

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

ERIK C. BUCHANAN

December 13, 2021

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	COST OF SERVICE MODEL	3
	A. FULLY-FUNCTIONAL MODEL.....	3
	B. TIME PERIODS CONTAINED IN THE MODEL.....	6
	C. HOW THE MODEL WORKS.....	8
	D. THE WORKBOOKS	12
	i. The COS Workbook	12
	ii. The Rate Base Workbook.....	17
	iii. The Operations Expense Workbook.....	26
	E. NON-FULLY-FUNCTIONAL DATA.....	39
III.	THE COMPANY’S COST OF SERVICE	42
	A. BASE PERIOD EXCLUSIONS AND ADJUSTMENTS	42
	i. Exclusions from Base Period	42
	B. BASE PERIOD ADJUSTMENTS THAT CARRYFORWARD.....	50
	i. Adjustments to Rate Base	51
	ii. Adjustments To Operating Expenses.....	51
	iii. Adjustments to Revenue	55
	iv. Adjustments to Taxes.....	55
IV.	LINKAGE PERIODS AND FUTURE TEST YEAR	56
	A. DEVELOPMENT OF REVENUE REQUIREMENT.....	56
	B. RATE BASE.....	57
	C. O&M EXPENSE	62
	D. DEPRECIATION AND AMORTIZATION EXPENSE.....	66
	E. GENERAL TAXES	67
	F. OTHER ALLOWABLE EXPENSES.....	70

G.	FEDERAL INCOME TAXES.....	72
H.	REVENUE CREDITS	72
I.	OTHER.....	73

NMGC EXHIBIT ECB-1	Résumé of Erik C. Buchanan
NMGC EXHIBIT ECB-2	Instructions for Cost-of-Service Functional Model
NMGC EXHIBIT ECB-3	COS
NMGC EXHIBIT ECB-4	Rate Base
NMGC EXHIBIT ECB-5	Operations Expense

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

I. INTRODUCTION

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

A. My name is Erik C. Buchanan. I am the Director of Forecasting and Planning with New Mexico Gas Company, Inc. (“NMGC” or the “Company”). My business address is 7120 Wyoming Blvd. NE 20, Albuquerque, NM, 87109.

Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS DIRECTOR OF FORECASTING AND PLANNING.

A. As Director of Forecasting and Planning, I am responsible for NMGC’s accounting for fixed assets, cost of service, and financial forecasting and planning activities.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I have a Bachelors of Business Administration degree from the University of New Mexico, and I am a Certified Public Accountant. I have summarized my educational background and professional experiences in NMGC Exhibit ECB-1.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION (“NMPRC OR THE “COMMISSION”)?

A. Yes, I included my prior testimony information in NMGC Exhibit ECB-1.

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

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 **A.** In Section II of my testimony, I describe the components that make up NMGC’s Future
2 Test Year cost of service model (the “Model”), including how to use the Model. I also
3 identify where and why non-fully-functional data was used within the Model.

4
5 In Section III of my testimony, I provide NMGC’s cost of service during the Base Period,
6 Linkage Periods, and Future Test Year. I provide the inputs to the model starting with the
7 adjustments to the Base Period, then discuss the information in the Linkage Periods, and
8 finally the basis for the Future Test Year revenue requirement.

9
10 In Section IV of my testimony, using the Model and cost of service, I develop the revenue
11 requirement in this case.

12
13 **Q.** **ARE YOU TESTIFYING TO THE COMPANY’S FINANCIAL DATA**
14 **CONTAINED IN THE MODEL?**

15 **A.** Yes.

16
17 **Q.** **IS THE MODEL USED IN THIS CASE SIMILAR TO WHAT WAS USED IN**
18 **NMGC’S LAST RATE CASE, NMPRC CASE NO. 19-00317-UT (“19-00317-UT”)?**

19 **A.** Yes. The Model provided in this case is based on the model developed by Concentric
20 Energy Advisors Inc., in NMGC’s last rate case. NMGC submitted its application in
21 NMPRC Case 19-00317-UT in December 2019 and the filing was accepted by the NMPRC
22 as compliant with the Future Test Year Rule.

23

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

II. COST OF SERVICE MODEL

A. Fully-Functional Model

1
2
3
4 **Q. ARE YOU FAMILIAR WITH THE NMPRC’S REQUIREMENTS FOR A FULLY-**
5 **FUNCTIONAL MODEL?**

6 **A.** Yes, this is required by rule 17.1.3 NMAC (the “Future Test Year Rule”). The
7 requirements of 17.1.3.11 NMAC are as follows:

8
9 Base period, linkage data and future test year period data filed to support the rate
10 application must be provided in fully-functional electronic format so that amounts in
11 schedules and supporting work papers required by this rule and the Commission’s data
12 rules can be traced with relative ease to supporting, detailed data.

13 A. Fully-functional electronic format allows Staff and Intervenors to make
14 adjustments that would carry through to the jurisdictional revenue requirement.

15 B. If the inputs to the fully functioning electronic support for the future test year period
16 are fed by systematic calculations within other programs that are not downloadable
17 to fully functioning and executable spreadsheets, the utility will rerun such
18 supporting programs for input changes reasonably required by the staff or
19 intervenors so as to be able to capture the impact of such proposed input changes
20 on the future test year period jurisdictional cost of service model.

21 C. The utility shall identify any data that is not provided in fully-functional electronic
22 format and provide the reason why the data is not provided in fully-functional
23 electronic format.

24

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 17.1.3.12 NMAC further provides that “The rate application shall include:

- 2 • a base period;
- 3 • an adjusted base period;
- 4 • a Future Test Year period; and
- 5 • verifiable information for the linkage data to allow commission staff and
6 intervenors to assess the validity of the information contained in the Future
7 Test Year period described in Sections 15, 16, 17 and 18 of this rule.”

8
9 **Q. USING THESE REQUIREMENTS AS A STARTING POINT, HAS NMGC**
10 **DEVELOPED A FULLY FUNCTIONING MODEL TO SUPPORT ITS RATE**
11 **REQUEST BASED UPON A FUTURE TEST YEAR?**

12 **A.** Yes. NMGC has filed a fully-functional Excel-based model to support its rate filing.

13
14 **Q. IN YOUR OPINION, DOES THE MODEL COMPLY WITH THE**
15 **COMMISSION’S REQUIREMENTS AS SET FORTH IN THE NMAC?**

16 **A.** Yes, the Model, is (with a few exceptions that I will discuss later in my testimony) fully
17 functional and provides all required data to support the determination of the Company’s
18 cost of service. The amounts in all schedules and workpapers can be easily traced, and the
19 assumptions used to develop the Future Test Year cost of service are provided in working
20 electronic files.

21
22 **Q. AS PART OF THE PREPARATION OF NMGC’S RATE CASE, WAS THE**
23 **MODEL TESTED FOR ITS ACCURACY?**

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 **A.** Yes. NMGC undertook a detailed review of the Model. We ensured the inclusion of
2 necessary historical data in the Model, reviewed adjustments to the historical data through
3 the linkage periods, confirmed the resulting impacts on the future test year data, reviewed
4 the results for reasonableness, and tested and verified the flow of data within the Model.
5 In addition, NMGC used Concentric Energy Consultants Inc., to perform a detailed review
6 of the Model to ensure it complies with the requirements of the Future Test Year rules and
7 requirements, that the Model remains fully functional, and that it is clerically accurate.

8

9 **Q.** **DOES NMGC’S MODEL HAVE THE SAME FUNCTIONALITY AS OTHER**
10 **FUNCTIONAL MODELS ACCEPTED BY THIS COMMISSION?**

11 **A.** Yes. As discussed above, NMGC’s Model contains the same functionality as other
12 functional models accepted by the Commission, including NMGC’s model in NMPRC
13 Case No.19-00317-UT.

14

15 **Q.** **CAN THE NMPRC, STAFF AND OTHER PARTIES TO THIS RATE**
16 **PROCEEDING REASONABLY RELY UPON THE MODEL TO ESTABLISH**
17 **NEW RATES IN THIS PROCEEDING?**

18 **A.** Yes. The Model contains historical and forecasted data pertinent to the Company’s cost of
19 providing services to its customers. The Model captures and summarizes the cost of, and
20 investment in, these initiatives. The Model provides a functional and appropriate means
21 by which to review, modify, and determine the Company’s cost of service in this rate
22 proceeding. The Model provides detailed information regarding all components of rate

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 base and operations expenses. Adjustments, if any, can be easily flowed through the
2 Model.

B. Time Periods Contained In The Model

5 **Q. WHAT TIME PERIODS DID NMGC USE TO DEVELOP THE REVENUE**
6 **REQUIREMENTS SUPPORTING THE COMPANY’S RATE REQUEST IN THIS**
7 **PROCEEDING?**

8 **A.** As described in the direct testimony of NMGC Witness Jimmie L. Blotter, the Company’s
9 base period reflects data for the twelve months ending June 30, 2021 (“Base Period”). The
10 adjusted base period (“Adjusted Base Period”) reflects data for this same twelve-month
11 period adjusted for known and measurable changes. The Company then utilized a future
12 test year period consisting of the twelve-month period ending December 31, 2023. As
13 required by the Future Test Year Rule, linkage period data is provided to “bridge the gap”
14 between the historical base period and the future test period. Linkage Period 1 provides
15 data for the twelve months ended June 30, 2022 (“Linkage Period 1”), while Linkage
16 Period 2 sets forth information for the twelve months ending December 31, 2022 (“Linkage
17 Period 2,” collectively the “Linkage Periods”).

18
19 **Q. PLEASE DESCRIBE THE SOURCE OF THE DATA USED IN THE MODEL FOR**
20 **THE BASE PERIOD.**

21 **A.** The Base Period represents twelve months of actual, unadjusted historical financial data
22 from the Company’s financial books and records.

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 **Q. PLEASE DESCRIBE THE SOURCE OF THE DATA USED IN THE ADJUSTED**
2 **BASE PERIOD.**

3 **A.** The Adjusted Base Period utilizes the same financial data for the twelve-month period used
4 for the Base Period but reflects adjustments for known and measurable changes. Including
5 these known and measurable changes is necessary and appropriate to accurately show rate
6 base and operating expenses on a prospective basis.

7

8 **Q. PLEASE EXPLAIN THE LINKAGE PERIODS.**

9 **A.** The Linkage Periods effectively bridge the gap between the Adjusted Base Period and the
10 Future Test Year to allow the Staff and Intervenors to assess the validity of the information
11 contained in the Future Test Year. In this proceeding, the Base Period ends June 30, 2021
12 while the Future Test Year period ends December 31, 2023. The Linkage Periods provide
13 data to better understand the change in rate base and operations expenses from the Base
14 Period to the Future Test Year.

15

16 **Q. WHY DO THE LINKAGE PERIODS OVERLAP?**

17 **A.** The Linkage Periods are intended to provide a clear, annualized line of sight from the Base
18 Period to the Future Test Year period. Given that there is an 18-month span between the
19 Base Period and the Future Test Year period, the Company is providing data for two
20 twelve-month periods between the Base and Future Test Year periods to provide the
21 annualized data between periods. Linkage Period 1 provides data for the twelve months
22 immediately following the Base Period. Linkage Period 2 provides data for the twelve

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 months immediately preceding the Future Test Year. As such, there is an overlap between
2 the Linkage Periods. The overlap period is January 1, 2022 through June 30, 2022.

3
4 **Q. PLEASE EXPLAIN THE FUTURE TEST YEAR.**

5 **A.** The Future Test Year represents financial and operating data for a future period of time.
6 In this proceeding, the Company is employing a Future Test Year to reflect the twelve
7 months ended December 31, 2023. The Future Test Year costs are developed and
8 supported by the fully-functional executable Model.

9
10 style="text-align:center">**C. How The Model Works**

11 **Q. HAVE YOU PROVIDED OPERATING INSTRUCTIONS ON HOW TO UTILIZE
12 THE FUNCTIONAL MODEL?**

13 **A.** Yes. NMGC Exhibit ECB-2 provides instructions to facilitate Staff's and Intervenors' (the
14 "Parties") review of the Model. It is important that users read and understand these
15 instructions before utilizing the Model.

16
17 Additionally, NMGC will be arranging sessions with Staff and Intervenors to facilitate
18 their understanding of the operations of the Model and to answer any questions regarding
19 functionality of the Model.

20
21 **Q. WHAT DO USERS OF NMGC'S FUTURE TEST YEAR MODEL NEED TO
22 KNOW PRIOR TO USING THE MODEL?**

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 **A.** Due to the linkages between the workbooks, for the Model to fully function and update, all
2 workbooks within the Model need to be open at the same time when attempting to modify
3 or adjust any calculations in the Model. In essence, the workbooks need to be able to speak
4 to each other.

