

NEW MEXICO
PUBLIC REGULATION
COMMISSION
FILED

NEW MEXICO GAS COMPANY
FIRST REVISED - RULE NO. 25
CANCELLING ORIGINAL RULE NO. 2512

DEC 20 PM 4 03

RATE RIDER NO. 4 DETAILS

1. Definitions

The following words and terms shall have the indicated meaning when used in the Company's Rate Rider No. 4 and this Rule:

Annual Reconciliation Report: The annual report filed with the Commission which provides the revenues and expenses associated with the operation of the Company's PGAC for a Reconciliation Period.

Balancing Account: Contains the cumulative monthly differences between allowable gas costs as they are recorded on the books and records of the Company, plus a monthly carrying charge component; and the revenues resulting from billings to sales customers for the recovery of allowable gas costs as they are recorded on the books and records of the Company.

Balancing Account Adjustment Factor: A component of the General Service Gas Cost Factor designed to allow the Company to continuously manage the Balancing Account.

Billing Cycle: Consists of a specific period of time over which a customer's gas consumption takes place. At the end of each billing cycle for each customer within that billing cycle, metered consumption is read and billed. NMGC employs approximately twenty-one (21) billing cycles within each of twelve billing months.

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Billing Month: The Company's usual billing period coincides with an accounting month containing a complete set of billing cycles utilized in the Company's billing system.

Commission: The New Mexico Public Regulation Commission.

Company: New Mexico Gas Company.

Company Used Gas: The quantity of gas consumed by the Company in its gas operations such as fuel for compressor stations, etc.

Cost of Gas: The total expense as defined in Section 2(A) of this Rule incurred by the Company for natural gas purchased for delivery to the Company's customers served under the provisions of Rate Rider No. 4.

Cost of Gas Component: The amount included in each customer's bill to recover the cost of gas as determined in Rate Rider No. 4 and this Rule.

Determination Period: The period during which the Company expects a Gas Cost Factor to be in effect. Unless otherwise specified in the Gas Cost Factor Statement, the determination period shall coincide with a billing month and contain twenty-one (21) billing cycles per billing month.

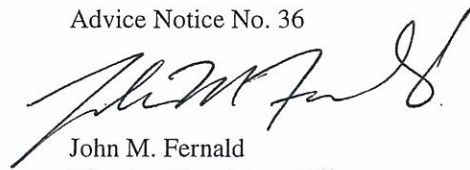
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Advice Notice No. 36



John M. Fernald
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Financial Risk Management Expenses: The costs, including fees, premiums and derivative gains and losses, incurred by the Company to financially manage future gas costs in a manner consistent with generally accepted practices in the natural gas industry.

Gas Cost Factor: The rate to be multiplied by the customer's billing units to determine the Cost of Gas Component.

Gas Cost Factor Statement: The report establishing the Gas Cost Factor. The Gas Cost Factor Statement is filed with the Commission prior to changing the previously used Gas Cost Factor.

Gas Supply Plan: A planning report that sets forth the steps to provide a reliable gas supply at just and reasonable rates consistent with market conditions, regulatory requirements and other authorized purposes.

General Service Customer: All full service customers served by the Company, excluding customers served directly by other companies' pipelines under the provisions of the Company's Rule No. 22.

PGAC or Purchased Gas Adjustment Clause: A mechanism established by tariff provision designed to permit a utility to recover gas costs in a timely manner through periodic adjustments to billing rates.

Purchase/Sales Ratio: An adjustment to the Cost of Gas to recognize the need to purchase additional volumes of gas for Company Used Gas and Unaccounted For Gas (UFG). The Purchase/Sales Ratio for the current PGA Year will be determined using the prior PGA Year's twelve-month historic volume totals to adjust for differences in gas purchases.

Reconciliation Period: The twelve consecutive months ended August 31, of each year.

Revenue Related Taxes and Fees: The expense incurred by the Company applicable to revenues collected from the Cost of Gas Component and payable to State, Federal, and other Government Agencies.

Supplier: Any person furnishing gas, transportation or storage service whose costs are subject to the provisions of Rate Rider No. 4 and included in the Cost of Gas Component.

Refunds/Surcharge Factor: A factor used to refund amounts or surcharge amounts resulting from overcharges or undercharges on previous gas purchases.

Unaccounted for Gas: The difference between the total gas received from all sources and the total gas accounted for as sales, net interchange, gas processed, and Company use. This difference includes leakage or other actual losses, discrepancies due to meter inaccuracies, variations of temperature and/or pressure, and other variants.

