BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION OF NEW MEXICO GAS COMPANY, INC. FOR APPROVAL OF REVISIONS TO ITS RATES, RULES, AND CHARGES PURSUANT TO ADVICE NOTICE NO. 87	)	**Case No. 21-00267-UT**
NEW MEXICO GAS COMPANY, INC.	)	
Applicant.	)	

DIRECT TESTIMONY AND EXHIBITS

OF

DANIEL P. YARDLEY

December 13, 2021

DIRECT TESTIMONY OF
DANIEL P. YARDLEY
NMPRC CASE NO. 21-00267-UT

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Daniel P. Yardley, and my business address is 2409 Providence Hills Drive, Matthews, North Carolina 28105.

Q. IN WHAT CAPACITY ARE YOU EMPLOYED?

A. I am a Principal of Yardley Associates, a consulting firm specializing in rate and regulatory matters in the natural gas utility industry.

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL WORK EXPERIENCE.

A. I received a Bachelor of Science Degree in Electrical Engineering from the Massachusetts Institute of Technology in 1988. For the last 30 years I have been employed as a consultant to the natural gas industry. During this period, I have directed or participated in numerous consulting assignments on behalf of local distribution companies ("LDCs"). I have extensive experience analyzing and developing LDC and gas pipeline cost allocation studies, rate design studies, and in other tariff matters, including the development of revenue adjustment and cost recovery mechanisms. I have also performed gas supply planning analyses and financial evaluation analyses on behalf of LDCs.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of New Mexico Gas Company, Inc. ("NMGC" or the "Company").

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

A. Yes. I testified in two prior NMGC base rate proceedings before the Commission in NMPRC Case No. 18-00038-UT and NMPRC Case No. 19-00317-UT, in NMGC's Advice Notice No. 81 and Advice Notice No. 85 concerning its Weather Normalization Adjustment Mechanism, and in NMPRC Case No. 21-00095-UT concerning recovery of gas costs incurred by NMGC during the February 2021 extreme weather event. I have also testified on numerous occasions before other state utility commissions, the Federal Energy Regulatory Commission, and the Canada Energy Regulator on a variety of rate and regulatory topics. The subject matters addressed in these proceedings include cost allocation, service design, rate design, revenue decoupling, cost recovery mechanisms and tariff design. A summary of my experience and previous expert testimony in other jurisdictions is provided as NMGC Exhibit DPY-1, which is attached to my direct testimony.

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

A. I have been asked by NMGC to evaluate the manner in which it recovers its base revenue requirements from customers, and to propose changes that are consistent with the nature of the services it provides, as well as rate design objectives. My testimony addresses several topics associated with the fair recovery of costs that the Company incurs to provide safe and reliable service to its customers which include:

(1) the derivation of new base rates and charges for distribution and transmission services that fairly apportion the Company's revenue requirement among customer classes through appropriate charges to customers. The new charges are based on appropriate rate design considerations and reflect the results of the Company's fully allocated cost of service ("FACOS") study, which I present in my testimony. The FACOS provides an assessment of the Company's existing rates relative to the costs it incurs to provide service to different types of customers;

(2) the development of an Integrity Management Program Cost Recovery Mechanism ("IMP Mechanism" or "Cost Recovery Mechanism"). The IMP Mechanism is designed to support NMGC's need to accelerate investment in replacement of specific categories of infrastructure and upgrade certain existing infrastructure consistent with maintaining safe and reliable operations that address material factors affecting the Company's ability to recover the costs of these non-revenue producing capital investments under traditional base rates;

(3) the development of a Compressor Fuel rate. The proposed new rate, Rate No. 72, would be available to customers that desire to fuel natural gas compressor equipment using NMGC service; and

(4) the refinement of the framework for compressed natural gas ("CNG") facility charges applicable to Company-owned CNG refueling stations that are constructed at the request of customers.

(5) a revision to Rate No. 35 to better reflect anticipated customer usage.

Q. PLEASE SUMMARIZE YOUR FINDINGS.

A. The following five findings and recommendations are supported through my direct testimony:

(1) **NMGC's current base rate structures for most classes recover a substantial proportion of fixed costs through variable charges:** The vast majority of NMGC's base rate costs are fixed. Only 44 percent of the Company's costs are recovered through fixed charges creating a dichotomy between the manner in which NMGC incurs costs and the manner in which it seeks to recover costs from customers.

(2) **The proposed IMP Mechanism provides for timely recovery of targeted integrity management replacement activity associated with NMGC's Integrity Management Program ("IMP"):** The accelerating need to replace specified categories of aging infrastructure is appropriately addressed through a cost recovery mechanism that provides for timely recovery of associated investments. The proposed Cost Recovery Mechanism benefits the Company and its customers by promoting the timely recovery of IMP costs associated with necessary safety and reliability investments while moderating rate impacts to customers.

(3) **NMGC's rate design proposals contribute to fairness in pricing across and within rate classes:** The apportionment of the proposed revenue increase among classes reduces interclass subsidies while maintaining acceptable bill impacts. Further, moderate increases to monthly fixed charges, where appropriate, ensure that the recovery of class revenue requirements gradually moves towards cost-based levels.

(4) **The new Compressor Fuel rate meets an important need for service among existing and potential customers:** Natural gas used for compressor fuel represents a different end-use than NMGC's other rates. A new rate that fits the needs of the compressor fuel market offers the opportunity to serve this market with a cleaner fuel option.

(5) **Revisions to the derivation of CNG Station Investment charges are needed to meet the unique needs of this market:** Optional CNG Station Investment and Operating charges were incorporated in the Rate No. 39 tariff as part of NMGC's prior rate case. Additional changes to the structure of the CNG Station Investment charge are needed to reflect the way that operators convert fleets over a span of time rather than all at one time.

