

NEW MEXICO GAS COMPANY INC.

Advice Notice No. 71

February 26, 2018

NEW MEXICO PUBLIC REGULATION COMMISSION
OF THE STATE OF NEW MEXICO

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New Mexico Gas Company, Inc. hereby gives notice to the public and to the Commission of the filing and publishing of the following Rules(s) which are attached hereto:

<u>Rule No.</u>	<u>Title</u>	<u>Canceling</u>	<u>Effective Date</u>
	Table of Contents – Rules		March 29, 2018
Original Rule No. 29	Rate Rider No. 8 – Details		March 29, 2018
Original Rule No. 30	Rate Rider No. 9 – Details		March 29, 2018

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Nicole Strauser
Director, Legal and Regulatory Affairs

NMGCO#3628327

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ORIGINAL RULE NO. 29

RATE RIDER NO. 8 DETAILS

1. Definitions

The following words and terms shall have the indicated meaning when used in the Company's Rate Rider No. 8 and this Rule:

Actual Calendar Month Heating Degree Days: The cumulative monthly Weighted Average Heating Degree Days for the current Heating Season.

Adjustment Period: The annual period beginning with cycle 1, October.

Annual Reconciliation Report: The annual report filed with the Commission which provides the weather-related revenue excesses and deficiencies and the revenues or revenue credits for the Company's Weather Normalization Adjustment Mechanism for a Reconciliation Period.

Balancing Account: Contains the cumulative monthly differences between the weather-related revenue excesses or revenue deficiencies as they are recorded on the books and records of the Company, and the revenues resulting from billings or credits to customers for the recovery or crediting of weather-related revenue excesses or revenue deficiencies as they are recorded on the books and records of the Company.

Balancing Account Adjustment Factor: A component of the Weather Normalization Adjustment Mechanism Factor designed to allow the Company to continuously manage the Balancing Account.

Commission: The New Mexico Public Regulation Commission.

Company: New Mexico Gas Company.

Degree Day Consumption Factor: The aggregate heating use per degree day by rate class for the calendar month stated in terms as set forth in the following table:

<u>Month</u>	<u>Rate 10 Residential</u>	<u>Rate 54 Small General Service</u>
October	25,513	10,763
November	42,678	17,890
December	49,457	21,906
January	56,774	25,964
February	62,288	28,579
March	48,106	21,648
April	44,471	19,840

Heating Degree Day: The difference between 65° and the mean daily temperature for the calendar day for days when the mean daily temperature is below 65°. Heating Degree Days equal zero for calendar days when the mean daily temperature is 65° or greater.

Heating Season: The seven consecutive calendar months beginning October and ending April.

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Margin Revenue Factor: The revenue per therm net of applicable taxes and fees established in the Company's most recent base rate case for the applicable rate class as set forth in the following table:

Rate Class	Margin Revenue Factor
Rate 10 Residential	
Transmission	\$0.0634
Distribution	\$0.1200
Transmission & Distribution	\$0.1834
Rate 54 – Small General Service	
Transmission	\$0.0733
Distribution	\$0.0815
Transmission & Distribution	\$0.1548

Normal Calendar Month Heating Degree Days: The cumulative ten-year Weighted Average Heating Degree Days for each calendar month from October through April as established in the Company's most recent base rate proceeding. Normal Calendar Month Degree Days are set forth in the following table:

Month	Normal Degree Days
October	239
November	588
December	907
January	926
February	690
March	489
April	292

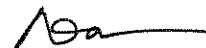
Reconciliation Period: The twelve consecutive months ended September 30 of each year.

Weather Normalization Adjustment Mechanism Component: The amount included in each customer's bill to recover or credit the net weather-related revenue excess or deficiency as determined in Rate Rider No. 8 and this Rule.

Weather Normalization Adjustment Mechanism Factor: The rate to be multiplied by the customer's billing units to determine the Weather Normalization Adjustment Mechanism Component.