2. Records

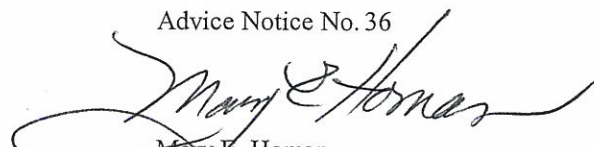
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The Company shall maintain records which identify the revenues and expenses attributable to the operation of Rate Rider No. 4. The difference between the revenues and expenses described in this section shall be entered into the Balancing Account. Entries shall be made in this account at the end of the month in which the Rate Rider No. 4 revenues and expenses are recorded on the Company's books. The Balancing Account entry shall consist of the following:

- A. Rate Rider No. 4 expenses shall be taken from the Company's books and records. Rate Rider No. 4 expenses include:
- (1) The amount as recorded in the appropriate accounts for natural gas purchased by the Company, including, but not limited to, purchases at the wellhead, gasoline plant outlet, field line, transmission line, and city gate;
 - (2) Plus variable and fixed amounts associated with the gathering, processing and transmission of Company-owned gas by others plus fuel, power, and UFG associated with the gathering, processing, transmission, and distribution of Company owned gas by NMGC;
 - (3) Plus the net amount of exchange gas recorded during the month and associated fees;
 - (4) Plus the amount recorded for gas withdrawn from storage;
 - (5) Less the amount recorded for delivery of gas to storage;
 - (6) Plus any refunds, credits or surcharges and any special charges or credits related to cost approved by the Commission (either as a single item or on a continuing basis);
 - (7) Plus any Revenue-Related Taxes and Fees;
 - (8) Plus any Financial Risk Management Expenses; and less any payments (benefits) received from third parties as a result of hedging activities.
- B. Rate Rider No. 4 revenues shall be taken from the Company's books and records. Rate Rider No. 4 revenues shall include, but not be limited to:
- (1) The amount of gas cost recovery revenues recorded through the customers' Cost of Gas Component;
 - (2) Plus the revenue received from the processing of Company-owned gas.
- C. A carrying charge shall be computed based upon the estimated average outstanding monthly Balancing Account balance over the course of the Reconciliation Period. The carrying charge amount shall be added or credited to the monthly cumulative balance in twelve monthly installments. The carrying charge installment amounts may

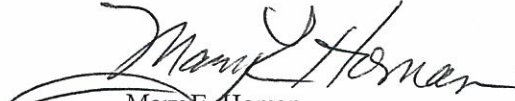
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change over the course of the Reconciliation Period based upon changes in the estimated average outstanding monthly Balancing Account balance over the course of the Reconciliation Period. The total amount of the carrying charge will be reconciled and trued-up annually through the Annual Reconciliation process. The carrying charge rate used to make this calculation shall be equal to the pre-tax cost of capital (rate of return) approved by the Commission in the Company's most recent gas rate case.

3. Calculation of the Gas Cost Factor

A. The Gas Cost Factor shall be the sum of the factors described below:

- (1) The Basic Gas Cost Factor is designed to recover the expected cost of gas as described in this section. It is developed by taking the sum of the expected purchase therms during the Determination Period divided into the total expected purchase price during the Determination Period to arrive at an expected weighted average cost of gas per therm. The cost of gas to be used in the calculation of this factor shall be the result of the following amounts multiplied by the Purchase/Sales Ratio:
 - (a) Natural Gas Purchased: The volume of gas expected to be purchased during the Determination Period shall be identified. The estimated cost of natural gas purchased shall be calculated by multiplying these volumes by the prices, which are expected to be paid during the period in which the Gas Cost Factor is to be in effect.
 - (b) Natural Gas Stored: The total volumes expected to be delivered to storage during the Determination Period shall be identified. The cost of natural gas stored shall be calculated by applying the weighted average price, which is expected to be paid during the period in which the Basic Gas Cost Factor is to be in effect, multiplied by the Determination Period's expected injection volumes. Volumes withdrawn from storage during the same period shall also be identified. The cost of gas withdrawn shall be found by applying the latest weighted average inventoried price multiplied by the expected Determination Period's withdrawal volumes. The net of these two costs shall be included in the total Cost of Gas.
 - (c) Exchange Natural Gas: The total volumes expected to be exchanged during the Determination Period shall be identified. The cost of exchange gas delivered shall be calculated by applying the price, which is expected to be paid during the period in which the Basic Gas Cost Factor is to be in effect, multiplied by the expected Determination Period's exchange delivery volumes. The cost of exchange gas receipts shall be found by applying the latest weighted average inventoried price multiplied by the expected Determination Period's exchange receipt volumes. The net of these two costs shall be included in the total Cost of Gas.
 - (d) Other Costs: Whenever the Company is required to pay any Supplier or other entity an amount which relates to obtaining a reliable supply of gas, including but not limited to, Financial Risk Management Expenses, which is not included in one of the above, that amount shall be included as an Other Cost. The amount to be included in the cost of gas shall be the total other costs expected

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to be recorded during the Determination Period. Adjustments may be made when changes in cost levels have been definitely determined in subsequent periods.