5
6 **Q.** **PRIOR TO DISCUSSING THE SPECIFICS OF THE MODEL, CAN YOU DEFINE**
7 **SOME GENERAL TERMS TO BE UNDERSTOOD?**

8 **A.** Yes. I use the terms “workbook,” “worksheet,” and “tab” extensively throughout my
9 testimony when describing the Model. The term “workbook” refers to an entire Excel®
10 file. I use the terms “worksheet” and “tab” interchangeably to refer to an individual tab
11 within an Excel® workbook. A linked workbook refers to an external Excel® workbook
12 outside of the existing Excel® workbook. A linked worksheet refers to a worksheet within
13 the existing Excel® workbook.

14
15 **Q.** **PLEASE IDENTIFY THE WORKBOOKS THAT COMPRISE THE MODEL.**

16 **A.** The Model consists of three separate workbooks. The first workbook is the Cost-of-
17 Service workbook (the “COS Workbook”) and is labeled as NMGC Exhibit ECB-3. The
18 workbook summarizes data from the remaining workbooks and supports the calculation of
19 the Company’s overall cost of service, including rate base and operations expenses.

20
21 The second workbook, which has been labeled as NMGC Exhibit ECB-4, is the Rate Base
22 workbook (the “Rate Base Workbook”), and as the name implies, provides details and
23 support for each component of rate base.

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 The third and final workbook, which has been labeled as NMGC Exhibit ECB-5, is the
2 Operations Expense workbook (the “Operations Expense Workbook”) and provides details
3 and support for each category of NMGC’s operations and maintenance (“O&M”) expenses
4 included in the filing.

5
6 **Q. PLEASE DESCRIBE HOW THE WORKBOOKS INTERRELATE.**

7 **A.** To ensure the functionality of the Model, the worksheets are “linked” so that information
8 flows between worksheets and workbooks. Parties can follow the linkages to
9 source/supporting data within the workbooks by placing the cursor on a cell and clicking
10 on “Formulas” in the “ribbon” or “toolbar” and then “Trace Precedents” within the formula
11 auditing section of the ribbon. These linkages need to be preserved to ensure the flow and
12 functionality of the Model. If the linkages are “broken”, the Model will not function as
13 designed/intended.

14
15 The COS Workbook is, in essence, a summary of the Rate Base Workbook and the
16 Operations Expense Workbook. Parties should make changes to the Model in the Rate
17 Base Workbook and/or the Operations Expense Workbook. These two workbooks contain
18 input worksheets, which are colored blue, where any changes should be made. These blue
19 input worksheets contain specific columns to summarize the content or derivation of the
20 cost of service, rate base, and operations expenses. When a party proposes an adjustment
21 in the appropriate column in the Rate Base or Operations Expense Workbooks, the impact
22 of the adjustments will be reflected in the adjusted total column and will flow forward to
23 the appropriate location within the COS Workbook. For the most part, no changes need to

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 be made to the COS Workbook. However, there are a few instances where parties can
2 make adjustments because some data is either hard-coded/non-fully functional or the
3 adjustments need to be calculated within NMGC Exhibit ECB-3. These instances are
4 described later in my testimony. As a reminder, all workbooks need to be open when a
5 party enters an adjustment. If all workbooks are not open, the adjustment will not flow
6 properly throughout the Model.

7
8 **Q. WITHIN EACH WORKBOOK, FOR WHAT PERIODS OF TIME IS**
9 **INFORMATION PROVIDED?**

10 **A.** Each workbook provides information for Base Period, the Adjusted Base Period, Linkage
11 Periods, and the Future Test Year.

12
13 **Q. AS YOU DISCUSS THE CONTENT OF THE WORKBOOKS IN THE MODEL,**
14 **ARE THERE ANY GAPS IN THE ROWS OR COLUMNS CITED? IF SO, PLEASE**
15 **EXPLAIN WHY.**

16 **A.** Yes. As previously described, the Model is an Excel-based model. As I discuss the content
17 of the various workbooks within the Model, I will refer to the Excel columns and rows in
18 which data exists. For presentation purposes, there are blank columns in the workbooks.
19 Therefore, as I discuss each workbook, the referenced columns may not be sequentially
20 labeled. In addition, there are some instances where there are “placeholders” for line items.
21 These rows and columns were not needed in the Model but could not be deleted in order to
22 maintain a fully-functional model.

23

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 **Q. PLEASE EXPLAIN HOW THE MODEL IS BEING PROVIDED TO STAFF AND**
2 **INTERVENORS.**

3 **A.** First, NMGC Exhibits ECB-3 through ECB-5, as identified above, are the three workbooks
4 that comprise the Model. Second, an electronic fully-functional copy of the Model has
5 been provided on a USB portable storage drive or “thumb drive” with the pleadings filed
6 in this rate case. Finally, a fully-functional electronic copy of the Model is also available
7 on SharePoint as 21-00267-UT-2021-12-10-NMGC-Application.

8

9

D. The Workbooks

10

i. The COS Workbook

11 **Q. PLEASE PROVIDE AN OVERVIEW OF THE NMGC COS WORKBOOK.**

12 **A.** The COS Workbook, which has been labeled as NMGC Exhibit ECB-3, contains eleven
13 worksheets. The first worksheet in the COS Workbook is the lead worksheet and details
14 the contents of the workbook. The second worksheet provides a summary of the cost of
15 service (“COS Summary”). The remaining worksheets contain the “Intervenor Change
16 Summary,” which help to track adjustments proposed by intervenors when compared to
17 original filing, and the “630 Schedule A-5,” Summary of Total Capitalization and
18 Weighted Average Cost of Capital, and “630 Schedule G-3,” Embedded Cost of Borrowed
19 Capital, for the Base Period, Linkage Periods, and Future Test Year.

20

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 **Q. PLEASE DESCRIBE THE INFORMATION CONTAINED IN THE COS**
2 **SUMMARY WORKSHEET.**

3 **A.** The second worksheet in the COS Workbook summarizes the Company's rate base and
4 operations expenses. The worksheet provides information pertaining to each of the
5 following items:

- 6 ▪ the components of NMGC's rate base/operations expenses (columns A, B, C, and
7 D);
- 8 ▪ the applicable FERC accounts from which the financial data was derived (column
9 E);
- 10 ▪ the unadjusted Base Period balance or expense, by component (column G);
- 11 ▪ a summary of the Company's adjustments to the Base Period (column H);
- 12 ▪ the Adjusted Base Period balances (column I). The totals presented in each line of
13 column I were derived by summing the figures in columns G and H;
- 14 ▪ data pertaining to Linkage Period 1 (column K);
- 15 ▪ data pertaining to the Linkage Period 2 (column L);
- 16 ▪ Future Test Year (column N);
- 17 ▪ Future Test Year adjustments (column O);
- 18 ▪ adjusted Future Test Year (column P). The totals presented in column P were
19 derived by summing the figures in columns N and O; and
- 20 ▪ columns R and S allow for and reflect the results of Intervenor adjustments.

21
22 For more detailed information regarding each column, please refer to the green lead sheets
23 at the beginning of each exhibit workbook or NMGC Exhibit ECB-2.

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 **Q. WHAT ARE THE COMPONENTS THAT MAKE UP THE COMPANY’S COST**
2 **OF SERVICE AS NAMED IN COLUMNS A THROUGH D OF THE COS**
3 **SUMMARY?**

4 **A.** Columns A through D in the COS Summary name the components of rate base and
5 operations expenses, which collectively make up the Company’s cost of service. The
6 components of rate base, as set forth on lines 5 through 135, are:

- 7 • Net Transmission Plant;
- 8 • Net Distribution Plant;
- 9 • Net General and Intangible Plant;
- 10 • Accumulated Deferred Income Taxes;
- 11 • Regulatory Assets and Liabilities;
- 12 • Other Rate Base Items; and
- 13 • Working Capital.

14

15 The components of operations expenses, as set forth on lines 138 through 455, include:

- 16 • Fuel-Related Expenses;
- 17 • Transmission O&M;
- 18 • Distribution O&M;
- 19 • Customer Related O&M;
- 20 • Administrative and General expenses;
- 21 • Depreciation and Amortization Expense;
- 22 • Transmission;

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

- 1 ▪ Distribution;
- 2 ▪ General and Intangible; and
- 3 ▪ Other;
- 4 • General Taxes;
 - 5 ▪ Property taxes;
 - 6 ▪ Payroll taxes; and
 - 7 ▪ Other taxes;
- 8 • Other Allowable Expenses;
- 9 • Federal Income Taxes;
- 10 • State Income Taxes; and
- 11 • Revenue Credits.

12 The information is summarized to produce a total cost of service.

13

14 **Q. PLEASE EXPLAIN THE PURPOSE OF COLUMN R.**

15 **A.** Column R, entitled “Intervenor Manual Adjustments,” will reflect the adjustments made
16 by a particular party making a proposed adjustment in NMGC Exhibits ECB-4 and ECB-
17 5, and not adjustments made by other parties. As discussed previously, there are some
18 instances where Intervenors need to make adjustments directly in NMGC Exhibit ECB-3.

19

20 **Q. WHAT IS THE PURPOSE OF COLUMN S?**

21 **A.** Column S, entitled “Intervenor Change Ending 12/31/2023,” presents the net total of the
22 Company’s adjusted Future Test Year balances presented in column P and the proposed

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 balances net of any proposed adjustments reflected in column R as made by that individual
2 party.¹

3

4 **Q. WHAT DO COLUMNS U, V, AND X REFLECT?**

5 **A.** Columns U and V summarize the change from the Adjusted Base Period to the adjusted
6 Future Test Year for each component of rate base, operating expense, etc. Column U shows
7 the variance in dollar amount, while column V shows it as a percentage. This information
8 is provided for informational purposes to provide an order of magnitude assessment of
9 change from each of the periods to the Future Test Year period.

10

11 Column X provides a cross-reference to either exhibits, 630 Schedules or workpapers.

12

13 **Q. IF PARTIES TO THIS PROCEEDING WISH TO MAKE CHANGES TO THE**
14 **MODEL, WHERE SHOULD THE CHANGES BE MADE?**

15 **A.** Any proposed changes to rate base would be made in the Rate Base Workbook, NMGC
16 ECB-4 while proposed changes to operations expenses would be made in the Operations
17 Expense Workbook, NMGC Exhibit ECB-5. Those changes will flow forward to the COS
18 Workbook, NMGC Exhibit ECB-3. However, there are several line items that need to be
19 adjusted in Exhibit ECB-3. This includes the following items:

20

- Accumulated Deferred Income Taxes;

¹ If however, a party were to make an adjustment to the escalators in worksheet WP 1 Inputs OM – Gen Tax in NMGC Exhibit ECB-5, this change would be reflected in column S in addition to column P, which is the Company’s proposed cost of service revenue requirement.

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

- 1 • Income Tax Regulatory Liability;
- 2 • Interest on Long-term Debt;
- 3 • Tax/Book Adjustments;
- 4 • Amortization of Excess Deferred Income Taxes (Both Federal and State); and
- 5 • Weighted Average Cost of Capital (“WACC”).²
- 6

7 **Q. PLEASE DESCRIBE THE OTHER WORKSHEETS IN THE COS WORKBOOK.**

8 **A.** 630 Schedules A-5 and G-3 comprises the remaining worksheets in the COS Workbook
9 and calculate the weighted average cost of capital (“WACC”) for the Base, Linkage, and
10 Future Test Year periods. The WACC calculations in these tabs are used to calculate the
11 return on rate base.

12

13 style="text-align:center">**ii. The Rate Base Workbook**

14 **Q. PLEASE PROVIDE AN OVERVIEW OF THE RATE BASE WORKBOOK, NMGC**
15 **EXHIBIT ECB-4.**

16 **A.** The Rate Base Workbook summarizes the development of the Company’s rate base. It
17 provides all the same information pertaining to rate base that was detailed above when
18 describing the COS Workbook. The data that is calculated in the Rate Base Workbook
19 flows directly to the COS Workbook.

20

² The Company has added a section in 630 Schedules A-5 Test and G-3 Test in NMGC Exhibit ECB-3. There, parties can make changes to the return on equity, debt rates, and capital structure (debt / equity ratio). These changes will flow through the Intervenor adjustment columns in the COS Summary.

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 The first worksheet in NMGC Exhibit ECB-4 entitled the “Lead Sheet Rate Base” in green
2 is a table of contents for the entire workbook. This worksheet provides hyperlinks to each
3 of the tabs in the workbook, summarizes and outlines the purpose of each worksheet, and
4 notes which worksheets the tabs provide information to and which worksheets the tabs
5 require information from. There are four blue input worksheets: “WP Plant COS Inputs,”
6 “WP Depreciation COS Inputs,” “WP Working Capital COS Inputs,” and “WP Other RB
7 COS Inputs.” These are the worksheets where parties should make changes to the Model
8 and their contents are described in further detail below. Following the input worksheets
9 are 630 Schedules in gold and workpapers in purple. Workpapers and 630 Schedules
10 support or provide inputs to the COS Workbook.

