

**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 NOS. 70 AND 71 )  
NEW MEXICO GAS COMPANY, INC. )  
Applicant. )

Case No. 18-\_\_\_\_\_-UT

**DIRECT TESTIMONY AND EXHIBITS**

**OF**

**EDWARD J. KACER**

**February 26, 2018**

**DIRECT TESTIMONY OF  
EDWARD J. KACER  
NMPRC CASE NO. 18-\_\_\_\_\_-UT**

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A.** My name is Edward J. Kacer. My business address is 7120 Wyoming, Albuquerque, New  
3 Mexico 87109.

4  
5 **Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?**

6 **A.** I am the Vice President of Strategy and Major Projects for New Mexico Gas Company,  
7 Inc. (“NMGC” or the “Company”).

8  
9 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND WORK  
10 EXPERIENCE.**

11 **A.** My educational background and work experience are described in NMGC Exhibit EJK-1.

12  
13 **Q. PLEASE DESCRIBE YOUR DUTIES AND RESPONSIBILITIES AS VICE  
14 PRESIDENT OF STRATEGY AND MAJOR PROJECTS FOR NMGC.**

15 **A.** I am responsible for (i) the execution of NMGC’s strategy pertaining to long term customer  
16 value and promoting energy solutions that harness regionally abundant resources; (ii)  
17 executive oversight of NMGC’s capital budget and expenditures; and (iii) acting as the  
18 accountable officer for Emera’s Brunswick Pipeline, a 90-mile National Energy Board  
19 regulated natural gas transmission pipeline.

20  
21 Before I became the Vice President of Strategy and Major Projects, I was the Vice President  
22 of Operations and Engineering for the Company, and was responsible for (i) the operation,  
23 maintenance, engineering and design of the NMGC natural gas distribution and

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1 transmission systems that serve the Company’s residential, commercial and industrial  
2 customers throughout the State of New Mexico; and (ii) gas acquisitions, gas supply,  
3 system planning, market development, and the gas control and compression functions of  
4 the Company. I was also responsible for negotiation of discounted transportation rates,  
5 which are discounted rates negotiated between the Company and certain transportation  
6 customers pursuant to 17.10.660 NMAC (“Rule 660”).  
7

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

10 **A.** Yes. I previously filed written testimony and testified before the Commission in NMPRC  
11 Case Nos. 12-00264-UT and 16-00097-UT.  
12

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

14 **A.** The purpose of my testimony is to:

- 15 – In Section I, provide information about and support for NMGC’s discounted gas  
16 transportation rates;
- 17 – In Section II, provide information related to NMGC’s distribution and transmission  
18 capital investments;
- 19 – In Section III, describe NMGC’s integrity management programs;
- 20 – In Section IV, provide information and support of NMGC’s proposal for an Integrity  
21 Management Program Cost Recovery Mechanism (“IMP Mechanism”); and

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1           – In Section V, provide information on the Stipulation in NMPRC Case No. 15-00327-  
2           UT, specifically the Company’s efforts related to increased use of compressed natural  
3           gas (“CNG”).

**I. DISCOUNTED TRANSPORTATION RATES**

5  
6  
7   **Q.   PLEASE DESCRIBE THE SUBSTANCE OF YOUR TESTIMONY ABOUT**  
8   **NMGC’S DISCOUNTED TRANSPORTATION RATES.**

9   **A.**   I explain NMGC’s overall discounted transportation rate program, including: 1) how  
10   NMGC offers discounted transportation rates, 2) describing the criteria used by NMGC in  
11   discounting rates for transportation service, and 3) describing current, new, revised, and  
12   canceled discounted transportation rates since NMGC’s last base rate case. In addition, I  
13   provide support for all discounted transportation rates in effect at the time of this filing.

14  
15   **Q.   DOES NMGC CURRENTLY OFFER ANY DISCOUNTED RATES FOR**  
16   **TRANSPORTATION SERVICES?**

17   **A.**   Yes, NMGC currently offers nine discounted rates for transportation services.

18  
19   **Q.   HOW IS NMGC ABLE TO DISCOUNT ITS TRANSPORTATION RATES BELOW**  
20   **THE RATES ESTABLISHED IN ITS RATE NO. 70 FOR TRANSPORTATION**  
21   **SERVICE?**

22   **A.**   Rule 660 - specifically Rule 660.10(F)(8) - allows gas utilities to offer discounted  
23   transportation rates to transportation customers (both on-system and off-system) that are  
24   lower than the approved tariff rates, in order to compete for the customer’s business. These

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1 rates must be offered on a non-discriminatory basis, and must be above the variable cost  
2 of service provided.

3  
4 **Q. PLEASE DESCRIBE THE CIRCUMSTANCES UNDER WHICH NMGC WILL**  
5 **OFFER A DISCOUNTED TRANSPORTATION SERVICE RATE.**

6 **A.** As noted above, pursuant to Rule 660, NMGC may offer discounted transportation rates,  
7 on a non-discriminatory basis, in order to compete for the business of a transportation  
8 customer or an end-user. The circumstances under which NMGC will offer a discount to  
9 compete for a transportation customer's or end-user's business are:

- 10 1. A customer is in such economic or business circumstances that a discount may keep  
11 the customer's business in operation. This may be characterized as a discount to "retain  
12 load."
- 13 2. A customer has a viable alternative to purchasing transportation service from NMGC,  
14 including through the construction of a customer-owned delivery system for natural  
15 gas or through the use of an alternative pipeline connection. This may be characterized  
16 as a discount to "prevent bypass."
- 17 3. A customer requires a discount in order to bring new business onto NMGC's system.  
18 This new business may include new transportation volumes altogether, or it may  
19 involve incremental volumes above the levels that the customer already acquires from  
20 NMGC. This may be characterized as a discount to "increase throughput."