- (e) The Gas Processing Credit: A credit for net revenues including processing fees received from processing Company-owned gas as determined in accordance with the methodology described in Section 2.A(2) and 2.B(2) above. The credit shall be the sum of the total net revenues from all plants.
 - (f) Transportation of Utility Owned Gas: The total cost paid by the Company to transport utility owned gas.
 - (g) Purchase/Sales Ratio: An adjustment to the gas costs Factor determined by multiplying the subtotal of the Basic Gas Cost Factor by the annual Purchase/Sales Ratio.
- (2) The General Service Gas Cost Factor is determined by taking the total Basic Gas Cost Factor and adding to it:
- (a) The Balancing Account Adjustment Factor is utilized to effect the Balancing Account balance on a monthly basis and when employed, impacts the determination of the General Service Gas Cost Factor. The Company's intent is to manage the Balancing Account to a cumulative balance of plus or minus five percent (5%) of the PGA Year's total gas purchase costs for the Reconciliation Period ending August 31st of each year
 - (b) The Refund/Surcharge Factor is designed to return refunds or collect charges from Suppliers or others not recognized elsewhere. Refunds or surcharges will be refunded or charged on a statewide basis. The amount of the Refund/ Surcharge Factor shall be determined by dividing the refund or surcharge balance by the expected purchase volumes for the period in which the factor is to be in effect. Determination of the period shall be as follows:
 - (i) if the refund or surcharge applies to purchases made over twelve or more months, the credit or charge must be made over a twelve month period;
 - (ii) if the refund or surcharge applies to purchases during a shorter period, the credit or charge shall be made to the Balancing Account.

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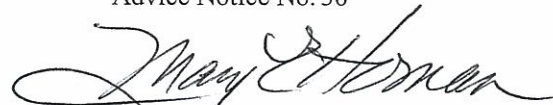
- (c) Inspection and Supervision Fee is designed to collect Commission inspection and supervision fees assessed upon the revenues generated by application of the Gas Cost Factor.

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- (3) A separate special service gas cost factor will be identified in determination of a Gas Cost Factor depending upon a customer's tax responsibility.

4. Reports and Statements

- A. A Gas Cost Factor Statement must be filed with the Commission at least 15 days before adjustment of the Gas Cost Factor. Each Statement shall consist of a cover letter identifying any items impacting the cost of gas, a projection of the final reconciliation balance for the twelve-month period ending on August 31 and any matters which may be of interest to the Commission. The Gas Cost Factor Statement consists of the following sections:

Section 1 - Summary of the Gas Cost Factors

Section 2 - Determination of the Basic Gas Cost Factor

- (A) Gas Costs
- (B) Transportation Costs
- (C) Processing Credit
- (D) Other Costs
- (E) Purchase/Sales Ratio

Section 3 - Determination of the Balancing Account Adjustment Factor

Section 4 - Determination of the Refund/Surcharge Factor

Section 5 - Distribution of Natural Gas Purchased by Average Price

Section 6 - Statement of Natural Gas Receipts and Deliveries

- B. The Gas Cost Factor Statement will identify natural gas purchase transactions with affiliated interests, if any.
- C. An Annual Certified Reconciliation Report shall be filed with the Commission as soon after completion of the August accounting month as permitted by record availability, but in no case later than the December PGAC filing for approval of the January Gas Cost Factor. This report shall consist of the following sections:
- (1) a summary of gas purchases and volumes, including gas purchased from affiliates;
 - (2) a summary of costs, carrying charges, and collections which were recorded in the Balancing Account;

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- (3) a summary of reconciling items including items adjusting the Balancing Account; and
- (4) any additional reporting requirements as specified by the Commission.

The PGAC mechanism is continuous and therefore, the Balancing Account is also continuous. Any under or over-collection of gas costs that resulted in the prior Reconciliation Period will immediately carry over into the subsequent Reconciliation Period. All adjustments resulting from the Annual Reconciliation will be recorded into the Balancing Account as they become certified in the Annual Reconciliation process.

- D. An annual Gas Supply Plan shall be filed with the Commission by November 1 and will include the planning time frame of October 1 through September 30, annually. This document will include the Commission required elements cited in 17.10.640.9 NMAC.

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