capacity.

Q. ARE CUSTOMERS AT RISK WITH NMGC ALLOWING THIRD PARTIES TO USE A PORTION OF NMGC'S UNDERGROUND STORAGE CAPACITY?

A. No. Although NMGC leases storage capacity year-round, firm storage rights are only awarded to the third party during the months of May through October, with NMGC maintaining most of its firm rights during that period. NMGC analyzed the volume that NMGC does not utilize during these summer months and has determined during the summer it has excess capacity of approximately 25,000 MMBtu/day withdrawal and 20,000 MMBtu/day injection rights. All third-party storage rights are 100 percent interruptible during November – April (winter months), therefore NMGC maintains all access to maximum withdrawal and injection rights to serve its sales customer on a peak day.

Q. HOW ARE SALES CUSTOMERS BENEFITING FROM THE STORAGE CONTRACT?

A. NMGC is sharing revenues generated from the Storage Contract with sales customers via a credit to the PGAC. Sales customers receive 70% of revenues the Company is paid for the Storage Contract, and NMGC's shareholder retains 30% of the revenues. Under the Storage Contract with KES, which expires in July 2024, NMGC receives a flat payment of $320,000/month for the sublease.

Between September 1, 2020 and May 31, 2024, sales customers have received credits totaling $7,745,850.

Q. HAS NMGC INCURRED ANY ADDITIONAL COSTS BECAUSE OF THE AMA AND STORAGE CONTRACT?

A. No, NMGC has not increased any of its costs in relation to the AMAs and Storage Contract.

Q. HOW DOES NMGC ENSURE THAT THE THIRD PARTIES PAY THE APPROPRIATE AMOUNT FOR THE AMA AND STORAGE CONTRACT?

A. NMGC conducts Requests for Proposal ("RFP") processes for both the AMA and Storage Contract. Through these processes, NMGC evaluates each proposal by reliability, revenue, pricing and creditworthiness before the contract is awarded. This process allows NMGC to gain the best market value for these contracts.

Revenue from the AMA is based on the daily spread between two predetermined published market points which is verified daily through a Platts Gas Daily subscription. Storage pricing is verified through a monthly report that is provided to NMGC from each counterparty showing the fixed price the storage supply was sold versus the weighted average cost of the gas in storage. This spread is then multiplied by the total volume that as transported each day, which is verified by NMGC through reports provided by the appropriate pipeline which show daily gas flows.

NMGC issues an RFP at least every two years, and sometimes annually, as appropriate, to ensure that NMGC is obtaining the best deal possible.

Q. WHAT IS THE BASIS FOR SPLITTING REVENUES GENERATED FROM THE AMA AND STORAGE CONTRACT AT A RATE OF 70% TO CUSTOMERS AND 30% TO THE COMPANY?

A. Two reasons:

First, the AMA and Storage Contract are analogous to the way off-system sales have been treated for decades. With off-system sales, NMGC has the ability to sell gas to customers who will utilize the gas outside of NMGC's service territory. NMGC then splits the revenues it generates from off-system sales with customers, with customers receiving 70% and the Company retaining 30%. The amounts for customers flow through NMGC's Rate Rider No. 14 as a credit on customer bills.

Similarly, under the AMA and Storage Contract TMV, BP, and KES use some of NMGC's assets to sell gas to non-NMGC End Users based on market dynamics that allow them to take advantage of price discrepancies between markets. NMGC could do everything that TMV, BP, and KES are doing. It chooses not to do so for the risk and cost reasons stated above. Not doing so is beneficial to all concerned. If it did so, the proceeds would be split 70% to customers and 30% to the Company's shareholder. Here, it is appropriate to utilize a similar sharing procedure between sales customers and the Company.

Second, a sharing mechanism wherein the Company is able to retain a percentage of the revenues motivates the Company to develop new ways to utilize assets to benefit customers outside of the normal provision of utility service. NMGC personnel used their knowledge of, and contacts within, the natural gas marketplace to create these opportunities. This is outside the normal function of a local gas distribution utility, and required creative thought and the ability to leverage connections to achieve. Moreover, NMGC was able to leverage some of the expertise of its parent companies to ultimately implement beneficial AMA and

Storage Contract programs with financially strong counter-parties. Thus, NMGC believes it is appropriate for it to retain some of the earnings from these programs.

At the same time, NMGC recognizes that sales customers pay for the assets that allow the AMA and Storage Contract programs to exist. NMGC, therefore, believes it is proper that sales customers receive 70% of the revenues generated from the use of these assets. As shown above, since the PGAC year beginning in September 2020, NMGC's customers have benefited from the AMA and Storage Contract in the amount of $89,916,082 because NMGC employees devised new ways to utilize existing assets.

Q. WHY IS THE PGAC THE APPROPRIATE MECHANISM FOR SHARING THE REVENUES GENERATED BY THE AMA AND STORAGE CONTRACT?

A. NMGC chose to use the PGAC, because the assets being used to generate revenue under the AMA and Storage Contract are paid for by money that flows through the PGAC. NMGC believes the best approach to flow the benefit of the AMA and Storage Contract to customers is through the PGAC as a credit. Additionally, some of the revenue generated by the AMA and Storage Contract is not steady, and the PGAC is a good way to flow revenues to customers close in time to when they are received.

Q. HAS THE NEW MEXICO PUBLIC REGULATION COMMISSION PREVIOUSLY APPROVED THE AMA AND STORAGE CAPACITY CONTRACTS FLOWING THROUGH THE PGAC?

A. Yes. In Case No. 20-00130-UT the Commission approved NMGC's request to use the

PGAC to credit customers with revenue from both the AMA and storage capacity contracts. The Commission, on page 36 of the Recommended Decision that was adopted by the Commission in its Final Order, specifically found that "the evidence presented demonstrates that NMGC's AMA and Storage Agreements provide benefits to NMGC's customer[s]."

Q. IN THAT PROCEEDING DID THE COMMISSION APPROVE THE 70%/30% SPLIT OF THE AMA AND STORAGE CAPACITY CONTRACTS' REVENUE THAT NMGC PROPOSES IN THIS CASE?

A. Yes. On page 36 of the Recommended Decision that was adopted by the Commission in its Final Order in Case No. 20-00130-UT, the Commission found that "the evidence in the record further demonstrates that the sharing of the revenues from the AMA and Storage Agreements at a rate of 70% to customers and 30% to the Company provides benefits to customers while also encouraging the Company to develop new ways to utilize assets to benefit customers outside of the normal provision of utility service, and is therefore reasonable."

Q. IS NMGC SEEKING ANY APPROVALS IN THIS CASE REGARDING THE AMA AND STORAGE CAPACITY THAT IS DIFFERENT FROM THE APPROVALS GRANTED IN CASE NO. 20-00130-UT?

A. No, there is nothing substantively different in NMGC's application in this case compared to NMGC's application in Case No. 20-00130-UT.

CONCLUSION

Q. BASED ON THE INFORMATION PROVIDED IN YOUR TESTIMONY, IS THE CURRENT PGAC CONSISTENT WITH THE PURPOSES OF THE PUBLIC UTILITY ACT?

A. Yes. My testimony has demonstrated that NMGC's existing PGAC is consistent with the Public Utility Act, specifically, "serving the goal of providing reasonable and proper service at fair, just and reasonable rates to all customer classes" as specified in NMSA 1978, Section 62-8-7(E)(1). Further support is offered in the 2023-2024 Annual Gas Supply Plan ("Gas Supply Plan"), which was presented to the NMDOJ and Staff on October 13, 2023. The Gas Supply Plan is confidential and has been filed under seal as permitted under the Protective Order issued in NMPRC Case No. 3161. As required by that Protective Order, a redacted version of the Gas Supply Plan has also been filed and is available for viewing in the public records of the Commission. For ease of reference a copy of the redacted Gas Supply Plan is attached hereto as NMGC Exhibit TCB-3. NMGC will file its annual Gas Supply Plan for 2024-2025 in compliance with NMGC's Original Rule 25 (Section 4D) by November 1, 2024. In addition, the Integrated Resource Plan, which provides additional support to this testimony, was filed with the NMPRC on April 16, 2024.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes.

Educational and Professional Summary

Name: Tom C. Bullard, P.E.

Address: 7120 Wyoming Boulevard, NE Suite 20
Albuquerque, NM 87109

Education: B.S., Mechanical Engineering, June1984
New Mexico State University, Las Cruces, NM
Master of Business Administration, May 1992
University of Phoenix, Phoenix, AZ
Registered Professional Engineer (NM, AZ)

Professional Experience:

New Mexico Gas Company, Inc.
Albuquerque, NM

Vice President, Engineering, Gas Management and Technical Services	2017- Present
Director, Engineering Services	2011 - 2017
Manager, Transmission Engineering	2006 – 2011
Professional Engineer	2003 – 2006
Manager, Engineering Support	2001 – 2003
Senior Engineer	2000 - 2001

City of Las Cruces Gas Department
Las Cruces, NM

Gas Director	1997 – 2000

Rio Grande Natural Gas Association
Las Cruces, NM

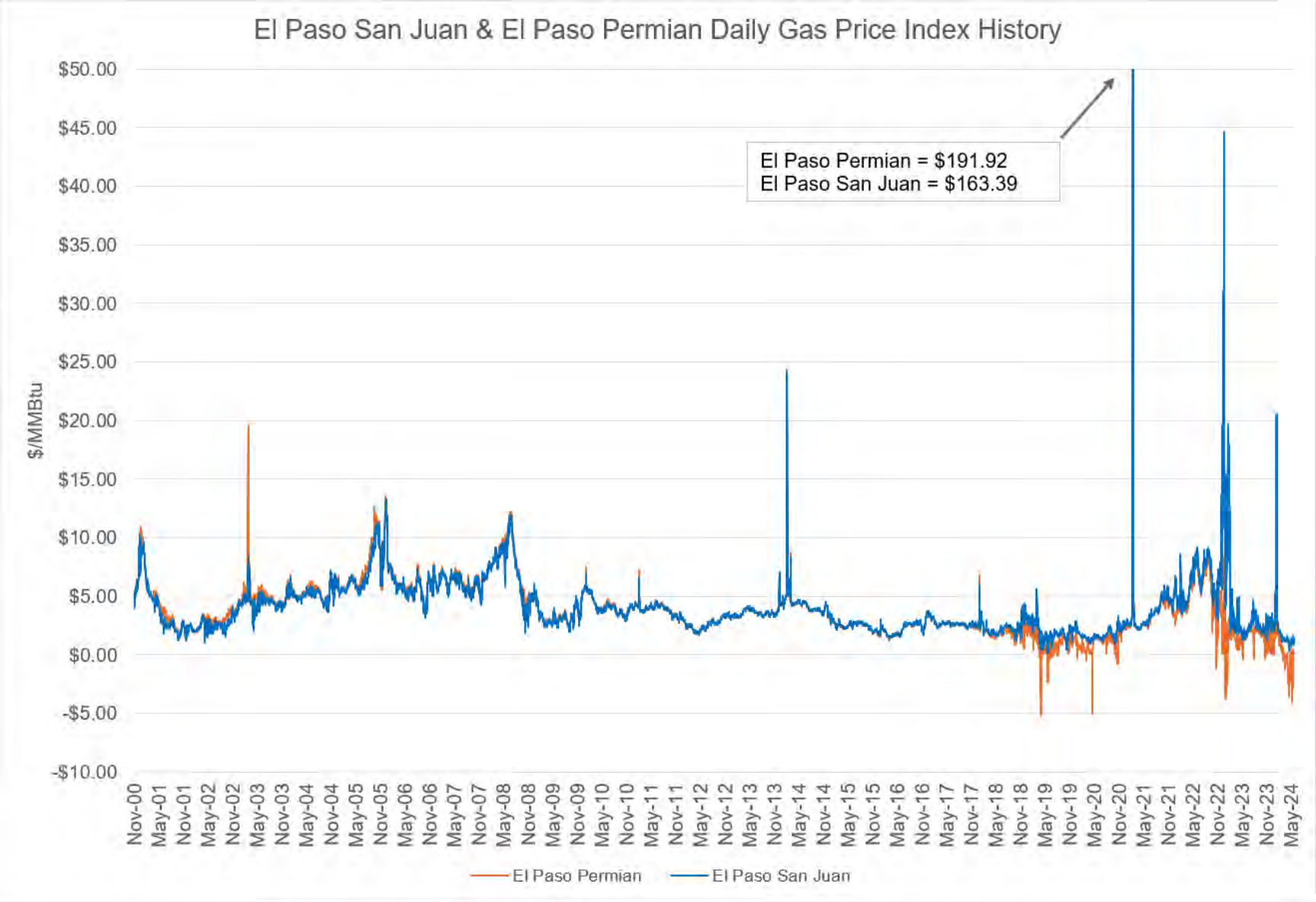
Administrator	1993 – 1997

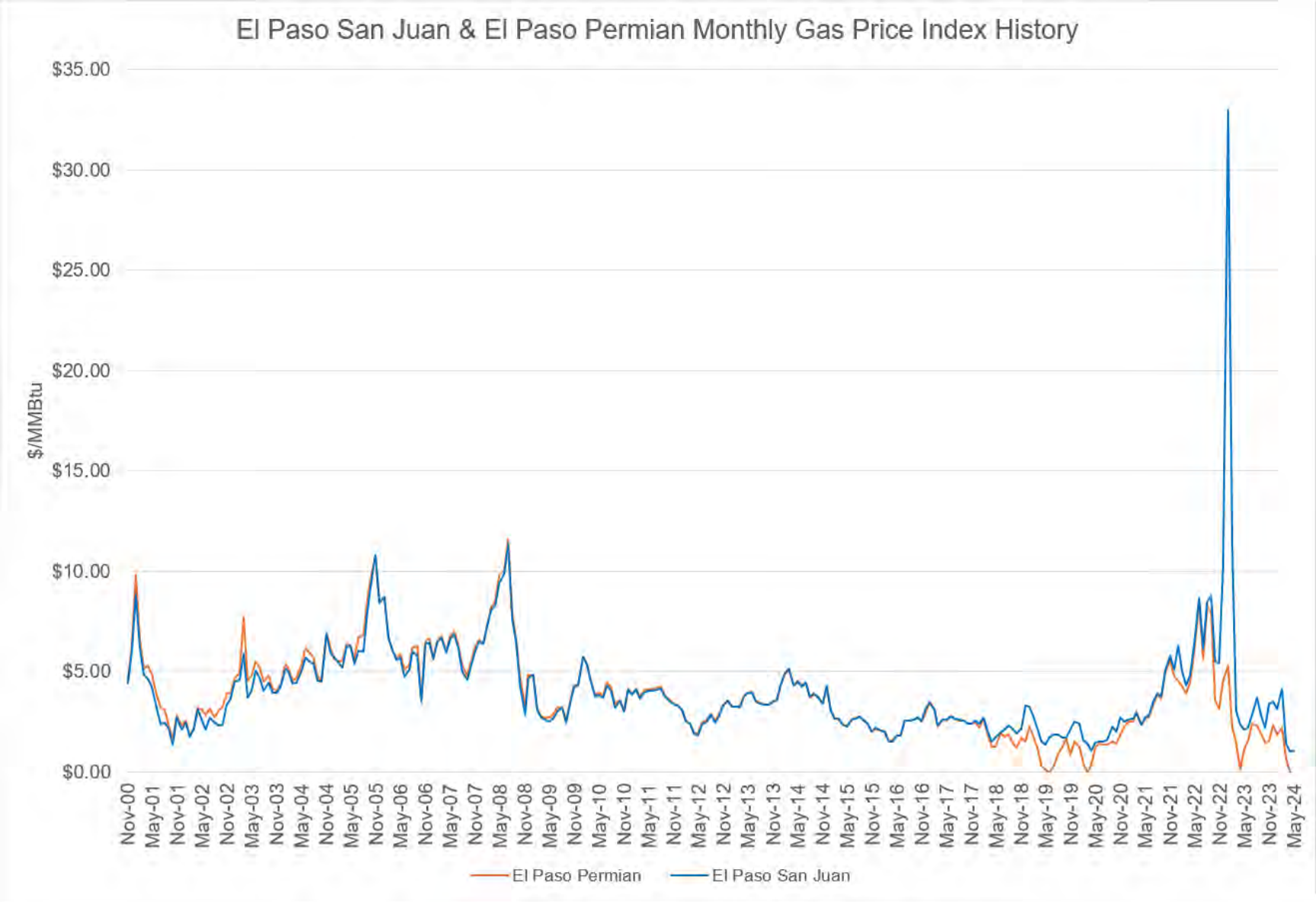
Allied-Signal Aerospace Company
Phoenix, AZ

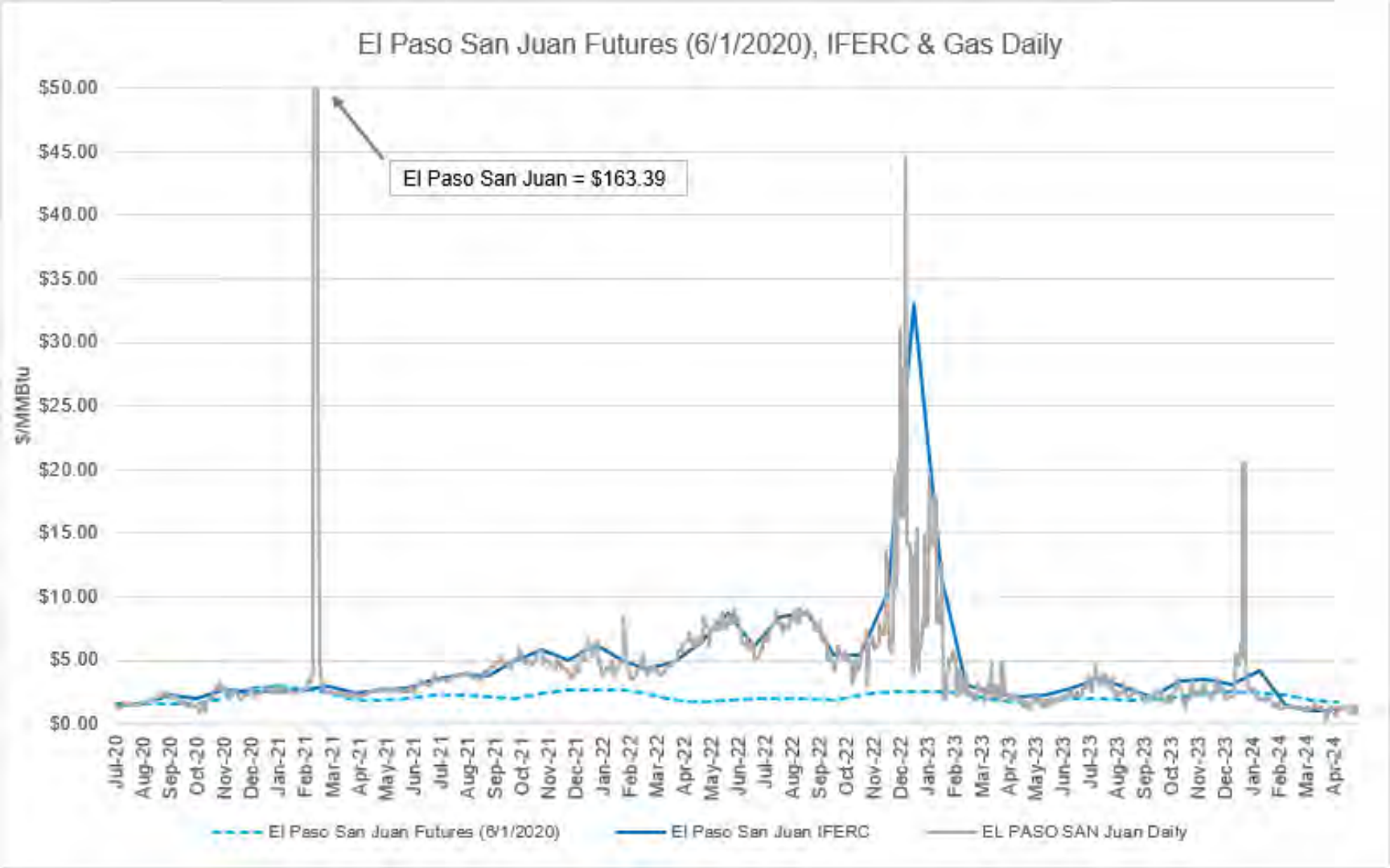
Project Engineer	1984 - 1993

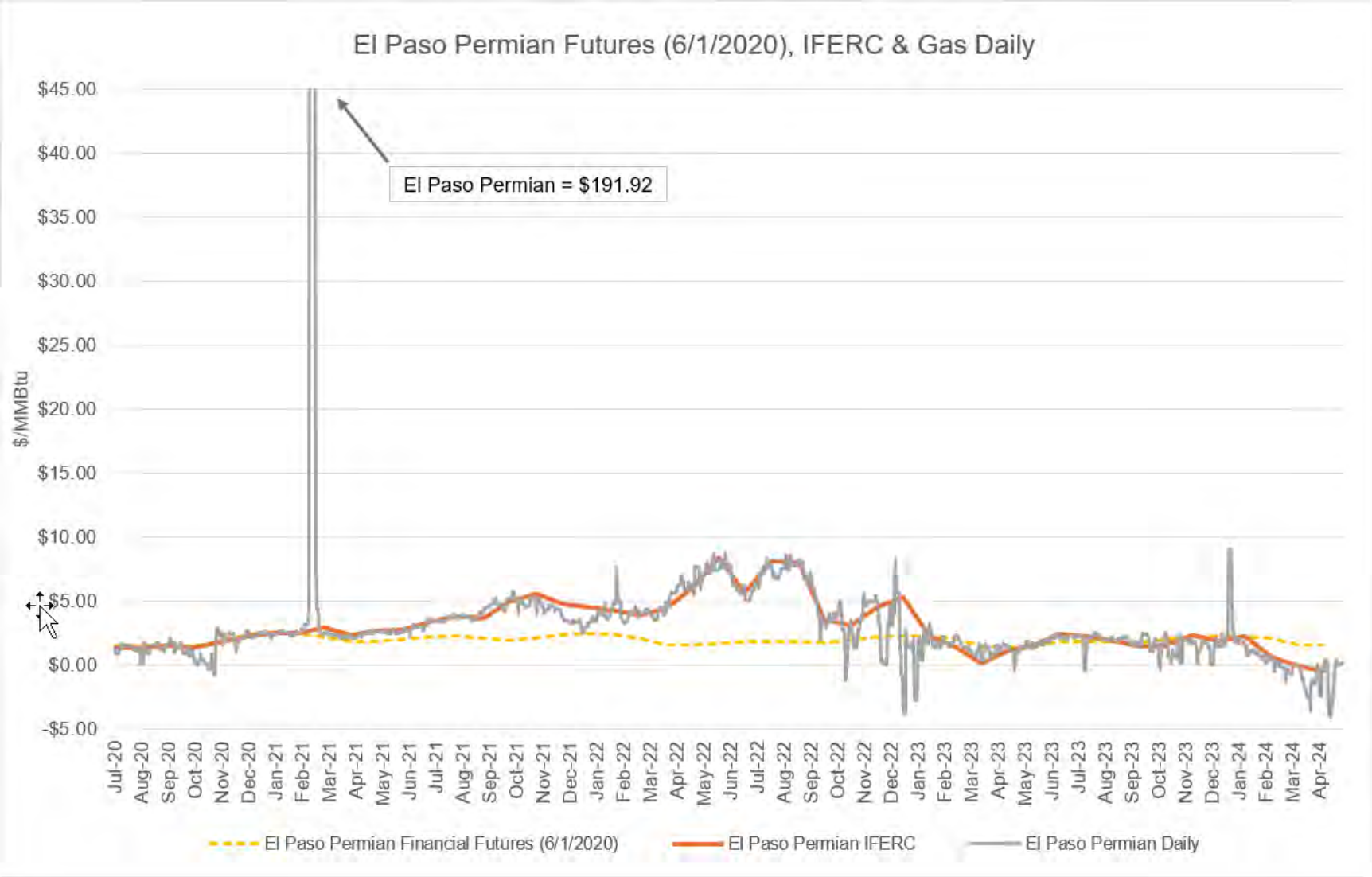
Testimony Before the New Mexico Public Regulation Commission:

Case No. 19-00317-UT – 2019 NMGC Rate Case Application
Case No. 19-00318-UT – NMGC Brazos Mainline Purchase Application
Case No. 20-00130-UT – NMGC 2020 Purchase Gas Adjustment Clause Application
Case No. 21-00267-UT – 2021 NMGC Rate Case Application
Case No. 22-00309-UT – CCN/LNG Facility Application
Case No. 23-00255-UT – 2023 NMGC Rate Case Application


El Paso San Juan & El Paso Permian Daily Gas Price Index History
$/MMBtu
$50.00
$45.00
$40.00
$35.00
$30.00
$25.00
$20.00
$15.00
$10.00
$5.00
$0.00
-$5.00
-$10.00
El Paso Permian = $191.92
El Paso San Juan = $163.39
Nov-00
May-01
Nov-01
May-02
Nov-02
May-03
Nov-03
May-04
Nov-04
May-05
Nov-05
May-06
Nov-06
May-07
Nov-07
May-08
Nov-08
May-09
Nov-09
May-10
Nov-10
May-11
Nov-11
May-12
Nov-12
May-13
Nov-13
May-14
Nov-14
May-15
Nov-15
May-16
Nov-16
May-17
Nov-17
May-18
Nov-18
May-19
Nov-19
May-20
Nov-20
May-21
Nov-21
May-22
Nov-22
May-23
Nov-23
May-24
El Paso Permian
El Paso San Juan


El Paso San Juan & El Paso Permian Monthly Gas Price Index History
$35.00
$30.00
$25.00
$20.00
$15.00
$10.00
$5.00
$0.00
$/MMBtu
Nov-00
May-01
Nov-01
May-02
Nov-02
May-03
Nov-03
May-04
Nov-04
May-05
Nov-05
May-06
Nov-06
May-07
Nov-07
May-08
Nov-08
May-09
Nov-09
May-10
Nov-10
May-11
Nov-11
May-12
Nov-12
May-13
Nov-13
May-14
Nov-14
May-15
Nov-15
May-16
Nov-16
May-17
Nov-17
May-18
Nov-18
May-19
Nov-19
May-20
Nov-20
May-21
Nov-21
May-22
Nov-22
May-23
Nov-23
May-24
El Paso Permian
El Paso San Juan


El Paso San Juan Futures (6/1/2020), IFERC & Gas Daily
El Paso San Juan = $163.39
$/MMBtu
$50.00
$45.00
$40.00
$35.00
$30.00
$25.00
$20.00
$15.00
$10.00
$5.00
$0.00
Jul-20
Aug-20
Sep-20
Oct-20
Nov-20
Dec-20
Jan-21
Feb-21
Mar-21
Apr-21
May-21
Jun-21
Jul-21
Aug-21
Sep-21
Oct-21
Nov-21
Dec-21
Jan-22
Feb-22
Mar-22
Apr-22
May-22
Jun-22
Jul-22
Aug-22
Sep-22
Oct-22
Nov-22
Dec-22
Jan-23
Feb-23
Mar-23
Apr-23
May-23
Jun-23
Jul-23
Aug-23
Sep-23
Oct-23
Nov-23
Dec-23
Jan-24
Feb-24
Mar-24
Apr-24
El Paso San Juan Futures (6/1/2020)
El Paso San Juan IFERC
EL PASO SAN Juan Daily


El Paso Permian Futures (6/1/2020), IFERC & Gas Daily
El Paso Permian = $191.92
$/MMBtu
$45.00
$40.00
$35.00
$30.00
$25.00
$20.00
$15.00
$10.00
$5.00
$0.00
-$5.00
Jul-20
Aug-20
Sep-20
Oct-20
Nov-20
Dec-20
Jan-21
Feb-21
Mar-21
Apr-21
May-21
Jun-21
Jul-21
Aug-21
Sep-21
Oct-21
Nov-21
Dec-21
Jan-22
Feb-22
Mar-22
Apr-22
May-22
Jun-22
Jul-22
Aug-22
Sep-22
Oct-22
Nov-22
Dec-22
Jan-23
Feb-23
Mar-23
Apr-23
May-23
Jun-23
Jul-23
Aug-23
Sep-23
Oct-23
Nov-23
Dec-23
Jan-24
Feb-24
Mar-24
Apr-24
El Paso Permian Financial Futures (6/1/2020)
El Paso Permian IFERC
El Paso Permian Daily

New Mexico GAS COMPANY®
AN EMERA COMPANY
A Natural Choice.

2023 - 2024

Annual Supply Plan

November 1, 2023

REDACTED VERSION

Table of Contents

Table of Figures

Purpose

This document describes New Mexico Gas Company, Inc.'s (NMGC) natural gas supply plans for the period from October 2023 through September 2024. It was developed in compliance with 17.10.640.9D NMAC, commonly referred to as New Mexico Public Regulation Commission Rule 640. The Rule describes the requirements for a utility using a Purchase Gas Adjustment Clause (PGAC) to specify its "plans to meet customer demands for supply and transportation services throughout its service area and shows that its procurement policies are designed to ensure that gas supplies are purchased at the lowest reasonable cost."