11
12 **Q. PLEASE DESCRIBE THE CONTENTS OF WORKSHEET “WP PLANT COS**
13 **INPUTS.”**

14 **A.** The information contained in each column in the worksheet “WP Plant COS Inputs” is
15 summarized as follows:

- 16 • column A identifies the major categories of plant (e.g., net transmission plant, net
17 distribution plant, net general and intangible plant);
- 18 • column B provides further delineation of the components of plant within each major
19 category;
- 20 • column D provides the specific FERC accounts within each component of plant;
- 21 • column E provides the unadjusted Base Period balance for each component of plant,
22 per the Company’s books and records;

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

- 1 • column F sets forth the adjustments to Base Period balances and reflects the
2 differences between columns E and G;
- 3 • column G presents the Adjusted Base Period balances and is derived from
4 Worksheet “WP Plant 1 – Net Plant Balances” column S;
- 5 • column H provides the balances, by component, for Linkage Period 1. The
6 derivation of the Linkage Period 1 balances can be found in the supporting
7 worksheet entitled “WP Plant-1 – Net Plant Balances” column AF;
- 8 • column I presents the balances for each component of rate base for Linkage Period
9 2. The derivation of the Linkage Period 2 balances can be found in the worksheet
10 entitled “WP Plant-1 – Net Plant Balances” column AL;
- 11 • column J sets forth the balances for each component of rate base for the Future Test
12 Year. The derivation of the Future Test Year balances can be found in the
13 worksheet entitled “WP Plant-1 – Net Plant Balances” column AY;
- 14 • column K reflects an adjustment to recognize the 13-month averaging of the 2022
15 and 2023 balances. Given that the Company is utilizing a Future Test Year in this
16 proceeding, rate base needs to reflect a thirteen-month average of the ending
17 balances of calendar year 2022 and 2023;
- 18 • column L adjusts the balances at year end December 31, 2023 to reflect the thirteen-
19 month average of year end 2022 and 2023 balances;
- 20 • column N calculates the net change in each component of rate base from the
21 Adjusted Base Period balance to the Future Test Year;
- 22 • similarly, column O provides the percentage change from the Adjusted Base Period
23 balance to the Future Test Year balance;

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

- 1 • column Q provides a column for the parties to this proceeding to propose
2 adjustments to the Company’s test year account balances;
- 3 • column R calculates the adjusted balance of each component of rate base reflecting
4 the proposed Staff/Intervenor adjustments;
- 5 • column T provides a cross-reference to either exhibits, 630 Schedules, or
6 workpapers where appropriate.

7

8 **Q. PLEASE DESCRIBE THE CONTENTS OF WORKSHEET “WP DEPRECIATION**
9 **COS INPUTS.”**

10 **A.** The information contained in each column in the worksheet “WP Depreciation COS
11 Inputs” is summarized as follows:

- 12 • column A identifies the major categories of depreciation expense (e.g.,
13 Transmission, Distribution, General and Intangible);
- 14 • column B provides further delineation of the components of depreciation expense
15 within each major category;
- 16 • column D provides the specific FERC accounts within each component of
17 depreciation³;
- 18 • column E provides the unadjusted Base Period balance for each component of
19 depreciation expense, per the Company’s books and records;
- 20 • column F sets forth the adjustments to Base Period depreciation. The derivation
21 of the adjustments is provided on worksheet “630 Schedule H-7b”, column L;

³ Non-referenced columns are blank in order to break up the data and or time periods.

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

- 1 • column G presents the Adjusted Base Period depreciation expenses and reflects the
2 sum of columns E and F;
- 3 • column H provides the depreciation expense, by component, for Linkage Period 1.
4 The derivation of the Linkage Period 1 balances can be found in the supporting
5 workpaper entitled “630 Schedule H-7b” column R;
- 6 • column I presents the depreciation expense for each component for Linkage Period
7 2. The derivation of the Linkage Period 2 balances can be found in the supporting
8 workpaper entitled “630 Schedule H-7b” column X;
- 9 • column J sets forth the depreciation expense for each component for the Future Test
10 Year. The derivation of the Future Test Year depreciation expense can be found in
11 the supporting workpaper entitled “630 Schedule H-7b” column AD;
- 12 • column K presents the adjustments to the Future Test Year period depreciation
13 expense. The Company is not proposing any adjustments to depreciation expense
14 in the Future Test Year period, so, this column is blank;
- 15 • column L presents the adjusted depreciation expense for the Future Test Year;
- 16 • column N calculates the net change in each component of depreciation expense
17 from the Adjusted Base Period expense to the Future Test Year expense;
- 18 • column O provides the percentage change from the Adjusted Base Period to the
19 Future Test Year expense;
- 20 • column Q provides a column for the parties to this proceeding to propose
21 adjustments to the Company’s Future Test Year account expenses;

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

- 1 • column R calculates the adjusted balance of each component of rate base reflecting
2 the proposed Staff and Intervenor adjustments; and
3 • column T presents references to supporting files or tabs.
4

5 **Q. PLEASE DESCRIBE THE CONTENTS OF WORKSHEET “WP WORKING**
6 **CAPITAL COS INPUTS.”**

7 **A.** The information contained in each column in the worksheet “WP Working Capital COS
8 Inputs” is summarized as follows:

- 9 • column A identifies the major categories of working capital (e.g., fuel stock,
10 materials and supplies, prepayments, and cash working capital);
11 • column B provides the Unadjusted Base Period balance for each component of
12 working capital, per the Company’s books and records;
13 • column C sets forth the adjustments to Base Period balances. The derivation of the
14 adjustments is provided on 630 Schedules E for fuel stock, materials and supplies,
15 and prepayments;
16 • column D presents the Adjusted Base Period balances and reflects the sum of
17 columns B and C;
18 • column E provides the balances, by component, for Linkage Period 1. The
19 derivation of the Linkage Period 1 balances can be found in 630 Schedules E for
20 fuel stock, materials and supplies, and prepayments;
21 • column F presents the balances for each component for Linkage Period 2. The
22 derivation of the Linkage Period 2 balances can be found in 630 Schedules E for
23 fuel stock, materials and supplies, and prepayments;

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

- 1 • column G sets forth the balances for each component for the Future Test Year. The
2 derivation of the Future Test Year balances can be found in 630 Schedules E for
3 fuel stock, materials and supplies, prepayments, and cash working capital;
- 4 • given that the Company is utilizing a Future Test Year in this proceeding, rate base
5 needs to reflect a thirteen-month average of the ending balances of calendar year
6 2022 and 2023. Column H reflects an adjustment to Future Test Year Amounts
7 recognize the averaging of the 2022 and 2023 balances;
- 8 • the amount in column I adjusts the balances at year end December 31, 2023 to
9 reflect the thirteen-month average of year end 2022 and 2023 balances;
- 10 • column K calculates the net change in each component of working capital from the
11 Adjusted Base Period balance to the Future Test Year;
- 12 • similarly, column L provides the percentage change from the Adjusted Base Period
13 to the Future Test Year;
- 14 • column N provides a column for the parties to this proceeding to propose
15 adjustments to the Company’s Future Test Year account balances;
- 16 • column O calculates the adjusted balance of each component of rate base reflecting
17 the proposed Staff and Intervenor adjustments;
- 18 • column Q presents references to supporting files or tabs.

19

20 **Q. PLEASE DESCRIBE THE CONTENTS OF WORKSHEET “WP OTHER RB COS**
21 **INPUTS.”**

22 **A.** The information contained in each column in the worksheet “WP Other RB COS Inputs”
23 is summarized as follows:

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

- 1 • column B identifies the major categories (e.g., customer deposits, RWIP, Revenue
2 Credits, etc.);
- 3 • column C provides the FERC account associated with each line item;
- 4 • column E provides the unadjusted Base Period balance for each component, per the
5 Company's books and records;
- 6 • column F sets forth the adjustments to the Base Period;
- 7 • column G presents the Adjusted Base Period balances and reflects the sum of
8 columns E and F;
- 9 • column I provides the balances, by component, for Linkage Period 1;
- 10 • column J presents the balances for each component for Linkage Period 2;
- 11 • column L sets forth the balances for each component for the Future Test Year
12 Period;
- 13 • column M reflects an adjustment to recognize the averaging of the 2022 and 2023
14 balances. Given that the Company is utilizing a Future Test Year in this
15 proceeding, rate base needs to reflect a thirteen-month average of the ending
16 balances of calendar year 2022 and 2023;
- 17 • for balances, column N adjusts the balances at year end December 31, 2023 to
18 reflect the thirteen-month average of year end 2022 and 2023 balances;
- 19 • column P calculates the net change in each component of from the Adjusted Base
20 Period balance to the Future Test Year;
- 21 • similarly, column Q provides the percentage change from the Adjusted Base Period
22 to the Future Test Year balance;

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

- 1 • column S provides a column for the parties to this proceeding to propose
- 2 adjustments to the Company's FTY account balances;
- 3 • column T calculates the adjusted balance of each component of rate base reflecting
- 4 the proposed Staff/Intervenor adjustments;
- 5 • column V presents references to supporting files or tabs.

6

7 **Q. PLEASE DESCRIBE THE OTHER WORKSHEETS IN THE RATE BASE**
8 **WORKBOOK.**

9 **A.** The remaining worksheets in the Rate Base Workbook are 630 Schedules and workpapers
10 as follows:

- 11 • 630 Schedules B-1, B-2, and B-3;
- 12 • 630 Schedule C-1, C-1.1;
- 13 • 630 Schedule C-2 Depreciation Rates;
- 14 • 630 Schedule H-7b;
- 15 • WP Plant 1 Net Plant Balances;
- 16 • WP Plant 2 Clearings, which reflects plant being placed in service;
- 17 • WP Plant 3 Gross Balances;
- 18 • WP Plant 4 Depreciation Activity;
- 19 • WP Plant 5 Depreciation Exp;
- 20 • WP Plant 6 Accumulated Reserve Balances;
- 21 • WP Plant 7 Williams;
- 22 • 630 Schedules E-1, E-2.1, E-2.2, E-4;

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

- 1 • 630 Schedules H-7.1, and H-7.2; and
- 2 • 630 Schedules I-1, I-1.1, I-1.2, I-1.3, I-1.4, I-1.5, I-2, and I-3.

3 These workpapers and schedules are detailed further in NMGC Exhibit ECB-2.

4

5 **iii. The Operations Expense Workbook**

6 **Q. PLEASE PROVIDE AN OVERVIEW OF THE OPERATIONS EXPENSE**

7 **WORKBOOK, NMGC EXHIBIT ECB-5.**

8 **A.** The Operations Expense Workbook summarizes the development of the Company’s

9 operations expenses. It provides the same information pertaining to operations expenses

10 that was detailed above when describing the COS Workbook. The Operations Expense

11 Workbook is linked to the COS Workbook and the data that is calculated in it flows directly

12 to the COS Workbook, NMGC Exhibit ECB-3.

13

14 The first worksheet in the Operations Expense Workbook entitled the “Lead Sheet

15 Operations Expense” in green is a table of contents for the entire workbook. This

16 worksheet provides hyperlinks to each of the tabs in the workbook, summarizes and

17 outlines the purpose of each worksheet, and notes which worksheets the tabs provide

18 information to and which worksheets the tabs require information from. There are then

19 two input worksheets in blue entitled “WP OM COS Inputs” and “WP Gen Tax COS

20 Inputs.” These two input worksheets are where parties should make changes to the Model

21 and their contents are described in further detail below. Following the input worksheets

22 are workpapers in purple and 630 Schedules in gold. Workpapers and 630 Schedules

23 support or provide inputs to the COS Workbook. In addition, there are some instances in

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 this workbook where we combine 630 Schedules and workpapers to logically display the
2 data.