Q. ARE YOU SUPPORTING ANY EXHIBITS THAT ACCOMPANY YOUR DIRECT TESTIMONY?

A. Yes. I am sponsoring the following exhibits, each of which will be explained later in my testimony:

- NMGC Exhibit DPY-1: Curriculum Vitae;
- NMGC Exhibit DPY-2: Pro Forma IMP Mechanism Tariff;
- NMGC Exhibit DPY-3: NARUC Resolution Encouraging Natural Gas Line Investment and the Expedited Replacement of High-Risk Distribution Mains and Service Lines;
- NMGC Exhibit DPY-4: Excerpts from the NARUC Publication *Natural Gas Distribution Infrastructure Replacement and Modernization: A Review of State Programs*;
- NMGC Exhibit DPY-5: Infrastructure Cost Recovery Mechanisms for 50 Largest LDCs;
- NMGC Exhibit DPY-6: Illustrative IMP Mechanism Calculations;
- NMGC Exhibit DPY-7: NMGC Proposed Billing Determinants;
- NMGC Exhibit DPY-8: FACOS Results;
- NMGC Exhibit DPY-9: Allocation of NMGC Proposed Revenue Requirements to Base Rates;
- NMGC Exhibit DPY-10: Existing and Proposed Base Rates and Revenues;
- NMGC Exhibit DPY-11: Residential and Small Volume General Service Bill Impact;

- NMGC Exhibit DPY-12: Pro Forma Compressor Fuel Rate No. 72; and
- NMGC Exhibit DPY-13: Pro Forma Second Revised Rate No. 39.

Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

A. In Section II of this testimony I discuss NMGC's rate design goals. In Section III, I set forth the proposed IMP Mechanism the Company is proposing. In Section IV, I discuss the billing determinants in this case. In Section V, I describe the Company's FACOS and associated results. In Section VI, I describe the proposed base rates. In Section VII, I introduce the proposed Compressor Fuel rate. Finally, in Section VIII, I discuss the proposed revisions to the Rate No. 39 Station Investment charge for Company-owned CNG vehicle refueling stations.

II. NEW MEXICO GAS COMPANY RATE DESIGN GOALS

Q. WHAT PRINCIPLES GUIDE THE DEVELOPMENT OF THE RATE AND RECOVERY MECHANISMS YOU PRESENT IN YOUR DIRECT TESTIMONY?

A. The overall rate design approach as well as the specific proposals I recommend seek to achieve the following six traditional regulatory goals for rate design and cost recovery:

(1) **Fairness** – Fairness is accomplished through pricing services based on the underlying cost. Fairness is important in many respects including, (i) between the Company and its customers, (ii) across rate classes served by NMGC, and (iii) among customers taking service under a single rate schedule.

(2) **Not Discriminatory** – Avoiding undue discrimination requires rates that do not grant an unreasonable preference or subject an unreasonable disadvantage to any customer or group of customers.

(3) **Revenue Stability** – Revenue stability means that the Company's base rate revenues are more predictable in view of future uncertainties. As customer usage patterns have become less certain, improved revenue stability through rate design takes on greater importance as a way of mitigating the increased revenue risks to customers and the Company associated with such unpredictable consumption patterns.

(4) **Moderation** – Moderation allows for the implementation of price changes over time to ensure that customers are not exposed to dramatic price changes all at once.

(5) **Simplicity** – Simplicity means a rate structure that is easy for customers to understand and straightforward to administer.

(6) **Energy Efficiency** – Energy efficiency as a goal is the alignment of rate design with objectives to promote reduced energy consumption by consumers.

Q. ARE THESE THE SAME RATE DESIGN PRINCIPLES OUTLINED IN NMGC'S LAST BASE RATE CASE?

A. Yes.

Q. PLEASE DESCRIBE NMGC'S CURRENT RATE DESIGN.

A. The Company's current rate structure relies extensively on variable charges to recover fixed costs, while the rates for customers include a combination of fixed monthly charges and throughput-based or variable charges. Typically, over half of the Company's base revenues are derived from the variable charge components and are directly linked to customer usage patterns. Base revenues, sometimes referred to as margin revenues, are revenues received through base rates that recover a utility's cost of service, excluding purchased gas or other tracked costs. An LDC's cost of service includes the revenue requirements associated with constructing, operating and maintaining natural gas facilities in a safe and reliable manner, all of which are considered fixed costs.

Q. IS IT POSSIBLE TO MAKE A HIGH-LEVEL ASSESSMENT OF NMGC'S EXISTING RATE STRUCTURE IN RELATION TO THE GOALS YOU DESCRIBE ABOVE?

A. Yes. Under current rates, base revenues from variable charges account for about 56% of the Company's total base revenue recoveries. This highlights a significant conflict between how the Company incurs costs and how these costs are recovered from customers. NMGC's rate structure continues a traditional throughput-based rate design that directly links utility financial benefits with customer usage. In this respect, NMGC's rate structure follows an approach that used to be quite prevalent in the industry.

Recently, shifting industry fundamentals have led to the adoption of changes throughout the U.S. to resolve the inherent conflicts of a throughput-based rate structure. The adoption

of NMGC's Weather Normalization Adjustment ("WNA") mechanism beginning with the 2019-2020 heating season, which adjusts base revenue recoveries for variations in temperature, was an important step in remedying NMGC's revenue stability concerns attributable to variations in weather that are beyond the ability of the Company or its customers to influence or control. The WNA mechanism introduced an important element of revenue stability for NMGC and its customers that is important to continue.

At the same time, NMGC continues to make significant non-revenue producing capital investments to maintain safety and reliability without any associated cost recovery mechanism. While no rate structure perfectly meets all of the outlined goals, adoption of an integrity management recovery mechanism as described in the next section of this testimony, would further align NMGC with its peers.

III. INTEGRITY MANAGEMENT PROGRAM COST RECOVERY MECHANISM

Q. WHY IS NMGC PROPOSING A SEPARATE COST RECOVERY MECHANISM ASSOCIATED WITH INTEGRITY MANAGEMENT INVESTMENTS?

A. As described in detail by NMGC Witness Bullard, NMGC, like the majority of its peer LDCs, faces increasing integrity management-related requirements and the associated need to replace or modernize some older elements of distribution infrastructure. NMGC is undertaking significant investments in eight specific areas as follows:

- Replacement of legacy pipe;
- Replacement of legacy bare steel pipe;

- Replacement of X-Trube services;
- Sewer camera inspections for cross bores;
- Reconfirmation of MAOP on pre-1970 pipelines;
- Transmission system modifications to allow internal inspection;
- Installation remote shut off valves; and
- Verification of pipeline materials via mechanical testing of cutouts.