Weather Normalization Adjustment Mechanism Factor Statement: The report establishing the Weather Normalization Adjustment Mechanism Factor. The Weather Normalization Adjustment Mechanism Factor Statement is filed with the Commission prior to changing the previously used Weather Normalization Adjustment Mechanism Factor.

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Weighted Average Heating Degree Days: The average daily Heating Degree Days reported by the National Oceanographic and Atmospheric Administration for the weather stations representative of the Company's service area computed on the basis of the weightings specified in the following table:

Station	Percentage Weighting
Albuquerque	56.66%
Deming	4.43%
Farmington	12.35%
Roswell	8.29%
Santa Fe	18.27%

2. Records

The Company shall maintain records which identify the weather-related revenue excesses or revenue deficiencies and the revenues or revenue credits attributable to the operation of Rate Rider No. 8. The difference between the weather-related revenue excesses or revenue deficiencies and the revenues or revenue credits 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. 8 weather-related revenue excesses or revenue deficiencies and revenues or revenue credits are recorded on the Company's books. The Balancing Account entry shall consist of the following:

- A. Rate Rider No. 8 weather-related revenue excesses or revenue deficiencies shall be taken from the Company's books and records. Rate Rider No. 8 revenue excesses or revenue deficiencies shall include:
 - (1) The amount, if any, by which weather-related revenue excesses occur due to colder-than-normal weather, as determined in accordance with the provisions of Rider No. 8;
 - (2) The amount, if any, by which weather-related revenue deficiencies occur due to warmer-than-normal weather as determined in accordance with the provisions of Rider No. 8.
- B. Rate Rider No. 8 revenues or revenue credits shall be taken from the Company's books and records. Rate Rider No. 8 revenues shall include, but not be limited to:
 - (1) The amount of weather normalization adjustment revenues recorded through the customers' Weather Normalization Adjustment Mechanism Component;
 - (2) The amount of weather normalization adjustment revenue credits recorded through the customers' Weather Normalization Adjustment Mechanism Component.
- C. The Company shall separately maintain records attributable to the operation of Rate Rider No. 8 for service provided to Rate 10 Residential Service customers and Rate 54 Small General Service customers.

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3. Calculation of the Weather Normalization Adjustment Mechanism Factor

A. The Weather Normalization Adjustment Mechanism Factor shall be determined as follows:

- (1) A calculation of the revenue impact of colder-than-normal or warmer-than-normal weather shall be performed for each month of the Heating Season. A revenue excess shall result for the month when the Actual Calendar Month Heating Degree Days for the month exceed the Normal Calendar Month Heating Degree Days for the month. A revenue deficiency shall result for the month when the Actual Calendar Month Heating Degree Days for the month fall below the corresponding Normal Calendar Month Heating Degree Days for the month.
- (2) The weather-related revenue impact shall be determined by first calculating the difference between Actual Calendar Month Heating Degree Days and Normal Calendar Month Heating Degree Days and multiplying this difference by the Degree Day Consumption Factor for the month and by the Margin Revenue Factor.
- (3) The monthly weather-related revenue excess or revenue deficiency shall be determined separately for each rate class subject to Rider No. 8.
- (4) The monthly revenue excesses and revenue deficiencies shall be summed together for the seven-month period of October through April to determine the net revenue excess or deficiency for the current Heating Season for each rate class subject to Rider No. 8.
- (5) A calculation of the net prior period over or under-recovery of the Weather Normalization Adjustment Mechanism Factor shall be performed by comparing the cumulative difference between the net revenue excess or revenue deficiency to the cumulative net revenues and revenue credits for prior periods for each rate class subject to Rider No. 8.
- (6) The sum of the net revenue excess or deficiency for the current Heating Season and the net prior period over or under-recovery of the Weather Normalization Adjustment Mechanism Factor for prior periods shall represent the total net revenue impact to be recovered through the Weather Normalization Adjustment Mechanism Factor for each rate class subject to Rider No. 8.
- (7) The Weather Normalization Adjustment Mechanism Factor for the Adjustment Period shall be the total net revenue impact to be recovered through the Weather Normalization Adjustment Mechanism Factor divided by the projected billing units for each rate class subject to Rider No. 8.