21

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1 **Q. HAVE THE CRITERIA UNDER WHICH NMGC WILL NEGOTIATE**  
2 **DISCOUNTED RATES FOR TRANSPORTATION SERVICE CHANGED FROM**  
3 **THOSE DESCRIBED IN PRIOR CASES BEFORE THIS COMMISSION?**

4 **A.** No.

5

6 **Q. PLEASE DESCRIBE THE ANALYSIS THAT NMGC PERFORMS IN**  
7 **DETERMINING WHETHER TO OFFER A DISCOUNTED TRANSPORTATION**  
8 **SERVICE RATE.**

9 **A.** First, the Company acquires information about the customer's business circumstances, to  
10 confirm that those circumstances are being described accurately and are well-understood  
11 by NMGC. The Company then determines if, based on the customer's circumstances, a  
12 discount might be justified for any of the purposes I outlined above (i.e., to retain load,  
13 prevent bypass, or increase throughput on NMGC's system). As part of this step, NMGC  
14 obtains any necessary additional information from the customer, as well as evaluates the  
15 availability to the customer of similar transportation services from competing pipeline  
16 companies.

17

18 Second, the Company analyzes NMGC's cost of serving the customer. For those customers  
19 who are already connected to the Company's system, and which do not require any new  
20 system investment, the current rates and rules from the prior base rate case are used. For  
21 those customers who are not yet connected to NMGC's system, or who may require  
22 additional facilities in order to receive the requested service, the Company determines the  
23 cost for making the necessary system improvements.

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1 Rule 660 prohibits NMGC from discounting a transportation rate below the Company's  
2 variable cost of serving the customer. If NMGC can provide the requested service at a cost  
3 above NMGC's system average variable cost, the Company will attempt to negotiate a  
4 discounted transportation rate with the customer, using the data and insights gained during  
5 the analysis phase of the effort.

6  
7 **Q. PLEASE DESCRIBE HOW NMGC AND THE CUSTOMER ARRIVE AT A**  
8 **DISCOUNTED TRANSPORTATION SERVICE PRICE.**

9 **A.** The parties negotiate the discounted transportation rate and terms of service at arm's  
10 length, based upon their own knowledge and understanding of the situation. NMGC  
11 attempts to negotiate a rate as close to the tariff rate as possible, yet still prevent a bypass,  
12 retain the customer's existing load, or increase volume throughput.

13  
14 **Q. WHAT IS THE BENEFIT TO NMGC'S OTHER CUSTOMERS OF SECURING**  
15 **BUSINESS AT THESE DISCOUNTED RATES?**

16 **A.** Customers to whom service is provided at discounted transportation rates make important  
17 contributions to fixed costs, which benefit other customers. Any revenue that is received  
18 from discounted transportation rate customers above the variable cost of providing the  
19 service helps to reduce the revenue requirement in a general rate case and, therefore,  
20 reduces the revenue that would otherwise be needed from other customers to cover the  
21 Company's costs of providing service.

22

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1 As identified in NMGC Exhibit SAH-2, discounted transportation revenue contributes  
2 approximately \$2 million toward NMGC's test year revenue requirement. If NMGC did  
3 not enter into discounted transportation rate arrangements with some or all of these  
4 customers, these revenue contributions would be reduced or lost entirely. In such a  
5 situation, the Company's revenue requirement would increase by the amount of the lost  
6 revenue from discounted transportation services. Thus, by retaining customers using  
7 discounted transportation rates, revenues collected from such customers benefit all  
8 customers in the form of lower rates.

9  
10 **Q. DID NMGC OFFER DISCOUNTED TRANSPORTATION RATES FOR ANY**  
11 **REASON OTHER THAN THE REASONS YOU STATED EARLIER IN YOUR**  
12 **TESTIMONY?**

13 **A.** No.

14  
15 **Q. WERE DISCOUNTS PROVIDED TO ANY TRANSPORTATION CUSTOMER**  
16 **LOWER THAN THE SYSTEM AVERAGE VARIABLE COST?**

17 **A.** No.

18  
19 **Q. PLEASE EXPLAIN HOW DISCOUNTED TRANSPORTATION RATES ARE**  
20 **IMPLEMENTED BY NMGC AFTER THEY HAVE BEEN NEGOTIATED WITH**  
21 **THE CUSTOMER.**

22 **A.** Rule 660 sets forth the process that must be used to implement a discounted transportation  
23 rate. NMGC must – and does – file each discounted transportation rate with the NMPRC



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1 as a new rate within five days after the execution of the discounted transportation rate  
2 agreement. Upon filing, the new rate is deemed to be approved by the Commission.