The associated costs are necessary to maintain safe and reliable service, yet there are no incremental revenues associated with these integrity management activities. This poses a challenge for LDCs, like NMGC, and for policymakers because of the need for timely and effective cost recovery of the Company's growing integrity management needs. Based on my experience working with other LDCs and their stakeholders on these challenges, I believe that a targeted cost recovery mechanism is appropriate for NMGC. In fact, many other jurisdictions have adopted targeted cost recovery mechanisms that allow LDCs to recover the costs of infrastructure replacement and safety enhancements in between rate cases. Many of these programs contribute to enhanced opportunities for communication among the LDC and stakeholders regarding critical safety-related operating needs. Typically, these mechanisms reflect the specific needs of the LDC and focus on replacing legacy facilities that represent integrity management concerns.

Q. PLEASE DESCRIBE THE COST RECOVERY MECHANISM THAT NMGC IS PROPOSING TO HELP IT TIMELY RECOVER CAPITAL INFRASTRUCTURE COSTS RELATED TO INTEGRITY MANAGEMENT.

A. The proposed IMP Mechanism is a rate rider that reflects the revenue requirements associated with the areas of targeted replacement and facility enhancement needs associated with the Company's current IMP as described by NMGC Witness Bullard. The rate rider will reflect actual capital investments placed in service and include revenue requirements associated with depreciation expense, property taxes, return and income taxes. The mechanism emulates traditional base rate treatment of the investment costs provided for in New Mexico. The total revenue requirements will be allocated among rate classes on the basis of projected annual base revenues so that each rate class receives an equivalent percentage revenue responsibility under the mechanism.

Q. WHAT IS THE PROCESS FOR DETERMINING THE ANNUAL RATE ADJUSTMENT UNDER THE PROPOSED IMP MECHANISM?

A. NMGC will file with the Commission on or before March 1st of each year for approval to change the cost recovery rate effective with Cycle 1 bills for the billing month of June. The proposed rate adjustment will reflect actual integrity management investments within the specified eligible categories for the previous calendar year.

The Company will calculate the annual revenue requirements associated with integrity management investments consistent with the manner the revenue requirements for the Company's other rate base investments are reflected in base rates. Specifically, depreciation expense and return are calculated based upon the plant investment at the rates approved in the most recent base rate case and property taxes and income taxes are applied

at currently effective rates in order to determine revenue requirements to be incorporated into the rate adjustment.

Q. HAVE YOU DEVELOPED TARIFF TERMS AND CONDITIONS ASSOCIATED WITH THE IMP MECHANISM?

A. Yes. NMGC Exhibit DPY-2 is a pro forma tariff reflecting the proposed IMP Mechanism including Original Rate 1-9 and Original Rule No. 30. The initial rates for Rate 1-9 will remain $0.0000 until NMGC makes its first filing under the IMP Mechanism based on actual capital spending in the eligible IMP categories in 2024.

Q. HOW DOES THE PROPOSED IMP MECHANISM COMPLEMENT NMGC'S PLAN TO ADDRESS THE INTEGRITY MANAGEMENT CHALLENGES IT FACES?

A. The IMP represents a prudent course of action as explained by NMGC Witness Bullard. The program will result in considerable capital investments that are non-revenue producing. The proposed IMP Mechanism applicable to these discreet facility replacement and enhancement efforts addresses the need for timely recovery for the substantial investments to be made by the Company. The Cost Recovery Mechanism adjusts base rates annually for investment costs, and is a straightforward means of addressing the cost recovery challenges to substantial integrity management investments.

Q. PLEASE EXPLAIN WHY TRADITIONAL BASE RATE CASE RECOVERY IS NOT APPROPRIATE FOR THE RECOVERY OF COSTS ATTRIBUTABLE TO NMGC'S IMP.

A. NMGC's IMP investments are non-revenue producing and will not contribute incremental base rate revenues, nor will the investments lead to an immediate or significant reduction in operations and maintenance costs. Relying on traditional base rate cases for recovery of the IMP costs does not provide for timely recovery needed to support this level of integrity management investment and leads to earnings attrition.

Q. PLEASE EXPLAIN WHY THE DEPRECIATION EXPENSE ALLOWANCE INCORPORATED IN RATES DOES NOT PROVIDE FUNDING FOR REPLACING EXISTING INFRASTRUCTURE UNDER NMGC'S IMP.

A. The depreciation allowance included in base rates represents the return of NMGC's capital investment made over time, up to the end of the test year in its last rate case. The level of the depreciation allowance is primarily a function of the nominal cost of all facilities at the time of investment and the expected facility life. Due to inflationary effects and improvements in piping technologies, the replacement costs exceed original costs per mile by a factor of ten to fifteen-fold.

Q. HAS THE NATIONAL ASSOCIATION OF REGULATORY UTILITY COMMISSIONS ("NARUC") CONSIDERED THE IMPORTANCE OF COST RECOVERY TO EFFECTIVE REPLACEMENT OF AGING NATURAL GAS FACILITIES?

A. Yes. The NARUC Board of Directors adopted a *Resolution Encouraging Natural Gas Line Investment and the Expedited Replacement of High-Risk Distribution Mains and Service Lines* in July 2013. This resolution encouraged regulators and industry stakeholders to consider programs and cost recovery mechanisms to replace vulnerable pipeline facilities as quickly as possible. The resolution also encouraged regulatory commissions to adopt rate mechanisms that would accelerate the modernization, replacement and expansion of natural gas pipeline systems. A copy of this resolution is attached as NMGC Exhibit DPY-3. Additionally, NARUC and the United Sates Department of Energy ("DOE") recently entered into the Natural Gas Infrastructure Modernization Partnership ("NGIMP") to focus on natural gas infrastructure modernization issues. Among the issues considered by this partnership is the potential impediments to needed natural gas infrastructure replacement programs, including timely cost recovery for LDCs. Through the NGIMP, the DOE funded a NARUC study reviewing state programs focused on gas distribution infrastructure replacement and modernization to promote understanding among regulators and other stakeholders of approaches adopted to tackle integrity management challenges across the United States.

Q. HAS THE PIPELINE AND HAZARDOUS MATERIALS SAFETY ADMINISTRATION ("PHMSA") WEIGHED IN ON THE IMPORTANCE OF COST RECOVERY TO INFRASTRUCTURE REPLACEMENT EFFORTS?

A. Yes. PHMSA, the agency within the U.S. Department of Transportation responsible for pipeline safety, mandates many requirements related to the safe operation of both natural gas transmission and distribution facilities and networks. A significant emphasis of recent initiatives calling on pipeline operators to take more aggressive steps to replace existing infrastructure is the recognition that cost recovery mechanisms are necessary to facilitate needed accelerated investments in replacement infrastructure. PHMSA reiterated and expanded on the role of cost recovery mechanisms in meeting the nation's pipeline replacement needs in a white paper summarizing cost recovery approaches. Specifically, PHMSA provided information to state utility regulators regarding replacement programs and cost recovery approaches implemented throughout the U.S. as an important component of these more recent initiatives.