United States Natural Gas Market Review

Production & Supply

Over the past year, U.S. natural gas production was high, averaging over 104 billion cubic feet per day (Bcf/d), coincided with a slight increase in consumption, particularly propelled by the electric power sector (See Figure 1). A reduction in overall prices was observed, largely attributed to high storage inventories and mild temperatures. Production has remained at relatively elevated levels throughout 2023 despite a decline in U.S. natural gas prices.[1]

The United States Energy Information Administration (EIA) expects dry natural gas production will remain near current levels over the next year, before it starts to rise in the fourth quarter of 2024 as new pipeline capacity comes online and demand for liquefied natural gas (LNG) increases as developers expect two new facilities to come online at the end of 2024.

Storage inventories at the end of the September 2023 were higher than the same period 2022 and the five-year average (2018-2022)[2]. Dry natural gas production averaged more than 103 Bcf/d over the first three quarters of 2023 and is expected to finish the year at 104 Bcf/d, an increase of approximately 5.1 Bcf/d over 2022. EIA expects natural gas production will average about 105.4 Bcf/d by the end of 2024 (See Figure 2). Forecasted working natural gas inventories to end the refill season are expected to reach approximately 3.9 trillion cubic feet (Tcf) an increase of 250 billion cubic feet/7% (Bcf) over the five-year average. Storage inventories are expected to remain above the five-year average throughout 2024 as natural gas production remains high.

[1] EIA Short Term Energy Outlook, September 2023
[2] EIA Weekly Natural Gas Storage Report, September 21, 2023

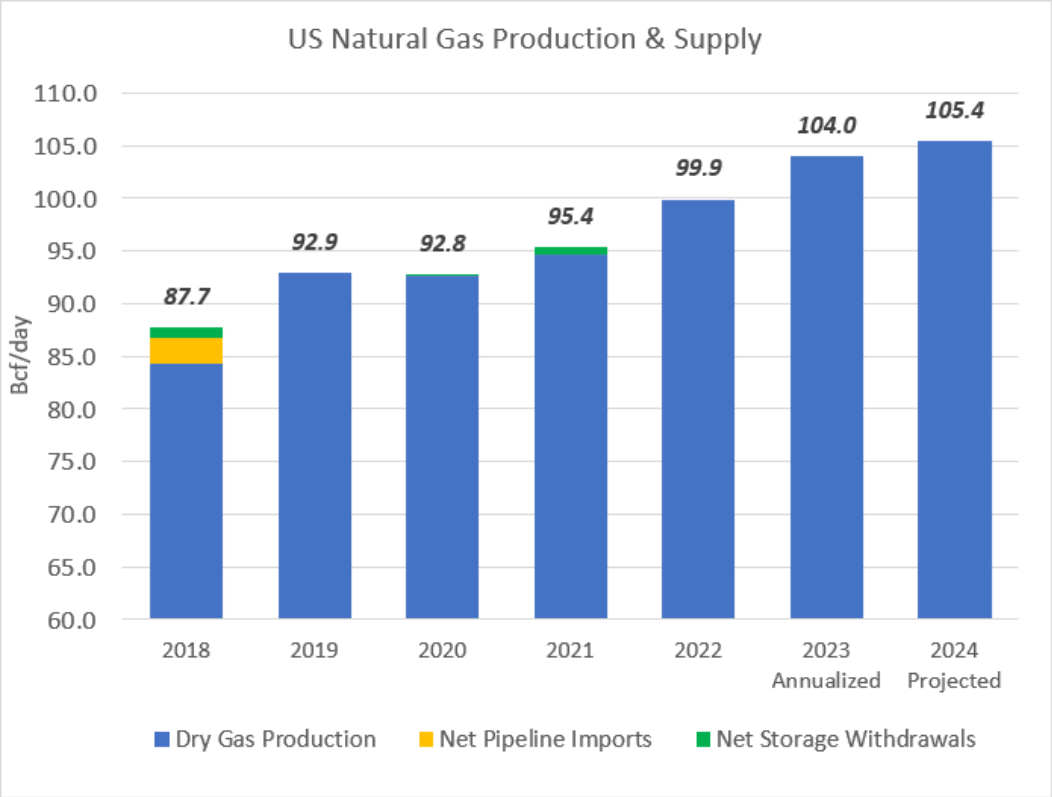


Figure 1: U.S. Natural Gas Production (EIA STEO)

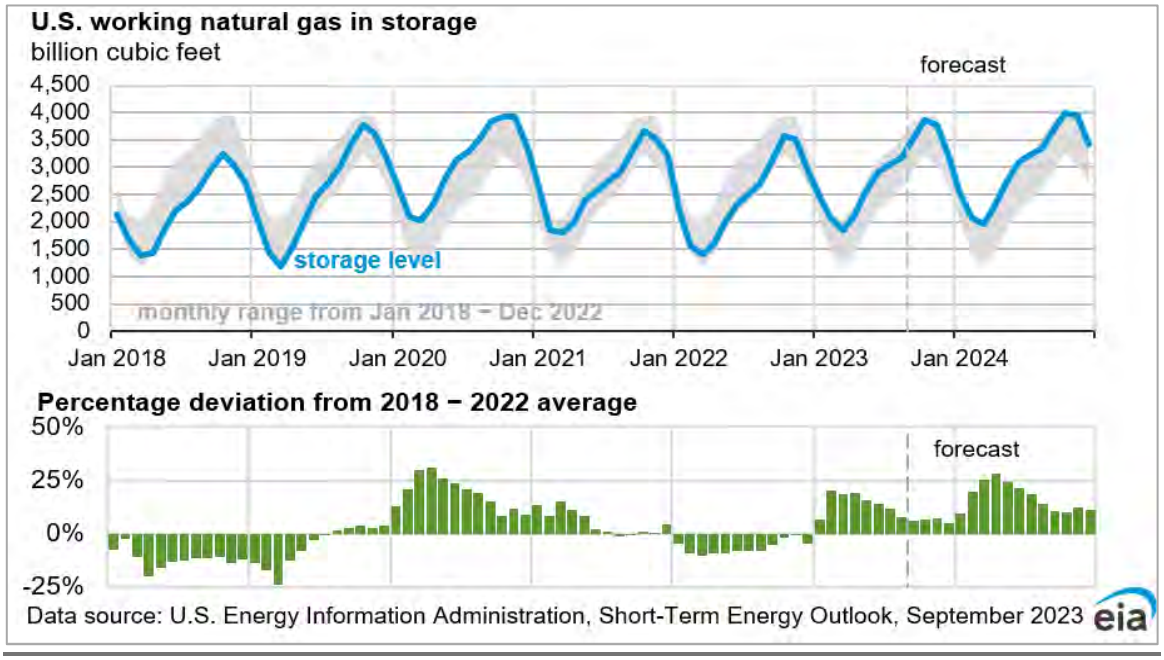


Figure 2: U.S. Natural Gas Storage Levels (EIA STEO)

Gas Consumption & Exports

U.S. natural gas consumption for 2023 is forecasted to finalize at 89.5 Bcf/d and is expected to decrease 1.6% to 88.6 Bcf/d in 2024[1]. The United States also exported more LNG than any other country in the three quarters of 2023. U.S. LNG exports averaged 11.5 Bcf/d during this period, 8% (0.9 Bcf/d) more than in the first three quarters of 2022, with LNG exports expected to end the year at 11.6 Bcf/d, increasing to 13.1 Bcf/d in 2024. Net pipeline exports in 2023 increased to 1.3 Bcf/d from 0.1 Bcf/d in 2022 and are expected to increase to 1.8 Bcf/d in 2024. See Figure 2.

September was the third straight month of record setting natural gas consumption. The increase follows a period of elevated natural gas-fired electricity generation from strong U.S. air-conditioning demand in response to summer heat as well as reduced generation from coal-fired plants. EIA forecasts U.S. natural gas consumption to average 89.5 Bcf/d for all of 2023, up 1% from 2022. Annual U.S. natural gas consumption set its previous record high in 2022, averaging 88.6 Bcf/d for the year, though natural gas consumption in 2024 is expected to decline by approximately 1.6%, primarily due to reductions in natural gas for electric generation.

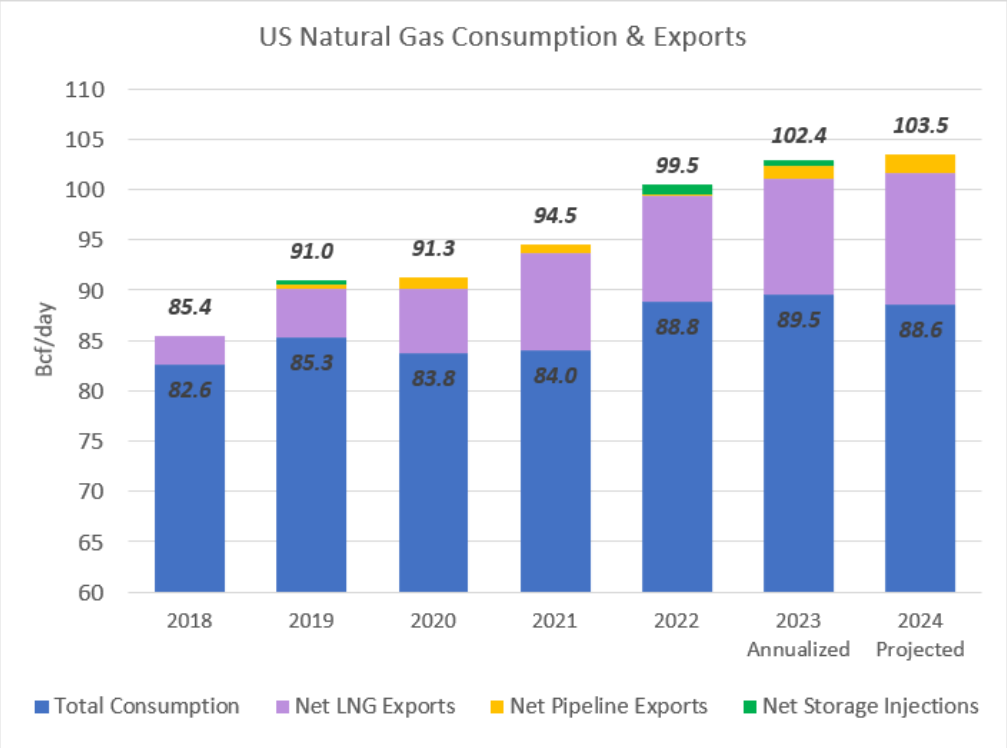


Figure 3: U.S. Natural Gas Consumption (EIA STEO)

Pricing

Natural gas prices are a function of market supply and demand. Increases in supply tend to decrease price, while increases in demand can place upward pressure on price. Even small changes in supply or demand over a short period of time can result in significant price movements, until supply and demand market fundamentals are back in balance. Under current market conditions, the two factors exerting the greatest influence on short-term natural gas prices are: 1) changes in demand due to variations in winter weather, and 2) the amount of gas in underground storage.

Between April 2023 and September 2023, the average monthly spot natural gas price at the U.S. benchmark Henry Hub averaged $2.35/MMBtu, with a peak of $2.91/MMBtu in mid-August and a minimum price of $1.72/MMBtu in early June. The average Henry Hub futures price for December, January, and February is $3.67/MMBtu[3]. Index prices for the December, January and February for the 2022-2023 Heating Season averaged $4.86/MMBtu for the monthly Henry Hub IFERC index and $3.77/MMBtu for the Henry Hub Gas Daily Index. According to the EIA's September 2023 Short Term Energy Outlook, overall prices are expected to average $2.58/MMBtu in 2023 and $3.22/MMBtu in 2024. See Figure 3.

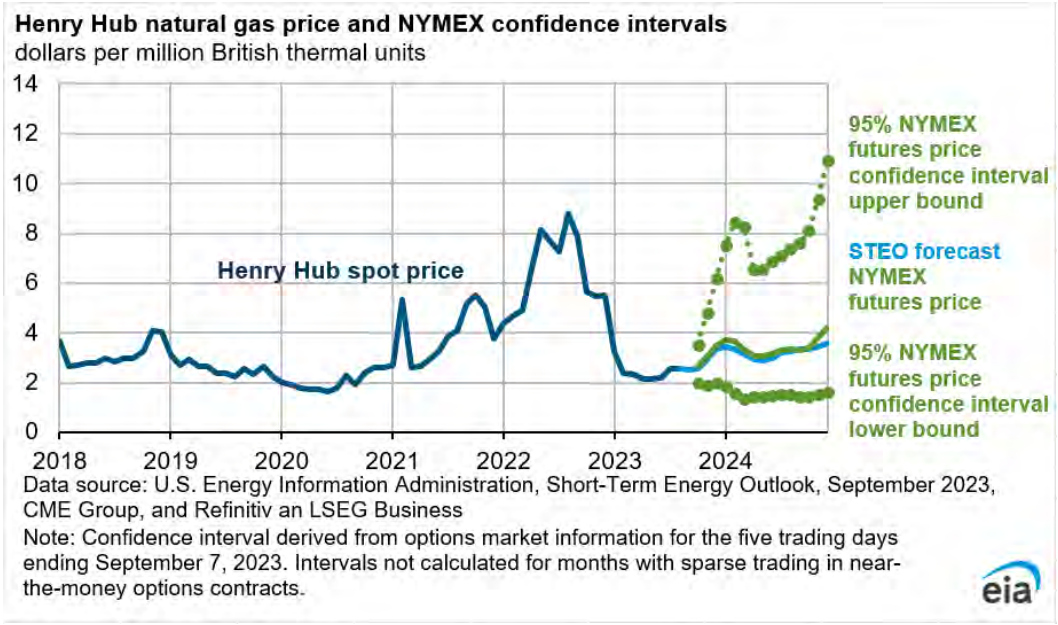


Figure 4: Projected Henry Hub Price (EIA STEO)

[3] Futures Pricing based on the average of NYMEX Henry Hub futures contract pricing for the months of July, August, and September 2023.

Winter Weather Forecast

For the overall United States, National Oceanic and Atmospheric Administration (NOAA) is predicting December, January, and February temperatures to be within normal temperature ranges for much of the southern U.S. and higher than average for the northern U.S. with a significant probability of higher-than-normal temperatures in the northwest and northeast. NOAA is predicting average temperatures will fall between 33°F and 38°F for Central New Mexico, and 38°F and 43°F for Eastern New Mexico, including areas served by NMGC's Southeast System, and between 24°F and 32° for Northeast New Mexico.

Figure 5 and Figure 6 below identify the 2023-2024 December, January, and February (DJF) seasonal temperature and precipitation outlooks for the U.S. from the NOAA Climate Prediction Center (CPC). These outlooks align with the patterns typically associated with El Niño.

El Niño typically leads to a milder winter season in northern states, marked by above-normal temperatures and below-normal precipitation. In contrast, it tends to bring a wetter winter to the southwest states and a colder winter for southern states in particular the middle of Texas to the east coast. As of September 5, 2023, El Niño is in effect. Equatorial sea surface temperatures are above average across the central and eastern Pacific Ocean. With 95% certainty El Niño is anticipated to continue through the Northern Hemisphere winter through December 2023-February 2024.[4]

[4] NOAA/National Weather Service Climate Prediction Center El Niño/Southern Oscillation (ENSO) Diagnostic Discussion, September 14, 2023.

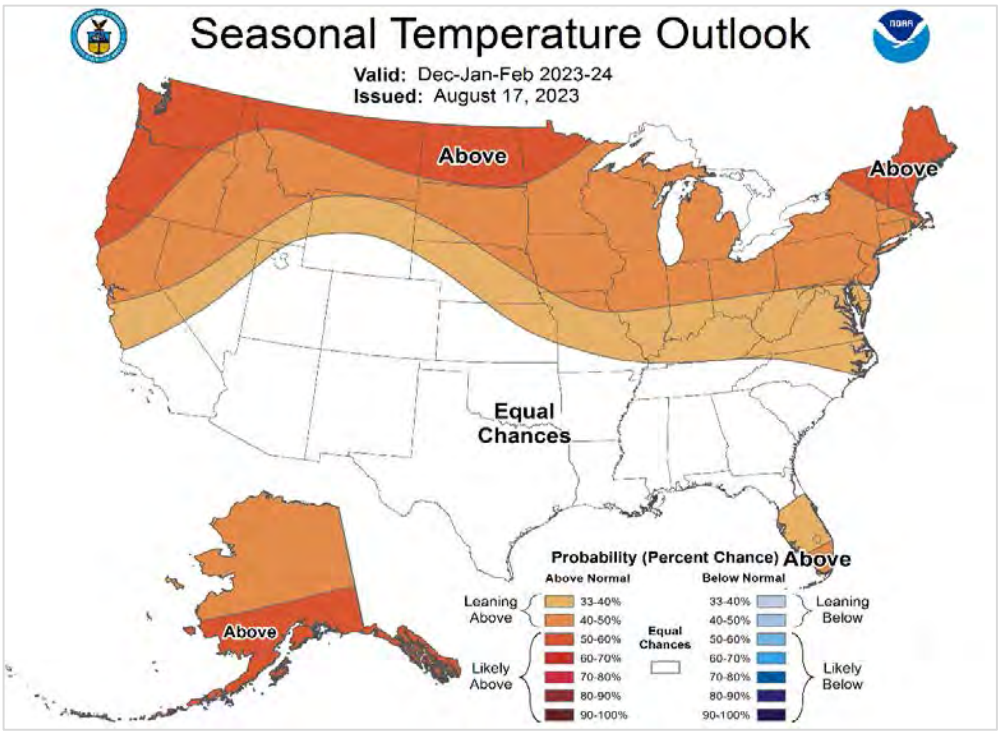


Figure 5: December, January, February Temperature Outlook (NOAA CPC)

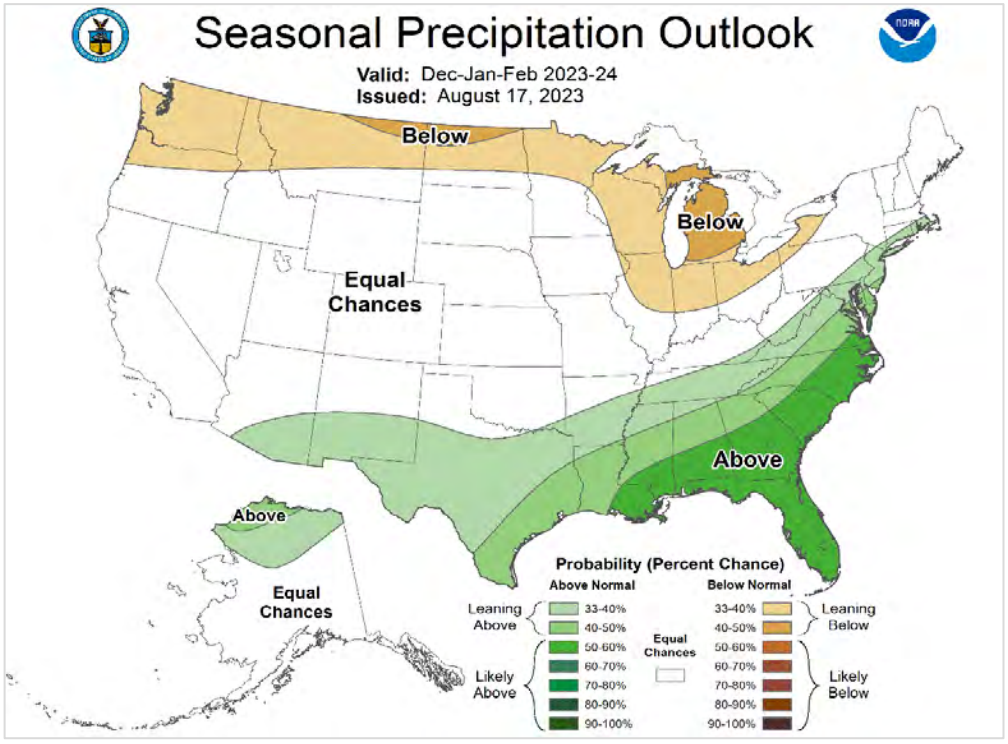


Figure 6: December, January, February Precipitation Outlook (NOAA CPC)

State of New Mexico Natural Gas Overview

New Mexico has been a major producer of oil and natural gas over the past century, with approximately 11% of U.S. proved oil reserves and 6% of proved natural gas reserves. In 2022, the state was the second largest producer of crude oil[5] and the sixth largest producer of marketed natural gas[6]. In 2022, the state produced a record high of 2.68 Tcf, an increase of approximately 20% over 2021 production. Over the first half of 2023 natural gas production is 21% higher than the first half of 2022[6].

Production

New Mexico sits between two major natural gas and oil producing areas: The Permian Basin in southeast New Mexico and West Texas and the San Juan Basin in northwest New Mexico. Current production activities in the Permian and San Juan Basins reflect shifts in U.S. natural gas production – the expansion of production in oil rich shale plays in the Permian Basin and the decrease in dry gas production from conventional supply in the San Juan Basin.

NMGC sources approximately 60% to 65% of its total supply from the San Juan Basin and about 35% to 40% from the Permian Basin.

Permian Basin Oil and Natural Gas Production

The Permian Basin has driven the growth in U.S. natural gas production in 2023. Most of the natural gas produced from the Permian Basin is classified as "associated gas" with natural gas produced from oil wells, resulting in a correlation between oil production and natural gas production from the basin. Increased oil-drilling activity to continue to drive increased natural gas production in the Permian Basin, although some increases will be offset by some small production declines in other large producing regions. Drilling activity in the Permian Basin is primarily focused on crude oil with natural gas being a by-product referred to as associated gas. For 2023, year to date production in the Permian Basin in New Mexico and Texas is 5,779 million barrels

[5] EIA New Mexico State Energy Profile, May 18, 2023
[6] EIA Natural Gas Marketed Production by State, August 31, 2023

per day (Mbbl/d), making it the number one oil production basin in the U.S. According to EIA[7]. Permian Basin crude oil production represents approximately 61% of U.S. oil production.

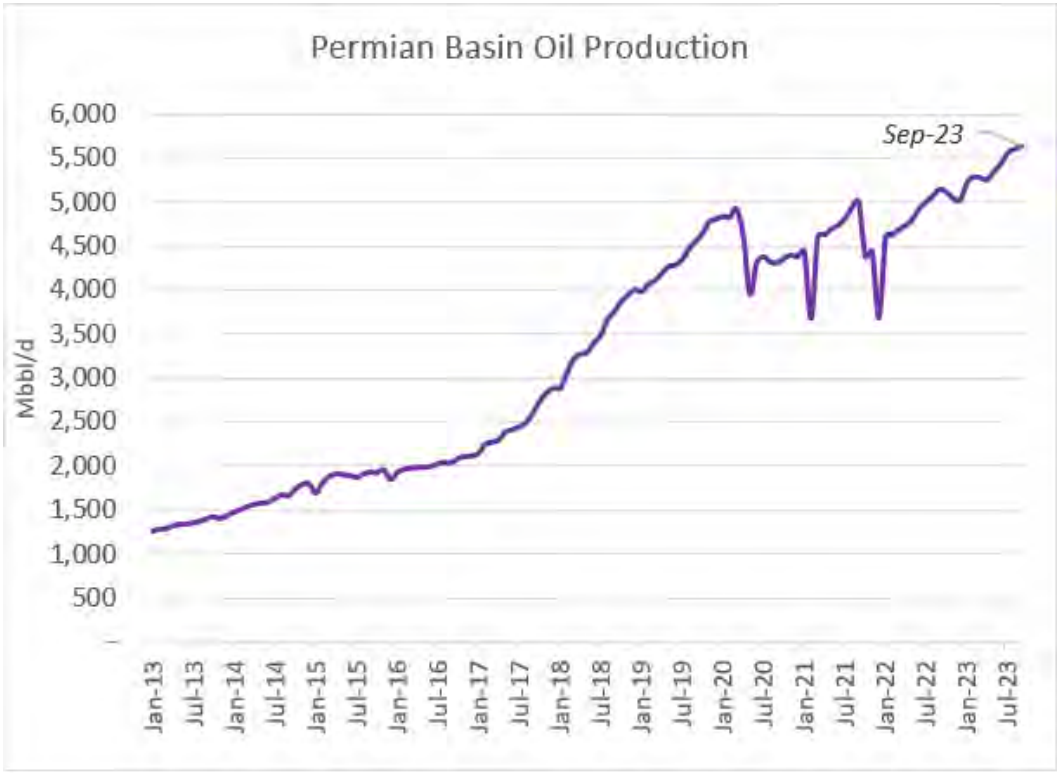


Figure 7: Permian Basin Crude Oil Production

Natural gas production in the Permian Basin is forecasted to increase annually for the foreseeable future. Currently, the Permian Basin is producing 23.7 Bcf/d of natural gas, which is up 1.5 Bcf/d year-over-year. The San Juan Basin currently produces about 1.6 Bcf/d. The San Juan Basin has seen steady declines in production and investment over the past several years; however, it still produces a significant amount of natural gas. The decline is being driven by economics which favor drilling and development of oil rich plays and lower cost natural gas production from shale and tight formations in other basins. Therefore, companies are restructuring drilling and production programs to areas with more favorable economics. In addition, several of the large producers have sold their San Juan assets, allowing them to focus on other areas. See Figure 8.

[7] EIA Drilling Productivity Report, September 2023

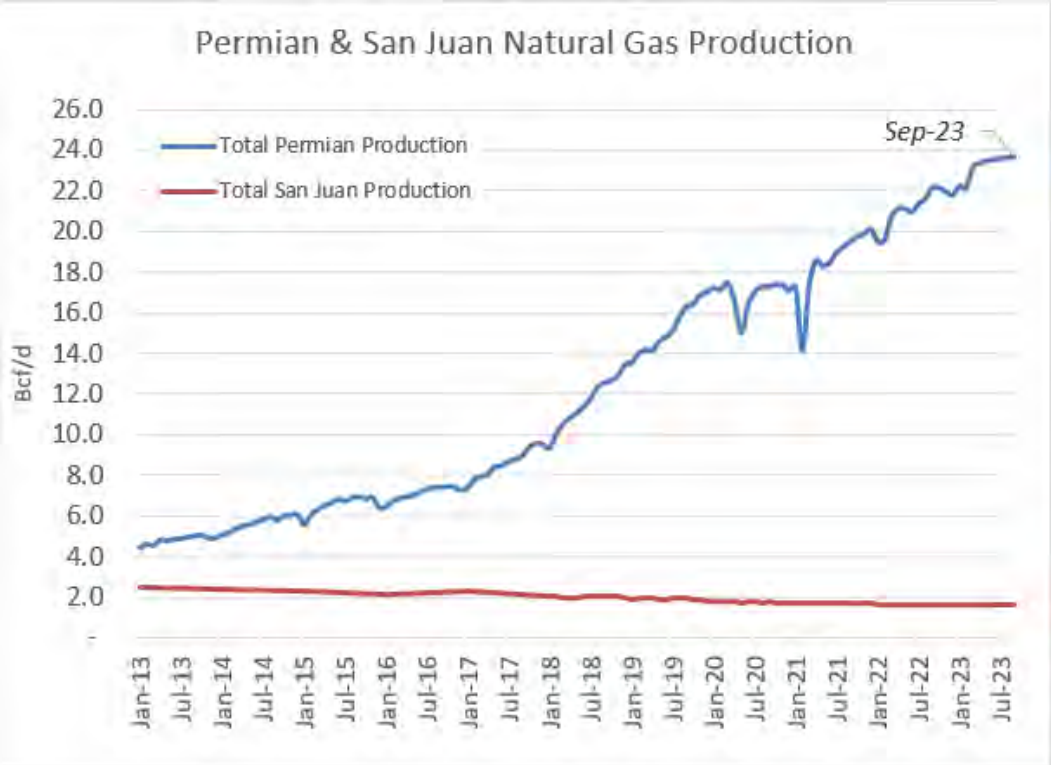


Figure 8: Permian Basin Natural Gas Production

Interstate Pipeline Environment

Several major pipeline projects completed construction between 2020 and 2021 increasing takeaway capacity from the Permian Basin[8], primarily to East Texas/Gulf Coast regions. These projects include:

- Whistler Pipeline Project (2.0 Bcf, August 2021)
- Permian Highway Project (2.1 Bcf, January 2021)
- Sendero Carlsbad Gateway Project (0.4 Bcf, May 2020)
- South Mainline Expansion Project (0.32 Bcf, July 2020)
- Carlsbad South Project (0.16 Bcf, February 2021)

With increasing Permian Basin production, additional capacity expansions and new pipelines are planned or under construction[8], including:

[8] EIA U.S. Natural Gas Pipeline Projects September 2023

- Whistler Pipeline Capacity Expansion (0.5 Bcf, 4Q-2023)
- Permian Highway Capacity Expansion (0.55 BCF, 4Q-2023)
- Gulf Coast Express Expansion (0.6 Bcf, 4Q-2023)
- Matterhorn Express Pipeline (2.5 Bcf, 4Q-2024)

Additionally, El Paso Natural Gas's Line 2000 returned to service in February 2023 after being out of service due to a rupture in August 2021, returning approximately 0.6 Bcf of capacity to service. The effect of the additional takeaway capacity out of the Permian Basin will be an increase in Permian prices - bringing them closer to San Juan and Henry Hub prices.