3

4 **Q. PLEASE DESCRIBE THE CONTENTS OF WORKSHEET “WP OM COS**
5 **INPUTS.”**

6 **A. Worksheet “WP OM COS Inputs” presents NMGC’s operating expenses. The information**
7 **contained in each column is summarized as follows:**

8 • column A identifies the major categories of operations expenses (e.g., fuel related
9 expenses, O&M non-fuel, including transmission O&M, distribution O&M,
10 customer related O&M, and administrative and general expenses);

11 • column B provides further description of the components of expenses within each
12 major category;

13 • column C is subtotals;

14 • column E identifies the specific FERC accounts within each component of
15 operations expenses;

16 • column F provides the unadjusted Base Period activity for each component of
17 operations expenses per the Company’s books and records. This activity was
18 brought forward from “WP 2 OM 630 Schedule H1 OM Summary”;

19 • column G sets forth the adjustments to Base Period activity. The derivation of the
20 adjustments is provided on worksheet “WP OM 2 630 Sched H1 OM Summary”;

21 • column H presents the Adjusted Base Period activity and reflects the sum of
22 columns F and G;

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

- 1 • column I provides activity by component for Linkage Period 1. The derivation of
2 the Linkage Period 1 activity can be found in the worksheet entitled “WP OM 2
3 630 Sched H1 OM Summary”;
- 4 • column J presents each component of operations expense for Linkage Period 2.
5 The derivation of this activity can be found in the supporting worksheets entitled
6 “WP 2 OM 630 Schedule H1 OM Summary”;
- 7 • column K sets forth each component of expenses for the Future Test Year. The
8 derivation of the Future Test Year expenses can be found in the supporting
9 workpaper entitled “WP 2 OM 630 Schedule H1 OM Summary”;
- 10 • column L reflects test year adjustments;
- 11 • column M reflects the sum of columns K and L;
- 12 • column O calculates the net change in each component of expenses from the
13 Adjusted Base Period to the Future Test Year;
- 14 • Similarly, column P provides the percentage change from the Adjusted Base Period
15 expense to the Future Test Year;
- 16 • column R provides a column for the parties to this proceeding to propose
17 adjustments to the Company’s Future Test Year operations expenses, by FERC
18 Account;
- 19 • column S calculates the adjusted expenses for each component of operations
20 expenses reflecting the proposed Staff and Intervenor adjustments;
- 21 • column U shows cross references.
- 22

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 **Q. PLEASE DESCRIBE THE CONTENTS OF WORKSHEET “WP GEN TAX COS**
2 **INPUTS.”**

3 **A.** Worksheet “WP Gen Tax COS Inputs” presents NMGC’s expenses for general taxes. The
4 information contained in each column is summarized as follows:

- 5 • column A identifies the major categories of operating expenses (e.g. Property,
6 Payroll, and Other Taxes);
- 7 • column B provides further description of the components of expenses within each
8 major category;
- 9 • column C identifies the specific FERC accounts within each component of
10 operating expenses;
- 11 • column D provides the Unadjusted Base Period expense for each component of
12 general taxes per the Company’s books and records;
- 13 • column E sets forth the adjustments to Base Period expenses, pulling data forward
14 from “WP GT 2 Property Tax,” “WP GT 3 Payroll Tax,” or “WP GT 4 Misc
15 Taxes”;
- 16 • column F presents the Adjusted Base Period expenses and reflects the sum of
17 columns D and E;
- 18 • column G provides the expenses, by component, for Linkage Period 1, pulling data
19 forward from “WP GT 2 Property Tax,” “WP GT 3 Payroll Tax,” or “WP GT 4
20 Misc Taxes”;
- 21 • column H presents the expenses for each component for Linkage Period 2, pulling
22 data forward from “WP GT 2 Property Tax,” “WP GT 3 Payroll Tax,” or “WP GT
23 4 Misc Taxes”;

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

- 1 • column I sets forth the expenses for each component of general taxes for the Future
2 Test Year, pulling data forward from “WP GT 2 Property Tax,” “WP GT 3 Payroll
3 Tax,” or “WP GT 4 Misc Taxes”;
- 4 • column J presents the adjustments to the Future Test Year general taxes. The
5 Company is not proposing any adjustments to general taxes in the FTY, so this
6 column is blank;
- 7 • column K calculates the adjusted Future Test Year expenses. It is the sum of
8 columns I and J;
- 9 • column M calculates the net change in each component of general taxes from the
10 Adjusted Base Period to the Future Test Year;
- 11 • similarly, column N provides the percentage change from the Adjusted Base Period
12 to the Future Test Year expense;
- 13 • column P provides a column for the parties to this proceeding to propose
14 adjustments to the Company’s Future Test Year general taxes by FERC account;
- 15 • column Q calculates the adjusted expense of each component of operating expenses
16 reflecting the proposed Staff/Intervenor adjustments;
- 17 • column S provides a cross-reference with back-up files or tabs.

18

19 **Q. PLEASE DESCRIBE THE OTHER WORKSHEETS IN THE OPERATIONS**
20 **EXPENSE WORKBOOK.**

21 **A.** The remaining worksheets in the Rate Base Workbook are 630 Schedules and workpapers
22 as follows:

- 23 • WP 1 OM Inputs – Gen Tax;

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

- 1 • WP 2 OM 630 Sched H1 OM Summary;
- 2 • WP 3 OM Base Period Adjustments;
- 3 • WP 4 OM Separately Forecasted;
- 4 • 630 Schedule H-1.1 Summary;
- 5 • 630 Schedule H-1.2 Baseline 1 2;
- 6 • 630 Schedule H-1.3 Test Period;
- 7 • WP 5 OM 630 Schedule H-4 Labor;
- 8 • 630 Schedule H-4.1;
- 9 • 630 Schedule H-4.2;
- 10 • 630 Schedule H-4.3;
- 11 • 630 Schedule H-4.4;
- 12 • WP 6 OM Incentive Comp;
- 13 • WP 7 OM 401K;
- 14 • WP 8 OM New Headcount;
- 15 • WP 2 GT Property Tax;
- 16 • WP 3 GT Payroll Tax;
- 17 • WP 4 GT Misc Taxes; and
- 18 • 630 Schedules H-8, 8.3, 8.4.

19

20 These workpapers and schedules are detailed further in NMGC Exhibit ECB-2.

21

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 **Q. HOW ARE O&M EXPENSES FORECASTED IN THE OPERATIONS EXPENSE**
2 **WORKBOOK?**

3 **A.** Forecasted items in the Operations Expenses Workbook are either escalated or separately
4 forecasted.

5

6 **Q. WHAT ITEMS ARE SEPARATELY FORECASTED IN THE OPERATIONS**
7 **EXPENSE WORKBOOK?**

8 **A.** These items can be found in worksheet “WP OM 4 Separately Forecasted.” The
9 information contained in each column is summarized as follows:

- 10 • column A contains the descriptions and cost elements for each account;
- 11 • column B provides the name of the cost element for each account;
- 12 • column C provides the specific FERC accounts; and
- 13 • column D pulls in the Total Company Adjusted Base Period Amount from
14 worksheet “WP 2 OM 630 Sched H1 OM Summary.”

15

16 Table 1 contains a list of the separately forecasted items, the witness who discusses these
17 forecasts and calculations in his/her testimony, and the column location where this item is
18 found within worksheet “WP OM 4 Separately Forecasted.”

19

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1

Table 1 – Separately Forecasted Items

Specially Forecasted Items	Subject Matter Expert	Base Period Column	Linkage 1 Column	Linkage 2 Column	Test Period Column
Labor Expense ⁴	Wilcox	F	Q	AC	AP
Incentive Compensation Expense	Wilcox	G	R	AD	AQ
Normalize 401k Match	Buchanan	H	S	AE	AR
Medical and Dental Expense	Wilcox	I	T	AF	AS
Pension and OPEB Expense	Wilcox	J	U	AG	AT
In-Line Inspection Program	Bullard	K	V	AH	AU
General Insurance Costs	Nash	L	W	AI	AV
Espanola Lease	Sanchez	M	X	AJ	AW
Shared Services Expenses	Blotter	N	Y	AK	AZ
TSA Pipeline Security Costs	Wilcox	None	Z	AL	AX
Solar Facility Savings	Weseen	None	None	AM	AY
Total		O	AA	AN	BA

2

3 **Q. HOW ARE THE SEPARATELY FORECASTED ITEMS IN THE TABLE ABOVE**
 4 **INPUTED INTO THE OPERATIONS EXPENSE WORKBOOK?**

⁴ Note: The new positions being requested in this case are included in the Test Period column Labor Expense and can be seen in more detail in NMGC Exhibit ECB-5, WP 5 OM 630 Schedule H-4 Labor and WP 8 OM New Headcount.

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 **A.** These forecasted amounts were provided by the witnesses described above. These numbers
2 were either hard-coded into the Operations Expenses Workbook or linked to 630 Schedules
3 or workpapers, which are worksheets in NMGC Exhibit ECB-5. Although several of these
4 numbers are hard-coded, parties can change them manually and the changes will flow
5 throughout the Model. However, unlike changes made in the blue input worksheets,
6 changes made to these hard-coded numbers will be reflected in column P in addition to
7 column S of the COS Summary.

8

9 **Q.** **HOW IS THE ESCALATION OF O&M EXPENSES IN THE LINKAGE PERIODS**
10 **INPUTED INTO THE OPERATIONS EXPENSE WORKBOOK?**

11 **A.** In handling general O&M expenses, the Model applies escalators to the amount of Base
12 Period expenses. The Model uses general and labor O&M escalators for the Linkage
13 Periods and Future Test Year period as seen in Table 2:

Table 2 -- Escalators

Escalator	Base Period	Linkage Period 1	Linkage Period 2	Future Test Year
General O&M	None	2.97%	1.22%	2.34%
Labor O&M	1.50%	1.50%	1.50%	5.00%

16

17

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 **Q. PLEASE DISCUSS THE NON-LABOR ESCALATIONS IN MORE DETAIL.**

2 **A.** We anticipate that O&M expenses, other than separately forecasted expenses, will continue
3 to rise in the future. Along with the rest of the nation, we are seeing rising costs tied to
4 inflationary pressures. In order to account for rising costs, we have taken annual forecasts
5 for 2021, 2022 and 2023 from public sources that put forward inflationary forecasts. These
6 entities are: the U.S. Energy Information Administration, the Federal Open Market
7 Committee and information from the University of New Mexico's Bureau of Business &
8 Economic Research. We then average the three general O&M escalators for the Linkage
9 Periods and Future Test Year escalation rates. This methodology relies on external
10 projections of inflationary amounts that are widely accepted and form a reasonable basis
11 of what we should expect in the future.

12

13 **Q. PLEASE DISCUSS THE LABOR ESCALATIONS IN MORE DETAIL.**

14 **A.** Labor expenses are escalated at 1.5% to normalize the Base Period Labor, which contain
15 only ½ of annual merit increases awarded during the base period, 1.5% in Linkage 1, 1.5%
16 in Linkage 2, and 5% in the Future Test Year. The Linkage 1 and 2 periods are not
17 escalated by 3% i.e. because we the Base Period contains a partial year increase and
18 Linkage 2 contains a partial overlap with Linkage 1.

19

20 **Q. HOW DO SEPARATELY FORECASTED ITEMS AND ESCALATED ITEMS**
21 **FLOW INTO THE REST OF THE MODEL?**

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 **A.** The worksheet “WP 2 OM 630 Sched H1 OM Summary” contains the O&M summary
2 across the Base Period, Linkage Period 1, Linkage Period 2, and the Future Test Year. The
3 information contained in each column is summarized as follows:

- 4 • column A contains the descriptions and cost elements for each account;
- 5 • column B provides the Account Names;
- 6 • column C provides the specific FERC accounts;
- 7 • columns D through O contain monthly data from the Company’s books and records
8 for each account and cost element;
- 9 • column P contains the Total Company Unadjusted Base Period, which is the sum
10 of the monthly data in columns D through O;
- 11 • column Q is the Base Period Adjustments, which pulls from the total of the Base
12 Period Adjustments in column U of the worksheet “WP OM 3 Base Period
13 Adjustments”;
- 14 • column R is the Adjusted Base Period, which is the sum of columns P and Q;
- 15 • column S removes the amounts that will not be escalated by the standard escalation
16 rates detailed in “WP 1 Inputs OM – Gen Tax” in Linkage 1. Instead, these amounts
17 are separately forecasted in “WP OM 4 Separately Forecasted”;
- 18 • column T (Remaining Base Period O&M to be Escalated) is the sum of column R
19 and Column S. Because column S is a number of the opposite sign of the
20 corresponding number in column R, column T is removing the value in column S
21 from its total. This is done so that the separately forecasted items are not escalated
22 by the general O&M escalator. Those items have their own calculations, and

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 therefore do not need the general escalator. Column T is the remaining value to be
2 escalated by the general O&M escalator for the Linkage 1 period;

3 • column U (Escalated Linkage 1 - Results of Pure Escalation of 2.97%) multiplies
4 column T by the O&M escalator found in found in the worksheet “WP 1 OM Inputs
5 - Gen Tax” in cell D5;

6 • column V pulls in the separately forecasted items for Linkage Period 1 from
7 worksheet “WP OM 4 Separately Forecasted,” column AA;

8 • column W is the Total Linkage 1 amount. This includes the sum of columns U and
9 V. By including this sum, column W represents the separately forecasted items,
10 plus the other O&M expenses escalated at 2.97%, and therefore captures all of the
11 accounts regardless of the method used to forecast;

12 • column X (Escalated Linkage 2 - Results of Pure Escalation of 1.22%) multiplies
13 column U by the O&M escalator found in the worksheet “WP 1 Inputs OM - Gen
14 Tax” in cell D6. The escalator is 1.22% is based on a calendar year escalator of
15 2.43% for 2022 because the first six months of Linkage Period 2 (January 2022
16 through June 2022) have already been escalated as a part of the escalations of
17 Linkage Period 1;

18 • column Y contains Total Linkage 2 Period separately forecasted items, and pulls
19 data from worksheet “WP OM_4_ Separately Forecast,” column AN;

20 • column Z sums columns X and Y, resulting in the Total Linkage Period 2 amount;

21 • column AA (Escalated Test Year - Results of Pure Escalation of 2.34%) multiplies
22 column X by the O&M escalator found in worksheet “WP 1 Inputs OM - Gen Tax”

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 in cell D7. The escalator used for the Future Test Year is the full calendar year
2 2.34% since the future Test Year reflects a full twelve-month period;

- 3 • column AB pulls in the separately forecasted items for the Future Test Year from
4 worksheet “WP OM 4 Separately Forecasted,” column BA;
- 5 • column AC sums columns AA and AB, resulting in the Future Test Year O&M
6 Expense. Once again, this includes the separately forecasted items, as well as all
7 general O&M items that are escalated at the general O&M escalator of 2.34%;
- 8 • column AE shows the difference between the Adjusted Base Period in column R
9 and the Test Period in column AC;
- 10 • column AF shows the variance percentage between the Future Test Year and
11 Adjusted Base Period; and
- 12 • column AH contains explanations for the percentage change.