Q. IS THE COMPANY'S IMP MECHANISM PROPOSAL CONSISTENT WITH TRENDS ACROSS THE U.S.?

A. Yes. According to information compiled by the NARUC in the January 2020 publication *Natural Gas Distribution Infrastructure Replacement and Modernization: A Review of State Programs*, innovative mechanisms that provide for alternative cost recovery approaches for the replacement of aging utility infrastructure have been adopted on a widespread basis in the U.S. The executive summary and background sections of this

report are provided as NMGC Exhibit DPY-4. The trend toward use of non-base rate approaches to cost recovery for aging infrastructure demonstrates broad support for these approaches among gas distribution industry stakeholders throughout the United States.

Q. HAVE YOU EXAMINED THE DEGREE TO WHICH THE LARGEST 50 LDCS IN THE U.S. BY RESIDENTIAL CUSTOMER COUNT OPERATE WITH INFRASTRUCTURE COST RECOVERY MECHANISMS?

A. Yes. NMGC Exhibit DPY-5 indicates which of the largest LDCs in the U.S. by residential customer count have infrastructure cost recovery mechanisms based on AGA information I compiled. Forty-two of the LDCs, representing 87% of the residential customers, operate with such a mechanism. Additionally, some of the remaining LDCs operate under multi-year rate plans or under biennial rate case requirements with future test years that provide many of the same benefits of a separate cost recovery mechanism through timely recovery of integrity management costs.

Q. WILL THE NEW COST RECOVERY MECHANISM REDUCE THE NEED FOR FUTURE RATE CASES?

A. The IMP Mechanism will not eliminate the need for future rate cases. The Cost Recovery Mechanism focuses on one aspect of the Company's overall costs. As such, the mechanism complements rather than substitutes for base rate cases. Specifically, the mechanism supports the efficient and proactive investment in non-revenue producing integrity-management facilities. The proposal does not affect the need for base rate cases in any

other respect, or alter the overall benefits of the base rate case ratemaking approach to recovering utility operating costs from customers. Rather, the IMP Mechanism provides a means of bridging the gap associated with traditional base rate case recovery for important non-revenue producing investments that occur over a defined period of time.

Q. WHAT SAFEGUARDS PREVENT THE COMPANY FROM SPENDING MORE THAN IS NECESSARY ON THE INTEGRITY MANAGEMENT REPLACEMENTS?

A. Some opponents to integrity management cost recovery mechanisms suggest that the cost recovery mechanism provides an incentive to "gold-plate" the necessary infrastructure. The annual filing procedures that are explained later in my testimony provide the Commission and other interested stakeholders with more frequent opportunities to evaluate the success of the Company in achieving the benefits that the program is intended to produce. The Commission will also be provided with the opportunity to consider the Company's construction practices and plans to ensure that over-spending is not occurring. The existence of a cost recovery mechanism does not diminish NMGC's incentive to complete the necessary facility investments in an operationally prudent and cost-efficient manner in order to maintain reasonably-priced services. Even so, the Company's proposed recovery caps provide an additional safeguard that the mechanism will not contribute to over-spending.

Q. WHAT ARE THE RECOVERY CAPS ASSOCIATED WITH NMGC'S PROPOSED IMP MECHANISM?

A. As an additional means of ensuring that the mechanism remains limited, the Company is proposing two different caps that establish limits on cost recovery. The first is an annual cap on the change in revenue requirements eligible for recovery under the rider equal to one percent of normalized base revenues. Based on test period base revenues, the annual cap on the change in revenue requirements eligible for recovery through the IMP Mechanism would be $2.37 million. Any level of revenue requirements that exceed the one percent cap will not be recoverable until a future year, subject to the operation of the annual cap in the following year. The second recovery limitation is a cumulative cap equal to six percent of base distribution and transmission revenues. Any revenue requirements that exceed the cumulative cap will not be recoverable through the mechanism, but will be included in the revenue requirements proposed by the Company in a subsequent base rate case. These recovery limitations reflect the investment needs of the Company's integrity management program over the near term and provide assurances that the cost recovery mechanism properly matches these requirements.

Q. HAVE YOU PREPARED A SAMPLE CALCULATION OF THE IMP MECHANISM ADJUSTMENT FACTOR?

A. Yes, a sample calculation is provided as NMGC Exhibit DPY-6. Page one of this exhibit shows the transmission and distribution revenue requirements based on $10 million of investment in eligible transmission facilities and $12 million of investment in eligible

distribution facilities. The combined revenue requirements are $2.5 million, which are compared to the annual and cumulative cost recovery caps to determine whether the full amount is recoverable. In this example, the eligible costs are 7% above the cap, so the revenue requirements recovered through the mechanism are reduced by 7%. Page two of NMGC Exhibit DPY-6 provides a calculation of the percentage of firm base revenues by rate class and the allocation of the IMP Mechanism revenue requirements to rate classes. Lastly, page three of NMGC Exhibit DPY-6 provides the projected annual billing determinants and rate for each rate class. Since the rate is determined separately for transmission service based upon transmission revenue requirements and for distribution service based upon distribution revenue requirements, the IMP Mechanism rate calculations are repeated for transmission service and distribution service. A customer that receives both transmission and distribution service from the Company would pay the combined charge set forth in Column (d) on page three of NMGC Exhibit DPY-6.

Q. PLEASE PROVIDE AN ESTIMATE OF THE RATE IMPACTS OF THE ELIGIBLE PROGRAM COSTS TO BE RECOVERED THROUGH THE PROPOSED COST RECOVERY MECHANISM.

A. Based upon the example set forth in NMGC Exhibit DPY-6 and on a typical residential customer with annual consumption of approximately 644 therms, a $22 million investment in integrity management costs during 2024 would lead to an annual bill impact of approximately $3.61 or an average of $0.30 per month.

Q. WHAT HAPPENS TO THE RATE BASE INVESTMENTS RECOVERED THROUGH THE IMP MECHANISM WHEN NMGC FILES A RATE CASE?

A. If NMGC files a base rate case, the filing will reflect a transfer of the associated rate base from the IMP Mechanism to base rates including gross plant, accumulated depreciation and accumulated deferred income taxes. Upon the implementation of new base rates, the IMP Mechanism recovery factor would be reset to zero and recovery of any future eligible investments would occur prospectively for investments made after the future test period. Changes to return and depreciation rates would be reflected in the IMP Mechanism on a prospective basis as well.