U.S. LNG exports are also anticipated to affect Permian Basin supplies. EIA estimates Golden Pass Trains 1 and 2 and Plaquemines Phase 1 will add a total of 2.7 Bcf/d of nominal LNG export capacity, or 3.2 Bcf/d of peak capacity. By the end of 2024, U.S. LNG nominal liquefaction capacity will increase to 14.1 Bcf/d and peak capacity to 17.0 Bcf/d across the nine U.S. LNG export facilities[9].

Pricing

The Permian Basin continues to produce large volumes of natural gas causing an impact to pricing in the state of New Mexico. Pipelines out of the Permian Basin flowing west have been running near full. East flowing pipelines, which were flowing at full capacity, have been augmented by new pipeline developments with connections in the Gulf Coast providing supply to expanding Mexican and LNG markets. Exports to Mexico have increased over this past year and this trend is expected to continue.

Basin price differentials for natural gas are shifting accordingly and have recovered in areas where increased gas production and constrained gas transportation were previously causing a depressed pricing environment.

[9] EIA STEO Between the Lines: U.S. LNG Exports will increase next year as two export terminals come online, July 11, 2023.

Prices in the Permian Basin, which previously traded at a discount to broader markets due to takeaway constraints, have been trending closer to gas prices in the San Juan Basin. During the peak heating months of December, January, and February, the San Juan Basin is expected to experience average prices around $5.70 MMBtu for this upcoming winter, while the Permian Basin will average approximately $3.50/MMBtu. Considering historical proportions of gas sourced between the two basins, the average price for gas during the peak heating season is expected to be approximately $5.00/MMBtu[10].

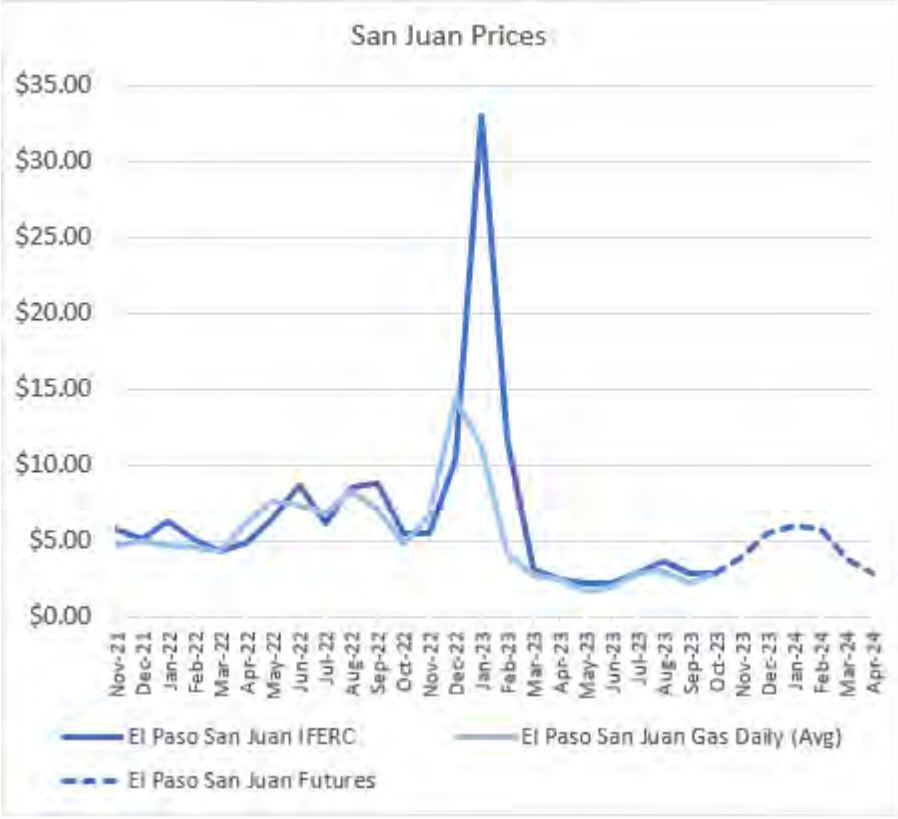


Figure 9: San Juan IFERC & Future Prices (S&P Platts)

[10] Futures Pricing based on the average of El Paso San Juan and El Paso Permian futures contract pricing for the months of July, August, and September 2023.

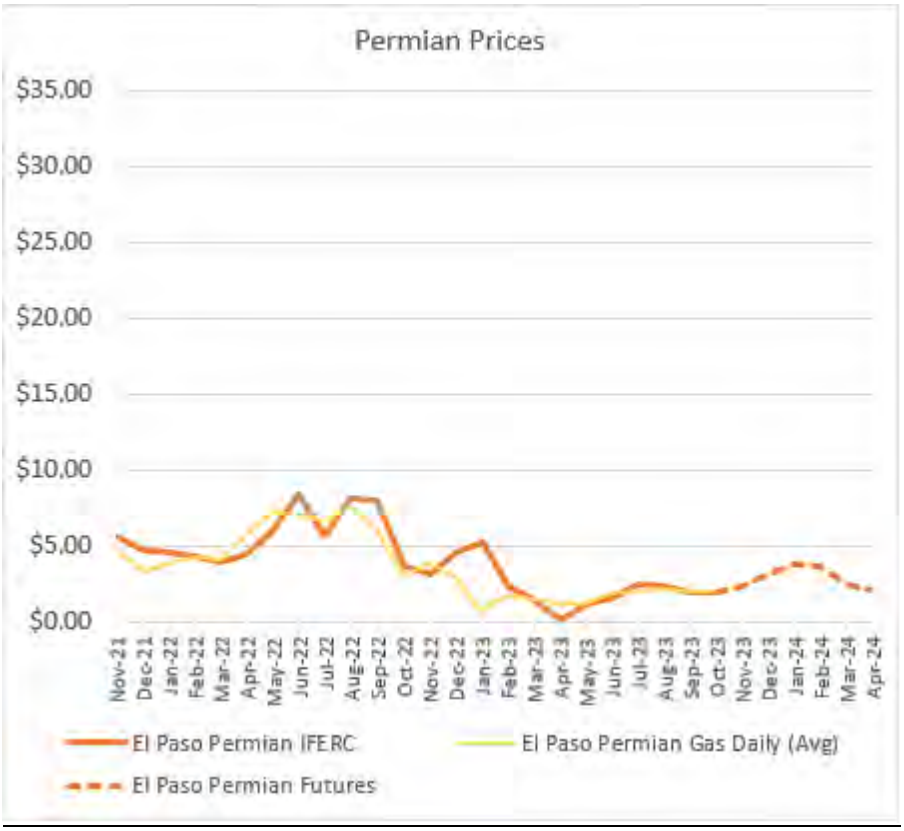


Figure 10: Permian IFERC & Future Prices (S&P Platts)

NMGC's System Demand

Customer Classes

NMGC provides natural gas service to approximately 546,000 meters with several different classes of sales customers and transportation end-users. Volumes generally split equally between sales customers who buy their gas from the Company and transportation end-users who procure their own gas supply. On-system transportation end-users are served by NMGC's system but purchase their own natural gas from third-party and rely upon NMGC for the transportation of that natural gas and as the supplier of last resort pursuant to Rate 70 – Transportation Services and Rule 28 - Balancing. Off-system transportation customers transport natural gas on NMGC's system into non-NMGC pipelines and systems. See Figure 11 for the customer class breakout by percent of total throughput.

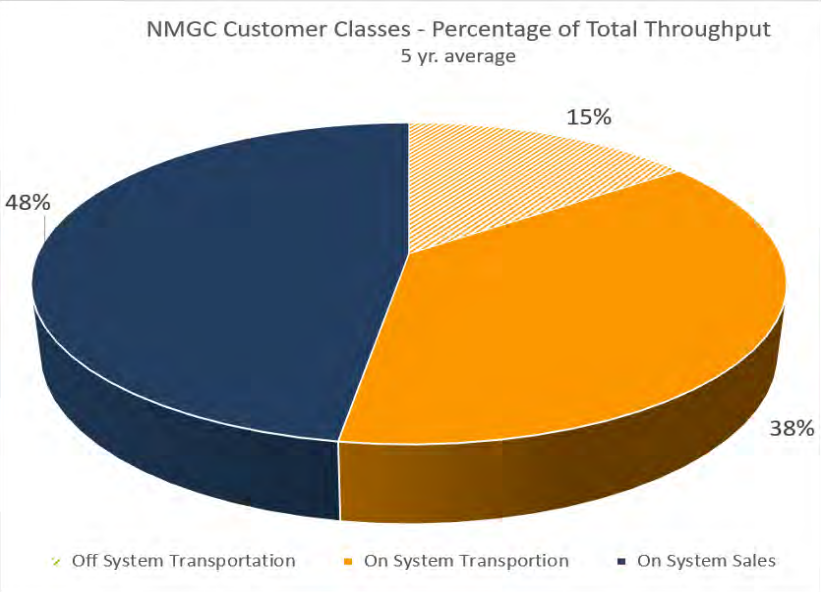


Figure 11: NMGC Customer Classes

Annual throughput across the NMGC system ranges from 71 to 91 Bcf depending on the winter season. NMGC's 5-year average is approximately 90 Bcf. Local economic conditions, natural gas prices, and heating demand due to weather are the dominant contributing factors to overall consumption. See Figure 12.

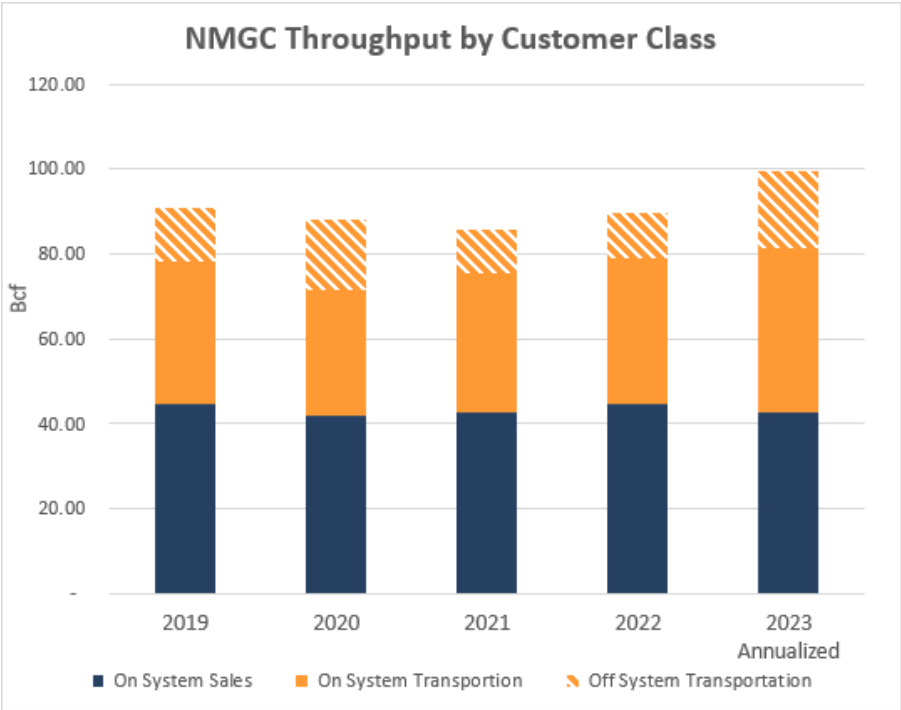


Figure 12: NMGC Throughput by Customer Class

Sales Customers

NMGC's sales customer load is almost entirely residential and small commercial customers. Metered locations that fall into the Rate 10 Residential rate class or Rate 54 Small Commercial rate class account for 99.9% of the Company's sales customers (Figure 13). For the 2022-2023 heating season, sales customers used approximately 40 million MMBtu of gas. Approximately 72% of that gas was used for residential applications, primarily home heating and hot water, with an additional 23% used by small businesses. The remaining 5% is made up of medium commercial, large commercial, irrigation, and other customer classes (Figure 14).

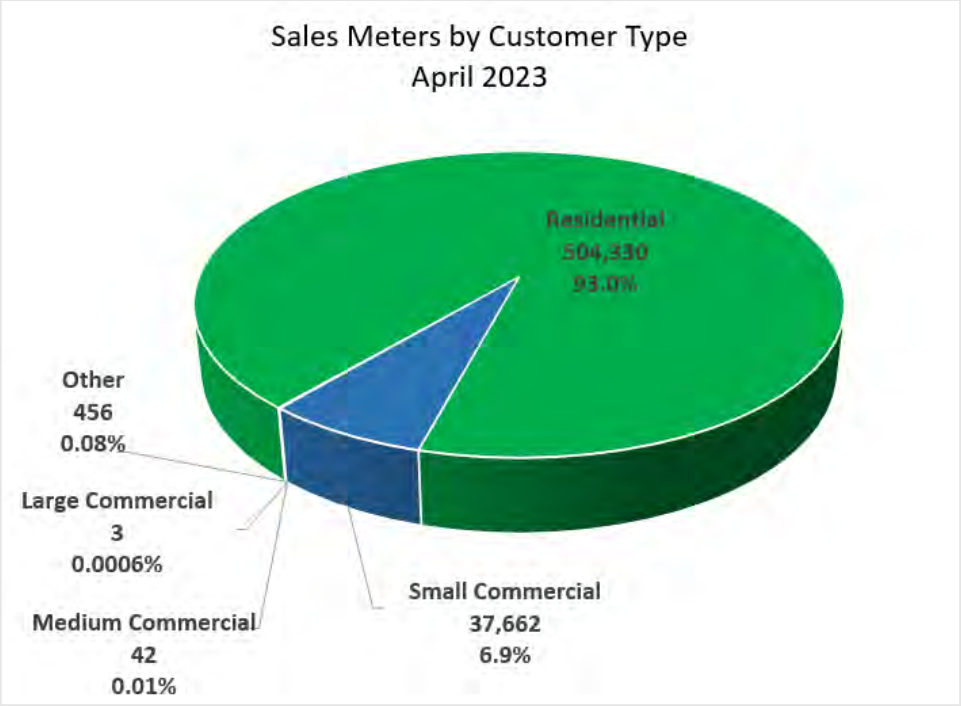


Figure 13: NMGC Sales Meters by Customer Type

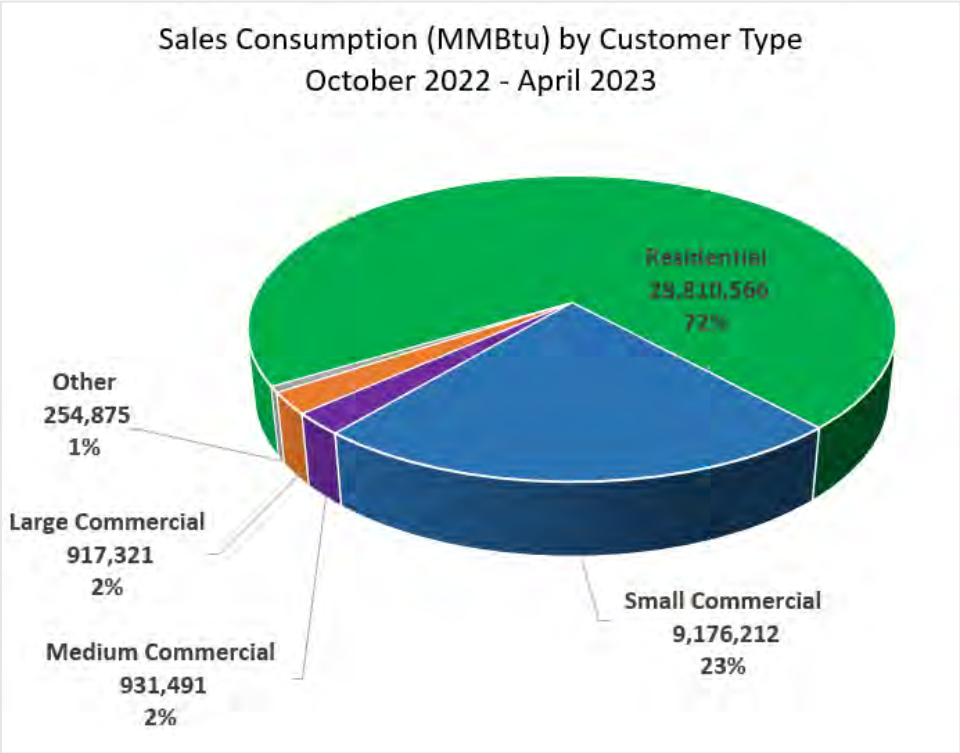


Figure 14: NMGC Sales Customer Consumption November 2022 - April 2023

NMGC's 2023-2024 Annual Supply Plan

System Overview

NMGC owns, operates, and maintains approximately 12,500 miles of transmission and distribution mainlines. NMGC does not own or control natural gas production or processing but contracts with producers and marketers for supplies from market pooling points or processing plant tailgates. NMGC also contracts for storage services within the Permian Basin in Winkler County, Texas.

NMGC's statewide service territory is geographically organized into three systems – the Northwest System, the Southeast System, and the Independent Systems. See Figure 15.

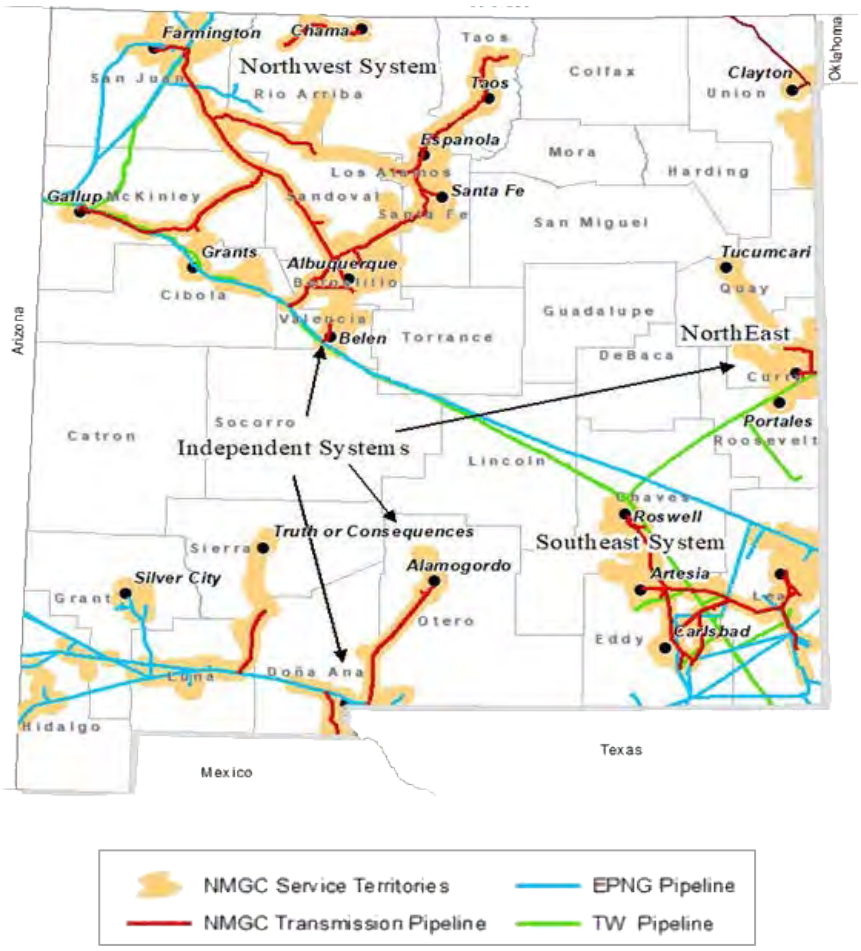


Figure 15: NMGC Transmission Systems & Service Territory

Supply Targets

Supply targets for the upcoming winter heating season are established using a combination of historical usage for the Independent Systems and a design day study for the Northwest and Southeast Systems. The design day study looks at historical weather data and the NMGC's gas flows to develop a statistical model for the highest potential load that its systems are likely to experience. See Figure 16 for the supply targets established for the 2023-2024 winter.

NMGC System	October	November	December	January	February	March	April
Northwest Target	369,000	479,000	680,000	680,000	680,000	467,000	384,000
Southeast Target	88,000	97,000	107,000	107,000	107,000	95,000	86,000
Independent Target	28,000	50,000	100,000	100,000	100,000	40,000	29,000
Statewide Total	**485,000**	**626,000**	**887,000**	**887,000**	**887,000**	**602,000**	**499,000**

Figure 16: Supply Targets (MMBtu/day)

The design day study is utilized for the Northwest and Southeast Systems due their respective sizes and complexity. The Northwest System, which includes the Albuquerque and Santa Fe population centers, represents majority of NMGC's statewide load and has the highest potential for extreme winter weather serving largest populated areas. The Southeast System is the Company's second largest system and features significant amount of non-heat sensitive loads and has much smaller pipeline sizes, which equates to less usable linepack to act as a buffer if forecasts are inaccurate during extreme weather events.

The Independent System targets were established using historical usage. For the peak winter months of December, January, and February, targets are established by using the highest-ever load, which occurred on February 2, 2011. For the shoulder months of October, November, March, and April, peak days over a 10-year period are used to establish maximum demand. These systems were excluded from the design day study due to their overall size and load profiles. The Independent Systems consist of 21 geographically separate and remote areas that are generally characterized as small communities with little expected annual growth. The customer bases are small volume customers that are not anticipated to experience large, simultaneous swings in demand due to weather. The amount of detailed daily measurement data representing system load is also limited, which limits the accuracy of a statistical model for predicting peak demand.

Supply Strategies

NMGC's gas supply strategy consists of diversifying supplies between supply basins, among multiple suppliers, differing contract types, and contracting for gas storage. Sourcing supplies from multiple supply basins provides alternatives in the event a supply basin underperforms due to production or processing reductions. By having multiple sources and supply contract options, NMGC increases its flexibility in the way it sources gas and supplies its systems. Gas purchased in advance of need and placed in storage provides a source of firm gas that can be used for short-term peak demand needs.

Gas Basin Diversity

NMGC contracts for supplies from the San Juan, Permian, Piceance, and Green River Basins to allow for supply diversity and flexibility in sourcing. Should one supply basin become constrained due to regional weather conditions or other production issues, supplies may be increased from other basins. NMGC has continued to diversify its gas supply by seeking supply sources that can deliver gas that is produced in the Piceance Basin in northwestern Colorado and the Green River Basin in southwest Wyoming.

Contract, Supplier, and Transportation Diversification

To provide a reliable gas supply, NMGC enters into several types of contracts with multiple suppliers. By having multiple supply sources and contract options, NMGC has greater flexibility in the event supply from a geographical area is disrupted or a specific supplier fails to perform.

NMGC diversifies its supply portfolio to guard against the effects of supplier default. NMGC has contracted with 17 suppliers for the upcoming winter season. These contracts are spread between the supply basins and receipt points on NMGC's delivery systems. Over the past few seasons, NMGC has entered into several contracts which specify supply exclusivity and replacement provisions, higher degrees of supply reliability, greater nomination options, and/or delivery point flexibility.

All the natural gas consumed by NMGC customers must be transported from its source to its point of use. NMGC owns and operates approximately 1,500 miles of transmission pipeline, which serves a significant portion of its transportation needs. For the remainder, NMGC relies on contractual relationships with third-party pipelines. The main pipelines that deliver gas to New Mexico are Transwestern (TW) and El Paso Natural Gas (EPNG). NMGC holds firm rights for adequate capacity to serve its customers but is mindful that future growth in customer demand may require additional capacity. NMGC is working closely with the interstate pipelines to maximize the flexibility of the capacity it currently holds and to strategically add to its interstate transportation portfolio as opportunities arise. Appendix A details NMGC's current transportation rights with TW, EPNG, and TransColorado.

Storage

NMGC currently contracts for storage services in a facility located in Winkler County, Texas that is connected to and delivered by both TW and EPNG pipelines. Storage is used within the supply portfolio as a swing supply source during higher demand periods, a replacement supply during times of supply disruption, and to provide daily operational balancing. It is important to note that the storage target is dependent on weather conditions. During the peak winter months, NMGC has rights to withdraw up to 190,000 MMBtu/d during winter months. See NMGC's Storage Targets outlined in Appendix B.

Between February 13, 2021, and February 18, 2021, the southwest U.S. experienced a significant weather event referred to as Winter Storm Uri, which resulted in historically high gas prices affecting NMGC's customers. Pursuant to the New Mexico Public Regulation Commission's (NMPRC) June 2021 Final Order in Case No. 21-00095-UT regarding the extraordinary cost of gas, NMGC performed an evaluation and assessment of potential measures, and specifically increased access to stored gas including possible NMGC owned or controlled storage facilities that may be adopted to mitigate the effects of future extreme weather and pricing events and the potential for extraordinary gas expenses and curtailments to customers. On March 31, 2022, NMGC submitted its evaluation and assessment to the NMPRC and on December 2, 2022, filed its application for a Certificate of Convenience and Necessity to construct a 1.0 Bcf LNG facility connected to its Northwest System. NMPRC Case No. 22-00309 is current pending.

LNG and Compressed Natural Gas (CNG) Trailers

NMGC contracts for LNG and CNG in trailers delivered to its facilities by third-party is to provide backup supply. For the winter of 2023-2024, NMGC has contracted for a CNG trailer located at the Chama Border Station to provide backup for the Brazos pipeline that serves Chama, Dulce, and Lumberton New Mexico. This system is captive to a single supply source. On-site LNG and/or CNG is used as a dispatchable back-up supply source during peak demand periods and as a replacement supply during times of supply disruption during the peak winter months.

Providing Cost Competitive Supply

NMGC ensures contracts for the upcoming winter heating season are competitively priced. NMGC develops and issues a request for proposal (RFP) to solicit bids from potential suppliers specifying volumes and contract types needed at specific receipt points or supply pools. NMGC's swing gas supply targets are anticipated to provide firm capacity that can accommodate design day demands with a failure of up to 20% of supplies necessary to serve total system demand as contingency for supply disruptions. NMGC was able to average a 20% overbuy for December, January, and February. Additional peaking contracts were offered to reach the 25% target, but these contracts were considered too costly. All supply contracts executed for the 2023-2024 winter heating season are detailed in Appendix C.

Hedging Plan

NMGC utilizes a hedging strategy that is designed to provide customers with a significant degree of price stability and reduce the impacts of price spikes during high usage winter months. For the 2023-2024 winter season, the baseload portion of the gas portfolio – approximately 15 Bcf – is hedged with financial call options, fixed price physical gas contracts, and financial swaps for the high usage months of December, January, and February. Swing volumes are not hedged due to excessive costs that would be required to execute these types of hedges and uncertainty in daily swing volumes that will need to be purchased.

Approximately 69% of the 2023-2024 baseload volumes are hedged with El Paso San Juan IFERC financial call options that set a cap on the price of baseload gas tied to the monthly pricing index for the gas. A premium is paid at the time of the option purchase to establish the cap or "strike price". If the settled index price exceeds the strike price, NMGC is paid the difference between the index price and the strike price. Strike prices for baseload hedges have been set at approximately 150% of the underlying market price for each transaction. The use of call options provides price protection to customers on the baseload portion of the supply portfolio in the event of a price spike while allowing customers to benefit if prices decline.

Approximately 14% of the 2023-2024 baseload volumes are hedged with fixed price physical gas contracts. Gas suppliers agree to deliver a specified quantity of gas at a fixed price for specific volumes to delivery points over the term of the contract.

Approximately 9% of the 2023-2024 baseload gas volumes are hedged with El Paso San Juan IFERC index swaps which establish a fixed price for gas using financially settled hedging contracts. Index swaps fix the price of gas at an agreed upon price relative to a monthly pricing index at the time they are purchased. If the index settles higher than the agreed upon price, NMGC is paid the difference between the index and the fixed price. If the index settles lower than the agreed upon price, NMGC pays the difference between the index and the fixed price.

Approximately 8% of the 2023-2024 baseload gas volumes are hedged with a combination of call options and basis swaps. These hedges use NYMEX Henry Hub Call Options to provide protection against overall increases in the price of natural gas within the US and are structured similarly to the El Paso San Juan Call options. The basis swaps set a fixed price for the difference between NYMEX Henry Hub and the El Paso San Juan IFERC index.

NMGC presents its hedging program performance and plans with the NMPRC's Utility Staff and the Office of the Attorney General on an annual basis.