3  
4 **Q. DOES THIS MEAN THAT THE TRANSPORTATION RATE IS APPROVED BY**  
5 **THE COMMISSION AND CANNOT BE CHALLENGED IN A GENERAL RATE**  
6 **PROCEEDING?**

7 **A.** No. Rule 660.10(F)(8) provides that discounted transportation rates that become effective  
8 by operation of law, and without hearing by the Commission shall not be construed to bear  
9 the approval of the Commission but may be subject to Commission inquiry. The  
10 Commission, in the rulemaking proceeding that adopted the predecessor to Rule 660,  
11 declined the utilities' request to approve discounted transportation rates upon filing,  
12 holding that the reasonableness of discounted transportation rate "can be determined in  
13 specific rate cases." (Final Order NMPRC Case No. 2068 at page 28)

14  
15 **Q. PLEASE SUMMARIZE NMGC'S DISCOUNTED TRANSPORTATION RATES IN**  
16 **EFFECT AT THE TIME OF THIS FILING.**

17 **A.** NMGC Exhibit EJK-2 summarizes all of NMGC's existing discounted transportation rates  
18 in effect at the time of this filing. This exhibit includes information about the purpose of  
19 the discount, a brief description of any previous discounted transportation rate, and other  
20 information related to the discounted rate.

21

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1 **Q. HAVE SOME OF THE DISCOUNTED TRANSPORTATION RATES IN EFFECT**  
2 **AT THE TIME OF THIS FILING BEEN INCLUDED IN PRIOR GENERAL GAS**  
3 **UTILITY RATE CASES FOR REVIEW BY THIS COMMISSION?**

4 **A.** Yes, the following discounted transportation rates in effect at the time of this filing have  
5 been the subject of direct testimony and Commission review:

- 6 • Rate 701 – Transportation for Frontier Field Services – Maljamar
- 7 • Rate 702 – Transportation for Compania de Autobastecedores de Gas Natural de  
8 San Jeromino, S.A. de C.V.
- 9 • Rate 706 – Transportation to Holly Frontier Refinery and Marketing, LLC
- 10 • Rate 708 – Transportation for Western Bloomfield Refining Company
- 11 • Rate 741 – Transportation for the City of Farmington – Animas and Bluffview  
12 Power Plants
- 13 • Rate 742 – Transportation to Mosaic Potash
- 14 • Rate 817 – Transportation to Public Service Company of New Mexico (“PNM”)  
15 – Bulk Power
- 16 • Rate 819 – Transportation for Western Refining Company’s Ciniza Refinery

17  
18 **Q. OF THE DISCOUNTED TRANSPORTATION RATES LISTED ABOVE, HAS**  
19 **NMGC REVISED ANY OF THESE RATES SINCE ITS LAST GENERAL GAS**  
20 **UTILITY RATE CASE?**

21 **A.** Yes, Rate 706 and Rate 817 have been revised since NMGC’s last rate case in 2011. Rate  
22 706 was revised in 2016 to 1) increase the customer’s minimum volume commitment to  
23 20,000 MMBtus per day; 2) increase the discounted rate by \$0.005 per MMBtu per year

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1 for the years 2017 through 2020, ultimately raising the discounted rate for the minimum  
2 volume of gas from \$0.105 per MMBtu in 2016 to \$0.125 in 2020 and thereafter; and 3)  
3 discount any amounts of throughput above 20,000 MMBtus per day at a rate of \$.07 per  
4 MMBtu.

5  
6 Rate 817 was revised in 2017 to provide PNM with a fixed rate of \$0.851 per MMBtu for  
7 all transportation services provided to PNM's Reeves and Rio Bravo generating plants  
8 when the transportation was used for fuel to generate electricity to fulfill PNM's obligation  
9 to meet load-side management requirements ("load-side"). The revisions also provided  
10 PNM with a discounted rate of \$0.25 per MMBtu for all transportation services provided  
11 to PNM's Reeves and Rio Bravo generating plants when the transportation was used for  
12 fuel to generate electricity to be sold on the wholesale power market ("marketing").  
13 Previously, PNM was charged Rate 70 for load-side activities, and a sliding scale of  
14 between \$0.10 per MMBtu and \$0.16 per MMBtu for marketing activities.

15  
16 **Q. HAS NMGC IMPLEMENTED ANY NEW DISCOUNTED RATES FOR**  
17 **TRANSPORTATION SERVICE SINCE THE LAST GAS UTILITY BASE RATE**  
18 **CASE?**

19 **A.** Yes, NMGC has instituted one new discounted transportation rate since its last gas utility  
20 base rate case. On September 18, 2017, NMGC filed Original Rate 703 Transportation  
21 from Bioenergy Plant. This is an off-system discounted transportation rate for a bioenergy  
22 producer who plans to utilize NMGC's transmission facilities to transport natural gas to  
23 the interstate pipelines. The primary off-system tariff rate of \$0.189/MMBtu was not

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1 discounted. The fuel rate of 1% per MMBtu was discounted to .45% due to the customer  
2 providing their own compression. This discounted rate is above NMGC's variable cost.  
3 The discounted transportation rate was provided to the customer because it provided  
4 incremental throughput for NMGC's system, and there was a potential for the customer to  
5 bypass NMGC's facilities and connect directly with an interstate transmission pipeline.  
6

7 **Q. HAS NMGC CANCELLED ANY DISCOUNTED RATES FOR**  
8 **TRANSPORTATION SERVICE SINCE THE LAST GAS UTILITY BASE RATE**  
9 **CASE?**

10 **A.** Yes, NMGC has cancelled two discounted rates since its last rate case. First, on January  
11 29, 2016, NMGC cancelled First Revised Rate No. 755 – Transportation to Abengoa Bio  
12 Energy Portales. NMGC canceled this rate because the customer requested termination of  
13 the rate.