4. Reports and Statements

A. A Weather Normalization Adjustment Mechanism Factor Statement must be filed annually with the Commission no later than June 30 before adjustment of the Weather Normalization Adjustment Mechanism Factor. Each Statement shall consist of a cover letter identifying the items impacting the Weather Normalization Adjustment Mechanism Factor, a projection of the final reconciliation balance for the twelve-month period ending on September 30 and any matters which may be of interest to the Commission. The Weather Normalization Adjustment Mechanism Factor Statement consists of the following sections:

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Section 1 - Summary of the Weather Normalization Adjustment Mechanism Factors

Section 2 - Determination of the Weather Normalization Adjustment Mechanism Factor

(A) Actual Monthly Heating Degree Days

(B) Monthly Weather-Related Revenue Excesses and Deficiencies

Section 3 - Determination of the Balancing Account Adjustment Factor.

B. An Annual Certified Reconciliation Report shall be filed with the Commission as soon after completion of the September accounting month as permitted by record availability, and shall be filed annually no later than December 31. This report shall consist of the following sections:

- (1) a summary of weather-related revenue excesses or deficiencies and revenues or revenue credits which were recorded in the Balancing Account;
- (2) a summary of reconciling items including items adjusting the Balancing Account; and
- (3) any additional reporting requirements as specified by the Commission.

The Weather Normalization Adjustment Mechanism is continuous and therefore, the Balancing Account is also continuous. Any under or over-collection of weather-related revenue excesses or deficiencies 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.

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Definitions

The following words and terms shall have the indicated meaning when used in the Company's Rate Rider No. 9 and this Rule:

Accumulated Deferred Income Taxes: The net reduction in federal and state income taxes associated with the use of accelerated depreciation allowed for income tax purposes.

Accumulated Reserve for Depreciation: The balance arising from the provision for depreciation.

Adjustment Period: The annual period beginning with cycle 1, May.

Annual Cost Recovery Cap: One percent of Normalized Base Revenues.

Annual Reconciliation Report: The annual report filed with the Commission which provides the costs and revenues associated with the operation of the Integrity Management Program Cost Adjustment Factor for a Reconciliation Period.

Balancing Account: Contains the cumulative monthly differences between the Integrity Management Program Costs as they are recorded on the books and records of the Company, and the revenues resulting from billings to customers for the Integrity Management Program Costs as they are recorded on the books and records of the Company.

Balancing Account Adjustment Factor: A component of the Integrity Management Program Cost Adjustment Factor designed to allow the Company to continuously manage the Balancing Account.

Commission: The New Mexico Public Regulation Commission.

Company: New Mexico Gas Company.

Cumulative Cost Recovery Cap: Six percent of Normalized Base Revenues.

Distribution Integrity Management Investments: The Gross Plant investments in Eligible Facilities functionalized to distribution plant accounts on the Company's books.

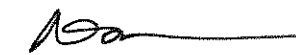
Eligible Facilities: Company investments in facilities to replace or enhance infrastructure consistent with the Company's Integrity Management Program.

Gross Plant: The capitalized costs of the Company's investments in Eligible Facilities, including applicable overhead, recorded on the Company's books.

Integrity Management Program: The Company's integrity programs that are required by Federal and New Mexico pipeline safety regulations.

Integrity Management Program Cost Adjustment Component: The amount included in each customer's bill to recover the Integrity Management Program revenue requirements as determined in Rate Rider No. 9 and this Rule.

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Integrity Management Program Cost Adjustment Factor: The rate to be multiplied by the customer's billing units to determine the Integrity Management Program Cost Adjustment Component.