Q. PLEASE DISCUSS WHY THE COMPANY'S PROPOSED IMP MECHANISM IS A PERMISSIBLE EXCEPTION TO THE COMMISSION'S NORMAL POLICY DISCOURAGING PIECEMEAL RATEMAKING.

A. The costs attributable to the Company's IMP are material, known and incremental in nature. The IMP Mechanism aligns the cost recovery approach to these investments with the public safety imperative driving industry-wide replacement and facility enhancement actions across the U.S. Like cost recovery mechanisms adopted elsewhere, the proposed IMP Mechanism provides for a proper review of the operational activities and plans associated with the needed investments and leads to gradual rate changes associated with the investments. Even with the institution of a recovery mechanism for the targeted integrity management investments, the vast majority of NMGC investment costs and expenses will continue to be under traditional base rate recovery. For all of these reasons,

the proposed Cost Recovery Mechanism, including the safeguards I describe represents a needed and appropriate ratemaking approach to the Company's IMP investment costs.

Q. IS THE COMPANY PROPOSING ANY HEARING PROCEDURES ASSOCIATED WITH ANNUAL CHANGES IN THE IMP MECHANISM RATE?

A. Yes. NMGC proposes to utilize a similar hearing procedure as exists for the WNA. Specifically, the Company shall provide notice and opportunity for hearing to all persons on the official Certificate of Service in this case for the purpose of establishing the IMP Mechanism rate to be used over the twelve-month period beginning with each Cycle 1 for the month of June of each year. These procedures were agreed to among the parties to the Stipulation in NMPRC Case No. 18-00038-UT.

Q. YOU SUPPORTED THE SAME TYPE OF COST RECOVERY MECHANISM IN NMGC'S PRIOR RATE CASE, WHICH WAS RESOLVED THROUGH A COMMISSION-APPROVED STIPULATION ("2019 RATE CASE STIPULATION") OF AGREEMENT AMONG INTERESTED PARTIES. HOW DID THAT STIPULATION ADDRESS INTEGRITY MANAGEMENT INVESTMENTS?

A. The 2019 Rate Case Stipulation reflected two substantive modifications to the treatment of integrity management investments compared with the Company's initial proposal. The first change limited eligible investments to only three of the seven categories supported by NMGC as necessary under its IMP. The second change replaced the proposed cost

recovery rider with the creation of a regulatory asset to be incorporated in rates in NMGC's next rate case, which is the current filing. The regulatory asset, which totals $0.26 million, is amortized in the proposed rates over a two-year period at $0.13 million per year.

Q. ARE THERE ADVANTAGES TO THE COST RECOVERY MECHANISM YOU ARE PROPOSING IN THIS PROCEEDING AS COMPARED TO THE REGULATORY ASSET TREATMENT REFLECTED IN THE 2019 RATE CASE STIPULATION?

A. Yes. The IMP Mechanism offers important advantages over the regulatory asset treatment provided for in NMGC's prior rate case. The first is that the IMP Mechanism provides for timely recovery as compared to the regulatory asset treatment, which defers recovery until the establishment of new base rates. Depending on how much time transpires until the subsequent rate case, the regulatory asset would grow and contribute to higher revenue requirements reflected in rates than under the IMP Mechanism. The IMP Mechanism also avoids any question over how long the amortization period should be for the regulatory asset. While the regulatory asset approach is preferable to no recovery mechanism, I recommend adoption of the IMP Mechanism for future integrity management investments.

IV. NMGC FORECAST BILLING DETERMINANTS

Q. PLEASE DESCRIBE THE COMPANY'S EXISTING RATE TARIFFS.

A. Customers' eligibility for a particular NMGC tariff rate is established first on the basis of sector, *i.e.*, whether a customer is residential, commercial or industrial. All residential

customers are served under the Rate No. 10 - Residential Services ("Rate 10"). NMGC offers three standard commercial and industrial ("C&I") rates based on customer size. These are (i) the Rate No. 54 - Small Volume - General Service ("Rate 54"), for C&I customers with less than 200,000 therms per year, (ii) the Rate No. 56 - Medium Volume - General Service ("Rate 56"), for C&I customers whose use is from 200,000 up to 2,000,000 annual therms, and (iii) the Rate No. 58 - Large Volume-General Service ("Rate 58") for C&I customers whose annual use is 2,000,000 therms or greater. Over 99 percent of NMGC's customers receive service pursuant to the Rate 10 Residential Rate or one of the three standard general service C&I rates. Other NMGC customers receive service under one of the Company's seven other tariff rates offered to customers with specific end-uses or other qualifying criteria. These are the Rate No. 30 - Irrigation Service ("Rate 30"), the Rate No. 31 - Water and Sewage Pumping ("Rate 31"), the Rate No. 35 - Cogeneration Service ("Rate 35"), the Rate No. 37 - Gas Air Conditioning ("Rate 37"), the Rate 39 - Compressed Natural Gas Vehicle Fuel ("Rate 39"), the Rate No. 61 - Sale for Resale ("Rate 61"), and the Rate No. 114 - District Energy System Service ("Rate 114"). Lastly, the Company provides transportation service to any customer desiring to purchase their gas supply from a third-party supplier pursuant to the Rate No. 70 - Transportation Service ("Rate 70"). Rate 70 incorporates the underlying base rate charges for the other NMGC tariff rates that customers are otherwise eligible for in addition to other rates and terms that apply to transportation service.

Q. WHAT RATES AND CHARGES ARE INCORPORATED INTO THE RATE 10 - RESIDENTIAL RATE?

A. The existing rate design for residential customers includes two types of base rate charges that are intended to recover NMGC's non-gas revenue requirements. Rate 10 Residential Rate base rates consist of a $12.00 monthly access fee and a flat usage or throughput charge that is $0.2336 per therm. The flat usage charge is comprised of a functional charge of $0.0675 for transmission service and $0.1661 per therm for distribution service. Access fees are applied per customer per month and distribution and transmission charges are applied to each customer's monthly therm usage. Under this rate structure, all residential customers pay a monthly minimum amount to NMGC equal to the access fee, regardless of their monthly usage. The rate design also results in customers paying higher amounts as their consumption increases due to the per-therm distribution and transmission charges. The distribution and transmission charges are considered variable charges because all of the associated revenues are linked to customer usage or throughput.