14  
15 Second, on June 2, 2017, NMGC cancelled First Revised Rate No. 707 – Transportation to  
16 Intrepid Potash, Inc. - East. NMGC canceled this rate because it was no longer necessary  
17 to retain the customer's business as there was no longer a threat of bypass based on the  
18 volume of gas utilized by the customer.

19  
20 **Q. HAVE ANY OF NMGC'S DISCOUNTED TRANSPORTATION RATES EVER**  
21 **BEEN DISALLOWED BY THE COMMISSION?**

22 **A.** No.  
23

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1 **Q. FOR ALL OF NMGC’S DISCOUNTED TRANSPORTATION RATES, IS EACH**  
2 **DISCOUNTED RATE NEGOTIATED FOR A SPECIFIC END-USER**  
3 **AVAILABLE TO ALL TRANSPORTATION CUSTOMERS OR SELLERS**  
4 **SUPPLYING GAS TO THAT END-USER?**

5 **A.** Yes, as required by 17.10.660.10(F)(9) NMAC any discounted transportation rate  
6 negotiated for an end-user is available to any transportation customer or seller that wants  
7 to supply that end-user with natural gas. In other words, the end-user is free to change the  
8 third-party suppliers or marketers with which it does business and continue to receive the  
9 negotiated discounted transportation rate.

10

11 **Q. IS EACH OF THE DISCOUNTED TRANSPORTATION RATES IN EFFECT AT**  
12 **THE TIME OF THIS FILING JUST AND REASONABLE, AND DO THEY**  
13 **BENEFIT OTHER CUSTOMERS ON NMGC’S SYSTEM?**

14 **A.** Yes.

15

16 **II. NMGC’S CAPITAL DISTRIBUTION AND TRANSMISSION INVESTMENTS**

17

18 **Q. PLEASE BRIEFLY DESCRIBE NMGC’S TRANSMISSION AND DISTRIBUTION**  
19 **SYSTEMS.**

20 **A.** NMGC operates approximately 1,647 miles of transmission pipelines (the “Transmission  
21 System”), and over 10,362 miles of distribution pipelines (the “Distribution System”). Due  
22 to the geographic size of NMGC’s service territory, we have a significant amount of  
23 transmission pipelines compared to other local distribution utilities across the country.  
24 NMGC regularly incurs capital and operating costs for maintaining and improving its

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1           Transmission System and Distribution System, in order to ensure that customers continue  
2           to receive safe and reliable gas utility service.

3

4   **Q.   WHAT TYPES OF CAPITAL IMPROVEMENTS HAS NMGC MADE TO ITS**  
5           **DISTRIBUTION AND TRANSMISSION SYSTEMS OVER THE LAST FIVE**  
6           **YEARS?**

7   **A.**   NMGC has made primarily four types of capital improvements over the last five years: 1)  
8           new customer growth (revenue generating), 2) system reliability, 3) reactive  
9           improvements, and 4) proactive system improvements.

10

11           Investments related to new customer growth primarily relate to extending our Distribution  
12           and Transmission Systems to serve new customers consistent with NMGC First Revised  
13           Rule No. 16, which is NMGC’s Commission-approved line extension program. These  
14           investments provide benefits to both new customers, by providing reliable gas service at  
15           just and reasonable rates, and all existing NMGC customers by spreading our fixed  
16           operating costs over a broader base of customers.

17

18           Investments related to system reliability have generally increased the capacities of  
19           NMGC’s Distribution and Transmission Systems to provide reliable gas service to our  
20           customers. On a yearly basis, hydraulic system modeling is performed to identify areas  
21           within the Company’s gas systems that may need improvements to accommodate system  
22           growth and ensure adequate capacity for our customers’ current and future needs. In  
23           addition, every four years NMGC develops an Integrated Resource Plan (“IRP”) to ensure

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1 our Transmission System has the capacity to meet current and future customer  
2 requirements. The IRP is utilized to plan for significant transmission improvements in the  
3 near and long term.

4  
5 Reactive system improvements are primarily investments related to day-to-day operations.  
6 As system leaks are found, those leaks generally lead to a replacement of a distribution  
7 main or service. Other examples include meter and regulator replacements and cathodic  
8 protection investments. All of these improvements are generally made in a reactive manner  
9 during the course of normal operations.

10  
11 Proactive improvements are primarily driven by NMGC's distribution and transmission  
12 integrity management programs. Federal and state regulations require NMGC to have  
13 integrity management programs to ensure we are proactively identifying and mitigating the  
14 highest relative risks on our systems. The driver to this proactive approach is public safety.  
15 Proactively mitigating the highest relative system risks will, over time, enhance the overall  
16 safety of our Distribution and Transmission Systems.

17  
18 **Q. HOW MUCH HAS NMGC INVESTED IN CAPITAL IMPROVEMENTS, BOTH**  
19 **TRANSMISSION AND DISTRIBUTION, OVER THE LAST FIVE YEARS?**

20 **A.** NMGC has invested approximately \$170.4 million in capital improvements to its  
21 Transmission and Distribution Systems over the last five years. More detailed information  
22 regarding this amount can be found in Schedule Q-3.