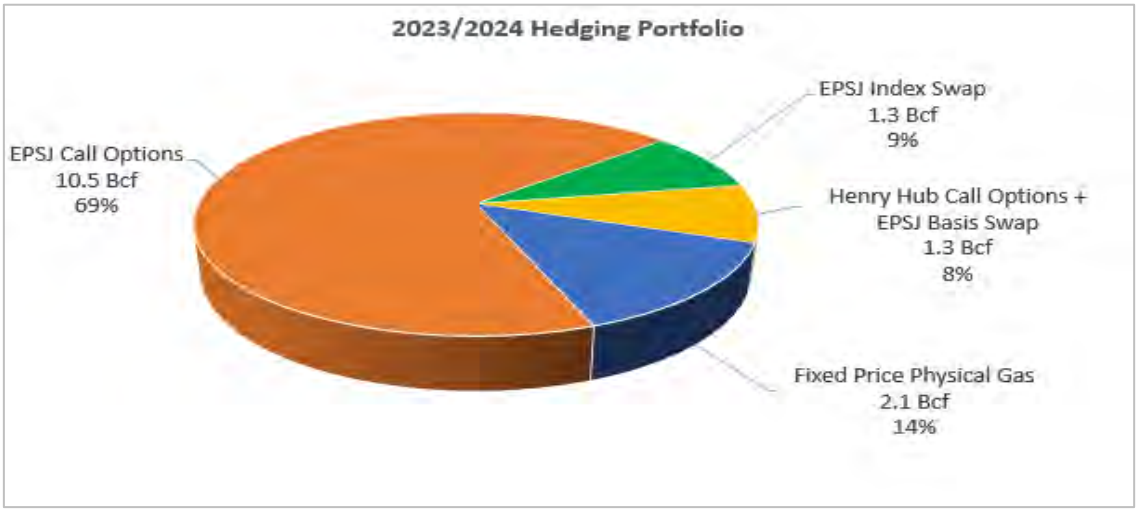


Figure 17: Hedging Plan Breakdown

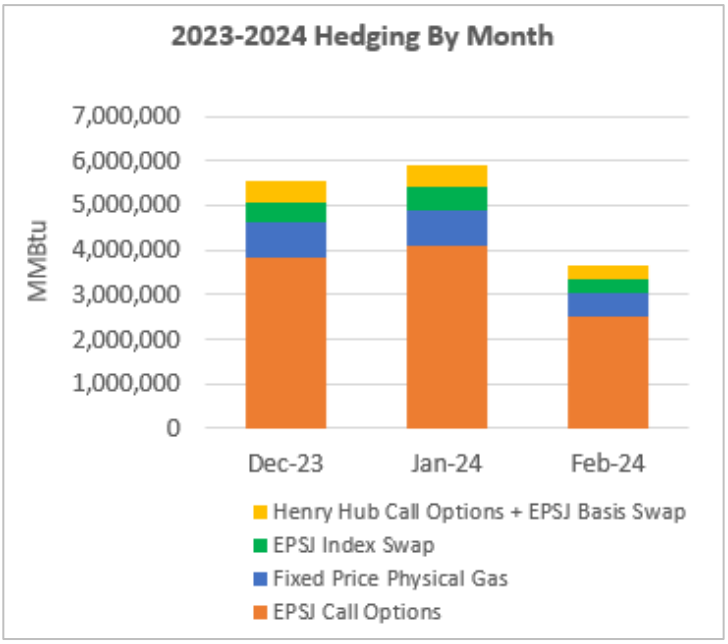
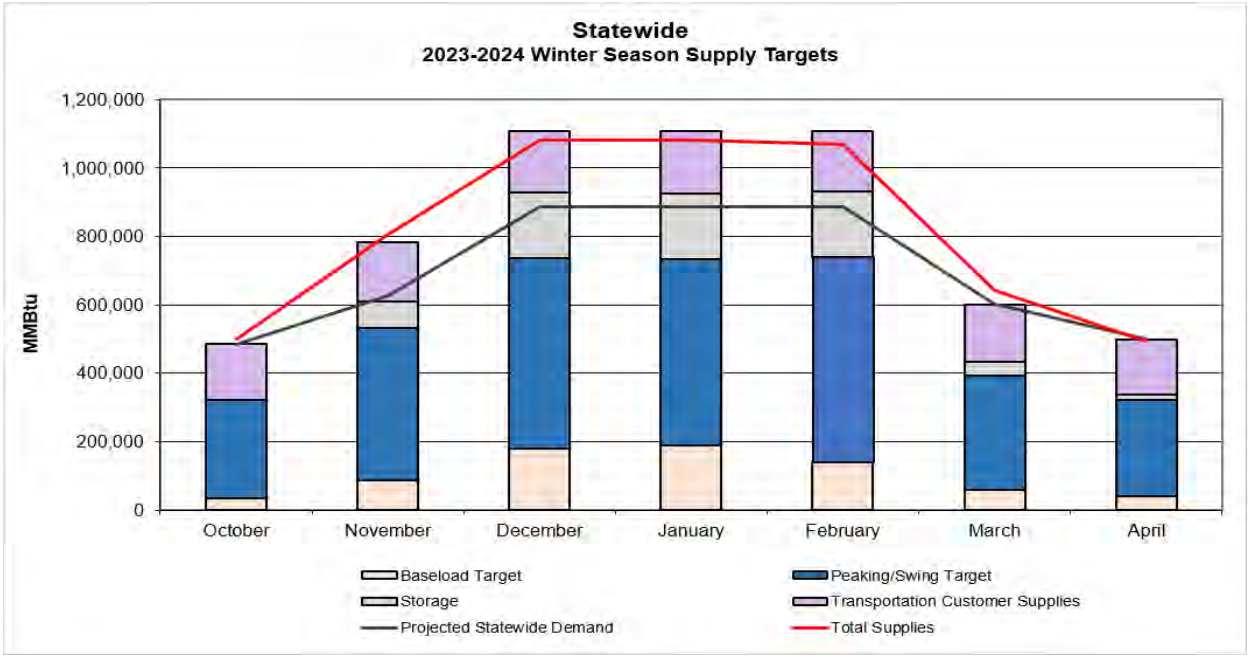


Figure 18: Hedging by Month

Contract Portfolio

Based on these supply targets and contingency for supply disruptions, NMGC has developed a winter supply portfolio for the 2023-2024 winter season. See Figure 19.



Statewide Supply Targets	October	November	December	January	February	March	April
Baseload Target	35,000	88,000	179,000	190,000	140,000	58,000	41,000
Peaking/Swing Target	288,000	446,000	559,000	545,000	601,000	336,000	281,000
Storage	-	75,000	190,000	190,000	190,000	40,000	15,000
Transportation Customer Supplies	162,000	174,000	181,000	184,000	178,000	168,000	162,000
Total Supply Targets	**485,000**	**783,000**	**1,109,000**	**1,109,000**	**1,109,000**	**602,000**	**499,000**
Projected Statewide Demand	**485,000**	**626,000**	**887,000**	**887,000**	**887,000**	**602,000**	**499,000**
Projected Statewide Supply							
NMGC Supply Contract Targets	303,333	534,000	738,000	735,000	741,000	394,000	322,000
Primary Contracted Supply	338,333	558,081	710,856	707,597	702,813	435,035	318,333
Storage	-	75,000	190,000	190,000	190,000	40,000	15,000
Transportation Customer Supplies	162,000	174,000	181,000	184,000	178,000	168,000	162,000
Total Supplies	**500,333**	**807,081**	**1,081,856**	**1,081,597**	**1,070,813**	**643,035**	**495,333**

Figure 19: Supply Targets and Projected Supply (MMBtu/day)

Appendices

See next pages for Appendices A – C.

Appendix A: Interstate Transportation Summary

Transportation Contract Summary

Transwestern Pipeline Company

Contract #	Receipt/Delivery	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24
	San Juan Basin							
105686	TC/TW Blanco to NMG Bloomfield	-	20,000	40,000	40,000	40,000	20,000	-
105687	La Plata to IB Link	-	-	40,000	40,000	40,000	-	-
105427	TW SJ to TW Corto	-	40,000	5,000	5,000	5,000	40,000	-
105428	TW SJ to TW Rio Puerco	-	-	80,000	80,000	80,000	-	-
105304	TW SJ to TW Rio Puerco	-	10,000	10,000	10,000	10,000	10,000	-
105304	TW SJ to KM Storage	-	7,000	7,000	7,000	7,000	7,000	-
105304	TW SJ to TW Farwell	-	5,000	5,000	5,000	5,000	5,000	-
105304	TW SJ to TW Monument	-	15,000	15,000	15,000	15,000	15,000	-
105304	TW SJ to TW Chaves	-	2,000	2,000	2,000	2,000	2,000	-
105304	TW SJ to TW Clovis	-	11,000	11,000	11,000	11,000	11,000	-
105304	TW SJ to TW Dexter	-	5,000	5,000	5,000	5,000	5,000	-
105304	TW SJ to TW Belen	-	10,000	10,000	10,000	10,000	10,000	-
105304	TW SJ to TW Thompson	-	25,000	25,000	25,000	25,000	25,000	-
	San Juan Subtotal	-	150,000	255,000	255,000	255,000	150,000	-
	Permian Basin Area							
105419	WTX Pool to Various Points	15,000	45,000	15,000	15,000	15,000	45,000	25,000
105419	Storage to Various Points	30,000	75,000	180,000	180,000	180,000	40,000	15,000
	Permian Subtotal	45,000	120,000	195,000	195,000	195,000	85,000	40,000
	To Storage							
105416	TW Rio Puerco to Storage	15,000	-	-	-	-	10,000	10,000
	Permian Subtotal	15,000	-	-	-	-	10,000	10,000

Transcolorado Pipeline Company

Contract #	Receipt/Delivery	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24
	Piceance Basin							
220356	White River to TW Blanco	-	40,000	40,000	40,000	40,000	40,000	-
	Piceance Subtotal	-	40,000	40,000	40,000	40,000	40,000	-

El Paso Natural Gas Company

Contract #	Receipt/Delivery	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24
	Bondad Station							
FT3FV000	Bondad Station to Lusk	23,000	40,200	40,200	40,200	40,200	40,200	23,000
	Bondad Station Subtotal	23,000	40,200	40,200	40,200	40,200	40,200	23,000
	Blanco Pool							
FT3FV000	DGCNMFAR - Farwell	12,800	15,000	15,000	15,000	15,000	15,000	12,800
FT3FV000	DGCNMSJX - Belen	8,905	12,966	12,966	12,966	12,966	12,966	8,905
FT3FW000	IGCNMKTZ	-	35,000	35,000	35,000	35,000	35,000	-
FT3FW000	IGLPGCNM	-	15,000	15,000	15,000	15,000	15,000	-
FT3FW000	DGCNMGAL - Gallup	8,482	12,758	12,758	12,758	12,758	12,758	8,482
FT3FW000	DGCNMSJT - 30th Street	7,000	7,000	7,000	7,000	7,000	7,000	7,000
FT3FW000	Odoe	-	20,000	20,000	20,000	20,000	20,000	-
FT3FX000	DPNMTATU - Tatum	130	130	130	130	130	130	130
	Blanco Pool Subtotal	37,317	117,854	117,854	117,854	117,854	117,854	37,317
	Keystone Pool							
FT3FV000	Keystone to EPNG Rio	10,000	31,817	31,592	32,333	31,549	31,771	10,000
FT3FX000	DGCNMALA - Alamogordo	7,700	15,392	15,392	15,392	15,392	15,392	7,700
FT3FX000	DGCNMAT1 - Anthony	609	992	992	992	992	992	609
FT3FX000	DGCNMTOC - T or C	4,141	5,226	5,226	5,226	5,226	5,226	4,141
FT3FX000	DPNM HRE - Bayard	1,554	2,617	2,617	2,617	2,617	2,617	1,554
FT3FX000	DGCNMEP1 - Sunland Park	1,513	4,856	4,856	4,856	4,856	4,856	1,513
FT3FX000	DPNM HUR - Hurley	3,312	7,101	7,101	7,101	7,101	7,101	3,312
FT3FX000	DPNM TYR - Tyrone	136	239	239	239	239	239	136
FT3FX000	DGCNMAFT - Afton	1,473	1,700	1,700	1,700	1,700	1,700	1,473
FT3FX000	DGCNMDUG - Deming	1,803	3,125	3,125	3,125	3,125	3,125	1,803
FT3FX000	DGCNMELP - Bejarano	802	1,374	1,268	1,055	1,098	1,278	705
FT3FX000	DSTERESA - Santa Teresa	1,445	2,925	3,031	3,244	3,201	3,021	1,542
FT3FY000	DWGI AT2 - Anthony	40	151	151	151	151	151	40
FT3FY000	DWGI EP1 - Nortuno	100	400	400	400	400	400	100
	Keystone Pool Subtotal	34,628	77,915	77,690	78,431	77,647	77,869	34,628

OkTex

Contract #	Receipt/Delivery	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24
FTA044/FTC044	Anthony - Canutillo	552	552	-	-	-	-	-
		552	552	0	0	0	0	-

Appendix B: Storage Targets

Supply Storage Plan Summary - GUIDELINES													
		Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
	Total Storage Capacity	2,700,000	2,700,000	2,700,000	2,700,000	2,700,000	2,700,000	2,700,000	2,700,000	2,700,000	2,700,000	2,700,000	2,700,000
[redacted]													
Injection Rights													
	0 < 1,525,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000
	1,525,001 < 2,000,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000
	2,000,001 < 2,700,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000
Withdrawal Rights													
	0 < 1,525,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000
	1,525,001 < 2,000,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000
	2,000,001 < 2,700,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000
		Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
[redacted]													
[redacted]													
System Supply Inventory													
	Beginning	1,400,000	1,550,000	1,550,000	1,550,000	1,550,000	1,250,000	600,000	1,050,000	1,400,000	1,400,000	1,400,000	1,400,000
	Injection	150,000	-	Weather Dependent			-	450,000	350,000	-	-	-	-
	Withdrawal	-	-	Weather Dependent			650,000	-	-	-	-	-	-
	Mid Month	-	-	-	-	-	-	-	-	-	-	-	-
	End	1,550,000	1,550,000	1,550,000	1,550,000	1,250,000	600,000	1,050,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000
[redacted]													
	Beginning	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	-	-
	End	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	-	-	-
TOTAL INVENTORY [redacted]													
	Beginning	2,400,000	2,550,000	2,550,000	2,550,000	2,550,000	2,250,000	1,600,000	2,050,000	2,400,000	2,400,000	1,400,000	1,400,000
	End	2,550,000	2,550,000	2,550,000	2,550,000	2,250,000	1,600,000	2,050,000	2,400,000	2,400,000	1,400,000	1,400,000	1,400,000
[redacted]													
Total Inventory for System Supply	Beginning	1,400,000	1,550,000	1,550,000	1,550,000	1,550,000	1,250,000	600,000	1,050,000	1,400,000	1,400,000	1,400,000	1,400,000
	End	1,550,000	1,550,000	1,550,000	1,550,000	1,250,000	600,000	1,050,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000
	Difference (w/d = - & inj = +)	150,000	-	-	-	(300,000)	(650,000)	450,000	350,000	-	-	-	-
Total Sub-Lease Inventory	Beginning	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	-	-
	End	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	-	-	-
TOTAL INVENTORY	Beginning	2,400,000	2,550,000	2,550,000	2,550,000	2,550,000	2,250,000	1,600,000	2,050,000	2,400,000	2,400,000	1,400,000	1,400,000
	Ending	2,550,000	2,550,000	2,550,000	2,550,000	2,250,000	1,600,000	2,050,000	2,400,000	2,400,000	1,400,000	1,400,000	1,400,000
Headroom (Unused Capacity)	Beginning	300,000	150,000	150,000	150,000	150,000	450,000	1,100,000	650,000	300,000	300,000	1,300,000	1,300,000
	End	150,000	150,000	150,000	150,000	450,000	1,100,000	650,000	300,000	300,000	1,300,000	1,300,000	1,300,000
		Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24

Appendix C: Winter Contract Summary

Baseload Contracts	Contract #	Price	Location	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24
[redacted]	25337	[redacted]	Milagro/IB Link	5,000	5,000	5,000	5,000	5,000	5,000	5,000
	25337		Milagro	5,000	15,000	20,000	20,000	20,000	15,000	10,000
	25337		Florida Plant	5,000	5,000	15,000	15,000	15,000	5,000	5,000
	25421		TW WTX Pool	-	-	-	-	-	-	-
	25421		EP Keystone Pool	4,000	-	-	-	-	-	4,000
	25443		Milagro/IB Link	-	-	15,000	15,000	-	-	-
	25444		EP Blanco Pool	-	8,000	9,000	9,000	8,000	-	-
	25445		EP Bondad St	-	5,000	10,000	10,000	5,000	-	-
	25430		Malaga	5,000	7,000	11,000	12,000	9,000	5,000	5,000
	25450		Milagro	10,000	5,000	40,000	40,000	40,000	-	10,000
	25459		Milagro	-	20,000	20,000	20,000	20,000	20,000	-
	25451		TW Blanco Pool	-	-	9,000	19,000	-	-	-
	25425		TW Blanco Pool	-	2,000	5,000	5,000	2,000	2,000	-
	25424		EP Bondad St	-	5,000	5,000	5,000	5,000	-	-
	25423		EP Blanco Pool	-	-	-	-	-	-	-
	25427		EP Blanco Pool	1,000	5,000	5,000	5,000	5,000	2,000	1,000
	25426		EP Keystone Pool	-	6,000	10,000	10,000	6,000	4,000	-
Total Baseload Contracted Volumes				35,000	88,000	179,000	190,000	140,000	58,000	40,000
Baseload Recommendations			*Northwest*	25,000	65,000	150,000	155,000	105,000	40,000	25,000
			Southeast	4,000	7,000	11,000	12,000	9,000	5,000	4,000
			El Paso Blanco Independent Systems	1,000	3,000	4,000	4,000	3,000	2,000	1,000
			El Paso Keystone Independent Systems	4,000	6,000	10,000	10,000	6,000	4,000	4,000
			Transwestern Independent Systems	1,000	2,000	4,000	4,000	2,000	2,000	2,000
Total Baseload Recommendation				35,000	88,000	179,000	190,000	140,000	58,000	41,000
Overall Overage/(Deficit)				-	-	-	-	-	-	(1,000)

Peaking Contracts	Contract #	Price	Location	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24
[redacted]	25338	[redacted]	TW/EPSJ	20,000	20,000	20,000	20,000	20,000	20,000	20,000
	25433		IB Link/Milagro	40,000	40,000	40,000	35,000	40,000	40,000	40,000
	25434		TWSJ	-	10,000	20,000	20,000	20,000	-	-
	25435		EPSJ Pool	-	20,000	20,000	20,000	20,000	-	-
	25421		EP Keystone	34,628	77,915	77,690	78,431	77,647	77,869	34,628
	25421		TW WTX	60,000	120,000	195,000	195,000	195,000	95,000	50,000
	25422		TW/EPSJ	25,000	25,000	25,000	25,000	25,000	25,000	25,000
	25454		TWSJ Pool	-	30,000	30,000	30,000	30,000	30,000	-
	25458		EPSJ Pool	10,000	10,000	10,000	10,000	10,000	10,000	10,000
	25429		EPSJ Pool	-	5,000	5,000	5,000	5,000	-	-
	25428		Bondad St	5,000	5,000	5,000	5,000	5,000	5,000	5,000
	25439		Bondad St	5,000	5,000	5,000	5,000	5,000	5,000	5,000
	25431		La Plata	-	-	30,000	30,000	40,000	-	-
	25436		Bondad	8,000	15,000	-	-	5,000	10,000	8,000
	25448		WRH	-	40,000	40,000	40,000	40,000	40,000	-
	25461		TW Rio	30,000	-	16,000	6,000	28,000	-	30,000
	25432		Artesia	-	-	10,000	10,000	10,000	-	-
	25446		EPSJ Pool	5,000	15,000	15,000	15,000	15,000	5,000	5,000
	25447		EPSJ Pool	-	15,000	15,000	15,000	15,000	-	-
	25440		TWSJ Pool	-	10,000	10,000	10,000	10,000	-	-
	25441		EP Rio	-		10,000	10,000	10,000	-	-
	25442		EPSJ Pool	-	10,000	10,000	10,000	10,000	-	-
	25438		TWSJ/EPSJ	-	10,000	10,000	10,000	10,000	-	-
	25455		IB Link/Milagro	35,000	-	-	-	-	-	35,000
	25456		TWSJ/Milagro/IB link	-	-	10,000	10,000	10,000	-	-
	25457		TWSJ Pool	-	-	20,000	20,000	20,000	-	-
	25452		TWSJ Pool	-	15,000	15,000	15,000	15,000	15,000	-
	25453		EPSJ Pool	-	10,000	15,000	15,000	15,000	-	-
	25449		Milagro/EPSJ Pool	10,000	-	10,000	10,000	10,000	-	10,000
	25423		EPSJ Pool	44,705	68,166	68,166	68,166	68,166	68,166	44,705
	25423		EPSJ Pool	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Total Peaking Contracted Volumes				352,333	596,081	776,856	762,597	803,813	466,035	342,333

Natural Gas Storag	Contract #	Price	Location	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24
[redacted]	29018	[redacted]	TW WTX or EP Keystone	160,000	160,000	190,000	190,000	190,000	160,000	80,000
Total Storage				160,000	160,000	190,000	190,000	190,000	160,000	80,000
TOTAL PEAK DAY CONTRACTED VOLUMES				512,333	756,081	966,856	952,597	993,813	626,035	422,333
TOTAL FIRM SUPPLIES				547,333	844,081	1,145,856	1,142,597	1,133,813	684,035	462,333

ELECTRONIC ATTESTATION

Thomas C. Bullard certifies that he is the Vice President, Engineering, Gas Management and Technical Services of New Mexico Gas Company, Inc., and that to the best of his knowledge, information, and belief, the 2023-2024 Annual Gas Supply Plan has been prepared as prescribed by 17.10.640 NMAC, and in accordance with the Orders and proceedings of the NMPRC in Case Nos. 2508, 2752, 2777, 3056, 08-00078-UT, 08-00191-UT, 12-00186-UT, 16-00158-UT, and 20-00130-UT, and in accordance with the requirements of 17.10.640.9B(2) NMAC that require an officer of the Company to verify its Annual Gas Supply Plan.

November 1, 2023

*/s/ Tom C. Bullard*_____
Tom C. Bullard

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION OF NEW MEXICO GAS COMPANY, INC. FOR CONTINUED USE OF ITS PURCHASED GAS ADJUSTMENT CLAUSE,	)	
	)	**Case No. 24-_____-UT**
NEW MEXICO GAS COMPANY, INC.,	)	
Applicant.	)	

ELECTRONICALLY SUBMITTED AFFIRMATION OF TOM C. BULLARD

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

In accordance with 1.2.2.10(E) NMAC, Tom C. Bullard, Vice President of Engineering, Gas Management, and Technical Services 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. I further affirmatively state that I know the contents of my Direct Testimony and Exhibits and that they are true and correct to the best of my knowledge and belief.

SIGNED this 7th day of June, 2024.

/s/ Tom C. Bullard
Tom C. Bullard
Vice President of Engineering, Gas
Management and Technical Services
New Mexico Gas Company, Inc.

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION OF NEW MEXICO GAS COMPANY, INC. FOR CONTINUED USE OF ITS PURCHASED GAS ADJUSTMENT CLAUSE,	)	
	)	**Case No. 24-_____-UT**
NEW MEXICO GAS COMPANY, INC.,	)	
Applicant.	)	

DIRECT TESTIMONY AND EXHIBITS

OF

ERIK C. BUCHANAN

June 11, 2024

DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 24-_____-UT

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

A. My name is Erik C. Buchanan. I am the Vice President of Finance for New Mexico Gas Company, Inc. ("NMGC" or the "Company"). My business address is 7120 Wyoming Blvd. NE, Suite 20, Albuquerque, New Mexico, 87109.

Q. PLEASE SUMMARIZE YOUR EDUCATION, PROFESSIONAL QUALIFICATIONS, AND EXPERIENCE.

A. Please see NMGC Exhibit ECB-1. I have had direct responsibility for all accounting associated with the purchased gas adjustment clause ("PGAC") since March 2023.

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

A. The purpose of my testimony is to provide support for NMGC's filing for continued use of its current PGAC mechanism in compliance with 17.10.640 NMAC ("Rule 640"). Specifically, my testimony relates to Rule 640.11 which requires a utility to file for continued use of its PGAC. I will address in this continuation filing, the considerations described in NMSA 1978, Sections 62-8-7(E)(2) through (E)(4). NMGC's First Revised Rule No. 25 ("Rule 25") describes the detailed methodology and mechanics surrounding NMGC's PGAC mechanism. NMGC Witness Tom C. Bullard will address NMSA 1978, Section 62-8-7(E)(1) in his direct testimony.

NMGC'S CURRENT PGAC

Q. PLEASE DESCRIBE NMGC'S CURRENT PGAC MECHANISM.

A. In accordance with the requirements of Rule 640, and pursuant the New Mexico Public Regulation Commission's ("NMPRC" or the "Commission") Final Orders in Case Nos. 12-00186-UT, 16-00158-UT, and 20-00130-UT, NMGC purchases gas and is authorized through its PGAC to collect from its sales service customers the prescribed costs of acquiring natural gas. Such costs include the cost of buying gas as well as other costs such as: transportation charges on third-party pipelines, gas hedging costs, gas storage costs, company used fuel/power, inspection and supervision fees, and balancing account carrying amounts. Collectively, such costs are referred to as "gas costs." For example, the basic mechanics of the PGAC are such that if NMGC expects to incur $10 worth of allowable gas costs during a given month, NMGC will establish a billing factor to charge $10 in gas costs during that month. All NMGC's sales service customers are charged the same state-wide gas cost recovery rate.

Q. PLEASE DESCRIBE NMGC'S PGAC TARIFF FILING.

A. NMGC Exhibit ECB-2 is NMGC's Original Rate No. 1-4 ("Rate Rider 4"), which is the current PGAC tariff. Rate Rider 4 provides a general description of NMGC's PGAC and its applicability to sales service customers.

Q. PLEASE DESCRIBE NMGC'S RULE 25.

A. NMGC Exhibit ECB-3 is NMGC's First Revised Rule No. 25 ("Rule 25") that is currently in effect as approved by the NMPRC. Rule 25 sets forth the mechanics of implementing Rate Rider 4.

Q. PLEASE DESCRIBE SECTION 1 OF RULE 25.

A. Section 1 addresses specific identification and definitions of terms used in Rate Rider 4 and Rule 25.

Q. PLEASE DESCRIBE SECTION 2 OF RULE 25.

A. Section 2 is titled "Records" and enumerates the records the Company must maintain in order to identify the revenues and expenses associated with the operation of Rate Rider 4. This section also provides that the difference between the revenue and expenses be entered into a balancing account and that a carrying charge be computed based on the outstanding balance that is accumulated in the balancing account.

Q. PLEASE DESCRIBE SECTION 3 OF RULE 25.

A. Section 3 is titled "Calculation of the Gas Cost Factor," and it describes the components involved in the calculation of the gas cost factors used to bill and recover gas costs through the PGAC. These components are shown on NMGC Exhibit ECB-4.

Q. PLEASE DESCRIBE SECTION 4 OF RULE 25.

A. Section 4 is titled "Reports and Statements" and is sub-divided into three parts. Part A sets forth the components that comprise the Gas Cost Factor Statement that must be filed with the NMPRC at least fifteen (15) days before adjustment of the previous Gas Cost Factor. This report details the calculation of the Gas Cost Factor used for billing sales service customers for gas costs. NMGC Exhibit ECB-5, attached hereto, is the

June 2024 Gas Cost Factor Statement as filed with the NMPRC. Part B identifies any gas purchase transactions with affiliated interests. NMGC has not entered into any gas purchase transactions with affiliated interests. Part C sets forth components of the annual PGAC reconciliation report that must be filed with the NMPRC following the end of the annual reconciliation period. The annual reconciliation process validates the under or over-collected gas cost balance in the PGAC Balancing Account. This process consists of comparing the total gas costs during the PGAC Year (September through the following August) to the total amount of gas costs billed to sales service customers during the same PGAC Year, resulting in the annual PGAC Balancing Account Balance.

Q. IS AN INDEPENDENT REVIEW OF THE ANNUAL RECONCILIATION PERFORMED PRIOR TO THE REPORT BEING FILED WITH THE NMPRC?

A. Yes. NMGC's independent auditors perform agreed-upon procedures in accordance with attestations established by the American Institute of Certified Public Accountants. The auditor's report, along with the PGAC reconciliation, is filed with the NMPRC. NMGC Exhibit ECB-6 is a copy of the December 8, 2023 Annual Reconciliation Report filed with the NMPRC on December 13, 2023.

Q. IS NMGC FILING A NEW REVISED RULE 25?

A. No.

Q. DOES NMGC UTILIZE A CARRYING CHARGE RATE FOR THE PGAC?

A. Yes.

Q. HOW IS THE CARRYING CHARGE RATE DETERMINED?

A. Section 2, paragraph C of Rule 25 provides that the carrying charge rate shall be equal to the pre-tax cost of capital (rate of return) approved by the Commission in the Company's most recent rate case. The language "approved by the Commission in the Company's most recent rate case" has previously had unintended ramifications. In most stipulations in rate cases the Commission does not approve a rate of return. The question then becomes which rate of return is most appropriate to utilize – the rate of return from the last fully litigated rate case or the rate of return agreed to by the parties in a stipulation which is later approved by the Commission.