13
14 **Q. HOW ARE HEADCOUNT INCREASES INCLUDED IN THE SEPARATLY**
15 **FORECASTED ITEMS IN WP OM 4 SEPARATELY FORECASTED ITEMS?**

16 **A.** Headcount increases are included in WP 8 OM New Headcount. The information
17 contained in each column is summarized as follows:

- 18 • column A contains the cost elements and general descriptions for each account;
- 19 • column B provides the expense type;
- 20 • column C provides the specific FERC accounts;
- 21 • column D provides the position title;
- 22 • column E provides the position grade;

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 also hard-coded. If a party wishes to see support for these data points it is advised that they
2 submit a data request to the Company.

3
4 **Q. HAVE YOU IDENTIFIED ANY SECTIONS WITHIN THE MODEL THAT ARE**
5 **NOT FULLY FUNCTIONAL AS DESCRIBED BY THE FUTURE TEST YEAR**
6 **RULE?**

7 **A.** Yes. As provided for in Section 17.1.3.11.C of the Future Test Year Rule, NMGC
8 identifies the following “data that is not provided in fully-functional electronic format and
9 provides the following reason why the data is not provided in fully-functional electronic
10 format”⁵:

- 11 • ADIT - As described in the testimony of NMGC Witness Davicel Avellan, this data
12 is not available in a fully functioning format. Please see NMGC Witness Avellan’s
13 testimony for further discussion.
- 14 • Income Taxes - As described in the testimony of NMGC Witness Avellan, this data
15 (which includes Income Tax Regulatory Liability, Tax/Book Adjustments, and
16 Amortization of Excess Deferred Income Taxes) is not available in a fully
17 functioning format. Please see Witness Avellan’s testimony for further discussion.
- 18 • Cash Working Capital – This calculation is not fully functional and is not linked
19 electronically to the Model because of the circularity required to calculate the cash
20 working capital requirement. The calculation impacts both operations expenses and
21 rate base, which creates a circularity issue when determining the cost of service.

⁵ Although these items are non-fully functional, parties can make adjustments to these amounts in NMGC Exhibit ECB-3, the COS Summary.

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 The 630 Schedule E-1, filed as a part of this rate case, contains the detail behind
2 the cash working capital calculations. Users can manually change the inputs to
3 recalculate cash working capital in this Schedule.

- 4 • Capital Budget - The allocation of capital clearings to FERC plant accounts to
5 determine final capital investment amounts are not fully functional because the
6 calculations are performed by the Company's capital management software system.
7 Additionally, the Model relies on hard inputs related to depreciation forecasts. If
8 the parties request alternative scenarios pertaining to capital additions, the
9 Company is prepared to run the scenarios through the Model and provide the results
10 based upon the alternative scenarios.

- 11 • Incentive Compensation – As discussed by NMGC Witness Wilcox, NMGC is
12 proposing plan design changes to its incentive compensation program. In addition,
13 NMGC is proposing new positions be added in the Future Test Year and these
14 positions will be eligible for incentive compensation. Therefore, these amounts
15 cannot be based on the labor escalation rates alone and are hard coded.

16
17 **Q. WILL NMGC BE AVAILABLE TO RERUN INPUT CHANGES AS**
18 **REASONABLY REQUESTED BY THE STAFF OR INTERVENORS IN ORDER**
19 **TO CAPTURE THE IMPACT OF PROPOSED INPUT CHANGES ON THE**
20 **FUTURE TEST YEAR PERIOD COST OF SERVICE?**

21 **A.** Yes. In accordance with 17.1.3.11 NMAC, the Company will respond to all requests by
22 Staff or Intervenors to capture the impacts on the proposed cost of service made through
23 programs for which NMGC is unable to provide in fully-functional format.

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

III. THE COMPANY’S COST OF SERVICE

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Q. DID YOU UTILIZE THE COST OF SERVICE MODEL TO DETERMINE THE COMPANY’S TOTAL COST OF SERVICE AND RESULTING REVENUE DEFICIENCY?

A. Yes.

A. BASE PERIOD EXCLUSIONS AND ADJUSTMENTS

Q. WAS THE BASE PERIOD ADJUSTED?

A. Yes. The Base Period was adjusted to either exclude certain items or to adjust the amounts of certain items, and is presented as the Adjusted Base Period. The exclusions and adjustments can be found in various exhibits and schedules including NMGC Exhibits ECB-3, ECB-4, and ECB-5, as well as Rule 630 Schedule A-3.

i. Exclusions from Base Period

Q. WHAT ARE EXCLUSIONS FROM THE BASE PERIOD?

A. Exclusions from the Base Period are Base Period Adjustments (“BPA”) that remove something entirely from the Cost of Service. As a result of excluding the item from the Base Period, its impact is removed from the Adjusted Base Period, the Linkage Data and the Future Test Year. An example of this is the Company’s expense related to long-term incentive compensation, which is not being requested for recovery in this case.

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 **Q. IS NMGC EXCLUDING ANY EXPENSES OR REVENUES EXPERIENCED IN**
2 **THE BASE PERIOD?**

3 **A.** Yes. NMGC is completely removing certain expenses and revenues it experienced during
4 the Base Period. We excluded these expenses and revenues either because: 1) they are not
5 properly included in the cost of service revenue deficiency calculations, 2) the Company
6 agreed to exclude these items in previous cases, or 3) the Company elected to exclude
7 certain items as part of this case. I provide the details for the exclusions below.

8

9 **Q. IS NMGC EXCLUDING AMOUNTS RELATED TO NMGC RATE RIDER 4 (THE**
10 **PURCHASED GAS ADJUSTMENT CLAUSE) AND NMGC RATE RIDER 14**
11 **(THE MECHANISM USED TO CHARGE OR REFUND COMMISSION-**
12 **APPROVED AMOUNTS TO CUSTOMERS) (COLLECTIVELY “RATE RIDER 4**
13 **& 14 ACTIVITY”)?**

14 **A.** Yes. Rate Rider 4 & 14 Activity is excluded from the Company’s calculation because Rate
15 Rider 4 & 14 Activity is charged to customers through the Rate Rider 4 and 14 mechanisms
16 rather than in the cost of service for base rates. Rule 630 Schedule H-3 contains a
17 reconciliation of revenues generated through Rate Rider 4 & 14 Activity for the twelve-
18 month period ended June 30, 2021.

19

20 **Q. IS NMGC EXCLUDING ANY OTHER EXPENSES OR REVENUES RELATED**
21 **TO THE PURCHASED GAS ADJUSTMENT CLAUSE (“PGAC”) FROM THE**
22 **BASE PERIOD?**

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 **A.** Yes. NMGC is excluding all revenues associated with the asset management agreement
2 (“AMA”) with ConocoPhillips (“Conoco”), wherein Conoco pays NMGC for the right to
3 use any of NMGC’s excess capacity, and splits with NMGC any profits Conoco makes
4 from such excess capacity, and the storage optimization agreements (“Storage
5 Agreements”) with Koch Energy Services (“KES”) and Conoco, wherein KES and
6 Conoco, under separate contracts, are given the ability to inject and withdraw from storage,
7 subject to NMGC’s approval. As we explained in the last case, Conoco and KES pay lump
8 sums up front, and thereafter, NMGC splits the revenues paid by Conoco and KES, with
9 the PGAC on a 70/30 basis, with the customers receiving 70% of the revenues and
10 NMGC’s shareholders receiving 30% of the revenue below the line.

11
12 NMGC is also excluding the fuel costs and interest costs NMGC incurred in relation to the
13 February 2021 Winter Weather Event recovery permitted under NMPRC Case No. 21-
14 00095-UT.

15
16 **Q.** **WHY IS NMGC EXCLUDING ALL REVENUES RELATED TO THE AMA AND**
17 **STORAGE AGREEMENTS FROM THE REVENUE REQUIREMENT**
18 **CALCULATION?**

19 **A.** These revenues arise from assets associated with NMGC’s PGAC, which is separate from
20 NMGC’s rate base and operating expenses. NMGC is treating the Company’s share of the
21 revenues the same way NMGC treats similar revenues, such as revenues from off-system
22 sales, and therefore is excluding them from the Adjusted Base Period.

23

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 **Q. IS NMGC EXCLUDING ANY OTHER REVENUES FROM THIS CASE?**

2 **A.** Yes. In addition to the Rate Rider 4 activity (which includes the AMA and Storage
3 Contract revenues) and Rate Rider 14 activity, NMGC is also excluding revenues related
4 to federal utility energy service contracts (“UESC”).

5

6 **Q. PLEASE EXPLAIN WHAT A UESC PROJECT IS.**

7 **A.** The federal government is allowed to contract with utilities serving federal facilities to
8 have those utilities provide measurable energy efficiency and water conservation measures.
9 These contracts can span a period of several years, and generate revenue for NMGC. All
10 of the projects NMGC is involved in deal with the provision of energy efficiency and water
11 conservation measures in federal buildings or on federal installations.

12

13 **Q. WHY IS NMGC PROPOSING TO EXCLUDE THIS INCOME?**

14 **A.** First, it is uncertain whether NMGC will have the contracts in place to deliver revenue
15 from these projects in the Future Test Year. Because of the nature of the UESC’s and the
16 way they are negotiated, NMGC does not control and cannot predict the timing or scope
17 of the federal entities’ decisions about pursuing UESCs. Additionally, under the
18 agreements, the UESC revenues are not uniform payments over time. Instead, NMGC
19 receives most of the income early in the project in a lump sum. This type of income is not
20 appropriate to reflect in a rate case since it is not predictable or certain.

21

22 Given the uncertain nature of these programs, NMGC is proposing that revenues related to
23 UESC projects be shared with customers through Rate Rider 14. NMGC plans to make a

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 filing in 2022 for permission to utilize Rate Rider 14 for UESC revenues. As Rate Rider
2 14 revenues and costs are normally excluded from rate case determinations, NMGC has
3 excluded these potential revenues in this case.

4
5 **Q. IS NMGC EXCLUDING CONTRIBUTIONS, DONATIONS AND LOBBYING**
6 **EXPENSES IN THIS RATE CASE PROCEEDING, AS THOSE TERMS ARE**
7 **USED IN RULE 350.10?**

8 **A.** Yes.

9
10 **Q. IS NMGC EXCLUDING ANY DUES FOR PROFESSIONAL OR TRADE**
11 **ASSOCIATIONS AND SUBSCRIPTIONS TO PUBLICATIONS UNDER RULE**
12 **350.10(B)?**

13 **A.** Yes. NMGC and its employees are members of numerous industry and professional
14 associations. These memberships contribute to the professional education and standing of
15 the Company's employees, and, therefore, are allowable expenses under Rule 350.10B.
16 However, one of these associations, the American Gas Association ("AGA") engages in
17 lobbying activities. We have excluded the lobbying portion of the AGA expense incurred
18 in the Base Period, as shown in NMGC Exhibit ECB-5.