23

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1 **Q. WHAT ARE SOME OF THE TRANSMISSION SYSTEM CAPITAL**  
2 **IMPROVEMENTS RELATED TO GAS SYSTEM RELIABILITY?**

3 **A.** There are always many improvements being considered and made to NMGC's  
4 Transmission System. These improvements have made up a significant portion of  
5 NMGC's annual capital budget. I would like to talk about three specific examples of  
6 NMGC's capital infrastructure improvement projects that improve system reliability.

7  
8 First, in 2016, NMGC made a significant improvement to its Rio Puerco Mainline by  
9 looping it with an additional 15 miles of 24-inch pipe, which allows NMGC, among other  
10 benefits, to flow more gas off of the interstate pipelines at lower pressures than was  
11 previously possible.

12  
13 Second, NMGC completed the installation of a new compressor (Alcalde) station in 2016  
14 located on the Taos Mainline north of Espanola, which improves system pressures and  
15 capacity to Taos, Questa, and Red River.

16  
17 Third, NMGC recently completed the Corto Mainline looping project and interconnect  
18 with El Paso Natural Gas's ("EPNG") interstate pipeline in northwest New Mexico. This  
19 project included a new interconnect with EPNG in the Farmington area that initially  
20 provided a second feed to the Corto Mainline until the looping project was completed. The  
21 interconnection was completed in April 2017 at a cost of approximately \$1.1 million. The  
22 Corto Mainline looping project consisted of adding 2 miles of 12-inch pipe to the Corto  
23 mainline in order to increase capacity and reliability to NMGC's northwest system by



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1 allowing NMGC to flow 100,000 mcf/day from EPNG and/or Transwestern interstate  
2 pipelines to NMGC's Albuquerque mainlines. NMGC started construction on the looping  
3 project in September of 2017, and completed construction in December of 2017. The new  
4 section of pipe was placed in service in January of 2018. The total cost of the looping  
5 project was approximately \$1.98 million.

6  
7 More detailed information related to the looping of the Rio Puerco Mainline and the  
8 Alcalde compressor station, as well as details relating to additional capital infrastructure  
9 projects related to reliability, can be found in NMGC's application for approval of its  
10 proposed solution to the February 2011 Supply Interruption, NMPRC Case No. 16-00097-  
11 UT.

12  
13 **Q. PLEASE DESCRIBE ANY LARGE CAPITAL PROJECTS NMGC IS**  
14 **CURRENTLY ENGAGED IN.**

15 **A.** NMGC is realigning a six-mile stretch of its Taos Mainline located in the Rio Grande  
16 Gorge near Pilar, NM (the "Pilar Reroute Project"). The affected section of the pipeline is  
17 currently located in an exposed area subject to potential landslides and shifting soils.  
18 NMGC is installing a new section of pipe in a right-of-way along and under New Mexico  
19 Highway 68 on the east side of the Canyon. Once completed, the reroute will eliminate  
20 risk of damage to the Taos Mainline that exists on the west side of the Rio Grande from  
21 landslides and shifting soils, and thereby improving gas system reliability to Taos, Red  
22 River, Questa and surrounding communities.

23

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1 **Q. PLEASE DESCRIBE THE STATUS OF THE PILAR REROUTE PROJECT.**

2 **A.** NMGC began the engineering, design, and permitting process for the Pilar Reroute Project  
3 in 2014. NMGC started construction on the project in August of 2017 with a scheduled  
4 completion in November 2017. Construction has progressed at a slower pace than  
5 anticipated due to a number of reasons, including: project complexity, traffic control  
6 requirements, limited working space, and the large amount of rock encountered during  
7 excavation activities. The Pilar Reroute Project is now 90% complete and, but for  
8 unexpected delays, would have been placed in service by February 26, 2018. NMGC  
9 expects the Pilar Reroute Project to be placed in service by the end of March 2018.

10

11 **Q. HOW MUCH WILL THE PILAR REROUTE PROJECT COST WHEN**  
12 **COMPLETED, AND HOW MUCH HAS BEEN SPENT BY NMGC AS OF THE**  
13 **FILING OF THIS CASE?**

14 **A.** NMGC estimates that the project will cost \$17.3 million when completed in 2018. As of  
15 the filing of this case, NMGC has spent approximately \$15 million.

16

17 **III. NMGC'S INTEGRITY MANAGEMENT PROGRAMS**

18

19 **Q. PLEASE EXPLAIN THE TERMS "INTEGRITY MANAGEMENT", AND**  
20 **"INTEGRITY MANAGEMENT PROGRAM" AS THEY ARE COMMONLY**  
21 **USED IN THE NATURAL GAS INDUSTRY.**

22 **A.** Integrity management generally refers to the process of identifying, evaluating and  
23 addressing potential or direct threats to a utility's system integrity.

24

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1 The terms “Integrity Management Program” and “Integrity Management Plan,” often  
2 shortened to just “IMP,” commonly identify a utility’s plans and programs designed to  
3 identify and mitigate the greatest relative risks within a gas distribution and transmission  
4 system. These programs are constantly evolving and are a combination of Company and  
5 industry standards, and state and federal regulation.

6  
7 **Q. ARE THERE GOVERNMENTAL AGENCIES THAT REGULATE PIPELINE**  
8 **SAFETY AND INTEGRITY MANAGEMENT PROGRAMS?**

9 **A.** Yes, there are regulators responsible for pipeline safety at both the federal and state levels.  
10 The United States Department of Transportation (“DOT”) is responsible for pipeline  
11 safety, including promulgating regulations related to pipeline safety. The Pipeline and  
12 Hazardous Materials Safety Administration (“PHMSA”), an agency within DOT, is  
13 responsible for the regulation of natural gas transmission and distribution pipeline safety.