This issue arose in NMGC's last PGAC Continuation filing – Case No. 20-00130-UT. In NMGC Witness Deborah Keene's rebuttal testimony, she explained that this should not be an issue because NMGC had a pending rate case at that time, NMPRC Case No. 19-00317-UT, and in that case the Commission ordered that "in the event a settlement is reached between the parties, the proposed settlement agreement or stipulation be accompanied by, and supported with, a cost-of-service agreed to by the stipulating parties that shall have the same force and effect as a cost-of-service approved by the Commission in a fully-litigated rate case." NMGC and the other parties in Case No. 19-00317-UT reached an unopposed settlement of all the issues in that case. As such, NMGC had a new Commission-approved post-tax rate of return of

6.65%, and NMGC adjusted its PGAC carrying charge to incorporate the new pre-tax carrying charge of 8.3% effective January 1, 2021.

NMGC believes the most appropriate course of action is to update the PGAC carrying charge to match the rate of return resulting from NMGC's most recent approved rate case filings, whether or not they are settled or fully litigated. NMGC is currently using the rate of return contained in its most recent rate case, which was settled. NMGC Exhibit ECB-7 demonstrates the calculations used to determine the carrying charge rates utilized from January 2020 through June 2024.

NMGC also has a pending rate case at the time of this filing and has reached a stipulation in that case. Provided that settlement is approved as proposed, the PGAC carrying charge would be adjusted to reflect the WACC resulting from the approval of the Stipulation in Case No. 23-00255-UT after new rates go into effect. NMGC respectfully requests that, for purposes of setting the PGAC carrying charge, the Commission allow NMGC to use the rates of return either approved by the Commission in a fully litigated rate case or included in a settlement of a rate case that is ultimately approved by the Commission.

NMSA 1978, SECTION 62-8-7(E)(2) THROUGH (E)(4)

Q. WHY IS NMGC ADDRESSING THE CONSIDERATIONS IN NMSA 1978, SECTION 62-8-7(E)?

A. Rule 640's Continuation Filing criteria (640.11) specifically requires that a utility's application for continued use of its PGAC must address the considerations described in NMSA 1978, Sections 62-8-7(E)(1) through (E)(4). NMGC Witness Bullard, in his direct testimony, addresses the considerations described in NMSA 1978, Section 62-8-7(E)(1). I address the considerations described in NMSA 1978, Sections 62-8-7(E)(2) through (E)(4) here.

Q. WHAT CONSIDERATION NEEDS TO BE ADDRESSED REGARDING NMSA 1978, SECTION 62-8-7(E)(2)?

A. NMSA 1978, Section 62-8-7(E)(2) requires that the NMPRC enact rules that enable the NMPRC to consider periodically the specific adjustment mechanism to recover tax, gas fuel or purchased power costs.

Q. DOES RULE 640 COMPLY WITH THE PROVISIONS OF NMSA 1978, SECTION 62-8-7(E)(2) AND HAS NMGC COMPLIED WITH THOSE PROVISIONS?

A. Yes. Rule 640.11(A) requires a utility to file an application for continued use of its PGAC at intervals of no more than four years. The most recent application for continued use of this PGAC was in NMPRC Case No. 20-00130-UT, filed June 11, 2020. The NMPRC's Final Order in that case, dated December 16, 2020, authorized

NMGC's continued use of its PGAC for an additional four years. Given the pending termination of the current four-year period, NMGC is now filing an application for continued use of its PGAC for another four years.

Q. WHAT CONSIDERATION NEEDS TO BE ADDRESSED REGARDING NMSA 1978, SECTION 62-8-7(E)(3)?

A. NMSA 1978, Section 62-8-7(E)(3) requires that the NMPRC enact rules that enable the NMPRC to consider periodically which costs should be included in an adjustment clause, procedures to avoid the inclusion of costs in an adjustment clause that should not be included, and methods by which the propriety of costs that are included may be determined by the Commission in a timely manner, including what information filings are required to enable the Commission to make such a determination.

Q. DOES RULE 640 CONTAIN PROVISIONS THAT COMPLY WITH NMSA 1978, SECTION 62-8-7(E)(3) AND HOW HAS NMGC COMPLIED WITH THOSE PROVISIONS?

A. Yes. Rule 640.12 sets forth the information that must be included in the tariff filing made by a utility using a PGAC. Included as part of the minimum requirements is the information needed for the Commission to make the determination required by NMSA 1978, Section 62-8-7(E)(3). Section 2 of Rule 25 (NMGC Exhibit ECB-3) provides the details of what constitutes Rate Rider 4 expenses and what constitutes Rate Rider 4 revenues contained in NMGC's PGAC.

Q. WHAT ARE NMGC'S PROCEDURES TO AVOID THE INCLUSION OF COSTS IN AN ADJUSTMENT CLAUSE THAT SHOULD NOT BE INCLUDED?

A. NMGC's external accounting firm Ernst & Young, LLP, performs independent agreed upon procedures to validate recorded transactions including gas purchase expenses and billed gas cost recoveries associated with the PGAC. In addition, NMGC prepares an annual reconciliation of the allowable gas costs incurred (expenses) to billed gas costs recovered (revenues) in accordance with Rule 25. Ernst & Young, LLP applies agreed-upon procedures to this annual reconciliation as prescribed by Rule 640.13. The agreed-upon procedures are agreed to by NMPRC Staff, NMGC, and Ernst & Young, LLP. As noted above, NMGC Exhibit ECB-6 is a copy of the August 31, 2023 Annual Reconciliation complete with the agreed-upon review procedures and the findings of the review, which was filed with the NMPRC December 13, 2023.

Q. WHAT METHODS ARE EMPLOYED TO HELP THE COMMISSION DETERMINE IN A TIMELY MANNER THAT PGAC COSTS AND REVENUES ARE APPROPRIATE?

A. NMGC provides numerous communications, both required and voluntary, both formal and informal, to make this determination. The following table lists many of the filings and presentations made by NMGC over the course of the last twelve months ending April 2024:

Title	Communication Details
Annual PGAC Reconciliation Report	Substantiates the appropriateness of PGAC gas costs and gas cost recoveries during the PGAC Year and the resulting Balancing Account Balance.
Annual Transportation Effects on the PGAC	Details the net effect of the Transportation Balancing Rule on the PGAC during an annual period.
Annual Gas Supply Plan	Provides details of the planning period, forecasted customer demand, procurement plans, supply sources, system modifications/improvements, strategic arrangements and other detailed plans for meeting customer demand.
Annual Gas System Supply Hedging Presentation	Provides details of the forecasted gas market, planned hedging budget, projected volumes to be hedged, planned effective hedge dates, and the like.
Price Management Fund Report	Reports on the annual use of PGAC levelization tools, the net effect of gas hedges, and carrying charge assessment.
Monthly Gas Cost Factor Statements	Filed monthly, and many times twice in one month, with a cover letter which contains market information and details from the calculation of the factor used to bill sales service customers for the recovery of gas costs through the PGAC.
Integrated Resource Plan ("IRP")	Filed every four years, the IRP is developed within a public advisory process ultimately providing information and details on the company's existing portfolio of resources and customer demands, a summary of foreseeable resource needs and forecasted customer demands for the planning period, and an evaluation of resource and demand side options. NMGC's latest IRP was filed on April 16, 2024.
Informal Communications with Commission Staff	NMGC regularly provides NMPRC Staff with important information related to the PGAC, such as when the Company is anticipating higher Gas Costs that could lead to high customer bills.

1

2

Q. WHAT CONSIDERATION NEEDS TO BE ADDRESSED REGARDING NMSA 1978, SECTION 62-8-7(E)(4)?

A. NMSA 1978, Section 62-8-7(E)(4) requires that the NMPRC enact rules that enable the NMPRC to consider periodically the proper adjustment period to be employed.

Q. DOES RULE 640 COMPLY WITH THIS PROVISION AND WHAT IS NMGC'S ADJUSTMENT PERIOD AND WHY IS IT PROPER?

A. Yes, Rule 640 complies with this provision. Rule 640.12(A)(6) requires an annual reconciliation period and Rule 640.12(B) requires either an annual reconciliation factor or a balancing account adjustment factor. NMGC has the ability to utilize a balancing account adjustment factor within the monthly-calculated billing factor for the purpose of managing the estimated cumulative PGAC over-collected or under-collected balance in the PGAC Balancing Account. Another purpose of a balancing account adjustment factor is to also allow NMGC to levelize gas costs in a volatile gas market. This mechanism was approved by the Commission in NMPRC Case No. 3056 on November 7, 2000.

NMGC'S CONTINUED USE OF A PGAC MECHANISM

Q. IS A PGAC A GOOD TOOL FOR PROVIDING GAS PRICE SIGNALS TO NMGC'S SALES SERVICE CUSTOMERS?

A. Yes, NMGC's anticipated cost of gas rate for the coming month is communicated to sales customers about two weeks in advance and is readily identifiable on the customer's bill. In addition, the "notification" of the estimated cost of gas rate for the

following month provides sales customers an even earlier indication of future expected fuel prices to help customers make informed energy consumption decisions.

While the future price of gas cannot regularly be predicted with 100% accuracy, this information provides customers with the best information NMGC has in order to allow customers to make informed decisions about potential future usage.

Finally, in the event NMGC encounters rapidly rising gas commodity prices, the Company has the ability to communicate with customers about potential price spikes on a system-wide basis through various communication means, including the Company's website, radio, television, social media, and via telephone using the Company's auto dialer.

Q. HOW DOES THE PGAC MECHANISM PROVIDE EARNINGS STABILITY TO NMGC?

A. With the volatility that has been, and is continuing to be experienced in the gas market, PGAC mechanisms have isolated this volatility from cost of service rates. If cost of gas rates were fixed for extended periods of time much like the cost-of-service rates by the gas utility, the earnings of the utility would have been extremely volatile.

NMGC Exhibit ECB-8 demonstrates the impact that would have occurred on the gas utility's annual gross margin over the previous five years if NMGC was not allowed to utilize a PGAC mechanism, and instead was required to utilize a fixed gas cost

recovery rate set in NMGC's base rate case filings. As can be seen on page 1 of NMGC Exhibit ECB-8, had NMGC not used a PGAC and instead set gas costs using its historical rate case and future test year rate case forecasts, NMGC would have under-recovered approximately $184 million on the cost of gas over the last five fiscal year periods.

NMGC Exhibit ECB-8, page 2 of 2 graphs the resulting over- / under-collection calculations from the first page. The graph clearly demonstrates the instability of NMGC's fuel cost collections and demonstrates both under- and over-collecting significant balances during the period.

If gas costs were to be recovered through cost of service rates, the utility and customers would be more susceptible to under-collecting in times of rising prices and over-collecting in times of declining prices. For example, were the Company to over-collect gas costs by $1.00/MMBtu for a year (which approximately mirrors the time it takes to file a rate case), the Company would over collect, on average, $47 million from customers. Customers absorbing a $47 million over-collection would significantly impact their bill. The PGAC virtually eliminates this issue by allowing the Company to reduce fuel costs charged to customers. Similarly, if fuel prices were to rise by $1.00/MMBtu, resulting in a $47 million under-collection, the Company's financial stability would be significantly impacted. A loss of this magnitude would negatively impact the Company's line of credit with lenders and suppliers, affect the Company's

purchasing power, possibly affect the Company's credit rating, and ultimately negatively affect supply reliability.

A utility perceived to have more risk exposure would pay more for debt expense and require a higher return on equity in order to attract capital. This would ultimately result in higher rates for customers. Again, the PGAC virtually eliminates this issue.

Overall, the PGAC accomplishes the intent declared in 17.10.640.6 NMAC: "[t]he PGAC is intended to ensure the stability of the utility's annual earnings consistent with the utility's duty to provide adequate service at just and reasonable rates."

Q. HOW DOES THE PGAC AID IN PRICE LEVELIZATION OF THE GAS COST FACTOR?

A. In NMPRC Case Nos. 2777 and 3056, the gas utility filed for and the NMPRC approved the use of several tools that aid in levelizing the gas cost factor. The approved use and cost recovery of financial hedging and the approval for the use of a balancing account adjustment factor are two of the more significant items coming out of these cases that aid price levelization.

Q. HOW DOES THE PGAC MECHANISM PROVIDE REGULATORY EFFICIENCIES?

A. Given the gas market volatility, fixing cost of gas billing rates as demonstrated in NMGC Exhibit ECB-8, NMGC would have to file numerous, and possibly

overlapping, cost of service rate cases in an effort to keep up with the constantly changing gas prices. A PGAC mechanism is a cost-effective means for allowance of a rate adjustment outside of a cost of service rate proceeding as long as it conforms to the rules of the NMPRC. Therefore, a PGAC mechanism reduces the cost of regulation.

Q. DOES A PGAC MECHANISM PROVIDE CONSUMER CONSUMPTION EFFICIENCIES?

A. Yes. NMGC's price notification communications and NMGC's practice of changing monthly prices coincident with the gas market within the PGAC mechanism provides its sales service customers with a monthly price signal that allows the customer the opportunity to make a decision regarding their personal consumption based upon their personal interests.

Q. DOES NMGC DESIRE TO CONTINUE UTILIZING A PGAC MECHANISM?

A. Yes. NMGC's PGAC provides an appropriate pricing mechanism for balancing the interests of NMGC's sales service customers, its regulators, and the interests of the gas utility.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes.

EDUCATIONAL AND PROFESSIONAL SUMMARY

Name: Erik Buchanan

Address: 7120 Wyoming Blvd NE, Suite 20
Albuquerque, New Mexico 87109

Education: Bachelor of Business Administration, Accounting and Finance Majors, University of New Mexico Robert O. Anderson School of Management, Albuquerque, New Mexico

Licensed as a Certified Public Accountant (CPA), New Mexico

Professional Experience:

New Mexico Gas Company, Inc.
Albuquerque, New Mexico

Vice President, Finance	2023 – Present
Director Forecasting and Planning	2020 – 2023

PNMR Services Company
Albuquerque, New Mexico

Director, SEC Reporting and Tax Compliance	2018 – 2020
Assistant Controller, Shared Services	2016 – 2018
Director, Corporate Budget	2014 – 2016
Senior Manager, General Accounting	2013 – 2014
Manager, Corporate Accounting	2011 – 2013
Project Manager, SEC Reporting and GAAP Analysis	2008 – 2011

KPMG, LLP
Albuquerque, New Mexico

Senior Audit Associate	2005 – 2008

Chavarria, Dunne, and Lamey, LLC
Albuquerque, New Mexico

Associate	2004 – 2005

Testimony Before the New Mexico Public Regulation Commission

NMPRC Case No. 15-00261-UT – PNM 2015 Rate Case
NMPRC Case No. 21-00267-UT – NMGC 2021 Rate Case Application
NMPRC Case No. 22-00309-UT – NMGC Application for the Issuance of a Certificate of Public Convenience and Necessity to Construct a Liquified Natural Gas Facility

NMPRC Case No. 23-00210-UT – NMGC 2023 Finance Case Application
NMPRC Case No. 23-00255-UT – NMGC 2023 Rate Case Application

NEW MEXICO GAS COMPANY

ORIGINAL RATE NO. 1-4

RATE RIDER NO. 4 - COST OF GAS COMPONENT

DESCRIPTION

Cost of Gas Component.

APPLICABILITY

All rates which specify this Rate Rider.

APPLICATION

The Cost of Gas Component shall be added to each Customer's bill. It shall be determined by multiplying the number of billing units by the applicable Gas Cost Factor.

CONDITIONS

1. All general service customers shall be billed using the General Service Gas Cost Factor which shall include:

   a. a Basic Gas Cost Factor which is designed to recover the expected cost of gas;

   b. a Balancing Account Adjustment which is designed to recover or return any difference between costs and revenues during past operations;

   c. a Refund/Surcharge Factor which is to return any refunds or collect any special charges for gas; and

   d. an Inspection & Supervision Fee designed to recover revenue related taxes to be paid on the revenues from the Gas Cost Factor.

   Rule No. 25 sets out in detail the steps to be used to find the amount of each part of the Gas Cost Factor.

2. Gas Cost Factors shall remain in effect until changed, unless authorized by the Commission. The Company may change the Gas Cost Factors no sooner than 15 days after notice is filed.

   Notice must include a Gas Cost Factor Statement. The statement must show all calculations and data required by Rule No. 25.

3. The Company shall keep a record of all revenues and costs which apply to this Rate Rider. The record shall be closed as of the end of the month of August each year. This record shall be used in the determination of the reconciliation of gas costs and gas cost recoveries. A credit or charge in the form of a Balancing Account Adjustment Factor shall be made as necessary in determining the General Service Gas Cost Factor to compensate for over or under payments by the Customer.

4. The Special Services Gas Cost Factor shall be billed to special contract customers served directly from the lines of a supplier and shall include the amount billed to the Company for their service.

Advice Notice No. 1

Ryan Shell
V.P. Controller & Treasurer
New Mexico Gas Company

NEW MEXICO GAS COMPANY

FIRST REVISED - RULE NO. 25
CANCELLING ORIGINAL RULE NO. 25

RATE RIDER NO. 4 DETAILS

1. Definitions

The following words and terms shall have the indicated meaning when used in the Company's Rate Rider No. 4 and this Rule:

Annual Reconciliation Report: The annual report filed with the Commission which provides the revenues and expenses associated with the operation of the Company's PGAC for a Reconciliation Period.

Balancing Account: Contains the cumulative monthly differences between allowable gas costs as they are recorded on the books and records of the Company, plus a monthly carrying charge component; and the revenues resulting from billings to sales customers for the recovery of allowable gas costs as they are recorded on the books and records of the Company.

Balancing Account Adjustment Factor: A component of the General Service Gas Cost Factor designed to allow the Company to continuously manage the Balancing Account.

Billing Cycle: Consists of a specific period of time over which a customer's gas consumption takes place. At the end of each billing cycle for each customer within that billing cycle, metered consumption is read and billed. NMGC employs approximately twenty-one (21) billing cycles within each of twelve billing months. x

Billing Month: The Company's usual billing period coincides with an accounting month containing a complete set of billing cycles utilized in the Company's billing system.

Commission: The New Mexico Public Regulation Commission.

Company: New Mexico Gas Company.

Company Used Gas: The quantity of gas consumed by the Company in its gas operations such as fuel for compressor stations, etc.

Cost of Gas: The total expense as defined in Section 2(A) of this Rule incurred by the Company for natural gas purchased for delivery to the Company's customers served under the provisions of Rate Rider No. 4.

Cost of Gas Component: The amount included in each customer's bill to recover the cost of gas as determined in Rate Rider No. 4 and this Rule.

Determination Period: The period during which the Company expects a Gas Cost Factor to be in effect. Unless otherwise specified in the Gas Cost Factor Statement, the determination period shall coincide with a billing month and contain twenty-one (21) billing cycles per billing month.

Advice Notice No. 36

John M. Fernald
Director, Regulatory Affairs

NEW MEXICO GAS COMPANY

FIRST REVISED - RULE NO. 25
CANCELLING ORIGINAL RULE NO. 25

RATE RIDER NO. 4 DETAILS

Financial Risk Management Expenses: The costs, including fees, premiums and derivative gains and losses, incurred by the Company to financially manage future gas costs in a manner consistent with generally accepted practices in the natural gas industry.

Gas Cost Factor: The rate to be multiplied by the customer's billing units to determine the Cost of Gas Component.

Gas Cost Factor Statement: The report establishing the Gas Cost Factor. The Gas Cost Factor Statement is filed with the Commission prior to changing the previously used Gas Cost Factor.

Gas Supply Plan: A planning report that sets forth the steps to provide a reliable gas supply at just and reasonable rates consistent with market conditions, regulatory requirements and other authorized purposes.

General Service Customer: All full service customers served by the Company, excluding customers served directly by other companies' pipelines under the provisions of the Company's Rule No. 22.

PGAC or Purchased Gas Adjustment Clause: A mechanism established by tariff provision designed to permit a utility to recover gas costs in a timely manner through periodic adjustments to billing rates.

Purchase/Sales Ratio: An adjustment to the Cost of Gas to recognize the need to purchase additional volumes of gas for Company Used Gas and Unaccounted For Gas (UFG). The Purchase/Sales Ratio for the current PGA Year will be determined using the prior PGA Year's twelve-month historic volume totals to adjust for differences in gas purchases.

Reconciliation Period: The twelve consecutive months ended August 31, of each year.

Revenue Related Taxes and Fees: The expense incurred by the Company applicable to revenues collected from the Cost of Gas Component and payable to State, Federal, and other Government Agencies.

Supplier: Any person furnishing gas, transportation or storage service whose costs are subject to the provisions of Rate Rider No. 4 and included in the Cost of Gas Component.

Refunds/Surcharge Factor: A factor used to refund amounts or surcharge amounts resulting from overcharges or undercharges on previous gas purchases.

Unaccounted for Gas: The difference between the total gas received from all sources and the total gas accounted for as sales, net interchange, gas processed, and Company use. This difference includes leakage or other actual losses, discrepancies due to meter inaccuracies, variations of temperature and/or pressure, and other variants.

2. Records

EFFECTIVE
JAN 20 2013
REPLACED BY NMPRC
BY Operation of Law

Advice Notice No. 36

Mary E. Homan
Regulatory Affairs

NEW MEXICO GAS COMPANY

FIRST REVISED - RULE NO. 25
CANCELLING ORIGINAL RULE NO. 25

RATE RIDER NO. 4 DETAILS

The Company shall maintain records which identify the revenues and expenses attributable to the operation of Rate Rider No. 4. The difference between the revenues and expenses described in this section shall be entered into the Balancing Account. Entries shall be made in this account at the end of the month in which the Rate Rider No. 4 revenues and expenses are recorded on the Company's books. The Balancing Account entry shall consist of the following:

A. Rate Rider No. 4 expenses shall be taken from the Company's books and records. Rate Rider No. 4 expenses include:

(1) The amount as recorded in the appropriate accounts for natural gas purchased by the Company, including, but not limited to, purchases at the wellhead, gasoline plant outlet, field line, transmission line, and city gate;

(2) Plus variable and fixed amounts associated with the gathering, processing and transmission of Company-owned gas by others plus fuel, power, and UFG associated with the gathering, processing, transmission, and distribution of Company owned gas by NMGC;

(3) Plus the net amount of exchange gas recorded during the month and associated fees;

(4) Plus the amount recorded for gas withdrawn from storage;

(5) Less the amount recorded for delivery of gas to storage;

(6) Plus any refunds, credits or surcharges and any special charges or credits related to cost approved by the Commission (either as a single item or on a continuing basis);

(7) Plus any Revenue-Related Taxes and Fees;

(8) Plus any Financial Risk Management Expenses; and less any payments (benefits) received from third parties as a result of hedging activities.

B. Rate Rider No. 4 revenues shall be taken from the Company's books and records. Rate Rider No. 4 revenues shall include, but not be limited to:

(1) The amount of gas cost recovery revenues recorded through the customers' Cost of Gas Component;

(2) Plus the revenue received from the processing of Company-owned gas.

C. A carrying charge shall be computed based upon the estimated average outstanding monthly Balancing Account balance over the course of the Reconciliation Period. The carrying charge amount shall be added or credited to the monthly cumulative balance in twelve monthly installments. The carrying charge installment amounts may

EFFECTIVE
JAN 20 2013
REPLACED BY NMPRC
BY Operation of Law

Advice Notice No. 36

Mary E. Homan
Regulatory Affairs

NMGCO #2564074

NEW MEXICO GAS COMPANY

FIRST REVISED - RULE NO. 25
CANCELLING ORIGINAL RULE NO. 25

RATE RIDER NO. 4 DETAILS

change over the course of the Reconciliation Period based upon changes in the estimated average outstanding monthly Balancing Account balance over the course of the Reconciliation Period. The total amount of the carrying charge will be reconciled and trued-up annually through the Annual Reconciliation process. The carrying charge rate used to make this calculation shall be equal to the pre-tax cost of capital (rate of return) approved by the Commission in the Company's most recent gas rate case.

3. Calculation of the Gas Cost Factor

A. The Gas Cost Factor shall be the sum of the factors described below.

(1) The Basic Gas Cost Factor is designed to recover the expected cost of gas as described in this section. It is developed by taking the sum of the expected purchase therms during the Determination Period divided into the total expected purchase price during the Determination Period to arrive at an expected weighted average cost of gas per therm. The cost of gas to be used in the calculation of this factor shall be the result of the following amounts multiplied by the Purchase/Sales Ratio:

(a) Natural Gas Purchased: The volume of gas expected to be purchased during the Determination Period shall be identified. The estimated cost of natural gas purchased shall be calculated by multiplying these volumes by the prices, which are expected to be paid during the period in which the Gas Cost Factor is to be in effect.

(b) Natural Gas Stored: The total volumes expected to be delivered to storage during the Determination Period shall be identified. The cost of natural gas stored shall be calculated by applying the weighted average price, which is expected to be paid during the period in which the Basic Gas Cost Factor is to be in effect, multiplied by the Determination Period's expected injection volumes. Volumes withdrawn from storage during the same period shall also be identified. The cost of gas withdrawn shall be found by applying the latest weighted average inventoried price multiplied by the expected Determination Period=s withdrawal volumes. The net of these two costs shall be included in the total Cost of Gas.

(c) Exchange Natural Gas: The total volumes expected to be exchanged during the Determination Period shall be identified. The cost of exchange gas delivered shall be calculated by applying the price, which is expected to be paid during the period in which the Basic Gas Cost Factor is to be in effect, multiplied by the expected Determination Period's exchange delivery volumes. The cost of exchange gas receipts shall be found by applying the latest weighted average inventoried price multiplied by the expected Determination Period's exchange receipt volumes. The net of these two costs shall be included in the total Cost of Gas.

(d) Other Costs: Whenever the Company is required to pay any Supplier or other entity an amount which relates to obtaining a reliable supply of gas, including but not limited to, Financial Risk Management Expenses, which is not included in one of the above, that amount shall be included as an Other Cost. The amount to be included in the cost of gas shall be the total other costs expected

EFFECTIVE
JAN 20 2013
REPLACED BY NMPRC
BY Operation of Law

Advice Notice No. 36

Mary E. Homan
Regulatory Affairs

NMGCO #2564074

NEW MEXICO GAS COMPANY

FIRST REVISED - RULE NO. 25
CANCELLING ORIGINAL RULE NO. 25

RATE RIDER NO. 4 DETAILS

to be recorded during the Determination Period. Adjustments may be made when changes in cost levels have been definitely determined in subsequent periods.

(e) The Gas Processing Credit: A credit for net revenues including processing fees received from processing Company-owned gas as determined in accordance with the methodology described in Section 2.A(2) and 2.B(2) above. The credit shall be the sum of the total net revenues from all plants.

(f) Transportation of Utility Owned Gas: The total cost paid by the Company to transport utility owned gas.

(g) Purchase/Sales Ratio: An adjustment to the gas costs Factor determined by multiplying the subtotal of the Basic Gas Cost Factor by the annual Purchase/Sales Ratio.

(2) The General Service Gas Cost Factor is determined by taking the total Basic Gas Cost Factor and adding to it:

(a) The Balancing Account Adjustment Factor is utilized to effect the Balancing Account balance on a monthly basis and when employed, impacts the determination of the General Service Gas Cost Factor. The Company's intent is to manage the Balancing Account to a cumulative balance of plus or minus five percent (5%) of the PGA Year's total gas purchase costs for the Reconciliation Period ending August 31st of each year

(b) The Refund/Surcharge Factor is designed to return refunds or collect charges from Suppliers or others not recognized elsewhere. Refunds or surcharges will be refunded or charged on a statewide basis. The amount of the Refund/ Surcharge Factor shall be determined by dividing the refund or surcharge balance by the expected purchase volumes for the period in which the factor is to be in effect. Determination of the period shall be as follows:

(i) if the refund or surcharge applies to purchases made over twelve or more months, the credit or charge must be made over a twelve month period;

(ii) if the refund or surcharge applies to purchases during a shorter period, the credit or charge shall be made to the Balancing Account.

[Paragraph Deleted]

[Paragraphs Deleted]

(c) Inspection and Supervision Fee is designed to collect Commission inspection and supervision fees assessed upon the revenues generated by application of the Gas Cost Factor.

EFFECTIVE
JAN 20 2013
REPLACED BY NMPRC
BY Operation of Law

Advice Notice No. 36

Mary E. Homan
Regulatory Affairs

NMGCO #2564074

NEW MEXICO GAS COMPANY

FIRST REVISED - RULE NO. 25
CANCELLING ORIGINAL RULE NO. 25

RATE RIDER NO. 4 DETAILS

(3) A separate special service gas cost factor will be identified in determination of a Gas Cost Factor depending upon a customer's tax responsibility.