19
20 **Q. ARE YOU FAMILIAR WITH THE PROVISIONS OF THE EMERA**
21 **STIPULATION IN NMPRC CASE NO. 15-00327-UT ("EMERA ACQUISITION**
22 **CASE")?**

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 **A.** Yes. I have reviewed the Commission’s Final Order, as well as the Stipulation (the “Emera
2 Stipulation”) that was approved by the Commission, in the Emera Acquisition Case.
3

4 **Q.** **IS NMGC MAKING ANY EXCLUSIONS ASSOCIATED WITH PROVISIONS OF**
5 **THE EMERA STIPULATION?**

6 **A.** Yes. Consistent with provisions of the Emera Stipulation, the Company does not include
7 any goodwill or any other Emera Stipulation items in the rate base calculations. NMGC
8 also excluded goodwill, certain ARO balances, and other costs that were incurred in
9 TECO’s acquisition of NMGC.
10

11 **Q.** **ARE YOU FAMILIAR WITH THE REVISED AMENDED STIPULATION AND**
12 **THE COMMISSION’S FINAL ORDER IN NMPRC CASE NO. 12-00264–UT, THE**
13 **COMMISSION’S INVESTIGATION RELATED TO GAS SERVICE TO CERTAIN**
14 **GAS CUSTOMERS IN NORTHWEST NEW MEXICO?**

15 **A.** Yes, I have reviewed the Commission’s Final Order, as well as the Revised Amended
16 Stipulation (the “Revised Amended Stipulation”) that was approved by the Commission,
17 in NMPRC Case No. 12-00264-UT.
18

19 **Q.** **IS NMGC MAKING ANY EXCLUSIONS PURSUANT TO THE PROVISIONS OF**
20 **THE REVISED AMENDED STIPULATION?**

21 **A.** Yes. NMGC has complied with the Revised Amended Stipulation by taking the following
22 steps. NMGC has removed the return on equity (debt only return) on the depreciated value

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 of the rate base investment. This can be seen on NMGC Exhibit ECB-3. The supporting
2 calculation is included in NMGC Exhibit ECB-4 WP Plant 8 Williams.

3
4 **Q. ARE YOU FAMILIAR WITH THE PROVISIONS OF THE STIPULATION**
5 **APPROVED IN NMPRC CASE NO. 08-00078-UT, RELATED TO THE START-UP**
6 **OF NMGC AS ITS OWN COMPANY?**

7 **A.** Yes. I have reviewed the Commission’s Final Order, as well as the Amended Stipulation
8 (the “Amended Stipulation”) that was approved by the Commission, in NMPRC Case No.
9 08-00078-UT.

10
11 **Q. IS NMGC MAKING ANY EXCLUSIONS PURSUANT TO THE PROVISIONS OF**
12 **THE AMENDED STIPULATION?**

13 **A.** Yes. Pursuant to the provisions of the Amended Stipulation in Case No. 08-00078-UT, we
14 have excluded all goodwill, original office build-out costs, and any start-up technology
15 costs from rate base. See NMGC Exhibits ECB-3 and ECB-4 WP Plant 1 Net Plant
16 Balances.

17
18 **Q. DID NMGC EXCLUDE THE EXPENSES FOR ITS LONG-TERM INCENTIVE**
19 **COMPENSATION PROGRAM AND 401K PERFORMANCE MATCH?**

20 **A.** Yes, we elected to exclude all costs related to the Company’s Long-Term Incentive
21 Program. We also elected to exclude the amount of the 401k performance match paid by
22 the Company related to the achievement of certain financial performance metrics in the
23 Base Period. See NMGC Exhibit ECB-5 WP OM 3 Base Period Adjustments.

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 **Q. DID NMGC EXCLUDE THE EXPENSES FOR DEFERRED COMPENSATION?**

2 **A.** Yes. NMGC excluded deferred compensation costs of \$40,050 related to NMGC's
3 president's compensation.

4

5 **Q. DID YOU EXCLUDE ANY OTHER AMOUNTS RELATED TO LABOR?**

6 **A.** Yes. NMGC also excluded the following Labor expenses:

7

- an amount that was paid in severance during the Base Period (including the impact
8 of the severance on the 401k Base Period amount);

9

- direct labor that was charged from affiliates, which are separately forecasted as a
10 component of affiliate charges; and

11

- vacation accruals that are included as base labor.

12 These adjustments are shown in NMGC Exhibit ECB-5 WP OM 3 Base Period
13 Adjustments.

14

15 **Q. DID YOU ADJUST THE AMORTIZATION OF LOSS ON REACQUIRED DEBT
16 IN THE BASE PERIOD?**

17 **A.** Yes. The loss on reacquired debt premium that has been recovered from NMGC customers
18 was fully amortized as of December 2020. We excluded this expense to ensure this is not
19 recovered from customers in NMGC's new rates, as it is not reflective of the Company's
20 ongoing cost of service required during the Future Test Year. We also exclude the rate
21 base portion of the loss on the reacquired debt.

22

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 **Q. DID NMGC EXCLUDE OTHER NON-LABOR O&M EXPENSES?**

2 **A.** Yes. NMGC removed the lease expense and other accounting adjustments during the base
3 period associated with its Headquarters located in Albuquerque, NM because that building
4 was purchased in July, 2020. These items can be seen in NMGC Exhibit ECB-5 WP OM
5 3 Base Period Adjustments.

6

7 **B. Base Period Adjustments That Carryforward**

8 **Q. IS NMGC MAKING ANY ADJUSTMENTS TO THE BASE PERIOD FOR ITEMS**
9 **THAT CARRY FORWARD TO THE FUTURE TEST YEAR?**

10 **A.** Yes. NMGC is making adjustments to certain expenses experienced in the Base Period
11 that carry forward to the Future Test Year. These adjustments were performed to create a
12 12-month period that reflects our ongoing and normalized costs of serving customers based
13 on known and measurable changes.

14

15 **Q. PLEASE PROVIDE AN OVERVIEW OF THE BASE PERIOD ADJUSTMENTS**
16 **THAT CARRY FORWARD TO THE FUTURE TEST YEAR.**

17 **A.** The Company made adjustments to rate base, operating expenses, and revenues. Contained
18 within these are two types of BPAs: (i) annualization adjustments; and (ii) normalization
19 adjustments. Collectively, these are the known and measurable adjustments to the Base
20 Period data. The following explains these types of adjustments further:

- 21
 - Annualization adjustments are intended, as the name suggests, to ensure that both
- 22 the costs and revenues for the Base Period reflect information for a full twelve-
- 23 month period.

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

- 1 • Normalization adjustments are intended to ensure that costs and revenues are
2 representative of expected NMGC operations in the period when revised base rates
3 are expected to be in effect.

i. Adjustments to Rate Base

6 **Q. PLEASE SUMMARIZE THE BPAS MADE TO RATE BASE.**

7 **A.** First, we made the exclusions which I have discussed above. Second, we adjusted Rate
8 Base to reflect Rate Base items on a thirteen-month average. See NMGC Exhibit ECB 4
9 WP Other RB COS Inputs.

ii. Adjustments To Operating Expenses

12 **Q. PLEASE SUMMARIZE THE BPAS MADE TO OPERATING EXPENSES.**

13 **A.** In addition to the BPAs discussed as exclusions previously in my testimony, NMGC has
14 made several other BPAs to operating expense to provide a better view of the cost of service
15 associated with the Future Test Year, including compensation-related matters, the updated
16 Administrative & General (A&G) capitalization study, normalizing COVID-19 costs and
17 savings, and the purchase of the Business Center that occurred in July 2020.

19 **Q. PLEASE DISCUSS THE COMPENSATION AND BENEFITS RELATED
20 ADJUSTMENTS.**

21 **A.** NMGC made the following compensation and benefit-related BPAs, which are included in
22 NMGC Exhibit ECB-5 WP OM 3 Base Period Adjustments and in ECB-5 WP 5 OM 630
23 Schedule H-4 Labor:

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

- 1 • remove severance and labor from affiliates as discussed above;
- 2 • annualize NMGC’s labor expense to reflect merit raises that were granted half-way
- 3 through the base period;
- 4 • adjust NMGC’s Short-Term Incentive Plan (“STIP”) expense to an amount that
- 5 represents what the Company refers to as an “at target” STIP payout;
- 6 • remove vacation accruals;
- 7 • remove long-term incentive and deferred compensation;
- 8 • adjusts the Company’s 401(k) fixed match expense to account for the changes
- 9 resulting from compensation-related BPAs and to remove the 401(k) performance
- 10 match;
- 11 • normalize the Base Period Pension Expense to reflect 2021 pension and retiree
- 12 medical expense as determined by the Company’s actuary, Mercer Health and
- 13 Benefits, LLC (“Mercer”);
- 14 • adjust active medical expenses as determined by Mercer; and
- 15 • normalize labor vacancies to reflect historical levels prior to the start of the COVID-
- 16 19 pandemic.

17

18 **Q. DID NMGC MAKE ANY ADJUSTMENTS RELATED TO THE INSPECTION**
19 **AND SUPERVISION FEES PAID ANNUALLY TO THE COMMISSION?**

20 **A.** Yes. NMGC removed the Inspection and Supervision fees when calculating the Adjusted
21 Base Period. See NMGC Exhibit ECB-5 WP GT 4 Misc Taxes. NMGC recalculated this
22 amount in the Future Test Year. See ECB-3 COS Summary.

23

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 **Q. HAS NMGC MADE ANY CHANGES THAT RESULTED IN A DECREASE OF**
2 **CERTAIN O&M EXPENSES SINCE THE 2019 RATE CASE?**

3 **A.** Yes. In 2020 and 2021, NMGC conducted a study of how it accounts for A&G expenses. The
4 study determined that NMGC should allocate approximately \$10.4 million of A&G expenses to
5 capital projects rather than O&M expenses. NMGC instituted the recommendations of the study
6 in September 2021, and therefore the base period did not fully reflect the A&G study. The
7 Company recorded an adjustment to properly reflect the A&G load in O&M expenses at a credit
8 amount of \$0.8 million.

9
10 NMGC Exhibit ECB-5 WP OM 3 Base Period Adjustments provides the adjustment we made to
11 reduce the amount of A&G in O&M expenses to correlate to the recommendations of its most
12 recent A&G study.

13
14 **Q. DID THE COVID-19 PANDEMIC IMPACT NMGC’S BUSINESS?**

15 **A.** Yes. NMGC’s business was impacted by the effects of the COVID-19 Pandemic. Many of our
16 expenses and revenues differed from our historical experiences.

17
18 **Q. HAS NMGC MADE ANY ADJUSTMENTS TO THE BASE PERIOD TO REFLECT**
19 **THE IMPACTS OF THE COVID-19 PANDEMIC?**

20 **A.** Yes. NMGC has made base period adjustments to normalize the impacts of the COVID-
21 19 Pandemic. NMGC believes it is appropriate to normalize these costs and expenses as

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 people return to more of their pre-pandemic activities and routines. These adjustments
2 carry forward into the Future Test Year.

3
4 **Q. HOW DID NMGC ADJUST THE BASE PERIOD TO NORMALIZE THESE**
5 **COSTS AND REVENUES?**

6 **A.** NMGC took historical data for the three years prior to the pandemic – July 2016 through
7 June 2019 – and averaged the values. NMGC then adjusted these values for inflation to
8 arrive at the adjusted base period values. Additionally, NMGC tracked COVID specific
9 costs in a COVID work order and adjusted that work order.

10
11 **Q. PLEASE SUMMARIZE THE AREAS IN THE BASE PERIOD WHERE NMGC**
12 **MADE ADJUSTMENTS RELATED TO COVID-19.**

13 **A.** In summary, the base period was adjusted to reflect the impacts of COVID-19 as follows:

- 14 • NMGC had incremental costs directly related to COVID-19 for items such as
15 personal protective equipment, employee COVID-19 testing, etc.
- 16 • NMGC experienced higher levels of bad debt expense.
- 17 • NMGC experienced savings in certain areas, such as lower employee expenses,
18 general office supplies, employee training, etc.
- 19 • NMGC had lower payroll expenses related to higher vacancy rates, which have
20 increased during the pandemic.
- 21 • NMGC received payroll tax benefits for employees out on COVID-19 related leave.
- 22 • NMGC provided fewer service resulting in lower than historical Rate 11 revenues.

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

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iii. Adjustments to Revenue

Q. WERE ANY BPAS MADE TO REVENUE CREDITS?

- A.** Yes, revenue for the discounted on-system transportation were adjusted by:
- removing revenue related to a customer capacity contract that ended during the Base Period and was not renewed;
 - removing revenue related to a discounted transportation contract because the end-user closed the facility where the gas was used;
 - adding an estimate for a new discounted transportation agreement that was recently executed;
 - normalizing payments and miscellaneous revenue using a three-year average from the years 2017 through 2019, as described earlier in my testimony, in order to account for the impact of the COVID-19 Pandemic on customer activity (see discussion above).

iv. Adjustments to Taxes

Q. WERE ANY BPAS MADE TO TAXES?

- A.** Yes, adjustments were made to taxes. First, NMGC made an adjustment to General Taxes, to true-up the base period amounts for actual taxes owed. See NMGC Exhibit ECB-5 WP Gen Tax COS Inputs. Second, NMGC made an adjustment to payroll taxes to account for compensation adjustments made to the Base Period and as discussed above, to remove COVID-19 related employee retention tax credits. See NMGC Exhibit ECB-5 WP GT 3

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 Payroll Tax. Third, adjustments were made related to Federal and New Mexico Income
2 Taxes, as discussed by NMGC Witness Avellan.