Q. DO THE C&I RATE TARIFFS EMPLOY THE SAME TYPE OF RATE DESIGN?

A. Yes. All of NMGC's tariffs employ the same form of rate design incorporating fixed access fees and variable transmission and distribution charges.

Q. ARE THERE SEPARATE CHARGES FOR GAS SUPPLY?

A. Yes. Sales customers that purchase their gas supply from NMGC pay a volumetric Purchased Gas Adjustment Charge for gas supply pursuant to Rate Rider No. 4. The Rate

Rider No. 4 Cost of Gas rate recovers the direct costs of purchased gas and upstream pipeline capacity and storage resources necessary to ensure firm delivery to customers throughout the year, and is adjusted monthly to track changes in the delivered cost of gas supply.

Other customers are transportation-only customers, and pay NMGC to deliver gas supply that they have purchased from various third-party suppliers that may offer competitive pricing or other terms. The gas supply price for a firm transportation customer is negotiated in a competitive marketplace between the customer and the third-party supplier.

Q. DID THE COMPANY DEVELOP A FORECAST OF BILLING DETERMINANTS FOR THE TEST PERIOD?

A. Yes. NMGC prepared a forecast of billing determinants for the 2023 test period. The forecast is relied upon to project test period revenues under existing rates and to design the proposed rates. The Company's forecast of test period billing determinants and revenues by rate class for calendar year 2023 are provided as NMGC Exhibit DPY-7.

Q. IS NMGC PROPOSING ANY CHANGES TO THE CLASSIFICATION OF EXISTING CUSTOMERS?

A. Yes. The Company is separating its customer loads currently designated as Rate 70 Off-system Transportation into two separate groups. Customers that are using natural gas as a compression fuel will be served under a new tariff – Rate 72 Compressor Fuel. The

remaining customers that are transporting gas to pipeline interconnects rather than NMGC end-use customers will remain on Rate 70. Rate 72 Compressor Fuel consumption is an end-use that is distinct from the transportation of supplies to off-system markets and is appropriately served under its own rate.

V. FULLY ALLOCATED COST OF SERVICE STUDY

Q. WHAT IS THE PURPOSE OF THE NMGC FACOS YOU ARE SPONSORING?

A. NMGC is proposing to update existing rates in connection with a proposed increase in base rate revenue requirements. A FACOS assesses the reasonableness of existing prices, and guides the development of price changes. Whereas the Company's revenue requirement schedules accompanying its base rate filing establish the aggregate revenue change required to maintain just and reasonable rates, the FACOS seeks to establish the revenue change required for each individual rate schedule that together represent the revenue change that NMGC is requesting. A FACOS is necessary to determine the cost responsibility for each customer class because virtually all of the Company's costs are common and are incurred to serve many classes of customers collectively.

The FACOS establishes measures of the total investment and operating costs incurred to serve each customer class, establishing class-specific total revenue requirements. The class-specific revenue requirements are compared with class revenues in order to establish class income and rate of return on investment. The class-specific rates of return are used to guide the apportionment of the base rate increase among all of NMGC's customer classes

in conjunction with the development of proposed rates. Although the FACOS is not the only factor relied upon to design rates, it is an invaluable guide to ensuring that the process is fair and reasonable.

Q. WHAT PRINCIPLE GUIDES THE DEVELOPMENT OF THE FACOS?

A. The primary principle that guides the FACOS process is that of cost causation. Each step in the development of the FACOS is consistent with the factors that drive or contribute to the incurrence of costs on the NMGC system. For example, the principle of cost causation requires that the costs incurred by the Company for investment in meters be apportioned to classes on the basis of the number of customers in each class multiplied by the corresponding average unit cost per meter for the class.

Q. WHICH CLASSES OF CUSTOMERS ARE INCLUDED IN THE FACOS?

A. The FACOS includes the following 11 customer groups: Rate 10, Rate 30, Rate 31, Rate 37, Rate 39, Rate 54, Rate 56, Rate 58, Rate 61, Rate 70, Rate 72 and Rate 114. For purposes of the FACOS, sales and transportation customers are grouped together within the FACOS. There are presently no customers taking service pursuant to the Rate 35 tariff. Because there are no customers presently taking service under this rate, it is not included in the FACOS.

Q. WHAT ARE THE PRIMARY DATA SOURCES RELIED UPON TO COMPLETE THE FACOS?

A. The primary data sources fall in two general categories: data related to the establishment of the total cost of service, and data used as the basis for allocating the total cost of service among customer classes. The total cost of service or revenue requirement data utilized in the FACOS are taken from schedules supporting NMGC's base rate application in this proceeding. The Company's test period forecasts of customers, throughput and revenues by class discussed earlier in my testimony are used as allocation bases for several categories of costs. The remaining allocation data are derived from special studies of facility or operating costs. All of the data utilized to establish total revenue requirements in the FACOS correspond to two time periods. The first time period is the Adjusted Base Period, which is the twelve-months ending June 2021. The second time period is Calendar Year 2023, which is the future test year for establishing revised NMGC base rates.

Q. PLEASE SUMMARIZE THE RESULTS OF THE FACOS.

A. The primary results from the FACOS are the rate of return by class as compared to the Company's weighted average cost of capital of 6.89%. Table 1 provides a summary of the FACOS rate of return by class. The rates of return are presented in absolute terms and on a unitized basis that compares the ratio of each class's rate of return to the average rate of return at present rates of 2.24%.

Table 1

NMGC FACOS
Rate of Return by Class

Rate Schedule	FACOS Rate of Return	Unitized
Rate 10 - Residential	2.31%	1.02
Rate 30 - Irrigation Service	9.97%	4.42
Rate 31 - Water and Sewer Pumping Service	18.36%	8.14
Rate 37 - Gas Air Conditioning Service	(5.41%)	(2.40)
Rate 39 - Compressed Natural Gas Vehicle Fuel	(2.97%)	(1.32)
Rate 54 - Small General Service	3.20%	1.42
Rate 56 - Medium General Service	2.02%	0.90
Rate 58 - Large General Service	0.97%	0.43
Rate 61 - Sales for Resale Service	(7.26%)	(3.22)
Rate 70 - Off-System Transportation	(5.61%)	(2.49)
Rate 72 – Compressor Fuel	(4.44%)	(1.97)
Rate 114 - District Energy System Service	2.10%	0.93
Overall	2.24%	1.00

The eleven rate classes studied in the FACOS can be divided into three groups based on the rate of return. The first group is comprised of Rate 30 and Rate 31, which indicates rates of return at present rates that are well-above even the requested return. The second group, which is comprised of Rate 10 and Rate 54, indicates rates of return that are below the requested rate of return, but above the average rate of return under present base rates. The last group is all remaining customer classes whose rates of return at present rates are well below the requested return and also below the average rate of return under present

rates. NMGC Exhibit DPY-8 presents detailed results of the FACOS. The results of the FACOS guide the proposed apportionment of the requested revenue increase among rate classes as explained in the next section of my testimony.