14  
15 The Commission’s Pipeline Safety Bureau (“PSB”) is responsible for administering the  
16 DOT’s pipeline related regulations and PHMSA’s safety requirements within New  
17 Mexico. Thus, PSB has regulatory oversight of NMGC in relation to federal and state  
18 pipeline safety regulations and requirements, as well as any state-specific safety  
19 requirements.

20  
21 **Q. HAS DOT/PHMSA IMPLEMENTED ANY REGULATIONS RELATED TO**  
22 **TRANSMISSION AND DISTRIBUTION INTEGRITY MANAGEMENT**  
23 **PROGRAMS?**

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1    **A.**    Yes. After tragic pipeline failures in Bellingham, Washington in 1999 and in Carlsbad,  
2           New Mexico in 2000, these efforts increased and federal regulators issued new pipeline  
3           integrity rules, including requiring that every gas transmission company: 1) develop a  
4           transmission IMP, 2) perform regular assessments of operation risks, and 3) adopt risk-  
5           based assessment of the need for risk mitigation measures. The transmission IMP rule  
6           became effective on February 14, 2004, codified in 49 CFR 192 subpart O. The federal  
7           regulators' objectives with these new requirements were to:

- 8           • accelerate the integrity assessments completed on pipelines located in high  
9           consequence areas;
- 10          • improve integrity management systems within gas transmission companies;
- 11          • improve the government's role in reviewing the adequacy of integrity management  
12          system within companies; and
- 13          • provide increased public assurance in pipeline safety.

14  
15          Following the development of the transmission IMP requirements, federal regulators  
16          developed IMP requirements for operators of gas distribution systems. The development  
17          of these distribution requirements also resulted from broad industry collaboration among  
18          gas utilities and other stakeholders working with pipeline safety regulators and received  
19          considerable focus and effort following several gas distribution incidents across the  
20          country. The overall objective of distribution IMP requirements is to ensure operators are  
21          fully knowledgeable about their gas distribution system and the associated risks with that  
22          system. Operators are required to utilize this knowledge to develop a risk-based approach  
23          that mitigates the highest relative risks on their system. This pro-active approach should

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1 lead to enhanced public safety over time. The distribution IMP rule, codified in 49 CFR  
2 192 subpart P, became effective on December 4, 2009. The rule provided gas distribution  
3 companies until August 2, 2011 to be compliant, including the development of a  
4 distribution IMP.

5  
6 **Q. HAS DOT/PHMSA TAKEN ANY OTHER STEPS RECENTLY IN RELATION TO**  
7 **PIPELINE SAFETY?**

8 **A.** Yes, in 2011 the Secretary of Transportation, Ray LaHood, issued a “Call to Action” to  
9 pipeline operators and stakeholders centering on the need to replace aging pipeline  
10 facilities. The Call to Action asked pipeline operators and stakeholders to conduct a  
11 comprehensive review of pipelines, and identify areas representing higher risks – with the  
12 goal of accelerating the repair and replacement of these higher risk facilities.

13  
14 **Q. HAS NMGC COMPLIED WITH DOT/PHMSA’S REQUIREMENT TO DEVELOP**  
15 **INTEGRATED MANAGEMENT PLANS AND ASSOCIATED PROGRAMS?**

16 **A.** Yes. NMGC created both a transmission and a distribution IMP. I generally refer to them  
17 collectively as NMGC’s IMP or the IMP.

18  
19 **Q. PLEASE DESCRIBE THE COMPANY’S IMP AND ITS CURRENT MAIN**  
20 **OBJECTIVES.**

21 **A.** As required by federal regulations, NMGC’s IMP involves the evaluation of its  
22 Transmission and Distribution Systems to identify the highest relative risks on its systems  
23 and developing and executing a plan to mitigate those risks. The mitigation of those risks

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1 includes, but is not limited to, increased patrolling and monitoring and gas system  
2 replacements/modifications. NMGC's IMP determines the best mitigation given the  
3 relative risk.

4  
5 NMGC has identified four areas with the highest relative risk for replacement and  
6 modification activities as part of its IMP:

- 7 1) Replacement of legacy plastic pipe;  
8 2) Replacement of bare steel pipe;  
9 3) Replacement of mechanically connected X-Trube services; and  
10 4) Transmission system modifications.

11  
12 **Q. HAS NMGC WORKED WITH PSB IN RELATION TO NMGC'S IMP?**

13 **A.** Yes. The Company has kept PSB informed as to the creation of NMGC's IMP, the initial  
14 action items identified by the IMP, and NMGC's implementation of the actions identified  
15 by the IMP.

16  
17 **Q. HAS NMGC IMPLEMENTED ITS IMP?**

18 **A.** Yes. As a prudent operator, as soon as NMGC's IMP was fully developed, NMGC  
19 embarked on a targeted capital investment plan to address the highest relative risks on its  
20 systems. NMGC's capital investments related to the IMP are designed to enhance the  
21 overall public safety of its system. Improvements related to the four key areas identified  
22 for mitigation activities in NMGC's IMP continue today, and are scheduled to continue for  
23 a number of years into the future.