3
4 **IV. LINKAGE PERIODS AND FUTURE TEST YEAR**

5
6 **A. Development of Revenue Requirement**

7 **Q. WHAT FUTURE TEST PERIOD DID NMGC USE TO DEVELOP THE REVENUE**
8 **REQUIREMENT SUPPORTING THE COMPANY'S RATE REQUEST IN THIS**
9 **PROCEEDING?**

10 **A.** The Future Test Period used to determine the revenue requirements for the rates requested
11 by NMGC in this proceeding is the twelve-month period ending December 31, 2023.

12
13 **Q. WHAT IS NMGC'S REVENUE REQUIREMENT IN THE FUTURE TEST YEAR?**

14 **A.** NMGC's revenue requirement during the Future Test Year is \$237.1 million, and is shown
15 in NMGC Exhibit ECB-3 COS Summary.

16
17 **Q. IS THERE A REVENUE DEFICIENCY RESULTING FROM THE REVENUE**
18 **REQUIREMENT IN THE FUTURE TEST YEAR?**

19 **A.** Yes. The revenue deficiency in the Future Test Year is \$40.7 million. See NMGC Exhibit
20 ECB-3 COS Summary.

21
22 **Q. PLEASE DESCRIBE GENERALLY HOW NMGC DEVELOPED THE FUTURE**
23 **TEST YEAR REVENUE REQUIREMENT.**

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 **A.** The Future Test Year was developed by using certain forecasts related to capital
2 investments, operating expenses, income taxes, and revenue credits. A detailed discussion
3 of the methodologies used to develop the amounts included in the Future Test Year revenue
4 requirement is presented below. As required under the 17.1.3.12(D) NMAC, NMGC
5 included the required linkage data from the Adjusted Base Period to the Future Test Year
6 revenue requirement in the workpapers supporting the cost of service. The details of the
7 capital investments are provided by NMGC Witnesses Wilcox, Tom C. Bullard, Gerald C.
8 Weseen, and Michael K. DeCoursey.

B. Rate Base

11 **Q.** **PLEASE DESCRIBE THE RATE BASE USED IN THE DEVELOPMENT OF THE
12 FUTURE TEST YEAR REVENUE REQUIREMENT IN THIS CASE?**

13 **A.** Pursuant to 17.1.3.16(C)(1) NMAC, because the Future Test Year period begins at least
14 twelve months after the end of the Base Period, an average rate base is required to be used,
15 utilizing the projected thirteen-month average of the Future Test Year period. NMGC
16 developed its Future Test Year rate base using a projected thirteen-month average of
17 balances through December 31, 2023, which is the end of the Future Test Year.

19 **Q.** **PLEASE DESCRIBE THE ADJUSTMENTS THAT WERE MADE TO RATE
20 BASE IN THE FUTURE TEST YEAR COST OF SERVICE STUDY.**

21 **A.** The rate base adjustments made in the Future Test Year cost of service study include
22 adjustments to net plant-in-service, ADIT, Regulatory Assets and Liabilities, Other Rate
23 Base Items, and Working Capital. Please refer to NMGC Witness Avellan's testimony for

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 a discussion of ADIT included in the Future Test Year revenue requirement. The other
2 areas are discussed below.

3

4 **Q. WHAT IS NET PLANT-IN-SERVICE?**

5 **A.** Net plant-in-service is the gross plant in service minus accumulated depreciation and
6 amortization.

7

8 **Q. PLEASE DESCRIBE HOW THE NET PLANT-IN-SERVICE WAS DEVELOPED**
9 **FOR THE FUTURE TEST YEAR RATE BASE.**

10 **A.** The net plant-in-service balance included in the Future Test Year is based on a thirteen-
11 month average of the net plant-in-service balances. NMGC's Net Plant-In-Service
12 balances for this period begin with the per book net plant-in-service balances as of June
13 30, 2021, and adjusted as discussed previously in my testimony. NMGC then added the
14 projected plant clearings, and accumulated depreciation for each month from July 2021
15 through December 2023, to develop the monthly net plant-in-service balances. NMGC
16 calculated a thirteen-month average of the monthly net plant-in-service balances, from
17 December 2022 through December 2023 to develop the rate base amount included in the
18 Future Test Year. Please refer to NMGC Witness Bullard's testimony for further
19 discussion of the development of the capital budget for capital investments. Please see
20 NMGC Exhibit ECB-4 WP Plant 1 Net Plant Balances.

21

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 **Q. PLEASE SUMMARIZE THE PLANT CLEARINGS TO GROSS PLANT THAT**
2 **ARE INCLUDED IN THE LINKAGE DATA AND FUTURE TEST YEAR**
3 **PERIODS.**

4 **A.** NMGC Witness Bullard’s testimony includes NMGC Exhibits TCB-2 through TCB-8,
5 which represent capital forecasts related to this rate case. For the exhibits which represent
6 specifically forecasted capital projects, the Cost of Service Model relies on inputs that
7 assume projects clear to plant-in-service on the last month of forecasted capital spending.
8 For the exhibits which represent Transmission and Distribution Blankets, spending levels
9 are assumed to clear to plant in service per the following schedule:

- 10 • March Clearings: January and February forecasts
- 11 • June Clearings: March, April and May forecasts
- 12 • September Clearings: June, July and August forecasts
- 13 • December Clearings: September, October, November and December forecasts.

14
15 In addition, as forecasts clear to plant-in-service, the Cost of Service Model also checks for
16 any June 30, 2021 Construction Work In Progress (“CWIP”) balances and clears those
17 amounts as well.

18
19 **Q. PLEASE EXPLAIN HOW ACCUMULATED DEPRECIATION IS DETERMINED**
20 **FOR THE FUTURE TEST YEAR.**

21 **A.** The accumulated depreciation balances were developed by taking the actual accumulated
22 depreciation balances as of June 30, 2021 and including calculated monthly depreciation
23 expense based on the forecasted plant-in service balances. See NMGC Exhibit ECB-4 WP

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 Plant 6 Accum Res Balances. The monthly depreciation expense for the Linkage and
2 Future Test Year periods was calculated using NMGC’s depreciation rates which went into
3 effect by operation of law on December 20, 2019.

4
5 **Q. HOW HAS NMGC TREATED ACCUMULATED DEFERRED INCOME TAXES**
6 **IN THE LINKAGE PERIODS AND FUTURE TEST YEAR?**

7 **A.** NMGC Witness Avellan, in his testimony, addresses how NMGC treated accumulated
8 deferred income taxes.

9
10 **Q. PLEASE IDENTIFY THE OTHER RATE BASE ITEMS IN THE FUTURE TEST**
11 **YEAR REVENUE REQUIREMENT.**

12 **A.** Please refer to NMGC Exhibit ECB-4 WP Other RB COS Inputs for a summary of items
13 in the Future Test Year revenue requirement. NMGC has included balances associated with
14 customer deposits, injuries and damages, non-refundable contributions in aid of
15 construction (“CIAC”), certain Asset Retirement Obligations (“ARO”), rights-of-ways,
16 IMP Regulatory Asset, and the Rate Case Expenses. I discuss the treatment of each of
17 these balances in the Future Test Year below. Please refer to the Other Allowable Expenses
18 section for discussion on the Rate Case expenses.

19
20 **Q. PLEASE DISCUSS THE CUSTOMER DEPOSITS AND INJURIES AND**
21 **DAMAGES BALANCES INCLUDED IN THE FUTURE TEST YEAR REVENUE**
22 **REQUIREMENT.**

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 **A.** The Future Test Year balances are the same as the Adjusted Base Period balances as
2 NMGC does not expect any significant changes to these balances.

3

4 **Q.** **PLEASE DISCUSS THE TREATMENT OF NON-REFUNDABLE CIAC IN THE**
5 **FUTURE TEST YEAR REVENUE REQUIREMENT.**

6 **A.** Non-refundable CIAC amortizes throughout the periods and reflects a Future Test Year
7 adjustment to reflect a thirteen-month average.

8

9 **Q.** **PLEASE DISCUSS THE TREATMENT OF COSTS FOR RIGHTS-OF-WAY IN**
10 **THE FUTURE TEST YEAR REVENUE REQUIREMENTS.**

11 **A.** NMGC determined monthly rights-of-way balances, beginning with actual balances as of
12 June 30, 2021, less monthly amortization from July 2021 through December 2023, plus
13 any new rights-of-way or renewals of rights-of-way projected during the same period.
14 NMGC included expected amortization of rights-of-way renewals from July 2021 through
15 December 2023. Rights-of-way amortization expense is included in operating expenses.
16 Please refer to NMGC Witness Bullard for a discussion of rights-of-way renewals included
17 in the linkage data and Future Test Year NMGC also makes a Future Test Year adjustment
18 to reflect a thirteen-month average. Please see NMGC Exhibit ECB-5 630 Schedule H-7.1
19 Dist ROW and 630 Schedule H-7.2 Tans ROW.

20

21 **Q.** **PLEASE DISCUSS THE IMP REGULATORY ASSET IN THE FUTURE TEST**
22 **YEAR REVENUE REQUIREMENT.**

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 ECB-4 WP OM 4 Separately Forecasted provides a summary of the specific O&M items
2 that were individually projected to develop the Future Test Year.

3
4 **Q. PLEASE SUMMARIZE THE O&M EXPENSES INCLUDED IN THE FUTURE**
5 **TEST YEAR REVENUE REQUIREMENTS THAT ARE SEPARATELY**
6 **FORECASTED.**

7 **A.** NMGC Exhibit ECB-5 WP OM 4 Separately Forecasted provides the adjustments to O&M
8 that have been specifically identified and separately forecasted based on individual factors.
9 These adjustments include: labor (including new positions being requested in 2023), short
10 term incentive compensation, 401(k), active medical and dental, pension and retiree
11 medical, in-line inspections, general liability insurance costs, removing the Espanola
12 facility lease expense, TSA pipeline and other security costs, savings from the installation
13 of solar panels on certain facilities and allocations from shared services.

14
15 **Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO LABOR EXPENSES**
16 **FROM THE ADJUSTED BASE PERIOD TO THE FUTURE TEST YEAR**
17 **REVENUE REQUIREMENTS.**

18 **A.** Base labor and overtime expenses were escalated from the Adjusted Base Period using a
19 3.0% annual labor escalator effective January of 2021, and 5.0% effective January of 2023.
20 In addition, labor in the Future Test Year includes new positions that are being requested.
21 Please refer to the testimony of NMGC Witness Wilcox for further discussion of these
22 labor changes. See NMGC Exhibit ECB-5 WP OM 5 630 Schedule H-4 Labor and ECB-
23 5 WP 8 OM New Headcount for the impact of these adjustments.

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 **Q. DOES THE COMPANY HAVE A PENSION PLAN?**

2 **A.** Yes, the Company has a qualified plan, as defined by the Employee Retirement Security
3 Act.

4

5 **Q. IS NMGC SEEKING TO INCLUDE ANY AMOUNTS IN ITS RATE BASE
6 ASSOCIATED WITH PENSION ASSETS AND LIABILITIES?**

7 **A.** No.

8

9 **Q. IS NMGC SEEKING RECOVERY OF PENSION EXPENSES?**

10 **A.** Yes.

11

12 **Q. WHAT IS THE BASIS FOR THESE EXPENSES?**

13 **A.** As discussed by NMGC Witness Wilcox, NMGC's pension plan expense is based on
14 actuarial calculations prepared by NMGC's actuary, Mercer, in accordance with ASC 715-
15 30.

16

17 **Q. HOW IS NMGC ACCOUNTING FOR OTHER POST-RETIREMENT BENEFITS
18 COSTS?**

19 **A.** NMGC's post-retirement benefits costs (i.e. retiree medical) are well funded and result in
20 a net credit to forecasted expenses. Therefore, NMGC is including the net periodic benefit
21 credit associated with the plan in its cost of service, which benefits customers.

22

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 **Q. HOW DID NMGC DEVELOP THE ACTIVE MEDICAL AND DENTAL EXPENSE**
2 **FOR THE FUTURE TEST YEAR REVENUE REQUIREMENTS?**

3 **A.** As discussed by NMGC Witness Wilcox, NMGC used forecasts from its actuary, Mercer,
4 to forecast the Linkage period and Future Test Year active medical and dental expenses.
5 See NMGC Exhibit ECB-5 WP OM 4 Separately Forecasted.