VI. PROPOSED BASE RATES

Q. HOW DID YOU DEVELOP THE CLASS-BY-CLASS REVENUE REQUIREMENTS?

A. The class-by-class base revenue requirements were developed by first comparing the existing base revenues to the base revenue requirements indicated by the results of the FACOS. This comparison is presented in NMGC Exhibit DPY-9 with the differences shown in Column D. The values in Column D of this exhibit indicate the change in base revenues that would be needed to yield equalized rates of return. However, as reflected in Column E, an adjustment is made to yield the proposed base revenue change by rate class to limit the increase to any class to 1.25 times the average overall increase of 20.8 percent. Also, in order to mitigate the impacts to the classes that would otherwise have yielded a higher percentage revenue increase, no decrease to any class is implemented. The remaining difference is allocated among the Rate 10 and Rate 54 classes. The resulting increase to these two classes is just slightly below the overall average increase in base revenues. The proposed base revenues by rate are indicated in Column G of NMGC Exhibit DPY-9.

Q. WHY IS THE LEVEL OF THE ACCESS FEE IMPORTANT?

A. The level of the monthly fixed access fee is important for a variety of reasons that relate to the Company's rate design goals I described earlier. First, the monthly fixed access fee provides customers with an important price signal concerning the impact of connecting to the NMGC distribution system. Second, recovering customer-related costs through a monthly fixed access fee contributes to intra-class fairness. Third, the fixed monthly access fee provides revenue stability associated with the Company's fixed costs.

Q. PLEASE DESCRIBE THE COMPANY'S PROPOSED CHANGE TO THE RATE 10 MONTHLY ACCESS FEE.

A. For the reasons just stated, NMGC is proposing to increase the monthly customer charge for residential customers from $12.00 to $14.25. A $14.25 monthly access fee maintains the proportion of fixed costs recovered through fixed charges close to the existing level. While a more significant increase to this access fee would be suggested by the results of the FACOS, I am recommending the smaller increase as a means of moderating bill impacts to smaller customers.

Q. WHAT ARE THE LEVELS OF THE PROPOSED RATE 10 TRANSMISSION AND DISTRIBUTION CHARGES?

A. The transmission and distribution charges are designed to recover the remaining revenue requirements not recovered by means of the monthly access charge. As discussed above, the proposed revenue requirements for the class are as set forth in NMGC Exhibit DPY-9.

The proposed distribution charge remains unchanged at $0.1661 per therm and the proposed transmission charge is $0.1207 per therm as compared to the current charge of $0.0675 per therm.

A comparison of the existing and proposed rates and revenues for Rate 10 and all other tariff rates is provided as NMGC Exhibit DPY-10. This exhibit provides a revenue proof for all rate classes showing the net change in base revenues based on the proposed rates and test period billing determinants.

Q. PLEASE DESCRIBE THE DERIVATION OF RATES FOR THE REMAINING RATE CLASSES.

A. The first step in deriving the rates for the remaining classes entailed determining any increases to fixed access fees. The access fees for Rate 37 Gas Air Conditioning, Rate 54 Small Volume General Service, and Rate 56 Medium Volume General Service are each increased to maintain the proportion of fixed charges at approximately the same level. Next, the variable transmission and distribution charges for these and the remaining rate classes were adjusted to yield the total revenue requirements determined on NMGC Exhibit DPY-9. The resulting rates are set forth in NMGC Exhibit DPY-10.

Q. HOW DID YOU DERIVE THE PROPOSED RATES FOR RATE 35 COGENERATION SERVICE?

A. Presently there are no Rate 35 customers taking service from NMGC. The Company indicated to me that the typical customer that would take service under this rate schedule is much larger than that considered when the charges were reset in NMPRC Case No. 18-00038-UT (the "2018 Rate Case"). I am proposing to recalculate the transmission and distribution rates to reflect the average base revenue increases resulting from the prior two rate cases applied to the rates in effect at the time that NMGC filed the 2018 Rate Case.

Q. DO YOU HAVE A RECOMMENDATION RELATED TO THE COMPANY'S WNA?

A. Yes. NMGC is mid-way through the third season of operation of the WNA. The WNA was established on a five-year interim basis with the expectation that the mechanism would be evaluated in conjunction with a potential continuation, modification or replacement of the WNA. The WNA appears to be performing as expected based upon the results for the first two heating seasons. It should be noted that temperatures for each of the first two years were relatively close to normal. NMGC believes that operating under the WNA for additional heating seasons will aid in the assessment of whether to continue, modify or replace the WNA. Further, the best opportunity to evaluate the WNA is within the context of a base rate case when the relationship to other rate elements can be evaluated, including the appropriate level of access charges. I recommend that the WNA be continued in its present form until the conclusion of NMGC's next base rate case or be brought forward for

review at the Commission's discretion. This may result in an extension beyond the initial five-year term. I believe that clarifying the term in this way offers benefits to both NMGC and its customers and prevents the need to establish a separate proceeding to evaluate the WNA if the current five-year term were to end prior to the next rate case.

Q. HOW WOULD YOU DESCRIBE THE IMPACT OF THE PROPOSED RATE CHANGES ON NMGC'S RECOVERY OF ITS OVERALL BASE COSTS OF PROVIDING SERVICE TO ITS CUSTOMERS?

A. The majority of NMGC's revenue requirements are associated with recovering capital expended to ensure ongoing reliability of service and safety to the customers and communities the Company serves. These costs are all fixed in nature and do not increase or decrease with the level of natural gas consumed by customers. The rate design changes proposed in this case maintain the current rate structure including the WNA mechanism, recovering approximately the same proportion of fixed costs through fixed charges. The proposed rates provide a limited improvement in inter-class subsidies by applying higher rate increases to classes with lower rates of return under present rates. In my view, the proposed rates result from a fair and reasonable rate design approach, balancing the rate design goals described earlier in my testimony.