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1 **Q. PLEASE DESCRIBE THE NEED TO REPLACE LEGACY PLASTIC PIPE.**

2 **A.** NMGC currently has 313 miles of PVC<sup>1</sup> and ABS<sup>2</sup> plastic pipe in its Distribution System,  
3 mainly in the southern and eastern areas of the system. Installation of this legacy plastic  
4 pipe was completed prior to the development of the federal pipeline safety regulations and  
5 in many cases was not installed with location wire, which means that NMGC may have  
6 difficulty locating the pipe – both before excavation by a third party and in an emergency  
7 situation. Third party damage is one of the leading contributors to gas distribution incidents  
8 across the country. Moreover, legacy plastic pipes tend to be thinner and are more easily  
9 damaged by third parties than modern plastic pipe material. Finally, these legacy plastic  
10 pipes are no longer used in the industry and repairing damaged sections often takes longer  
11 and is more difficult to perform.

12  
13 **Q. PLEASE DESCRIBE THE NEED TO REPLACE LEGACY BARE STEEL PIPE.**

14 **A.** There is approximately 20 miles of bare steel pipe in NMGC’s Distribution System  
15 throughout the state. This pipe was installed decades ago, and lacks a protective coating  
16 which makes it difficult to provide effective cathodic protection. Without adequate  
17 cathodic protection, this pipe may be more susceptible to corrosion which could result in  
18 gas leakage. NMGC leak surveys the bare steel pipe in its system and, while it is currently  
19 operating safely, NMGC believes that it is prudent to be proactive and replace all bare steel  
20 pipe within its Distribution System.

21

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<sup>1</sup> Polyvinyl Chloride

<sup>2</sup> Acrylonitrile Butadiene Styrene

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1   **Q.   PLEASE DESCRIBE THE NEED TO REPLACE X-TRUBE SERVICES.**

2   **A.**   X-Trube services are thin-wall steel tubing services installed in the 1960's and 1970's that  
3       were typically tied to the main with compression-style mechanical fittings instead of being  
4       welded. Because they contain compression fittings instead of welded joints, they tend to  
5       have higher instances of leaks when there is soil movement or other outside forces in the  
6       area. NMGC estimates it has between 13,000 and 14,000 X-Trube services in its system  
7       that were connected with a mechanical fitting, mainly in the Albuquerque area.

8  
9       NMGC's goal, with its IMP, is to mitigate and reduce risk, and replacing the X-Trube  
10      services will decrease system risk associated with mechanical couplings. Additionally, due  
11      to higher frequency leak survey requirements on X-Trube services with compression  
12      fittings, NMGC is incurring additional leak survey expenses. This extra expense is only  
13      necessary due to the compression fitting on X-Trube services, and will be reduced when  
14      the X-Trube services and their associated compression fittings are replaced.

15  
16      Additionally, during the replacement of the X-Trube services and during the replacement  
17      of the services associated with legacy plastic pipe and bare steel main, the Company is able  
18      to make additional safety improvements to its system in a cost-effective manner. An  
19      example of this is the installation of excess flow valves ("EFV"). Because NMGC is  
20      already excavating facilities to replace X-Trube, legacy plastic, and bare steel main  
21      services, it is easy and very cost-effective for the Company to install the EFVs during the  
22      replacement process.

23



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1 **Q. PLEASE DESCRIBE THE NEED TO MAKE TRANSMISSION SYSTEM**  
2 **MODIFICATIONS.**

3 **A.** Much of NMGC's Transmission System was built before 1970, and before DOT/PHMSA  
4 issued regulations governing construction of natural gas transmission pipelines. This  
5 means that some parts of NMGC's Transmission System were built in a way that does not  
6 allow for internal inspection of the pipe. Consistent with its transmission IMP, NMGC is  
7 making modifications to its Transmission Systems to allow for the passage of internal  
8 inspection tools. This is true throughout the state.

9  
10 Here is a good scenario to illustrate the issue: during the initial construction of a pipeline,  
11 the direction of the pipeline needs to change to avoid an upcoming obstacle. In such a  
12 scenario today, the pipe route would be designed to make a long gradual change of  
13 direction. Decades ago, the solution may have been to use a short radius 90-degree fitting  
14 in the pipe and make a more drastic change in direction. While a short radius fitting does  
15 not impede the flow of gas, it does make it impossible to use internal inspection devices  
16 (more commonly known as "Pigs" or "Smart Pigs") to inspect the integrity of the pipe in  
17 those areas. Therefore, before NMGC may utilize internal inspection devices, it must  
18 identify and replace all fittings, valves that are not full opening, or other apparatus on the  
19 transmission system that is not designed to accommodate internal inspection.

20  
21 **Q. GOING FORWARD, HOW MUCH DOES NMGC ANTICIPATE SPENDING**  
22 **ANNUALLY ON IMPROVEMENTS RELATED TO THE FOUR IMP**  
23 **ACTIVITIES YOU IDENTIFIED?**

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1   **A.**    NMGC anticipates relatively consistent spending of a total of between eight to twelve  
2           million dollars annually for at least the next six years on the four IMP activities I identified.

3

4   **Q.**    **PLEASE PROVIDE THE BUDGETED AMOUNTS THE COMPANY PLANS TO**  
5           **SPEND ON IMP RELATED ACTIVITIES FROM 2018 THROUGH 2023.**

6   **A.**    Please see NMGC Exhibit EJK-3, which provides a table showing the annual amount  
7           NMGC has budgeted spending from 2018 through 2023 on IMP related activities.