Integrity Management Program Cost Adjustment Factor Statement: The report establishing the Integrity Management Program Cost Factor. The Integrity Management Program Cost Adjustment Factor Statement is filed with the Commission prior to changing the previously used Integrity Management Program Cost Adjustment Factor.

Normalized Base Revenues: The actual base revenues by rate class subject to Rider No. 9 for the previous calendar year, normalized for the impact of warmer-than-normal or colder-than-normal weather.

Rate Base: The sum of the Gross Plant, Accumulated Reserve for Depreciation and Accumulated Deferred Income Taxes associated with the Company's investments in Eligible Facilities.

Reconciliation Period: The twelve consecutive months ended April 30 of each year.

Transmission Integrity Management Investments: The Gross Plant investments in Eligible Facilities functionalized to transmission plant accounts on the Company's books.

2. Records

The Company shall maintain records which identify the revenues and costs attributable to the operation of Rate Rider No. 9. The difference between the revenues and costs 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. 9 revenues and costs are recorded on the Company's books. The Balancing Account entry shall consist of the following:

- A. Rate Rider No. 9 costs shall be taken from the Company's books and records. Rate Rider No. 9 costs shall be determined on the basis of the Company's Gross Plant and Rate Base associated with Eligible Facilities and include:
- (1) The amount of annual depreciation divided by twelve each month. The annual depreciation expense shall equal the Gross Plant by Account for the Eligible Facilities recorded on the Company's books as of the end of the previous calendar year multiplied by the applicable depreciation rates approved by the Commission;
 - (2) The amount of annual property tax divided by twelve each month. The annual property tax expense shall equal the Gross Plant for the Eligible Facilities recorded on the Company's books as of the end of the previous calendar year multiplied by the applicable property tax rate(s) as established by local taxing authorities with jurisdiction to assess property taxes on the Company's investments in Eligible Facilities;
 - (3) The amount of annual return on rate base divided by twelve each month. The annual return on rate base shall equal the Rate Base for the Eligible Facilities recorded on the Company's books as of the end of the previous calendar year multiplied by 7.65%; and

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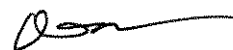
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- (4) The amount of annual federal and state income taxes divided by twelve each month. The annual state and federal income taxes shall equal the income taxes at the currently-effective income tax rates calculated on a weighted cost of equity return of 5.51% multiplied by the Rate Base for the Eligible Facilities recorded on the Company's books as of the end of the previous calendar year.
- B. Rate Rider No. 9 revenues shall be taken from the Company's books and records. Rate Rider No. 9 revenues shall include, but not be limited to:
- (1) The amount of Integrity Management Program revenues recorded through the customers' Integrity Management Program Cost Adjustment Component;
- C. The Company shall separately maintain records attributable to the operation of Rate Rider No. 9 for Transmission Integrity Management Program Investments and for Distribution Integrity Management Program Investments.
3. Calculation of the Integrity Management Program Cost Adjustment Factors
- A. The Integrity Management Program Cost Adjustment Factor shall be determined separately for Transmission Integrity Management Program Investments and for Distribution Integrity Management Program Investments.
- B. The Integrity Management Program Cost Adjustment Factor shall be determined as follows:
- (1) The Company shall calculate the Integrity Management Program Rate Base consisting of Gross Plant net of Accumulated Reserve for Depreciation and Accumulated Deferred Income Taxes attributable to Eligible Investments completed as of the end of the prior calendar year.
- (2) The Company shall calculate the Integrity Management Program Cost Adjustment Factor revenue requirements consisting of the sum of the following five components:
- a. Depreciation Expense: the Gross Plant by Account for the Eligible Facilities recorded on the Company's books as of the end of the previous calendar year multiplied by the applicable depreciation rates approved by the Commission.
- b. Property Tax: the Gross Plant for the Eligible Facilities recorded on the Company's books as of the end of the previous calendar year multiplied by the applicable property tax rate(s) as established by local taxing authorities with jurisdiction to assess property taxes on the Company's investments in Eligible Facilities.
- c. Return on Rate Base: the Rate Base for the Eligible Facilities recorded on the Company's books as of the end of the previous calendar year multiplied by 7.65%.
- d. Income Taxes: the income taxes at the currently-effective state and federal income tax rates calculated on a weighted cost of equity return of 5.51% multiplied by the Rate Base for the Eligible Facilities recorded on the Company's books as of the end of the previous calendar year.

