

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF NEW MEXICO GAS COMPANY,)
INC.'S APPLICATION FOR AN EXPEDITED VARIANCE)
APPROVING ITS PLAN FOR RECOVERY OF THE GAS)
COSTS RELATED TO THE 2021 WINTER EVENT)**

) CASE NO. 21-_____-UT

NEW MEXICO GAS COMPANY, INC.,)

Applicant.)

_____)

**EXHIBIT 2
DIRECT TESTIMONY
OF
RYAN A. SHELL**

April 16, 2021

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RYAN A. SHELL
NMPRC CASE NO. 21-____-UT

1 **Q. PLEASE STATE YOUR NAME AND POSITION.**

2 **A.** My name is Ryan Shell. I am the President of New Mexico Gas Company, Inc. (“NMGC”
3 or the “Company”).

4
5 **Q. PLEASE STATE YOUR ROLE DURING NMGC’S HANDLING OF THE 2021**
6 **WINTER EVENT.**

7 **A.** I was actively engaged in the Company’s actions throughout the 2021 Winter Event (“2021
8 Winter Event” or “Event”). I met regularly with the NMGC Executive Team during the
9 Event. Additionally, I received regular updates from the Company’s Operations, Gas
10 Supply, Engineering teams, and stayed informed regarding general Company activities
11 before and throughout the Event.

12
13 As I told our teams, the Company’s primary objective throughout the 2021 Winter Event
14 was to maintain service to all the Company’s customers. As you would expect, we focused
15 on maintaining service to our customers, while also obtaining gas supplies from reliable
16 sources in a cost-effective manner.

17
18 As President, I have ultimate responsibility for NMGC and the service it provides to
19 customers. That responsibility includes ensuring that the Company’s subject matter
20 experts, including our Gas Supply, Engineering, and Operations teams are empowered to,
21 and have the resources and personnel necessary to, make decisions during events such as
22 the 2021 Winter Event. As the Event unfolded, I and the entire Executive Team at NMGC

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1 kept in constant contact with these subject matter experts. I believe the Company acted
2 reasonably and prudently throughout the Event. I have reviewed the Chronology prepared
3 in support of this filing as Exhibit 1 and believe it to be true and accurate to the best of my
4 knowledge.

5
6 **Q. PLEASE DISCUSS YOUR ROLE IN CRAFTING THE COST RECOVERY**
7 **SOLUTION PROPOSED BY NMGC IN THIS FILING.**

8 **A.** I have been actively engaged in the decisions made regarding this request to recover the
9 extraordinary gas costs incurred by the Company on behalf of its customers. I believe the
10 course we are proposing is the most appropriate way to recover these extraordinary gas
11 costs. Our request attempts to balance several factors including the impacts on customers,
12 the financial needs of the Company, and the ability of the customers and the Company to
13 recover these costs timely and efficiently while preserving the Company's ability to
14 withstand and appropriately address events in the future, including the possibility of
15 another event such as the one that occurred in February 2021.

16
17 **Q. PLEASE DISCUSS THE THEORY BEHIND THE COMPANY'S PROPOSED**
18 **PLAN OF RECOVERY.**

19 **A.** Before I get into the basis for the Company's plan for recovery of these costs, let me make
20 a key point: the incurrence of these extraordinary costs which are the subject of this
21 Application was outside the control of NMGC, or for that matter the other natural gas
22 utilities in New Mexico. The market forces at work during the 2021 Winter Event dictated

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1 pricing terms to NMGC, and not vice versa. In the face of these forces, our main objective
2 was to maintain supplies to our customers, and to obtain those supplies in the most efficient
3 and effective manner. Numerous governmental bodies, including the NMPRC, are
4 investigating what happened to prices during the 2021 Winter Event, and what forces
5 caused these extraordinary costs, and this Company is assisting in those investigations.
6 The investigations are only beginning, and the results, conclusions, and possible solutions
7 resulting from these investigations, are unknown at this time.

8
9 In the meantime, as these investigations proceed, we need to deal expeditiously with the
10 impacts of the extraordinary costs incurred by this and other companies during the 2021
11 Winter Event and accordingly we are proposing a plan for recovery of these costs as set
12 forth in NMGC's Application in support of which this testimony is filed.

13
14 Let me now discuss the basis for our plan:

- 15 • First, through this filing, NMGC is requesting a variance from 17.10.640.13 – Annual
16 PGAC Reconciliation and the Company's PGAC rule, Rule No. 25 to provide for the
17 collection of the Gas Costs incurred during the 2021 Winter Event over an extended
18 period of time. The gas costs incurred by the Company in one week during the 2021
19 Winter Event were extraordinary: roughly equal to the Company's annual gas costs for
20 all of 2020. To try to recover \$110 million in extraordinary gas costs from customers
21 during the remainder of the 2020-21 PGAC year (ending in August 2021) would place
22 an unnecessary burden on the Company's customers. Instead, we are seeking a

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1 variance to recover these extraordinary gas costs between now and the end of 2023. To
2 do this, we have essentially divided the Company’s February gas costs into two
3 buckets. The first bucket consists of the “normal” gas costs the Company reasonably
4 expected to incur in February. These normal costs are being processed through the
5 “normal” PGAC mechanism – outside of this Application and request. The Second
6 bucket consists of the extraordinary gas costs incurred by NGMC because of the
7 extraordinary prices charged during the 2021 Winter Event. NMGC is submitting, this
8 request for an Order authorizing the timely and efficient recovery of these extraordinary
9 costs by the end of 2023.