8

**IV. NMGC'S PROPOSED IMP MECHANISM**

9  
10

11 **Q.**    **NMGC WITNESS YARDLEY DESCRIBES THE DETAILS OF NMGC'S**  
12           **PROPOSED IMP MECHANISM. PLEASE IDENTIFY WHAT STEPS THE**  
13           **COMPANY IS TAKING TO LIMIT THE IMP MECHANISM'S COST**  
14           **RECOVERIES TO THOSE YOU HAVE DESCRIBED ABOVE.**

15 **A.**    NMGC is committed to transparency and accountability. NMGC proposes to file an annual  
16           report with the Commission detailing the expenditures it has recovered through the IMP  
17           Mechanism, and projections for related spending for the upcoming year. Additionally,  
18           NMGC proposes to meet annually with the Commission's Utility Division Staff ("Staff"),  
19           as well as any other interested party, to review the work NMGC performed and the costs  
20           recovered the year before, and to discuss NMGC's forecast for the upcoming year for the  
21           work NMGC anticipates performing, including the estimated cost associated with that  
22           work. This way, the Commission is kept apprised of the work NMGC is performing related  
23           to the IMP in close to real time. At these annual meetings, Staff and interested parties will

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1 be free to voice concerns and provide input relating to NMGC's IMP activities, including  
2 the scope and cost of the work NMGC plans to undertake.

3  
4 The Company fully understands its IMP-related expenditures will be subject to review in  
5 its next rate case, and that it will bear the burden of proving its expenditures were prudent.

6  
7 **Q. FROM YOUR PERSPECTIVE, WHAT ARE THE BENEFITS OF AN IMP**  
8 **MECHANISM?**

9 **A.** From my perspective, an IMP Mechanism will make implementing NMGC's IMP easier.  
10 With approval of the IMP Mechanism NMGC will be better able to plan and manage its  
11 IMP activities. Customers, the Commission, and the Company will benefit through  
12 improved communication and consistency in implementing the IMP; including information  
13 on what work is being performed and the cost of that work on an ongoing basis, rather than  
14 a review of the work NMGC has completed over a number of years.

15  
16 Additionally, an IMP Mechanism facilitates longer-term planning with respect to the  
17 capital-intensive aspects of NMGC's IMP. This type of planning provides opportunities  
18 for potential cost savings in terms of engineering and planning, as well as for managing the  
19 contractor relationships in a way that best manages labor and material costs for the projects.

20  
21 Finally, the IMP Mechanism may also help decrease the frequency of rate cases in the  
22 future. Potentially decreasing the frequency of rate cases would likely reduce the costs  
23 associated with rate cases, thus benefiting the Company and customers.

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1 **Q. WILL NMGC CONTINUE THE PROJECTS CALLED FOR IN ITS IMP EVEN IF**  
2 **THE COMMISSION DOES NOT APPROVE THE IMP MECHANISM?**

3 **A.** Yes, NMGC will continue to make these improvements regardless of whether or not the  
4 Commission approves the IMP Mechanism.

5

6 **V. NMGC'S EFFORTS RELATED TO CNG GROWTH**

7

8 **Q. WHAT IS THE STATUS OF THE COMPANY'S EFFORTS IN RELATION TO**  
9 **CNG AS PROVIDED FOR IN PARAGRAPH 20 OF THE STIPULATION IN**  
10 **NMPRC CASE NO. 15-00327-UT?**

11 **A.** NMGC continues to evaluate prospects for growth in CNG vehicles in NMGC's service  
12 territory. So far, the market has only yielded a few commercial installations to fuel CNG  
13 vehicles, such as the facility operated by UPS in 2017, the Love's Travel Stops that opened  
14 in 2016 and the Bubble City facility in Farmington, NM that opened in 2015. NMGC has  
15 seen an increase in the use of natural gas for vehicles in the State, including the construction  
16 of Natural Gas Vehicle ("NGV") filling stations and facilities. NMGC continues to work  
17 with others, including NGV America and others to sponsor and support legislation in the  
18 New Mexico legislature for the increased use of natural gas vehicles in the State. NMGC  
19 would like to see an increase in the use of natural gas, and accordingly remains ready to  
20 work with any interested companies to increase the use of CNG for vehicles.

21

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

23 **A.** Yes.

24

25 DM#3633622

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 ) Case No. 18-\_\_\_\_\_ -UT  
 TO ADVICE NOTICE NOS. 70 AND 71 )  
 )  
 NEW MEXICO GAS COMPANY, INC. )  
 )  
Applicant. )

AFFIDAVIT OF EDWARD J. KACER

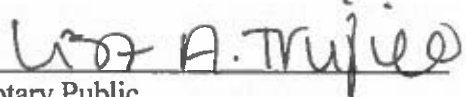
STATE OF NEW MEXICO )  
 ) ss.  
 COUNTY OF BERNALILLO )

**EDWARD J. KACER**, Vice President of Strategy and Major Projects for New Mexico Gas Company, Inc., upon being duly sworn according to law, under oath, deposes and states: I have read the foregoing Direct Testimony and Exhibits and they are true and accurate based on my own personal knowledge and belief.

SIGNED this 8<sup>th</sup> day of February, 2018.

  
 \_\_\_\_\_  
 EDWARD J. KACER

SUBSCRIBED AND SWORN to before me this 8<sup>th</sup> day of February, 2018.

  
 \_\_\_\_\_  
 Notary Public

My commission expires:

2/12/2019