4. Reports and Statements

A. A Gas Cost Factor Statement must be filed with the Commission at least 15 days before adjustment of the Gas Cost Factor. Each Statement shall consist of a cover letter identifying any items impacting the cost of gas, a projection of the final reconciliation balance for the twelve-month period ending on August 31 and any matters which may be of interest to the Commission. The Gas Cost Factor Statement consists of the following sections:

Section 1 - Summary of the Gas Cost Factors

Section 2 - Determination of the Basic Gas Cost Factor

(A) Gas Costs

(B) Transportation Costs

(C) Processing Credit

(D) Other Costs

(E) Purchase/Sales Ratio

Section 3 - Determination of the Balancing Account Adjustment Factor

Section 4 - Determination of the Refund/Surcharge Factor

Section 5 - Distribution of Natural Gas Purchased by Average Price

Section 6 - Statement of Natural Gas Receipts and Deliveries

B. The Gas Cost Factor Statement will identify natural gas purchase transactions with affiliated interests, if any.

C. An Annual Certified Reconciliation Report shall be filed with the Commission as soon after completion of the August accounting month as permitted by record availability, but in no case later than the December PGAC filing for approval of the January Gas Cost Factor. This report shall consist of the following sections:

(1) a summary of gas purchases and volumes, including gas purchased from affiliates;

(2) a summary of costs, carrying charges, and collections which were recorded in the Balancing Account;

EFFECTIVE

JAN 20 2013

REPLACED BY NMPRC
BY Operation of Law

Advice Notice No. 36

Mary E. Homan
Regulatory Affairs

NEW MEXICO GAS COMPANY

FIRST REVISED - RULE NO. 25
CANCELLING ORIGINAL RULE NO. 25

RATE RIDER NO. 4 DETAILS

(3) a summary of reconciling items including items adjusting the Balancing Account; and

(4) any additional reporting requirements as specified by the Commission.

The PGAC mechanism is continuous and therefore, the Balancing Account is also continuous. Any under or over-collection of gas costs that resulted in the prior Reconciliation Period will immediately carry over into the subsequent Reconciliation Period. All adjustments resulting from the Annual Reconciliation will be recorded into the Balancing Account as they become certified in the Annual Reconciliation process.

D. An annual Gas Supply Plan shall be filed with the Commission by November 1 and will include the planning time frame of October 1 through September 30, annually. This document will include the Commission required elements cited in 17.10.640.9 NMAC.

EFFECTIVE

JAN 20 2013

REPLACED BY NMPRC
BY Operation of Law

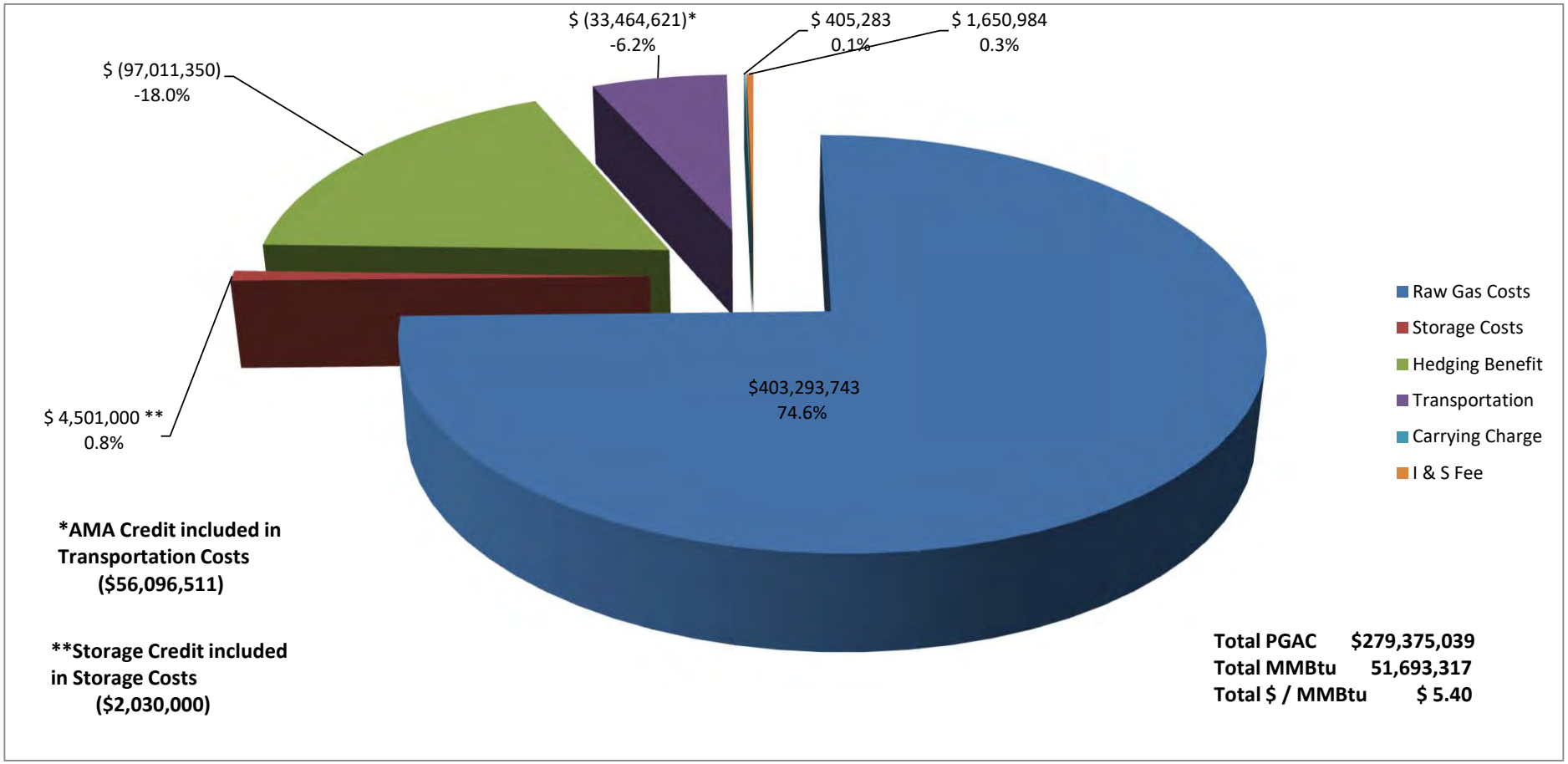
Advice Notice No. 36

Mary E. Homan
Regulatory Affairs

NMGCO #2564074

PGAC Gas Cost Components

Sept. 2022 through Aug. 2023 Actuals



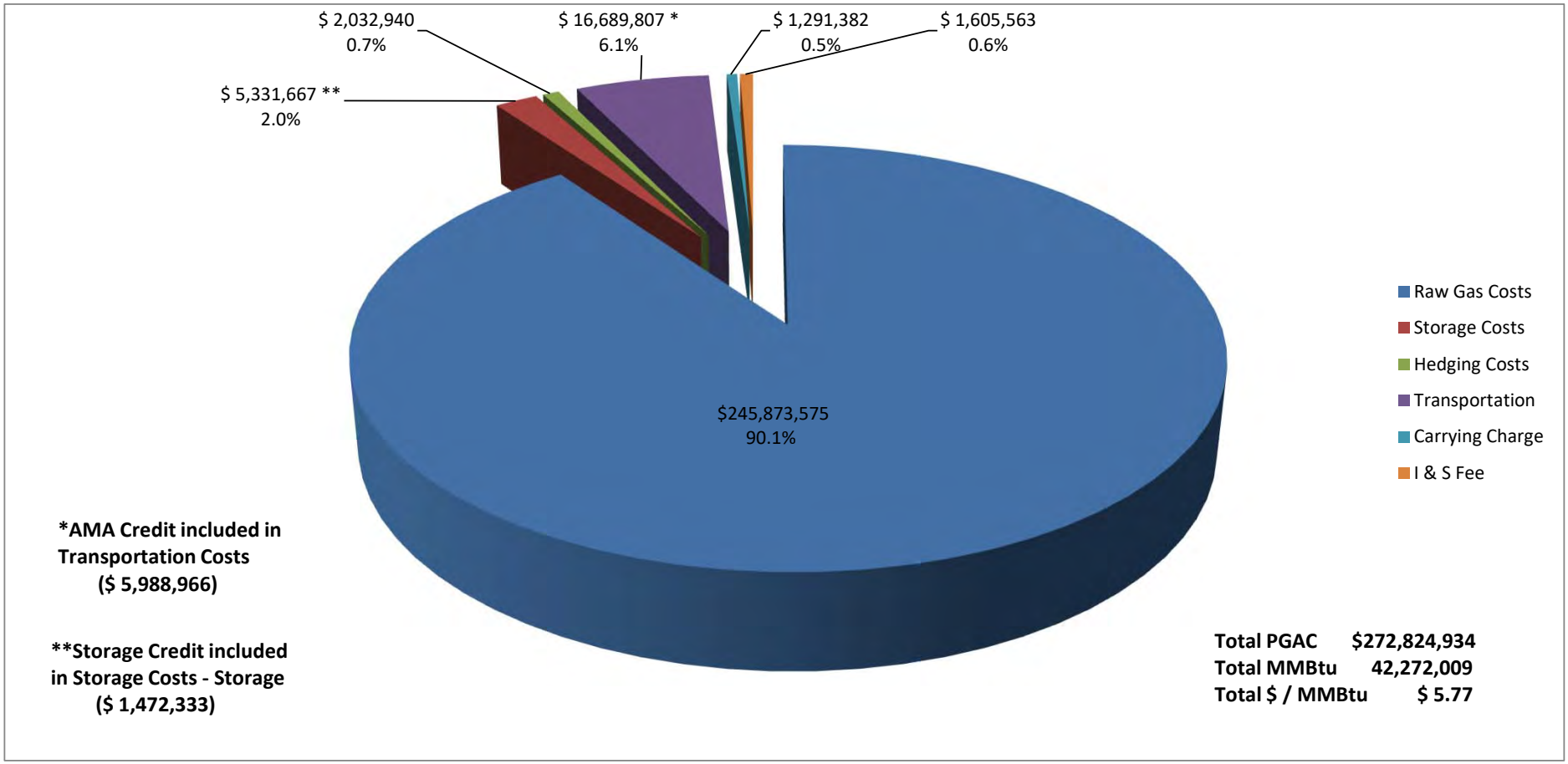
***AMA Credit included in Transportation Costs ($56,096,511)**

****Storage Credit included in Storage Costs ($2,030,000)**

Total PGAC	**$279,375,039**
Total MMBtu	**51,693,317**
Total $ / MMBtu	**$ 5.40**

PGAC Gas Cost Components

Sept. 2021 through Aug. 2022 Actuals



***AMA Credit included in Transportation Costs ($ 5,988,966)**

****Storage Credit included in Storage Costs - Storage ($ 1,472,333)**

Total PGAC	**$272,824,934**
Total MMBtu	**42,272,009**
Total $ / MMBtu	**$ 5.77**

Phone 505-697-3832
Fax 505-697-4487

May 10, 2024

Ms. Melanie Sandoval, Bureau Chief
Records Management Bureau
New Mexico Public Regulation Commission
P. O. Box 1269
Santa Fe, New Mexico 87504-1269

Subject: New Mexico Gas Company, Inc.'s Rate Rider No. 4 - Gas Cost Factor Statement Effective for the Calendar Month of June 2024

Dear Ms. Sandoval:

Pursuant to the New Mexico Public Regulation Commission's ("NMPRC") Rule No. 17.10.640 NMAC, enclosed please find the above-referenced statement filed on behalf of New Mexico Gas Company, Inc. ("NMGC"). The enclosed Gas Cost Factor Statement is to be effective for the calendar month of June 2024. This statement includes the following information.

First, NMGC has decreased its projection of the cost it will charge for gas during the month of June 2024 from that indicated in the Company's notification letter of April 25, 2024. NMGC, in its May 2024 bills, notified sales customers of the Cost of Gas Factors that included the June 2024 projected amount of $0.0661.

Second, the Gas Cost Factor to be used for the calendar month of June 2024 for Rate Rider No. 4 for general service customers, which includes a credit of $0.1100 as a Balancing Account Adjustment Factor, is:

Rate Rider No. 4	$0.0618/therm

The projected June 2024 Cost of Gas Factor is a decrease of 6.6% from the April 25, 2024,notification and a 4.2% increase from the May 2024 Gas Cost Factor.

Third, the natural gas market continues to be volatile. NMGC will continue to monitor both the market for substantial changes and the projected Purchased Gas Adjustment Clause ("PGAC") Balancing Account amount, and will be prepared to update its price, if a change in the Gas Cost Factor is warranted. The Gas Cost Factor is based on a NYMEX Henry Hub price of $0.2196/therm, which is a three-day average for May 6, 7, and 8 as reported in Platts Gas Daily.

Adjusting for the San Juan Basin differential average for the same three-day period results in a San Juan Inside FERC average price of $0.1628/therm.

Fourth, attached to the June 2024 Gas Cost Factor Statement, as Exhibit 1, is the PGAC Deferral Estimate for the PGAC year ending August 31, 2024. The current projection of the August 31, 2024, balance in the continuous PGAC Balancing Account, based on estimated revenue and budgeted throughput numbers is a $2,275,998.81 over collection.

If you have any questions regarding this information, please call me at 505-508-6729.

Sincerely,

/s/ Beilen Nesbitt

Beilen Nesbitt
Manager, Regulatory Rates and Rate Design

Enclosure

cc: New Mexico Department of Justice
Leslie Graham – Zia Natural Gas
Tim Martinez – NMPRC
Ed Rilkoff – NMPRC
Nicole Strauser – NMGC
Gerald Weseen – NMGC

NEW MEXICO GAS COMPANY
GAS COST FACTOR STATEMENT
RATE RIDER NO.4
JUNE 2024 FILING

May 10, 2024

SECTION ONE: SUMMARY OF THE GAS COST FACTORS **PAGE 1**

DESCRIPTION		$ /THERM
BASIC GAS COST FACTOR		$ 0.1715
BALANCING ACCOUNT ADJUSTMENT FACTOR		(0.1100)
REFUNDS/SURCHARGE FACTOR		-
SPECIAL SERVICE GAS COST FACTOR		$ 0.0615
INSPECTION & SUPERVISION FEE	(1)	0.0003
GENERAL SERVICE GAS COST FACTOR		$ 0.0618

(1) Tax Rate of 0.5060% on General Service Gas Cost Factor for NMPRC Inspection & Supervision Fee based on gross revenue including Inspection & Supervision fees.

NEW MEXICO GAS COMPANY
GAS COST FACTOR STATEMENT
RATE RIDER NO.4
JUNE 2024 FILING

May 10, 2024

SECTION TWO: DETERMINATION OF THE BASIC GAS COST FACTOR

PAGE 2

DESCRIPTION	EXPECTED MONTHLY DEMAND THERMS	EXPECTED MONTHLY AVERAGE $/THERM	EXPECTED MONTHLY DEMAND $s
GAS COST:			
Wellhead Purchases (before PTR reduction)	-	$ -	$ -
Field Line Purchases	-	-	-
Gasoline Plant Outlet Purchases	3,000,000	0.1678	503,500.00
Gas Transmission Line Purchases	13,394,867	0.1307	1,751,189.11
City Gate Purchases	-	-	-
Demand Fees			-
Exchange Gas Receipts		-	
Exchange Gas Delivered		-	
Storage Gas Withdrawn	-	-	-
Storage Gas Injected		-	-
Total Gas Costs	16,394,867	$ 0.1375	$ 2,254,689.11
Transportation Costs			25,141.47
Other Costs			397,000.00
Subtotal - Basic Gas Cost Factor	16,394,867	$ 0.1633	$ 2,676,830.58
Purchase/Sales Ratio		1.05	
Total Basic Gas Cost Factor		$ 0.1715	

NEW MEXICO GAS COMPANY
GAS COST FACTOR STATEMENT
RATE RIDER NO.4 **May 10, 2024**
JUNE 2024 FILING

SECTION TWO: DETERMINATION OF THE BASIC GAS COST FACTOR (CONT.) - TRANSPORTATION COSTS **PAGE 3**

TRANSPORTATION COSTS	EXPECTED AMOUNT
EL PASO NATURAL GAS TRANSMISSION	332,499.88
TRANSWESTERN GAS TRANSMISSION	141,450.00
OTHER TRANSPORTATION COSTS	-
TRANSPORTATION OPTIMIZATION	
Revenue Estimate	(384,000.07)
Fee Amortization	-
Fee Amortization 2	(64,808.33)
TOTAL EXPECTED TRANSPORTATION COSTS	$ 25,141.47

NEW MEXICO GAS COMPANY
GAS COST FACTOR STATEMENT
RATE RIDER NO.4 **May 10, 2024**
JUNE 2024 FILING

SECTION TWO: DETERMINATION OF THE BASIC GAS COST FACTOR (CONT.) - OTHER COSTS **PAGE 4**

OTHER COSTS	EXPECTED AMOUNT
STORAGE LEASE COSTS	621,000.00
CARRYING CHARGE AMORTIZATION	-
CALL OPTION PREMIUM AMORTIZATION	-
ESTIMATED EXPENSES FOR FINANCIAL RISK MANAGEMENT	-
STORAGE OPTIMIZATION	
Optimization 1	
Fee Amortization	-
Optimization 2	
Fee Amortization	(224,000.00)
TOTAL OTHER COSTS	$ 397,000.00

NEW MEXICO GAS COMPANY
GAS COST FACTOR STATEMENT
RATE RIDER NO.4 **May 10, 2024**
JUNE 2024 FILING

SECTION TWO: DETERMINATION OF THE BASIC GAS COST FACTOR (CONT.) - PURCHASE/SALES RATIO **PAGE 5**

PURCHASE SALES RATIO **0**

Item	MMBtus for the 12 Months Ending June, 2023
COMPANY USED GAS	138,113
UNACCOUNTED FOR GAS	2,133,684
TOTAL	2,271,797
SALES	49,665,874
TOTAL	49,665,874

Purchase/Sales Ratio: **(1 + (2,271,797 / 49,665,874) = 1.05**

NEW MEXICO GAS COMPANY
GAS COST FACTOR STATEMENT
RATE RIDER NO.4 **May 10, 2024**
JUNE 2024 FILING

SECTION THREE: DETERMINATION OF THE BALANCING ACCOUNT ADJUSTMENT FACTOR **PAGE 6**

	EXPECTED THERMS	EXPECTED AMOUNT (PER THERM)	EXPECTED AMOUNT
BALANCING ACCOUNT ADJUSTMENT FACTOR	16,394,867	$ (0.1100)	$ (1,803,435.38)
EXPECTED BALANCING ACCOUNT	16,394,867	(0.1100)	$ (1,803,435.38)

NEW MEXICO GAS COMPANY

GAS COST FACTOR STATEMENT

RATE RIDER NO.4

JUNE 2024 FILING

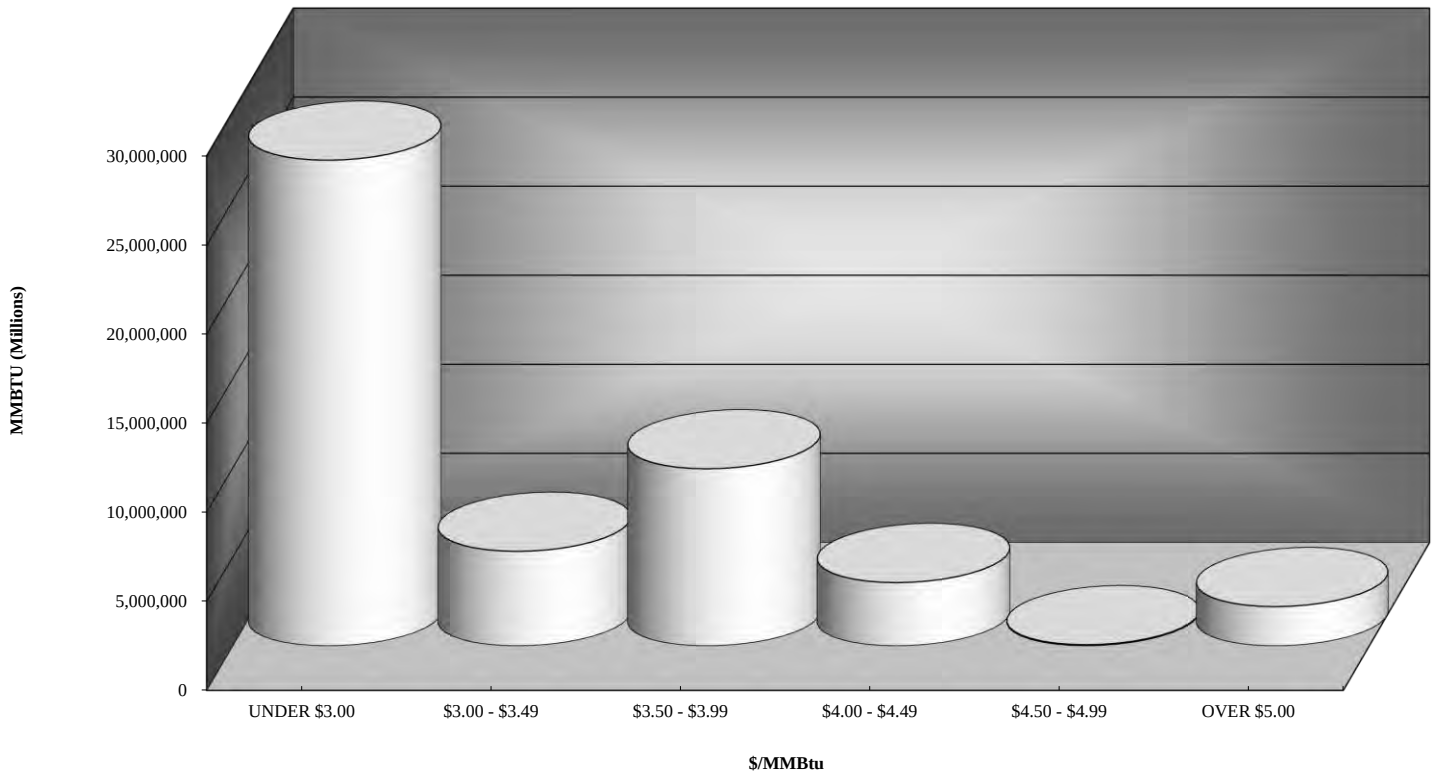
May 10, 2024

SECTION FIVE: DISTRIBUTION OF NATURAL GAS PURCHASED BY AVERAGE PRICE PAGE 7

NEW MEXICO GAS COMPANY

DISTRIBUTION OF GAS PURCHASES

12 MONTHS ENDING APRIL 2024



NEW MEXICO GAS COMPANY
GAS COST FACTOR STATEMENT
RATE RIDER NO.4
JUNE 2024 FILING

May 10, 2024

SECTION SIX: STATEMENT OF GAS RECEIPTS AND DELIVERIES

PAGE 8

12 MONTHS ENDING JUNE, 2023

GAS RECEIVED	MMBTU	GAS DELIVERED	MMBTU
WELLHEAD PURCHASES	-	GAS SALES	49,665,874
FIELD LINE PURCHASES	-	COMPANY USED GAS	138,113
GASOLINE PLANT OUTLET PURCHASES	19,818,208	SHRINKAGE & FUEL (GAS PROCESSED)	-
GAS TRANSMISSION LINE PURCHASES	31,926,981	LIQUID CONDENSATE	-
CITY GATE PURCHASES	554,007	UNACCOUNTED FOR GAS	2,133,684
EXCHANGE GAS RECEIVED	205,303	EXCHANGE GAS DELIVERED	2,012,339
GAS WITHDRAWN FROM UNDERGROUND STORAGE	1,703,833	GAS DELIVERED TO UNDERGROUND STORAGE	258,322
TRANSPORTATION IMBALANCE AND BANKED	-	TRANSPORTATION IMBALANCE AND BANKED	-
GAS OF OTHERS RECEIVED FOR TRANSPORTATION	54,781,829	DELIVERED GAS RECEIVED FOR TRANSPORTATION	54,781,829
TOTAL RECEIPTS	108,990,161	TOTAL DELIVERIES	108,990,161

PURCHASE/SALES RATIO:

				COMPANY USED GAS	138,113
				UNACCOUNTED FOR GAS	2,133,684
Purchase/Sales Ratio:	(1+ (2,271,797 /	49,665,874)	= 1.05	TOTAL	2,271,797

EXHIBIT 1
PGAC BALANCING ACCOUNT PROJECTION
PROJECTED BALANCE @ AUGUST 31, 2023
GAS COST FACTOR STATEMENT
JUNE 2024 FILING

	Sep-23		Oct-23		Nov-23		Dec-23	
Balance Forward	$ (2,970,963.12)		$ (1,547,954.38)		$ 1,018,563.97		$ 8,519,108.86	
Cost of Gas Purchased	3,952,855.24	(b)	9,322,283.96	(b)	20,779,427.69	(b)	34,493,755.56	(b)
Storage Optimization	(224,000.00)		(224,000.00)		(224,000.00)		(224,000.00)	
Transportation Optimization	(419,885.31)		(678,729.18)		(2,032,550.18)		(2,730,658.30)	
Billed Cost of Gas	4,463,909.78	(b)	8,105,524.35	(b)	13,289,027.21	(b)	29,638,727.72	(b)
Balancing Entry	(1,154,939.85)	(b)	314,030.43	(b)	5,233,850.30	(b)	1,900,369.54	(b)
2021 Winter Event Cost of Gas	2,537,457.36		2,165,024.14		2,147,836.95		4,617,916.63	(b)
Adjusted Balancing Entry	1,382,517.51	(b)	2,479,054.57	(b)	7,381,687.25	(b)	6,518,286.17	(b)
Carrying Charge	40,491.23	(c)	87,463.78	(c)	125,575.00	(c)	158,018.59	(c)
Lost Gas		(b)		(b)	(6,717.36)	(b)	(844.18)	(b)
Cumulative Ending Bal.	$ (1,547,954.38)	(b)	$ 1,018,563.97	(b)	$ 8,519,108.86	(b)	$ 15,194,569.44	(b)
Unrecovered Hedging Costs	11,714,265.00	(b)	9,761,887.50	(b)	7,809,510.00	(b)	5,857,132.50	(b)

	Jan-24		Feb-24		Mar-24		Apr-24	
Balance Forward	$ 15,194,569.44		$ 26,528,955.44		$ 19,479,353.17		$ 5,921,786.12	
Cost of Gas Purchased	42,647,920.41	(b)	28,781,063.97	(b)	11,022,162.52	(b)	2,035,794.71	(a)
Storage Optimization	(224,000.00)		(224,000.00)		(224,000.00)		(224,000.00)	
Transportation Optimization	(3,306,551.21)		(1,711,249.45)		(1,307,159.99)		611,567.34	
Billed Cost of Gas	35,868,764.55	(b)	34,056,045.85	(b)	23,079,292.63	(b)	11,996,517.58	(a)
Balancing Entry	3,248,604.65	(b)	(7,210,231.33)	(b)	(13,588,290.10)	(b)	(9,573,155.53)	(b)
2021 Winter Event Cost of Gas	7,863,316.29	(d)						
Adjusted Balancing Entry	11,111,920.94	(b)	(7,210,231.33)	(b)	(13,588,290.10)	(b)	(9,573,155.53)	(b)
Carrying Charge	222,465.06	(c)	160,629.06	(c)	33,535.91	(e)	(30,807.93)	(f)
Lost Gas		(b)		(b)	(2,812.86)	(b)	(1,065.00)	(a)
Cumulative Ending Bal.	$ 26,528,955.44	(b)	$ 19,479,353.17	(b)	$ 5,921,786.12	(b)	$ (3,683,242.34)	(a)
Unrecovered Hedging Costs	3,904,755.00	(b)	1,952,377.50	(b)	-	(b)	1,655,600.00	(a)

	May-24		Jun-24		Jul-24		Aug-24	
Balance Forward	$ (3,683,242.34)		$ (6,081,248.41)		$ (4,460,114.29)		$ (2,754,441.88)	
Cost of Gas Purchased	1,845,150.75	(a)	2,676,830.58	(a)	3,579,815.20	(a)	4,256,544.02	(a)
Storage Optimization								
Transportation Optimization								
Billed Cost of Gas	4,219,506.22	(a)	1,059,173.32	(a)	1,889,055.73	(a)	3,796,221.73	(a)
Balancing Entry	(2,374,355.47)	(a)	1,617,657.27	(a)	1,690,759.47	(a)	460,322.29	(a)
2021 Winter Event Cost of Gas								
Adjusted Balancing Entry	(2,374,355.47)	(a)	1,617,657.27	(a)	1,690,759.47	(a)	460,322.29	(a)
Carrying Charge	(23,650.60)	(c)	3,476.85	(c)	14,912.94	(c)	18,120.78	(c)
Lost Gas		(a)		(a)		(a)		(a)
Cumulative Ending Bal.	$ (6,081,248.41)	(a)	$ (4,460,114.29)	(a)	$ (2,754,441.88)	(a)	$ (2,275,998.81)	(a)
Unrecovered Hedging Costs	4,978,680.00	(a)	4,978,680.00	(a)	4,978,680.00	(a)	4,978,680.00	(a)

Cumulative (Over)/Under Collection - Projected for the PGA year $ (2,275,998.81) (a)

(a) Fully estimated amounts for purposes of this projection
(b) Actual recorded amounts
(c) Carrying charge factor of 8.1%/12 months = .007
(d) The remaining WWE balance added to the PGA balancing account
(e) -$19,388 March YTD Adjustment to the Carrying charge
(f) -$6,154 April YTD Adjustment to the Carrying charge

ELECTRONIC ATTESTATION

Deborah M. Keene certifies that she is the Controller of New Mexico Gas Company, Inc., and that under penalty of perjury under the laws of the State of New Mexico that the following is true and correct to the best of her knowledge, information, and belief: the Gas Cost Factor Statement filed herewith has been calculated as prescribed by 17.10.640 NMAC and in accordance with the Orders and proceedings of the NMPRC in Case Nos. 2508, 2752, 2777, 3056, 08-00078-UT, 08-00191-UT, 12-00186-UT, 16-00158-UT and 20-00130-UT.