Q. HAVE YOU CALCULATED THE RATES OF RETURN BY CLASS UNDER THE PROPOSED RATES?

A. Yes. Table 2 presents the rates of return at proposed rates in absolute terms and on a unitized basis that compares the ratio of each class's rate of return to NMGC's weighted average cost of capital of 6.89%.

Table 2

NMGC FACOS
Rate of Return by Class

Rate Schedule	FACOS Rate of Return	Unitized
Rate 10 - Residential	7.34%	1.07
Rate 30 - Irrigation Service	10.00%	1.45
Rate 31 - Water and Sewer Pumping Service	18.40%	2.67
Rate 37 - Gas Air Conditioning Service	(3.33%)	(0.48)
Rate 39 - Compressed Natural Gas Vehicle Fuel	(0.22%)	(0.03)
Rate 54 - Small General Service	7.26%	1.05
Rate 56 - Medium General Service	5.84%	0.85
Rate 58 - Large General Service	4.44%	0.64
Rate 61 - Sales for Resale Service	(5.97%)	(0.87)
Rate 70 - Off-System Transportation	(4.11%)	(0.60)
Rate 72 – Compressor Fuel	(2.61%)	(0.38)
Rate 114 - District Energy System Service	5.88%	0.85
Overall	6.88%	1.00

Q. HAVE YOU PREPARED ILLUSTRATIVE BILL IMPACTS REFLECTING THE PROPOSED RATES?

A. Yes. NMGC Exhibit DPY-11 contains bill impacts for Rate 10 and Rate 54 customers at various monthly therm usage levels. The bill impacts reflect other applicable charges and fees providing an understanding of the impact of the proposed changes in base rates on customers of varying sizes of consumption.

VII. COMPRESSOR FUEL RATE

Q. WHY IS IT APPROPRIATE FOR NMGC TO ESTABLISH A COMPRESSOR FUEL RATE?

A. Gas supplies produced in the Permian Basin require compression in connection with gathering and transportation to processing facilities. Some compression facilities may connect with the NMGC system in order to access pipeline quality supply, which offers environmental and operational benefits as compared to using unprocessed gas supplies. The load characteristics for this type of load vary from other NMGC commercial end-uses. Therefore, a separate tariff is appropriate to meet the demand for gas as a compressor fuel.

Q. HOW DID YOU DERIVE THE INITIAL COMPRESSOR FUEL RATE?

A. The Company provided the load characteristics for 18 current customers that are using natural gas for compressor fuel. These customers are presently served under Rate 70 Offsystem Transportation. I aggregated the load information for these customers and incorporated them into the FACOS. The results of the FACOS guided the development of

the initial rates so that the service generates a reasonable return on allocated rate base. The proposed rates and other terms applicable to the new Rate No. 72 Compressor Fuel tariff are provided as NMGC Exhibit DPY-12.

VIII. CNG STATION INVESTMENT CHARGE

Q. PLEASE DESCRIBE NMGC'S EXISTING VEHICLE FUEL TARIFF.

A. NMGC offers gas service for CNG fuel vehicles pursuant to Rate 39. This rate is for customer-owned and NMGC-owned refueling stations at customer-locations. Rate 39 does not apply to NMGC-owned stations that provide refueling for its own operations and that have no public facing refueling component.

Q. WHAT MODIFICATION TO RATE 39 WAS MADE AS PART OF THE COMPANY'S PRIOR RATE CASE?

A. Rate 39 was modified to provide customers with the option of purchasing CNG from NMGC via refueling stations owned and operated by the Company. The change was made in order to address the impediments associated with the initial cost of refueling stations. Specifically, two additional charges were added to Rate No. 39 that would only apply in the event that the customer requested NMGC to construct and operate CNG station equipment at the customer's location. The first of these is a Station Investment Charge that covers the capital costs associated with construction of the facility. The second is a Station Operating Charge that recovers all O&M costs associated with operating the facility, including electricity. These optional tariff provisions provide customers with the ability to

make CNG vehicle investments without taking on the direct ownership and operational responsibilities of refueling infrastructure.

Q. HAS NMGC ENTERED INTO ANY AGREEMENTS WITH CUSTOMERS THAT PROVIDE FOR THE CONSTRUCTION AND OPERATION OF CNG REFUELING STATIONS ON THEIR BEHALF?

A. No. The Company's discussions with prospective customers since the adoption of the new Rate 39 provisions indicates that there is demand for CNG vehicle fuel stations. However, while NMGC is positioned to play a role in advancing the development of refueling infrastructure through the new optional Rate 39 services, the structure of the Station Investment Charge is not flexible enough to meet the unique needs of customers that are converting existing fleets to CNG or building out new CNG fleets. Specifically, the proposed variable Station Investment Charge incorporates a fixed annual volume commitment unique to each customer that reflected the cost of the station constructed by NMGC. This provision ensured that costs were not shifted to other customers. However, the Company's discussions with potential customers revealed that the fixed annual volume commitment does not provide enough flexibility to satisfy customers' various needs, while still ensuring full recovery of costs.

Q. HOW DO YOU PROPOSE TO REFINE THE STATION INVESTMENT CHARGE IN ORDER TO ADDRESS THIS CONCERN?

A. I am proposing to replace the current single Station Investment Charge with a flexible rate that may include a fixed charge and/or a variable charge in combination with a schedule of minimum annual volume commitments. These commitments could increase over time to reflect the expected number of years for the customer's fleet to be fully converted to CNG.

Q. DO YOU PROPOSE ANY PARAMETERS TO PREVENT CNG STATION COSTS FROM BEING SHIFTED TO OTHER CUSTOMERS?

A. Yes. The revised tariff provisions require that any variable charge incorporate minimum volume commitments to ensure that the full capital costs of the CNG Station are recovered over the contract term, which may be up to 20 years.

Q. HOW WILL NMGC ENFORCE THESE REQUIREMENTS ONCE A CNG STATION HAS BEEN CONSTRUCTED ON A CUSTOMER'S PROPERTY?

A. NMGC will require that the customer enter into a facilities agreement prior to building a CNG Station. The facilities agreement will detail the CNG Station Investment fixed and variable charges as required under the proposed tariff, which is provided as NMGC Exhibit DPY-13.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.