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- e. Prior Period Balance: the net prior period over or under-recovery of the Integrity Management Program Cost Adjustment Factor reflecting the cumulative difference between the Integrity Management Program Cost Adjustment Factor revenue requirements and Integrity Management Program Cost Adjustment Factor revenues for the prior period.
- (3) The Integrity Management Program Cost Adjustment Factor revenue requirements excluding the Prior Period Balance shall be subject to the Annual Cost Recovery Cap and the Cumulative Cost Recovery Cap as follows:
- a. The annual change in the Integrity Management Program Cost Adjustment Factor revenue requirements excluding the Prior Period Balance shall be compared to the Annual Cost Recovery Cap. The annual change that is below the Annual Cost Recovery Cap shall be eligible for inclusion in the Integrity Management Program Cost Adjustment Factor subject to the Cumulative Cost Recovery Cap.
 - b. The Integrity Management Program Cost Adjustment Factor revenue requirements excluding the Prior Period Balance shall be compared to the Cumulative Cost Recovery Cap. The amount that is below the Cumulative Cost Recovery Cap shall be eligible for inclusion in the Integrity Management Program Cost Adjustment Factor.
 - c. All revenue requirements that exceed the Annual Cost Recovery Cap or the Cumulative Cost Recovery Cap may be recovered in a future period, subject to the application of Annual Cost Recovery Cap and the Cumulative Cost Recovery Cap for that period.
- (4) The Integrity Management Program Cost Adjustment Factor revenue requirements shall be allocated to all rate classes on the basis of Normalized Base Revenues.
- (5) The Integrity Management Program Cost Adjustment Factor for each rate class subject to Rider No. 9 shall equal the allocated Integrity Management Program Cost Adjustment Factor revenue requirements allocated to the rate class divided by the projected annual billing units for the rate class.


4. Reports and Statements

- A. An Integrity Management Program Cost Adjustment Factor Statement must be filed annually with the Commission no later than March 1st before adjustment of the Integrity Management Program Cost Adjustment Factor. Each Statement shall consist of a cover letter identifying the items impacting the Integrity Management Program Cost Adjustment Factor, a projection of the final reconciliation balance for the twelve-month period ending on April 30 and any matters which may be of interest to the Commission. The Integrity Management Program Cost Adjustment Factor Statement consists of the following sections:

Section 1 - Summary of the Integrity Management Program Cost Adjustment Factors

Section 2 - Determination of the Integrity Management Program Cost Adjustment Factors

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- (A) Actual Gross Plant Investment in Eligible Facilities
- (B) Actual Rate Base associated with Eligible Facilities
- (C) Calculation of annual revenue requirements
- (D) Application of the Annual Cost Recovery Cap and the Cumulative Cost Recovery Cap
- (E) Allocation of recoverable Integrity Management Program costs to rate classes.

Section 3 - Determination of the Balancing Account Adjustment Factor.

B. An Annual Certified Reconciliation Report shall be filed with the Commission as soon after completion of the April accounting month as permitted by record availability, and shall be filed annually no later than December 31. This report shall consist of the following sections:

- (1) a summary of Integrity Management Program revenue requirements and revenues which were recorded in the Balancing Account;
- (2) a summary of reconciling items including items adjusting the Balancing Account; and
- (3) any additional reporting requirements as specified by the Commission.

The Integrity Management Program Cost Adjustment mechanism is continuous and therefore, the Balancing Account is also continuous. Any under or over-collection of Integrity Management Program revenue requirements 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.

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