May 10, 2024

/s/ Deborah M. Keene
Deborah M. Keene

New Mexico GAS COMPANY®
AN EMERA COMPANY
A Natural Choice.

December 13, 2023

Ms. Melanie Sandoval, Bureau Chief
Records Management Bureau
New Mexico Public Regulation Commission
P. O. Box 1269
Santa Fe, New Mexico 87504-1269

Subject: New Mexico Gas Company, Inc.'s Rate Rider No. 4 - Gas Cost Factor Statement Effective for the Calendar Month of January 2024

Dear Ms. Sandoval:

Pursuant to the New Mexico Public Regulation Commission's ("NMPRC") Rule No. 17.10.640 NMAC, enclosed please find the above-referenced statement filed on behalf of New Mexico Gas Company, Inc. ("NMGC"). The enclosed Gas Cost Factor Statement is to be effective for the calendar month of January 2024. This statement includes the following information:

First, NMGC has decreased its projection of the cost it will charge for gas during the month of January 2024 from that indicated in the Company's notification letter of November 28, 2023. NMGC, in its December 2023 bills, notified sales customers of the separate Cost of Gas Factors that included the December 2024 projected amount of $0.5338.

Second, the Gas Cost Factor to be used for the calendar month of January 2024 for Rate Rider No. 4 for general service customers is:

Rate Rider No. 4	$0.4507/therm

The projected January 2024 Cost of Gas Factor is a decrease of 15.6% from the notification and a 20.0% increase from the December 2023 Gas Cost Factor.

Third, the natural gas market continues to be volatile. NMGC will continue to monitor both the market for substantial changes and the projected Purchased Gas Adjustment Clause ("PGAC") Balancing Account amount, and will be prepared to update its price, if a change in the Gas Cost Factor is warranted. The Gas Cost Factor is based on a NYMEX Henry Hub price of $0.2532/therm, which is a three-day average for December 7, 8, and 9 as reported in Platt's Gas Daily. Adjusting for the San Juan Basin differential average for the same three-day period results in a San Juan Inside FERC average price of $0.3336/therm.

Fourth, pursuant to the Final Order in NMPRC Case No. 21-00095-UT, NMGC was authorized to increase the projected Factor to include recovery of Extraordinary Gas Costs incurred by NMGC during the February 2021 Winter Weather Event over a 30-month period. The recovery period will conclude at the end of December 2023, at which point the remaining over/under collection of the

Extraordinary Gas Costs will be rolled into the Purchased Gas Adjustment Clause Balancing Account ("Balancing Account") and collected or refunded through the Balancing Account Factor. The estimated amount included in this filing is a $6,415,053.19 under collection which includes actual collections through November 2023 and an estimate for December 2023 collections. The under collection is reflected in Exhibit 1 within the line titled "2021 Winter Event Cost of Gas" in January 2024.

Fifth, attached to the January 2024 Gas Cost Factor Statement, as Exhibit 1, is the PGAC Deferral Estimate for the PGAC year ending August 31, 2024. The current projection of August 31, 2024, balance in the continuous PGAC Balancing Account, based on estimated revenue, and budgeted throughput numbers, and the inclusion of the under collection from the Extraordinary Gas Costs mentioned above is a $5,066,254.49 under collection.

Sixth, pursuant to 17.10.640.13 NMAC, NMGC is filing concurrently with this statement its Annual Reconciliation Report, including Attachments, for the twelve months ending August 31, 2023.

Seventh, pursuant to the Final Order Approving Certification of Stipulation in NMPRC Case No. 2526, NMGC is filing its Annual Transportation Balancing Report for the twelve-month period ending August 31, 2023.

If you have any questions regarding this information, please call me at 505-697-4463.

Sincerely,

/s/ Beilen Nesbitt

Beilen Nesbitt
Manager, Regulatory Rates and Rate Design

Enclosure

cc: Office of the Attorney General, State of New Mexico
Leslie Graham – Zia Natural Gas
Timothy Martinez – NMPRC
Ed Rilkoff - NMPRC
Nicole Strauser – NMGC
Gerald Weseen - NMGC

NEW MEXICO GAS COMPANY
GAS COST FACTOR STATEMENT
RATE RIDER NO.4
JANUARY 2024 FILING

December 13, 2023

SECTION ONE: SUMMARY OF THE GAS COST FACTORS **PAGE 1**

DESCRIPTION		$ /THERM
BASIC GAS COST FACTOR		$ 0.4484
BALANCING ACCOUNT ADJUSTMENT FACTOR		-
REFUNDS/SURCHARGE FACTOR		-
SPECIAL SERVICE GAS COST FACTOR		$ 0.4484
INSPECTION & SUPERVISION FEE	(1)	0.0023
GENERAL SERVICE GAS COST FACTOR		$ 0.4507

(1) Tax Rate of 0.5060% on General Service Gas Cost Factor for NMPRC Inspection & Supervision Fee based on gross revenue including Inspection & Supervision fees.

NEW MEXICO GAS COMPANY
GAS COST FACTOR STATEMENT
RATE RIDER NO.4 **December 13, 2023**
JANUARY 2024 FILING

SECTION TWO: DETERMINATION OF THE BASIC GAS COST FACTOR **PAGE 2**

DESCRIPTION	EXPECTED MONTHLY DEMAND THERMS	EXPECTED MONTHLY AVERAGE $/THERM	EXPECTED MONTHLY DEMAND $s
GAS COST:			
Wellhead Purchases (before PTR reduction)	-	$ -	$ -
Field Line Purchases	-	-	-
Gasoline Plant Outlet Purchases	34,852,370	0.3429	11,951,068.74
Gas Transmission Line Purchases	45,280,627	0.3354	15,184,980.38
City Gate Purchases	382,540	0.2330	89,119.07
Demand Fees			872,350.00
Exchange Gas Receipts		-	
Exchange Gas Delivered		-	
Storage Gas Withdrawn	-	-	-
Storage Gas Injected		-	-
Total Gas Costs	80,515,537	$ 0.3490	$ 28,097,518.18
Transportation Costs			1,603,178.12
Other Costs			4,675,811.17
Subtotal - Basic Gas Cost Factor	80,515,537	$ 0.4270	$ 34,376,507.47
Purchase/Sales Ratio		1.05	
Total Basic Gas Cost Factor		$ 0.4484	

NEW MEXICO GAS COMPANY
GAS COST FACTOR STATEMENT
RATE RIDER NO.4
JANUARY 2024 FILING

December 13, 2023

SECTION TWO: DETERMINATION OF THE BASIC GAS COST FACTOR (CONT.) - OTHER COSTS

PAGE 4

OTHER COSTS	EXPECTED AMOUNT
STORAGE LEASE COSTS	621,000.00
CARRYING CHARGE AMORTIZATION	90,957.00
CALL OPTION PREMIUM AMORTIZATION	1,952,377.50
FIXED PRICE PREMIUM/(REDUCTION)	2,235,476.67
STORAGE OPTIMIZATION	
Optimization 1	
Fee Amortization	-
Optimization 2	
Fee Amortization	(224,000.00)
TOTAL OTHER COSTS	$ 4,675,811.17

NEW MEXICO GAS COMPANY
GAS COST FACTOR STATEMENT
RATE RIDER NO.4
JANUARY 2024 FILING

December 13, 2023

SECTION TWO: DETERMINATION OF THE BASIC GAS COST FACTOR (CONT.) - TRANSPORTATION COSTS

PAGE 3

TRANSPORTATION COSTS	EXPECTED AMOUNT
EL PASO NATURAL GAS TRANSMISSION	1,169,255.90
TRANSWESTERN GAS TRANSMISSION	2,525,337.50
OTHER TRANSPORTATION COSTS	359.46
TRANSPORTATION OPTIMIZATION	
Revenue Estimate	(2,045,108.07)
Fee Amortization	-
Fee Amortization 2	(46,666.67)
TOTAL EXPECTED TRANSPORTATION COSTS	$ 1,603,178.12

NEW MEXICO GAS COMPANY
GAS COST FACTOR STATEMENT
RATE RIDER NO.4 **December 13, 2023**
JANUARY 2024 FILING

SECTION TWO: DETERMINATION OF THE BASIC GAS COST FACTOR (CONT.) - PURCHASE/SALES RATIO **PAGE 5**

PURCHASE SALES RATIO **0**

Item	MMBtus for the 12 Months Ending June, 2023
COMPANY USED GAS	138,113
UNACCOUNTED FOR GAS	2,133,684
TOTAL	2,271,797
SALES	49,665,874
TOTAL	49,665,874

Purchase/Sales Ratio: **(1 + (2,271,797 / 49,665,874) = 1.05**

NEW MEXICO GAS COMPANY
GAS COST FACTOR STATEMENT
RATE RIDER NO.4
JANUARY 2024 FILING

December 13, 2023

SECTION THREE: DETERMINATION OF THE BALANCING ACCOUNT ADJUSTMENT FACTOR

PAGE 6

	EXPECTED THERMS	EXPECTED AMOUNT (PER THERM)	EXPECTED AMOUNT
BALANCING ACCOUNT ADJUSTMENT FACTOR	80,515,537	$ -	$ -
EXPECTED BALANCING ACCOUNT	80,515,537	-	$ -

NEW MEXICO GAS COMPANY

GAS COST FACTOR STATEMENT

RATE RIDER NO.4

JANUARY 2024 FILING

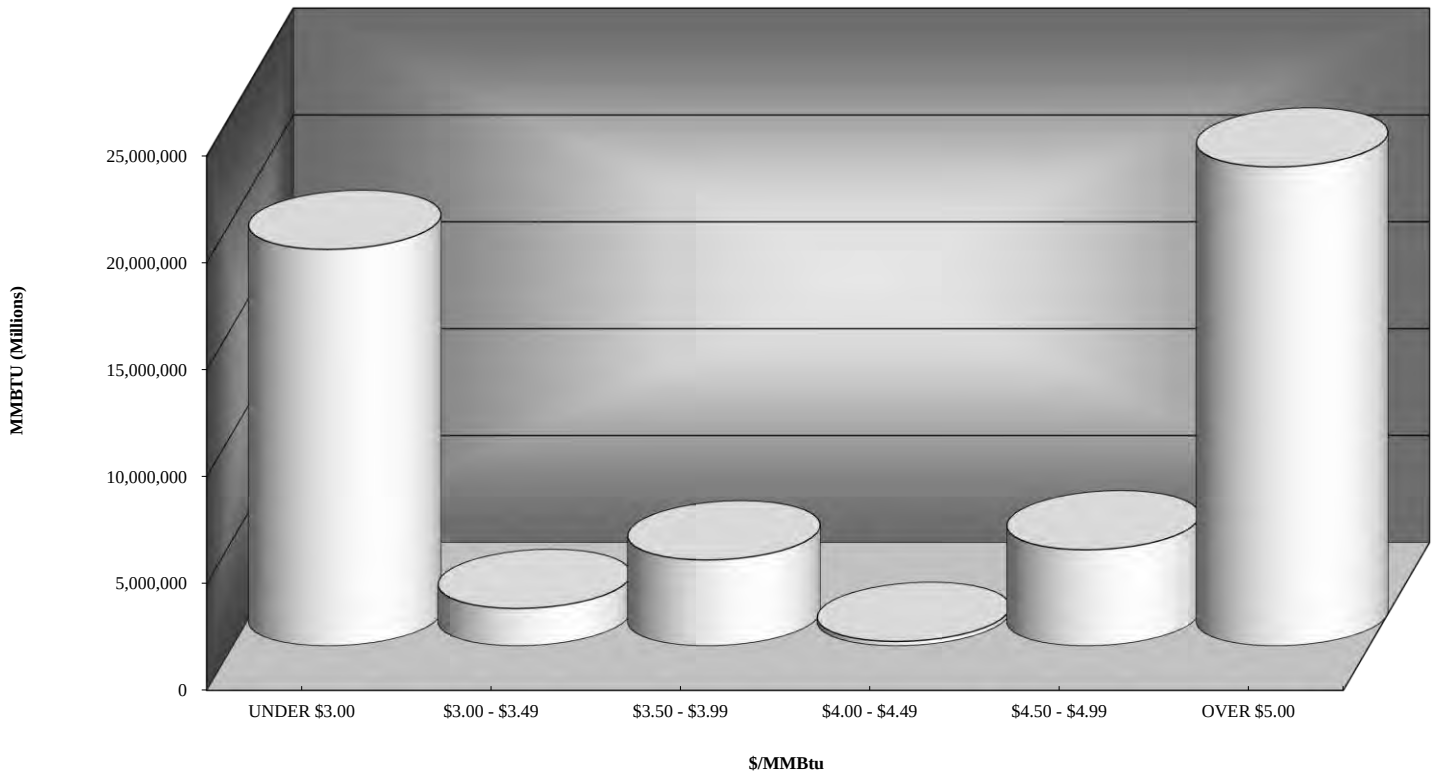
December 13, 2023

SECTION FIVE: DISTRIBUTION OF NATURAL GAS PURCHASED BY AVERAGE PRICE PAGE 7

NEW MEXICO GAS COMPANY

DISTRIBUTION OF GAS PURCHASES

12 MONTHS ENDING NOVEMBER 2023



NEW MEXICO GAS COMPANY
GAS COST FACTOR STATEMENT
RATE RIDER NO.4
JANUARY 2024 FILING

December 13, 2023

SECTION SIX: STATEMENT OF GAS RECEIPTS AND DELIVERIES

PAGE 8

12 MONTHS ENDING JUNE, 2023

GAS RECEIVED	MMBTU	GAS DELIVERED	MMBTU
WELLHEAD PURCHASES	-	GAS SALES	49,665,874
FIELD LINE PURCHASES	-	COMPANY USED GAS	138,113
GASOLINE PLANT OUTLET PURCHASES	19,818,208	SHRINKAGE & FUEL (GAS PROCESSED)	-
GAS TRANSMISSION LINE PURCHASES	31,926,981	LIQUID CONDENSATE	-
CITY GATE PURCHASES	554,007	UNACCOUNTED FOR GAS	2,133,684
EXCHANGE GAS RECEIVED	205,303	EXCHANGE GAS DELIVERED	2,012,339
GAS WITHDRAWN FROM UNDERGROUND STORAGE	1,703,833	GAS DELIVERED TO UNDERGROUND STORAGE	258,322
TRANSPORTATION IMBALANCE AND BANKED	-	TRANSPORTATION IMBALANCE AND BANKED	-
GAS OF OTHERS RECEIVED FOR TRANSPORTATION	54,781,829	DELIVERED GAS RECEIVED FOR TRANSPORTATION	54,781,829
TOTAL RECEIPTS	108,990,161	TOTAL DELIVERIES	108,990,161

PURCHASE/SALES RATIO:

		COMPANY USED GAS	138,113
		UNACCOUNTED FOR GAS	2,133,684
Purchase/Sales Ratio:	(1+ (2,271,797 / 49,665,874) = 1.05	TOTAL	2,271,797

EXHIBIT 1
PGAC BALANCING ACCOUNT PROJECTION
PROJECTED BALANCE @ AUGUST 31, 2023
GAS COST FACTOR STATEMENT
JANUARY 2024 FILING

	Sep-23		Oct-23		Nov-23		Dec-23	
Balance Forward	$ (2,970,963.12)		$ (1,547,954.38)		$ 1,018,563.97		$ 8,519,108.86	
Cost of Gas Purchased	3,952,855.24	(b)	9,322,283.96	(b)	20,779,427.69	(b)	32,587,168.52	(a)
Storage Optimization	(224,000.00)		(224,000.00)		(224,000.00)			
Transportation Optimization	(419,885.31)		(678,729.18)		(2,032,550.18)			
Billed Cost of Gas	4,463,909.78	(b)	8,105,524.35	(b)	13,289,027.21	(b)	26,588,854.66	(a)
Balancing Entry	(1,154,939.85)	(b)	314,030.43	(b)	5,233,850.30	(b)	5,998,313.86	(a)
2021 Winter Event Cost of Gas	2,537,457.36		2,165,024.14		2,147,836.95			(a)
Adjusted Balancing Entry	1,382,517.51	(b)	2,479,054.57	(b)	7,381,687.25	(b)	5,998,313.86	(a)
Carrying Charge	40,491.23	(c)	87,463.78	(c)	125,575.00	(c)	154,427.95	(c)
Lost Gas		(b)		(b)	(6,717.36)	(b)		(a)
Cumulative Ending Bal.	$ (1,547,954.38)	(b)	$ 1,018,563.97	(b)	$ 8,519,108.86	(b)	$ 14,671,850.67	(a)
Unrecovered Hedging Costs	11,714,265.00	(b)	9,761,887.50	(b)	7,809,510.00	(b)	5,857,132.50	(a)

	Jan-24		Feb-24		Mar-24		Apr-24	
Balance Forward	$ 14,671,850.67		$ 24,498,208.73		$ 20,794,710.49		$ 9,977,830.86	
Cost of Gas Purchased	34,376,507.47	(a)	31,619,071.62	(a)	15,890,519.60	(a)	6,829,733.36	(a)
Storage Optimization								
Transportation Optimization								
Billed Cost of Gas	31,173,718.14	(a)	35,492,234.31	(a)	26,789,349.68	(a)	12,995,661.96	(a)
Balancing Entry	3,202,789.33	(a)	(3,873,162.70)	(a)	(10,898,830.08)	(a)	(6,165,928.59)	(b)
2021 Winter Event Cost of Gas	6,415,053.19	(d)						
Adjusted Balancing Entry	9,617,842.52	(a)	(3,873,162.70)	(a)	(10,898,830.08)	(a)	(6,165,928.59)	(b)
Carrying Charge	208,515.54	(c)	169,664.46	(c)	81,950.45	(c)	26,365.66	(c)
Lost Gas		(a)		(a)		(a)		(a)
Cumulative Ending Bal.	$ 24,498,208.73	(a)	$ 20,794,710.49	(a)	$ 9,977,830.86	(a)	$ 3,838,267.93	(a)
Unrecovered Hedging Costs	3,904,755.00	(a)	1,952,377.50	(a)	-	(a)	-	(a)

	May-24		Jun-24		Jul-24		Aug-24	
Balance Forward	$ 3,838,267.93		$ 4,477,885.38		$ 4,109,267.58		$ 4,747,506.40	
Cost of Gas Purchased	4,389,886.53	(a)	3,868,841.14	(a)	4,647,892.32	(a)	5,051,487.21	(a)
Storage Optimization								
Transportation Optimization								
Billed Cost of Gas	3,781,028.36	(a)	4,265,686.13	(a)	4,042,264.85	(a)	4,767,540.00	(a)
Balancing Entry	608,858.16	(a)	(396,845.00)	(a)	605,627.46	(a)	283,947.20	(a)
2021 Winter Event Cost of Gas								
Adjusted Balancing Entry	608,858.16	(a)	(396,845.00)	(a)	605,627.46	(a)	283,947.20	(a)
Carrying Charge	30,759.29	(c)	28,227.20	(c)	32,611.36	(c)	34,800.89	(c)
Lost Gas		(a)		(a)		(a)		(a)
Cumulative Ending Bal.	$ 4,477,885.38	(a)	$ 4,109,267.58	(a)	$ 4,747,506.40	(a)	$ 5,066,254.49	(a)
Unrecovered Hedging Costs	-	(a)	-	(a)	-	(a)	-	(a)

Cumulative (Over)/Under Collection - Projected for the PGA year $ 5,066,254.49 (a)

(a) Fully estimated amounts for purposes of this projection
(b) Actual recorded amounts
(c) Carrying charge factor of 8.3%/12 months = .007
(d) The remaining WWE balance added to the PGA balancing account

Building a better working world

Ernst & Young LLP
One Tampa City Center
Suite 2400
201 North Franklin Street
Tampa, Florida 33602

Tel: +1 813 225 4800
Fax: +1 813 225 4711
ey.com

Report of Independent Accountants on Applying Agreed-Upon Procedures

To the Board of Directors and Management of New Mexico Gas Company, Inc.:

We have performed the procedures enumerated in Attachment 1, which were agreed to by New Mexico Gas Company, Inc. ("the Company") and New Mexico Public Regulation Commission ("NMPRC") related to the Company's compliance with NMPRC's Rule 640, *Purchase Gas Adjustment Clause for Gas Utilities,* during the period from September 1, 2022 to August 31, 2023, for preparation of the Annual Reconciliation Report. The Company is responsible for its compliance with those requirements.

The Company's management and NMPRC have agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of assisting users in determining whether the entity complied with the specified requirements. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

Refer to Attachment 1 for a description of our specified procedures and findings.

We were engaged by the Company's management to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants ("AICPA"). We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on compliance with the specified requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The Company is responsible for the source documents that are described in the specified procedures and related findings section in Attachment 1. We were not engaged to perform and we have not performed any procedures other than those listed in Attachment 1, including procedures to test the accuracy or completeness of the information provided to us except as indicated in our procedures. Furthermore, we have not performed any procedures with respect to the preparation or verification of any of the source documents. We have no responsibility for the verification of any underlying information upon which we relied in forming our findings.

Furthermore, we undertake no responsibility to update this report for events and circumstances occurring after the date of the Annual Reconciliation Report.

Building a better working world

We are required to be independent of the Company and to meet our other ethical responsibilities, as applicable for agreed-upon procedures engagements set forth in the Preface: Applicable to All Members and Part 1 – Members in Public Practice of the Code of Professional Conduct established by the AICPA.

This report is intended solely for the information and use of the specified parties listed above, as well as NMPRC. It is not intended to be and should not be used by any other persons or entity who are not identified as specified parties but who may have access to this report as required by law or regulation.

Ernst & Young LLP

December 8, 2023

Building a better working world

Attachment 1:

Specified Procedures and Related Findings

Agreed-upon procedures performed with respect to the Annual Reconciliation Report for the period from September 1, 2022 through August 31, 2023 and related findings are as follows:

All Schedules – Procedures:

We recalculated the mathematical accuracy of column and line totals of Schedules A through D, Company worksheets supporting Schedules A through D, and Exhibit 1, "PGAC Balancing Account Projection," noting no exceptions, except for the following $1 rounding differences:

- Schedule A:
  - "Sub-total" line item under the "PGA Close Value" and "General Ledger Value" columns
  - "Sub-total (PGA)" line item under the "PGA Close Value" and "General Ledger Value" columns
- Schedule B:
  - "Cost of Gas Revenue Per Books" and "Total PGA" line items under the "PGAC Revenues" column

Schedule A – Procedures:

1. We compared each account number line item on Schedule A under the captions PGA Close Value and PGA Close MMBTU to the sum of each month's activity for the period of September 1, 2022 through August 31, 2023, as appearing in the Cost of Gas reports obtained from the Company's Quorum Information System, noting no exceptions.

2. We compared each account number line item on Schedule A under the caption General Ledger Value to the sum of each month's activity for the twelve months ended August 31, 2023, as appearing on the Company's Zero Schedule worksheets, noting no exceptions.

3. For the Company's worksheets described in (2) above, we compared the monthly transportation charges to the Company's general ledger, noting no exceptions.

4. For the Company's worksheets described in (2) above, we compared the sum of the total purchased gas expense, total other gas expense, and total transportation expense (which represents the total PGA value balance on Schedule A), to the sum of each month's activity for the twelve months ended August 31, 2023, appearing as the line item Cost of Gas this Month in the Company's "Rate Rider 4 (RR4) Closing Summary of Changes" monthly reports, noting no exceptions

Building a better working world

5. We read the Company's RR4 details under the First Revised Rule No. 25 effective January 20, 2013 which superseded the Original Rule No. 25 dated January 30, 2009, and compared the general ledger accounts that are included in the cost of gas purchased expense, noting no exceptions. We also compared the general ledger accounts included in the 2022 Annual Reconciliation Report to those included in the 2023 Annual Reconciliation Report, noting no exceptions.

6. We compared each supplier line item on Schedule A under the captions Total (PGAC Close) September 2022 – August 2023 – Value and Total (PGAC Close) September 2022 – August 2023 – MMBTU to the Company's worksheets, which include adjustments provided by management, noting no exceptions.

7. For those individual suppliers presented on Schedule A, we compared the monthly cost of purchased gas and MMBTU's as appearing on the Company's worksheets, referred to in (6) above, to the Volume and Values by Account by Seller, which include adjustments provided by management, noting no exceptions.

Schedule B – Procedures:

1. We compared the PGAC Revenues and Therms Sold on Schedule B for the twelve months ended August 31, 2023, to the sum of each month's activity for the twelve months ended August 31, 2023, as appearing on the Company's worksheets ("Schedule B Worksheets Calculation of the RR4 Gas Cost Factor & Summary of COG Revenues from Accounting System Billings & Other Sources"), noting no exceptions, except for a difference of $1 for the "Cost of Gas Revenue Per Books" and "Total PGA" line items under the "PGAC Revenues" column.

2. We compared the System Billings (General Sales) COG Revenue as appearing on the Company's worksheets described in (1) above (noted as General Service Revenue on Schedule B), to the Company's Gas Sales Revenue Analysis for September 1, 2022 – August 31, 2023 (which shows revenue and cost of gas by rate class), which include adjustments provided by management, noting no exceptions.

3. We recalculated the mathematical accuracy of the Prorated RR4 Cost of Gas Factor as appearing in the Company's worksheets described in (1) above for the period of September 1, 2022 – August 31, 2023 by dividing the COG Revenue in (2) above by the Therms in (5) below, noting no exceptions.

4. We recalculated the Inspection & Supervision fees (represents a part of Cost of Gas Revenue per Books on Schedule B) by multiplying the applicable revenue balances as included on the Company's worksheets (and adjusted by management for "No-Bill Net Current Estimate & Prior Reversal" amounts as described in (6) below) by the New Mexico Statute Annotated 62-8-8 rate of 0.506%, noting no exceptions.

Building a better working world

5. We compared the System Billings (General Sales) Therms as appearing on the Company's worksheets described in (1) above to the Company's Gas Sales Consumption Analysis for the period of September 1, 2022 – August 31, 2023, noting no exceptions, except for a difference of 1 Therm for the month of August 2023.

6. We compared the No-Bill Net Current Estimate & Prior Reversal of COG Revenue and Therms as appearing on the Company's worksheets described in (1) above to the Company's "Monthly No-Bill Estimate" report for September 1, 2022 – August 31, 2023, which include adjustments provided by management, noting no exceptions.

Schedule C – Procedures:

1. We inquired of management regarding the existence of processing revenues and costs for the twelve months ended August 31, 2023. Management indicated that there were no processing revenues and costs for the period. Therefore, no further procedures were performed.

Schedule D – Procedures:

1. We compared Gas Purchased as appearing on Schedule D to the amount under the caption PGA Close Value Sub-Total (PGA) on Schedule A, noting a $1 difference.

2. We compared PGA Revenues Billed as appearing on Schedule D to the total on Schedule B under the caption Cost of Gas Revenue per Books, noting a $1 difference.

3. We compared Inspection & Supervision and Natural Gas Processor's Taxes as appearing on Schedule D to the Company's Schedule B worksheet (line "Less Inspection and Supervision Fees") described in Schedule B procedures 1, noting no exceptions.

4. We compared Carrying Charge on (Over)/Undercollection per Case 3056 as appearing on Schedule D to the sum of the monthly Carrying Charge on the Company's Exhibit 1 for the twelve-months ended August 31, 2023, noting a $1 difference.

5. We compared Processing Revenues on Schedule D to the Net PGA Processing Revenues on Schedule C, noting no exceptions.

6. We compared the General Ledger Subtotal at August 31, 2023 as appearing on Schedule D to the Company's general ledger, noting no exceptions.

7. We compared the amount labeled Reimbursement for Lost Gas as of August 31, 2023 to the Company's general ledger, noting no exceptions.

Exhibit 1 "PGAC Balancing Account Balance" – Procedures:

Building a better working world

1. We compared the Balance Forward as of August 31, 2023 (as per the line item labeled Cumulative Ending Balance as of August 31, 2023) on Exhibit 1 to the general ledger, adjusted for Reverse Unbilled Cost of Gas Revenue as appearing on Schedule D, noting a $1 difference.

2. We compared the total of the monthly Storage Optimization and Transportation Optimization as appearing on Exhibit 1 to the general ledger, noting no exceptions

3. We compared the sum of the total monthly Cost of Gas Purchased, Storage Optimization, and Transport Optimization line items as appearing on Exhibit 1, to the amounts under the caption Gas Purchased on Schedule D, noting no exceptions.

4. We compared the total of the monthly Billed Cost of Gas as appearing on Exhibit 1, to the amount under the caption PGA Revenues Billed plus Inspection & Supervision and Natural Gas Processor's Taxes on Schedule D, noting a $1 difference.