- 10
- 11 • Second, but most importantly, we are focused on the fact that the passing of these costs
12 on to customers will place an additional and unexpected financial burden on our
13 customers at a time when the global COVID pandemic has already greatly affected
14 many of our customers. We have taken this into account as we have crafted this
15 proposal to recover these costs from our customers. While it is normal and customary
16 that gas costs are recovered from the Company’s sales customers under the Company’s
17 PGAC, we have attempted in this pleading to spread these costs over an extended
18 period of time, and in a manner – seasonally adjusted rates – that lessens the financial
19 impact on NMGC’s customers.

- 20
- 21 • Third, as the investigations examining the forces that let the extraordinary prices
22 charged for gas proceed, we do not at this time know whether another event such as

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1 this could or will take place next year, or in two years, or in twenty years. One of the
2 things that we have learned over the last twelve years is that events outside of New
3 Mexico do not stop at our borders, but instead spillover into New Mexico and affect
4 NMGC and its customers. For these reasons, we have concluded that an extended, and
5 still relatively timely, recovery of these costs is necessary to avoid having our
6 customers, and this Company, exposed to risk, both financial risk and gas supply risk,
7 if another event such as this were to occur in the near future.

- 8
- 9 • Finally, in the face of the uncertainty as to the cause of this Event, the results of
10 investigations into the Event, and even the possibility of a recurrence of this Event or
11 the occurrence of other types of unanticipated events, this Company must continue to
12 take actions to ensure it remains financially strong and able to meet its business needs
13 for the foreseeable future. Towards this end we borrowed quickly to pay the suppliers
14 of gas to this Company. Second, we need to consider and plan for future borrowing
15 and potential capitalization to replace this debt, thereby ensuring the continuation of a
16 financially viable gas utility for New Mexicans while these costs are recovered from
17 our customers. And third, we must arrange through this Commission for the recovery
18 of these costs, on a timely basis, so we are in a position to act in the uncertain future.
19 Against this background, the Company must retain its relations with suppliers of gas to
20 allow the Company to negotiate for and contract for a sufficient supply of gas to ensure
21 reliable service next year, and years thereafter.

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1 **Q. WHY SHOULD THE COMMISSION APPROVE THIS REQUEST?**

2 **A.** Consistent with 17.10.640.15 NMAC, I am verifying that without an Order from this
3 Commission approving the request sought by NMGC, there is no reasonable method for
4 NMGC to recover these gas costs without significant impact to customers. First, the
5 Company's customers cannot reasonably pay the amount of gas costs incurred during the
6 2021 Winter Event in the time remaining in the 2020-21 Gas Cost year, and therefore a
7 variance extending the period for repayment through 2023 is necessary to facilitate the
8 customers' ability to repay these gas costs incurred on their behalf. Accordingly, a variance
9 and order approving the Company's plan for recovery of these extraordinary costs is in the
10 best interests of the Company's customers.

11
12 Second, the gas costs paid by this Company in February 2021 has placed a significant strain
13 on NMGC that can best be relieved with a timely Order from this Commission approving
14 the Company's plan for recovery of these obligations. As the Company recovers these gas
15 costs from customers through 2023, the Company will need to ensure it is well positioned
16 to carry out its normal operations and handle unexpected events, such as the 2021 Winter
17 Event, should they occur. It is in the best interests of NMGC's customers to have a
18 financially strong and viable utility, and the plan put forward in this Application best
19 supports a healthy utility while considering the impact on customers.

20

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1 For all the reasons stated in this testimony and the accompanying Application and Exhibits,
2 the plan we have put forward is reasonable and in the best interest of the customers of
3 NMGC, and this Company, and should be approved expeditiously.

4

5 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

6 **A. Yes.**

7

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ELECTRONICALLY SUBMITTED AFFIRMATION OF RYAN A. SHELL

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

In accordance with 1.2.2.10(E) NMAC, **RYAN A. SHELL**, President for New Mexico Gas Company, Inc., upon being duly sworn according to law, under oath, deposes and states under penalty of perjury under the laws of the State of New Mexico: I have read the foregoing Direct Testimony, and it is true and accurate based on my personal knowledge and belief.

SIGNED this 16th day of April 2021.

/s/ Ryan A. Shell
RYAN A. SHELL