6
7 **Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO THE SHORT-TERM**
8 **INCENTIVE PLAN EXPENSE TO DEVELOP THE FUTURE TEST YEAR**
9 **REVENUE REQUIREMENTS.**

10 **A.** The estimated Future Test Year expense is based on positions and wages as of August 22,
11 2021 and includes normalizing the amount for vacancies. This amount is then escalated at
12 3.0% in calendar year 2022, and 5.0% in the Future Test Year. Short-term incentive
13 expense is also adjusted to reflect the new positions being requested in this case and to
14 consider capitalized amounts under the A&G credit. Labor is then multiplied by the
15 expected 2023 incentive plan target-level percentages discussed by NMGC Witness
16 Wilcox. These amounts are included in NMGC Exhibit ECB-5 WP OM 4 Separately
17 Forecasted, NMGC Exhibit ECB-5 OM 630 Schedule H-4 Labor, NMGC Exhibit ECB-5
18 WP OM 6 Incentive Comp, and NMGC Exhibit ECB-5 WP OM 8 New Headcount.

19
20 **Q. PLEASE SUMMARIZE THE O&M EXPENSES INCLUDED IN THE FUTURE**
21 **TEST YEAR REVENUE REQUIREMENT THAT ARE ALLOCATED TO NMGC**
22 **FROM AFFILIATES.**

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 **A.** The starting point for the Future Test Year O&M was the Adjusted Base Period O&M.
2 Separate forecasts for allocations from affiliates were used in the Linkage and Future Test
3 Year periods. This is shown in NMGC Exhibit ECB-5 WP OM 4 Separately Forecasted.

4
5 **Q. HOW WERE SHARED SERVICES O&M EXPENSES ALLOCATED TO NMGC
6 IN THE FUTURE TEST YEAR REVENUE REQUIREMENTS?**

7 **A.** The CAM methodologies were used for shared services O&M expenses in the Future Test
8 Year. Please also refer to the testimony of NMGC Witnesses Blotter and DeCoursey for
9 more information on this topic.

10

11

D. Depreciation and Amortization Expense

12 **Q. WHAT DEPRECIATION RATES HAS NMGC USED TO ESTIMATE
13 DEPRECIATION EXPENSE IN THE FUTURE TEST YEAR AND LINKAGE
14 DATA?**

15 **A.** NMGC has utilized the depreciation rates that were submitted to the Commission on
16 October 21, 2019, and went into effect by operation of law on December 20, 2019, to
17 develop the Linkage and Future Test Year depreciation expenses. See NMGC Exhibit
18 ECB-4 630 Schedule C-2 Depr Rates.

19

20 **Q. DID NMGC MANUALLY CALCULATE AMORTIZATION OR DEPRECIATION
21 EXPENSE FOR ANY ASSETS IN THE LINKAGE DATA AND FUTURE TEST
22 YEAR?**

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 **A.** Yes. The depreciation expense associated with the ARO accretion is input based on the
2 values provided in NMGC Exhibit ECB-4 630 Schedule I-1.4 ARO. See NMGC Exhibit
3 ECB-4 WP Plant 5 Depreciation Exp and NMGC Exhibit ECB-4 630 Schedule H-7b for
4 details.

5

6 **Q. PLEASE DESCRIBE HOW RIGHTS-OF-WAY AMORTIZATIONS AND**
7 **RENEWALS ARE HANDLED IN THE LINKAGE AND FUTURE TEST YEAR**
8 **PERIODS.**

9 **A.** Amortizations of existing rights-of-way balances have been included in the Linkage and
10 Future Test Year periods based on existing amortization schedules, which typically follow
11 the expected term of the underlying right-of-way agreement. In addition, amortizations of
12 the new rights-of-way and rights-of-way renewals expected to occur between July 2021
13 and December 2023 are included in the Linkage Periods and Future Test Year Period.
14 Please refer to the testimony of NMGC Witness Bullard for a detailed discussion of new
15 rights-of-way and rights-of-way renewals. See NMGC Exhibit ECB-4 630 Schedule H-
16 7.1 Trans ROW and 630 Schedule H-7.2 Dist ROW.

17

18

E. General Taxes

19 **Q. PLEASE DESCRIBE HOW PROPERTY TAXES WERE DERIVED IN THE**
20 **FUTURE TEST YEAR REVENUE REQUIREMENT.**

21 **A.** Property taxes were derived in the Future Test Year as follows: NMGC first determined
22 the location of the taxable plant in service at the end of the base period (i.e. was the plant
23 located on land owned by private parties and governmental entities, or was it located on

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 land owned by Native American Pueblos, Tribes, and Nations). NMGC determined that
2 94% of the taxable plant in service is located on lands owned by private parties or
3 governmental entities (and thus is taxable for property tax purposes), and 6% is located on
4 lands owned by Native American Pueblos, Tribes, and Nations (“Native American
5 Lands”). Second, since property tax rates differ depending on the location of the plant in
6 service, NMGC developed composite property tax rates for both state and Native American
7 Lands.

8
9 **Q. HOW DID NMGC CALCULATE COMPOSITE PROPERTY TAX RATES IN THE**
10 **FUTURE TEST YEAR REVENUE REQUIREMENT?**

11 **A.** The composite tax rates for state and Native American Lands were calculated using 2020
12 actual assessed values and property taxes. This same rate was then used to calculate
13 property taxes during the Future Test Year.

14
15 **Q. PLEASE DESCRIBE HOW NMGC FORECASTS THE TAXES PAYABLE FOR**
16 **STATE LANDS IN THE FUTURE TEST YEAR REVENUE REQUIREMENT.**

17 **A.** NMGC took the 94% of the taxable plant in service balance attributable to state lands,
18 divided the resulting balance by three and multiplied it by the composite property tax rates
19 for State lands for the period. For example, the property tax expense for the Future Test
20 Year was calculated based on the expected taxable plant in service balance as of December
21 31, 2022 allocated to state lands and multiplied by the estimated state land composite. See
22 NMGC Exhibit ECB-5 WP 2 GT-2 Property Tax for calculation of property tax expense.

23

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 **Q. PLEASE DESCRIBE HOW NMGC FORECASTS THE TAXES PAYABLE TO**
2 **NATIVE AMERICAN PUEBLOS, TRIBES, AND NATIONS IN THE FUTURE**
3 **TEST YEAR REVENUE REQUIREMENT.**

4 **A.** Similar to the process for state lands, NMGC took the 6% of its taxable plant in service
5 balance attributable to Native American Lands and multiplied it by the composite tax rate
6 for such lands to calculate expected future Native American possessory interest taxes
7 (“PIT”). See NMGC Exhibit ECB-5 WP GT 2 Property Tax.

8
9 **Q. PLEASE DESCRIBE HOW PAYROLL TAXES WERE DERIVED IN THE**
10 **FUTURE TEST YEAR REVENUE REQUIREMENTS.**

11 **A.** As discussed earlier, NMGC normalized the labor expenses, including incentive
12 compensation, included in the Future Test Year revenue requirements. In addition, NMGC
13 adjusted labor expenses to reflect expected annual merit increases for wages paid to NMGC
14 employees. NMGC used the historical payroll taxes adjusted to remove the impact of
15 employee retention tax credits to develop a percentage of total payroll taxes compared to
16 total labor to derive a composite payroll tax rate. This rate was applied to O&M Labor
17 expenses to determine forecasted Linkage and Future Test Year period payroll tax
18 expenses.

19
20 NMGC only included payroll tax expense expected to be incurred for labor that is recorded
21 to the income statement, and not for labor that is capitalized. As a result, the amount of
22 payroll taxes included in the Future Test Year revenue requirements is already reflected

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 net of any payroll taxes that would be capitalized. See NMGC Exhibit ECB-5 WP 3 GT
2 Payroll Taxes for a summary of payroll taxes included in the Future Test Year.

3
4 **Q. WHAT ARE THE OTHER COMPONENTS OF GENERAL TAXES AND HOW**
5 **WERE THEY DERIVED IN THE FUTURE TEST YEAR REVENUE**
6 **REQUIREMENTS?**

7 **A.** The other components of general taxes include other miscellaneous taxes such as pipeline
8 safety fees. NMGC escalated the pipeline safety fees at 1.0% as this is reflective of the
9 increase experienced during the five years ending in 2020. This escalation occurs January
10 2022 and January 2023. See NMGC Exhibit ECB-5 WP 4 GT Misc. Taxes.

11
12 **F. Other Allowable Expenses**

13 **Q. PLEASE IDENTIFY THE COMPONENTS INCLUDED FOR RECOVERY IN**
14 **OTHER ALLOWABLE EXPENSES BASED ON AMORTIZATION SCHEDULES.**

15 **A.** NMGC Exhibit ECB-3 COS Summary summarizes the requested other allowable expenses
16 used to develop the Future Test Year revenue requirements. These other allowable
17 expenses include the following:

- 18 • Interest on customer deposits;
- 19 • IMP Regulatory Asset amortization;
- 20 • rights-of-way accruals on unrenewed ROWs;
- 21 • amortization of rate case expenses including expenses related to this case.

22

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 **Q. PLEASE DISCUSS THE TREATMENT OF INTEREST ON CUSTOMER**
2 **DEPOSITS INCLUDED IN OTHER ALLOWABLE EXPENSES IN THE FUTURE**
3 **TEST YEAR REVENUE REQUIREMENT.**

4 **A.** Consistent with past rate case treatment, NMGC included recovery of interest on customer
5 deposits. NMGC does not expect any significant changes to customer deposit balances or
6 to the interest charged on customer deposits, so NMGC used the amounts included in the
7 Adjusted Base Period as the forecast for the Future Test Year revenue requirement. The
8 expense associated with these deposits is included in Other Allowable Expenses and the
9 balance of customer deposits help by NMGC is included as a reduction to rate base. See
10 NMGC Exhibits ECB-3 COS Summary, and ECB-4 WP Other RB COS Inputs.

11

12 **Q. PLEASE DISCUSS THE TREATMENT OF IMP REGULATORY ASSET**
13 **AMORTIZATION INCLUDED IN OTHER ALLOWABLE EXPENSES IN THE**
14 **FUTURE TEST YEAR REVENUE REQUIREMENT.**

15 **A.** Please see the discussion of this item provided earlier in my testimony, which requests a
16 two-year recovery of the IMP Regulatory Asset beginning in January 2023.

17

18 **Q. PLEASE DISCUSS ACCRUALS FOR UNRENEWED RIGHTS-OF-WAY**
19 **INCLUDED IN OTHER ALLOWABLE EXPENSES IN THE FUTURE TEST**
20 **YEAR REVENUE REQUIREMENT.**

21 **A.** NMGC expects some rights-of-way agreements will not be renewed by December 31,
22 2023. However, because NMGC continues to use this land to provide service it is required
23 to record a liability to reflect an estimate of the costs that will be paid upon the renewal of

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 the agreement. This liability is included in rate base and the associated expense is included
2 in Other Allowable Expenses. See NMGC Exhibit ECB-4 630 Schedule 7.1 Dist ROW
3 and 630 Schedule 7.2 Trans ROW for more information.

4
5 **Q. PLEASE DISCUSS THE TREATMENT OF RATE CASE EXPENSES INCLUDED**
6 **IN OTHER ALLOWABLE EXPENSES IN THE FUTURE TEST YEAR REVENUE**
7 **REQUIREMENT.**

8 **A.** Please refer to the testimony of NMGC Witness Blotter for a discussion of the rate case
9 expenses being requested in this application.

10
11 **G. Federal Income Taxes**

12 **Q. HOW HAS NMGC CALCULATED THE INCOME TAX EXPENSES INCLUDED**
13 **IN THE FUTURE TEST YEAR REVENUE REQUIREMENTS?**

14 **A.** The income tax expense included in the Future Test Year revenue requirements is based
15 on the applicable 21% federal and 5.57% state income tax rates that are expected to be
16 effective in the Future Test Year. See NMGC Exhibit ECB-3 COS Summary. Please refer
17 to NMGC Witness Avellan for further discussion of the income tax expense included in
18 the Future Test Year revenue requirements.

19
20 **H. Revenue Credits**

21 **Q. HOW WERE THE AMOUNTS FOR THE REVENUE CREDITS DEVELOPED**
22 **FOR PURPOSES OF THE FUTURE TEST YEAR REVENUE REQUIREMENTS?**

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 21-00267-UT**

1 those employees' job functions. It will also help NMGC avoid the cost of retaining outside
2 consultants to assist with modeling and forecasting in the future.

3

4 **Q. HOW DOES ADDING THIS EMPLOYEE BENEFIT NMGC AND ITS**
5 **CUSTOMERS?**

6 **A.** This employee benefits the Company in several ways, including limiting the need to utilize
7 external resources, being able to retain current employees by elevating some of the extra
8 work they are performing, and by ensuring regulatory processes are supported by personnel
9 familiar with the Company. Customers benefit by reducing the overall cost of compiling,
10 filing, and other activities necessary to support financial modeling and forecasting
11 necessary for certain regulatory filings. NMGC and customers also benefit by ensuring
12 that regulatory filings are complete, accurate, and timely.

13

14 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

15 **A.** Yes, it does.