5. We compared the sum of the Carrying Charges as appearing on the Company's Exhibit 1 for the twelve months ended August 31, 2023 to the amount under the caption Carrying Charge on Schedule D, noting a $1 difference.

6. We performed computations to confirm the mathematical accuracy of the amount labeled Carrying Charge on Exhibit 1 at August 31, 2023, which includes adjustments provided by management as outlined in the footnotes of Exhibit 1, noting no exceptions.

Note: References to the "general ledger" relate to the Company's books and records encapsulated in its SAP system and Quorum Information System, a subsidiary ledger.

NEW MEXICO GAS COMPANY
ANNUAL RECONCILIATON REPORT
SCHEDULE A
SUMMARY OF GAS PURCHASES
TWELVE MONTHS ENDED AUGUST 31, 2023

		GAS PURCHASES			
		PGA CLOSE		GENERAL LEDGER	
ACCOUNT	DESCRIPTION	VALUE	MMBTU	VALUE	MMBTU
800	Wellhead	$ -	-	$ -	-
801	Field Line	-	-	-	-
802	Gasoline Plant Outlet	207,880,608	19,798,532	207,880,608	19,798,532
803	Transmission**	93,344,154	31,683,300	93,344,154	31,683,300
804	City Gate	2,192,493	431,193	2,192,493	431,193
805	Estimated Purchases	-	-	-	-
806	Pipeline Imbalances	(233,142)	(52,098)	(233,142)	(52,098)
808	Storage Withdrawals	7,846,438	1,703,560	7,846,438	1,703,560
809	Storage Injections	(4,838,330)	(1,871,170)	(4,838,330)	(1,871,170)
	Sub-total	306,192,222	51,693,317	306,192,222	51,693,317
826	Storage Costs	4,501,000	-	4,501,000	-
855	Compressor Fuel/Power	90,171	-	90,171	-
858	Transportation Charges	(33,464,621)	-	(33,464,621)	-
	Sub-total (PGA)	$ 277,318,772	51,693,317	$ 277,318,772	51,693,317
	Excluded transportation charges and miscellaneous adjustments			- *	-
	Total			$ 277,318,772	51,693,317

* Differences not included in PGAC.
** Includes net hedging cost/(benefit)

NEW MEXICO GAS COMPANY
ANNUAL RECONCILIATON REPORT
SCHEDULE A
SUMMARY OF SUPPLIER CONTRIBUTIONS GREATER THAN 3%
TWELVE MONTHS ENDED AUGUST 31, 2023

DESCRIPTION	TOTAL (PGAC CLOSE) SEPTEMBER 2021 - AUGUST 2022		TOTAL PER BOOKS YEAR-TO-DATE ACTUALS	
COST OF GAS AND MMBTU'S PURCHASED	VALUE	MMBTU	VALUE	MMBTU
SUPPLIER 1	$ 154,316,023	29,752,466	$ 154,316,023	29,752,466
SUPPLIER 2	168,953,950	12,655,088	168,953,950	12,655,088
SUPPLIER 3	5,419,627	1,634,985	5,419,627	1,634,985
SUPPLIER 4	25,322,741	1,509,344	25,322,741	1,509,344
SUPPLIER 5	5,578,790	1,080,009	5,578,790	1,080,009
SUPPLIER 6	16,147,954	1,021,008	16,147,954	1,021,008
ALL OTHERS**	(69,546,862)	4,040,417	(69,546,862)	4,040,417
SUBTOTAL	306,192,222	51,693,317	306,192,222	51,693,317
ACCOUNT 826 - STORAGE COSTS	4,501,000	-	4,501,000	-
ACCOUNT 855 - COMPRESSOR FUEL/POWER	90,171	-	90,171	-
ACCOUNT 858 - TRANSPORTATION CHARGES	(33,464,621)	-	(33,464,621)	-
SUBTOTAL PGAC	$ 277,318,772	51,693,317	$ 277,318,772	51,693,317
EXCLUDED TRANSPORTATION CHARGES			- *	-
TOTAL PER BOOKS			$ 277,318,772	51,693,317

* Differences not included in PGAC
** Includes estimated purchases

NEW MEXICO GAS COMPANY
ANNUAL RECONCILIATION REPORT
SCHEDULE B
SUMMARY OF THERM SALES AND PGAC REVENUES BILLED
TWELVE MONTHS ENDED AUGUST 31, 2023

	PGAC REVENUES	THERMS SOLD
Cost of Gas Revenue Per Books	$ 326,277,511	496,762,668
Cost of Gas Revenue By Source		
General Service Revenue	318,580,029	484,697,400
Net No-Bill Current Month Estimate and Prior Month Reversal	(3,852)	28,398
Gas Imbalance Penalties & Cashouts	7,701,334	12,036,870
Standby & Emergency Gas	-	-
Total PGA	326,277,511	496,762,668
Difference (PGAC to Books)	$ -	-

NEW MEXICO GAS COMPANY
ANNUAL RECONCILIATION REPORT
SCHEDULE C
SUMMARY OF PROCESSING REVENUES AND COSTS
TWELVE MONTHS ENDED AUGUST 31, 2023

	AMOUNT
PROCESSING PLANTS	
REVENUE	
Kutz Plant liquids revenue	$ -
Lybrook Plant liquids revenue	-
Drip tank liquids revenue	-
Total revenues	-
EXPENSE	
Kutz liquids transportation charges	-
Lybrook liquids transportation charges	-
Kutz processing charges	-
Lybrook processing charges	-
Kutz liquids marketing charges	-
Lybrook liquids marketing charges	-
Total expenses	-
NET PGA PROCESSING REVENUES*	$ -

*Excludes Natural Gas Processor's Tax

(1) Excludes Natural Gas Processor's Tax

NEW MEXICO GAS COMPANY
ANNUAL AUDIT RECONCILIATION
SCHEDULE D
SUMMARY OF COSTS AND COLLECTIONS
TWELVE MONTHS ENDED AUGUST 31, 2023

	GENERAL SERVICE
Balance at August 31, 2022 per Annual Reconciliation Report	$ (8,835,636)
Expected (Refund) or Collection	(8,835,636)
Gas Purchased (See Schedule A)	277,318,771
PGA Revenues Billed (See Schedule B)	(326,277,510)
Inspection & Supervision and Natural Gas Processor's Taxes (See Summary of Processing Revenues & Expenses)*	1,650,984
Processing Revenues (See Schedule C)	-
Subtotal PGA Revenue Less PGA Expense	(47,307,755)
Carrying Charge on (Over)/Undercollection per Case 3056	405,283
Reimbursement for Lost Gas as of August 31, 2023	(27,785)
2021 Winter Weather Event Gas Cost Recoveries	45,425,470
PGAC Balance (Over)/Undercollected at August 31, 2023	(10,340,423)
Unbilled Cost of Gas Revenue recorded in 1910100/1910165 in 2022/2023	7,324,711
General Ledger Subtotal at August 31, 2023	(3,015,712)
Reconciling Items	
General Ledger Balance at August 31, 2023	(3,015,712)
Reverse Unbilled Cost of Gas Revenue recorded in 1910100/1910165 in August 2023	44,748
Balance Undercollected at August 31, 2023	$ (2,970,964)

EXHIBIT 1
PGAC BALANCING ACCOUNT PROJECTION
PROJECTED BALANCE @ AUGUST 31, 2023
GAS COST FACTOR STATEMENT
DECEMBER 2023 FILING

	Sep-22		Oct-22		Nov-22		Dec-22	
Balance Forward	$ (1,466,176.81)		$ (5,395,332.10)		$ (3,994,012.52)		$ 10,155,882.03	
Cost of Gas Purchased	10,384,602.40	(b)	16,753,958.58	(b)	44,978,622.35	(b)	74,986,517.84	(b)
Storage Optimization	(189,000.00)	(b)	(189,000.00)	(b)	(189,000.00)	(b)	(189,000.00)	(b)
Transportation Optimization	(577,566.95)	(b)	(651,835.41)	(b)	(2,693,489.81)	(b)	(23,423,367.48)	(b)
Billed Cost of Gas	16,267,905.91	(b)	16,981,027.51	(b)	31,149,473.81	(b)	47,860,716.25	(b)
Balancing Entry	(6,649,870.46)	(b)	(1,067,904.34)	(b)	10,946,658.73	(b)	3,513,434.11	(b)
2021 Winter Event Cost of Gas	2,597,232.10		2,334,968.78		2,998,731.30		5,020,334.98	(b)
Adjusted Balancing Entry	(4,052,638.36)	(b)	1,267,064.44	(b)	13,945,390.03	(b)	8,533,769.09	(b)
Carrying Charge	124,629.26	(c)	134,255.14	(c)	204,504.52	(c)	237,809.42	(c)
Lost Gas	(1,146.19)	(b)	-	(b)	-	(b)	-	(b)
Cumulative Ending Bal.	$ (5,395,332.10)	(b)	$ (3,994,012.52)	(b)	$ 10,155,882.03	(b)	$ 18,927,460.54	(b)
Unrecovered Hedging Costs	23,538,650.00	(b)	19,615,541.67	(b)	15,692,433.33	(b)	11,769,325.00	(b)

	Jan-23		Feb-23		Mar-23		Apr-23	
Balance Forward	$ 18,927,460.54		$ 4,253,506.00		$ (14,917,515.78)		$ (21,552,589.28)	
Cost of Gas Purchased	78,454,740.09	(b)	61,130,411.71	(b)	22,557,353.78	(b)	7,313,600.97	(b)
Storage Optimization	(189,000.00)	(b)	(189,000.00)	(b)	(189,000.00)	(b)	(189,000.00)	(b)
Transportation Optimization	(19,602,874.21)	(b)	(4,297,107.33)	(b)	(1,851,750.29)	(b)	(619,799.29)	(b)
Billed Cost of Gas	79,463,083.80	(b)	82,328,159.76	(b)	31,981,260.74	(b)	5,290,956.68	(b)
Balancing Entry	(20,800,217.92)	(b)	(25,683,855.38)	(b)	(11,464,657.25)	(b)	1,213,845.00	(b)
2021 Winter Event Cost of Gas	6,021,497.00	(b)	6,565,422.21	(b)	4,949,130.85	(b)	3,637,167.23	(b)
Adjusted Balancing Entry	(14,778,720.92)	(b)	(19,118,433.17)	(b)	(6,515,526.40)	(b)	4,851,012.23	(b)
Carrying Charge	107,428.96	(c)	(47,411.24)	(c)	(118,201.14)	(c)	(112,740.72)	(c)
Lost Gas	(2,662.58)	(b)	(5,177.37)	(b)	(1,345.96)	(b)	(752.19)	(b)
Cumulative Ending Bal.	$ 4,253,506.00	(b)	$ (14,917,515.78)	(b)	$ (21,552,589.28)	(b)	$ (16,815,069.96)	(b)
Unrecovered Hedging Costs	7,846,216.67	(b)	3,923,108.33	(b)	-	(b)	1,912,400.00	(b)

	May-23		Jun-23		Jul-23		Aug-23	
Balance Forward	$ (16,815,069.96)		$ (13,587,078.10)		$ (9,999,728.16)		$ (6,237,986.38)	
Cost of Gas Purchased	4,940,958.21	(a)	4,235,930.60	(a)	5,022,783.81	(a)	4,783,801.92	(a)
Storage Optimization	(189,000.00)	(a)	(189,000.00)	(a)	(189,000.00)	(a)	(224,000.00)	(a)
Transportation Optimization	(975,766.57)	(a)	(372,056.87)	(a)	(438,116.55)	(a)	(417,780.33)	(a)
Billed Cost of Gas	3,444,405.07	(a)	3,425,542.92	(a)	3,200,450.95	(a)	3,233,543.39	(a)
Balancing Entry	331,786.57	(a)	249,330.81	(a)	1,195,216.31	(a)	908,478.20	(a)
2021 Winter Event Cost of Gas	2,981,678.71		3,374,475.92	(d)	2,592,077.16		2,352,754.15	
Adjusted Balancing Entry	3,313,465.28	(b)	3,623,806.73	(b)	3,787,293.47		3,261,232.35	
Carrying Charge	(78,275.72)	(c)	(36,456.79)	(c) (d)	(16,081.23)	(c)	5,823.32	(c)
Lost Gas	(7,197.70)	(a)	-	(a)	(9,470.46)	(a)	(32.41)	(a)
Cumulative Ending Bal.	$ (13,587,078.10)	(a)	$ (9,999,728.16)	(a)	$ (6,237,986.38)	(a)	$ (2,970,963.12)	(a)
Unrecovered Hedging Costs	3,839,500.00	(a)	3,839,500.00	(a)	3,839,500.00	(a)	7,442,600.00	(a)
	Cumulative (Over)/Under Collection - Projected for the PGA year						$ (2,970,963.12)	(a)

(a) Fully estimated amounts for purposes of this projection
(b) Actual recorded amounts
(c) Carrying charge factor of 8.3%/12 months = .007 for Sep-Dec and 8.1%/12 months = .00675 for Jan-Aug.
*(d) Adjustment to the Winter Event - March 2023 $ 240,922 (240,922.11*0.081/12)*3 = 4878.67*

Annual Balancing Rule Report
September 2022 through August 2023

	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Total
RR4 filed COG per MMBTU													
Rule 28 Overdelivery													
Dollars	$ 47,893	$ 31,634	$ 14,925	$ 72,324	$ 15,185	$ 24,439	$ 17,083	$ 27,632	$ 14,662	$ 11,166	$ 15,261	$ 14,099	$ 306,303
MMBTU	$ 117,179	$ 90,819	$ 43,578	$ 125,191	$ 42,113	$ 83,286	$ 65,271	$ 91,478	$ 53,210	$ 42,659	$ 59,226	$ 53,389	$ 867,399
PGA Incremental Cost	$ 0.409	$ 0.348	$ 0.342	$ 0.578	$ 0.361	$ 0.293	$ 0.262	$ 0.302	$ 0.276	$ 0.262	$ 0.258	$ 0.264	$ 0.353
Cost to PGAC for Overdelivery	$ 47,893	$ 31,634	$ 14,925	$ 72,324	$ 15,185	$ 24,439	$ 17,083	$ 27,632	$ 14,662	$ 11,166	$ 15,261	$ 14,099	**$306,303**
Rule 28 Underdelivery													
Dollars	$ 46,271	$ 120,959	$ 195,008	$ 981,621	$ 793,956	$ 359,111	$ 199,300	$ 40,081	$ 26,698	$ 36,315	$ 64,566	$ 48,886	$ 2,912,772
MMBTU	$ 10,026	$ 67,483	$ 82,258	$ 107,917	$ 93,209	$ 43,083	$ 108,182	$ 34,769	$ 28,828	$ 53,207	$ 68,058	$ 38,516	$ 735,536
PGA Incremental Cost	$ 4.615	$ 1.792	$ 2.371	$ 9.096	$ 8.518	$ 8.335	$ 1.842	$ 1.153	$ 0.926	$ 0.683	$ 0.949	$ 1.269	$ 3.960
Cost to PGAC for Underdelivery	$ 46,271	$ 120,959	$ 195,008	$ 981,621	$ 793,956	$ 359,111	$ 199,300	$ 40,081	$ 26,698	$ 36,315	$ 64,566	$ 48,886	**$2,912,772**
Total Cost to PGAC	$ 94,164	$ 152,593	$ 209,933	$ 1,053,945	$ 809,141	$ 383,550	$ 216,383	$ 67,713	$ 41,360	$ 47,481	$ 79,828	$ 62,985	**$3,219,074**

ELECTRONIC ATTESTATION

Deborah M. Keene certifies that she is the Controller of New Mexico Gas Company, Inc., and that under penalty of perjury under the laws of the State of New Mexico that the following is true and correct to the best of her knowledge, information, and belief: The Gas Cost Factor Statement filed herewith has been calculated as prescribed by 17.10.640 NMAC, and in accordance with the Orders and proceedings of the NMPRC in Case Nos. 2508, 2752, 2777, 3056, 08-00078-UT, 08-00191-UT, 12-00186-UT, 16-00158-UT, and 20-00130-UT and in accordance with the requirements of 17.10.640.13D NMAC that require an officer of the Company to certify the Annual PGAC reconciliation report to be true and correct.

December 13, 2023

/s/ Deborah M. Keene
Deborah M. Keene

Calculation of Pre-Tax Cost of Capital for Use as PGA Carrying Charge

(Source: Recommended Decision - Page 59 - NMPRC Case No. 06-00210-UT)

Class of Capital	Capital Ratio	Effective Rate	Weighted Avg. Cost of Capital	Weighted Pre-Tax Cost of Capital
Long-Term Debt	48.00%	6.28%	3.0144%	3.0%
Preferred Stock	0.20%	6.20%	0.0124%	0.0%
Common Equity	51.80%	9.53%	4.9365%	6.6%
Total	100.00%		7.9633%	9.6%

Note: The total WACoC is commonly referred to as the Overall Rate of Return or ROR
The Pre-Tax Cost of Capital, or PTROR, grosses up the equity return to allow for income taxes.
The Composite rate used for both State and Federal Income Taxes is 25.40003%
The "Gross-up" formula is: PTROE = ROE / (1 - 25.40003%)
Tax rate changed January 2018

Calculation of Pre-Tax Cost of Capital for Use as PGA Carrying Charge

(Source: Stipulation Exhibit No. 1 Page 20 - NMPRC Case No. 19-00317-UT)

Class of Capital	Capital Ratio	Effective Rate	Weighted Avg. Cost of Capital	Weighted Pre-Tax Cost of Capital
Long-Term Debt	48%	3.700%	1.78%	1.78%
Common Equity	52%	9.375%	4.88%	6.53%
Total	100%		6.65%	8.31%

Note: The total WACoC is commonly referred to as the Overall Rate of Return or ROR
The Pre-Tax Cost of Capital, or PTROR, grosses up the equity return to allow for income taxes.
The Composite rate used for both State and Federal Income Taxes is 25.40003%
The "Gross-up" formula is: PTROE = ROE / (1 - 25.40003%)

Calculation of Pre-Tax Cost of Capital for Use as PGA Carrying Charge

(Source: Stipulation Exhibit No. 1 Page 11 - NMPRC Case No. 21-00267-UT)

Class of Capital	Capital Ratio	Effective Rate	Weighted Avg. Cost of Capital	Weighted Pre-Tax Cost of Capital
Long-Term Debt	48%	3.268%	1.57%	1.57%
Common Equity	52%	9.375%	4.88%	6.53%
Total	100%		6.44%	8.10%

Note: The total WACoC is commonly referred to as the Overall Rate of Return or ROR
The Pre-Tax Cost of Capital, or PTROR, grosses up the equity return to allow for income taxes.
The Composite rate used for both State and Federal Income Taxes is 25.40003%
The "Gross-up" formula is: PTROE = ROE / (1 - 25.40003%)

EXAMPLE OF IMPACT ON NMGC AND ITS CUSTOMERS OF NOT USING A
PGAC AND COLLECTING GAS COST THROUGH COST OF SERVICE RATES

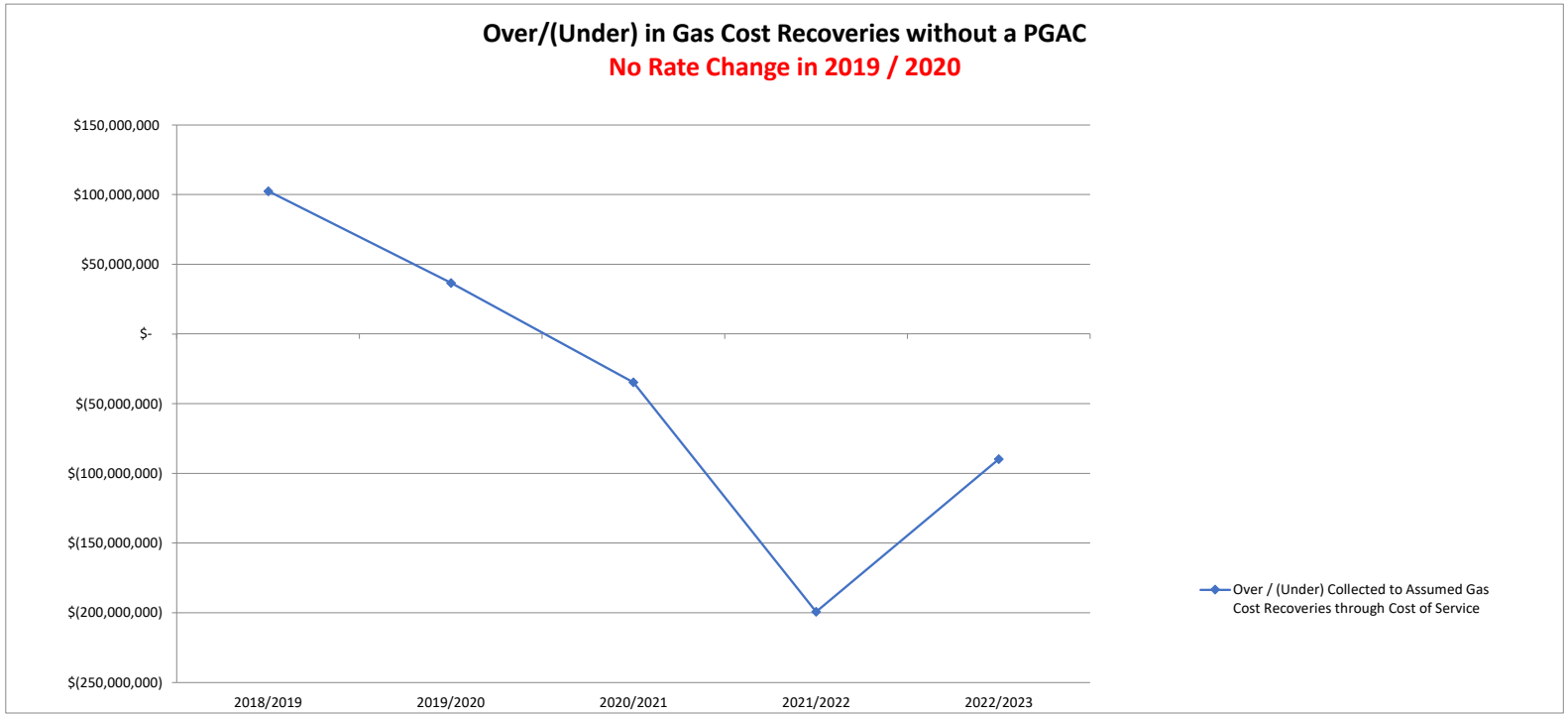
	(A)	(B)	(C)	(D)	(E)	(F)
	Actuals:					
(1)	PGAC Year (Sept/ Aug)	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023
(2)	Therms Sold (Note 1)	456,367,382	467,247,045	468,535,627	448,448,107	496,762,668
(3)	Actual PGAC Gas Cost Recoveries (Note 1)	$ 119,883,887	$ 92,240,071	$ 159,152,213	$ 316,124,925	$ 326,277,511
(4)	Average Actual Annual Billing Rate per Therm	$ 0.2627	$ 0.1974	$ 0.3397	$ 0.7049	$ 0.6568
	Assumed Gas Cost Recovery Through Cost of Service:					
(5)	Assumed Gas Cost Billing Rate in Cost of Service	$ 0.4874	$ 0.2760	$ 0.2657	$ 0.2606	$ 0.4761
(6)	Assumed Gas Cost Recoveries through Cost of Service	$ 222,429,976	$ 128,944,609	$ 124,499,529	$ 116,864,430	$ 236,516,150
	Impact on Gas Cost Recoveries:					
(7)	Over / (Under) Collected to Assumed Gas Cost Recoveries through Cost of Service	$ 102,546,089	$ 36,704,538	$ (34,652,684)	$ (199,260,495)	$ (89,761,361)
(8)	Percent Over / (Under) Collected	46.10%	28.47%	-27.83%	-170.51%	-37.95%

Note 1: Sourced from the annual PGAC Reconciliation Reports filed with the NMPRC and includes recoveries of the Winter Weather Event

Assumptions:

Line 6	The per therm cost of gas shown in line 6 reflects fuel costs as though fuel were recovered in base rates using rate case information from historical test year filings and future test year filings starting with the 2019 rate case.

	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023
(7) Over / (Under) Collected to Assumed Gas Cost Recoveries through Cost of Service	$ 102,546,089	$ 36,704,538	$ (34,652,684)	$ (199,260,495)	$ (89,761,361)



BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION OF NEW MEXICO GAS COMPANY, INC. FOR CONTINUED USE OF ITS PURCHASED GAS ADJUSTMENT CLAUSE,	)	
	)	**Case No. 24-_____-UT**
NEW MEXICO GAS COMPANY, INC.,	)	
Applicant.	)	

ELECTRONICALLY SUBMITTED AFFIRMATION OF ERIK C. BUCHANAN

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

In accordance with 1.2.2.10(E) NMAC, Erik C. Buchanan, Vice President of Finance 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. I further affirmatively state that I know the contents of my Direct Testimony and Exhibits and that they are true and correct to the best of my knowledge and belief.

SIGNED this 11th day of June, 2024.

/s/ Erik C. Buchanan
Erik C. Buchanan
Vice President, Finance
New Mexico Gas Company, Inc.

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION OF NEW MEXICO GAS COMPANY, INC. FOR CONTINUED USE OF ITS PURCHASED GAS ADJUSTMENT CLAUSE	)	
NEW MEXICO GAS COMPANY, INC.	)	**Case No. 24-_____- UT**
Applicant.	)	

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing ***New Mexico Gas Company, Inc.'s Application for Continued Use of Its Purchased Gas Adjustment Clause*** was emailed on this date to the parties listed below.

NM GAS COMPANY	
Thomas M. Domme Brian Haverly Julianna T. Hopper Anita L. Hart Gerald Weseen Nicole V. Strauser Dominic Martinez	tmd@jhkmlaw.com; bjh@jhkmlaw.com; jth@jhkmlaw.com; anita.hart@nmgco.com; gerald.weseen@nmgco.com; nicole.strauser@nmgco.com; dominic.martinez@nmgco.com;
New Mexico AREA	
Peter J. Gould Kelly Gould Katrina Reid	peter@thegouldlawfirm.com; kelly@thegouldlawfirm.com; office@thegouldlawfirm.com;
New Mexico Department of Justice	
Gideon Elliot Joshua LaFayette Maria Oropeza Jocelyn Barrett Doug Gegax Andrea Crane	gelliot@nmag.gov; jlafayette@nmag.gov; moropeza@nmag.gov; jbarrett@nmag.gov; dgegax@nmsu.edu; ctcolumbia@aol.com;
New Energy Economy	
Mariel Nanasi	mariel@seedsbeneaththesnow.com;
Western Resource Advocates	
Cydney Beadles Caitlin Evans Aaron Gould	cydney.beadles@westernresources.org; caitlin.evans@westernresources.org; aaron.gould@westernresources.org;
Coalition for Clean Affordable Energy	
Cara R. Lynch Charles De Saillan	lynch.cara.NM@gmail.com; desaillan.ccae@gmail.com;

Incorporated County of Los Alamos	
Daniel A. Najjar Philo Shelton Ben Olbrich	dnajjar@virtuelaw.com; philo.shelton@lacnm.us; ben.olbrich@lacnm.us;
FEA	
Peter Meier Paige Anderson Saul J. Ramos Dwight Etheridge	peter.meier@hq.doe.gov; paige.anderson@hq.doe.gov; saul.ramos@nnsa.doe.gov; detheridge@exeterassociates.com;
NMPRC – Utilities Staff	
Elisha Leyba-Tercero David Black Marc Tupler Bamadou Ouattara Jonah Mauldin Gabriella Dasheno Angelique Herrera Ed Rilkoff Timothy Martinez Bradford Borman Elizabeth Ramirez Peggy Martinez-Rael Naomi Velasquez Daren Zigich Edison Jimenez Orland Whitney	elisha.leyba-tercero@prc.nm.gov; david.black@prc.nm.gov; marc.tupler@prc.nm.gov; bamadou.ouattara@prc.nm.gov; jonah.mauldin@prc.nm.gov; gabriella.dasheno@prc.nm.gov; angelique.herrera@prc.nm.gov; ed.rilkoff@prc.nm.gov; timothy.martinez@prc.nm.gov; bradford.borman@prc.nm.gov; elizabeth.ramirez@prc.nm.gov; peggy.martinez-Rael@prc.nm.gov; naomi.velasquez1@prc.nm.gov; daren.zigich@prc.nm.gov; edison.jimenez@prc.nm.gov; orland.whitney@prc.nm.gov;
PRC General Counsel Division	
Scott Cameron LaurieAnn Santillanes Alejandro Rettig y Martinez Robert Lundin Erika Avila Stephanz	scott.cameron@prc.nm.gov; laurieann.santillanes@prc.nm.gov; alejandro.martinez@prc.nm.gov; robert.lundin@prc.nm.gov; erika.stephanz@prc.nm.gov;
PRC Hearing Examiners Division	
Ana Kippenbrock	ana.kippenbrock@prc.nm.gov;

DATED on June 11, 2024.

Respectfully submitted,

/s/Anita Hart
Anita Hart
Director, Regulatory Affairs
505-697-3838
anita.hart@nmgco.com