

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF NEW MEXICO GAS COMPANY, INC.)
FOR REVISIONS TO ITS RATES, RULES,)
AND CHARGES PURSUANT TO ADVICE)
NOTICE NOS. 70 AND 71)
)
)
NEW MEXICO GAS COMPANY, INC.)
Applicant)**

Case No. 18-00038-UT

PHASE I CERTIFICATION OF STIPULATION

In accordance with 1.2.2.20(A)(5)(b) NMAC, Frances I. Sundheim, Hearing Examiner in this case, submits this Certification of Stipulation (“Certification”) to the New Mexico Public Regulation Commission (“Commission”) concerning the Third Amended Stipulation (“Stipulation”) agreed to and filed in this matter with the Commission on September 24, 2018. The signatories of the Stipulation are the New Mexico Gas Company, Inc. (“NMGC” or the “Company”); the Attorney General of the State of New Mexico (“Attorney General”); the New Mexico Public Regulation Commission’s Utility Division Staff (“Staff”); the United States Department of Energy, National Nuclear Security Administration and Federal Executive Agencies (“DOE/NNSA/FEA”); and New Mexico Industrial Energy Consumers (“NMIEC”). A copy of the Third Amended Stipulation is attached hereto as **Exhibit A**.

I. STATEMENT OF THE CASE

On February 26, 2018, pursuant to NMSA 1978, Section 62-3-3₂ and 17.1.210.11 and 17.10.630 NMAC, NMGC filed its Application for Revisions to Rates, Rules and

Charges (“Application”) based on a historic twelve-month period with a base year ending September 30, 2017, including test period adjustments.

A. NMGC’s Application requested the following:

- a. an increase in revenues of approximately \$8 million to be recovered through base rates;
- b. an overall tax unadjusted weighted average cost of capital of 7.65%, including a requested return on equity of 10.2% and a capital structure comprised of 54% equity and 46% debt;
- c. an increase in access fees for customers;
- d. an increase in special charges under NMGC Rate No. 11 (Miscellaneous Fees and Charges) (“Rate 11”);
- e. approval to implement a weather normalization adjustment mechanism;
- f. approval to implement an integrated management program (“IMP”) cost recovery mechanism;
- g. approval to implement economic development rates meant to encourage economic development in New Mexico; and
- h. a change in the amortization of net regulatory assets related to its overfunded retiree medical plan.

NMGC’s proposed rates incorporated the reduction in corporate taxes NMGC realized as a result of the Federal Tax Cuts and Jobs Act of 2017 (“TCJA”). However, this reduction was proposed prospectively to commence with the implementation of new rates.

In support of its Application, NMGC filed the schedules required by 17.10.630 NMAC and the direct testimonies of eight witnesses.

The base rates NMGC originally proposed in the Application would have produced an estimated increase in the average residential customer's total bill of approximately 1.4%.

On September 12, 2018, the Commission issued an Order on Stipulation in response to the first filed iteration of the Stipulation. The Order resulted from the Commission's review of the proposed stipulation filed by NMGC and the Attorney General on September 7, 2018 (the "Original Stipulation").

The Amended Stipulation, filed on September 11, 2018 by NMGC, the Attorney General, Staff, and DOE/NNSA/FEA replaced the Original Stipulation. The Amended Stipulation and the Original Stipulation are denominated collectively, the "Stipulation". The Commission, in paragraph 3 of the September 12, 2018 Order, stated that the Stipulation did not appear to address the issue of the disposition of the savings resulting from the enactment of the TCJA, and referenced the Commission's January 24, 2018 order in Case No. 18-00016-UT. The Commission ordered the parties to address whether the Stipulation addressed these savings.

The Stipulation addresses the prospective application of the TCJA savings to prospective and future rates. The Stipulation does not address the retroactive impacts of the TCJA to rates currently in effect. The parties to the Stipulation were unable to agree on this aspect of the issue, and there was no consensus. Since no compromise was possible, the parties instead agreed to a black box settlement of the rates portion of the case and agreed to separately preserve their arguments regarding the tax issue as a Phase II matter. The

Company agreed to toll the statutory time for decision in this case until the Commission issues a final order

As stated, the rates detailed in Stipulation Exhibit A incorporate the reduction in corporate income taxes NMGC realized from the TCJA on a prospective basis only.

On October 1, 2018, the Hearing Examiner issued an Order of Bifurcation, establishing a Phase II of this docket to determine a calculation methodology for savings NMGC realized as a result of the enactment of the TCJA, including the question of refunds to customers of such savings from January 1, 2018 through the effective date of NMGC new rates. This Certification deals exclusively with the stipulated rate agreements of Phase I.

II. LEGAL STANDARDS FOR STIPULATION OF THE PARTIES

1.2.2.20 FORMAL STIPULATIONS: The commission recognizes that the parties to a proceeding and staff may reach compromises and settle some or all issues. Settlement stipulations shall be binding only if approved by the commission.

A. Uncontested stipulations:

(1) If the staff and all parties enter into a stipulation settling some or all of the issues in a proceeding, the stipulation shall be filed and a copy presented to the presiding officer. If the proceeding is before the commission *en banc*, the commission may in its discretion assign a hearing examiner to preside over any public hearing to be conducted on the stipulation.

(2) When filed and presented, the stipulation must be accompanied in rate cases by a reconciliation statement showing the dollar impact of the settlement and the resulting rates. This statement shall contain the information listed in Subsection F of 1.2.2.36 NMAC.

(3) Upon receipt of a stipulation which would settle substantive issues, the commission or presiding officer shall conduct a public hearing to determine whether the stipulation should be approved by the commission, provided that in extraordinary cases, for good cause shown, the commission or presiding officer may forego a public hearing. The proponents of the stipulation have the burden of supporting the stipulation with sufficient evidence and legal argument to allow the commission to approve it.

(4) In the event the parties and staff enter into a settlement of one or more issues but not of the entire case, the commission or presiding officer

may in their discretion combine the public hearing on the settlement stipulation with the public hearing on the contested issues.

(5) In cases heard by a hearing examiner rather than the commission, the hearing examiner may:

(a) decide that the settlement stipulation should not be certified to the commission at all, in which event the hearing examiner may indicate to the parties and staff whether additional evidence or legal argument in support of the stipulation or amendments to the stipulation might meet the hearing examiner's reservations about the stipulation; or

(b) certify the settlement stipulation to the commission for its review; the certification shall include a recommended disposition of the stipulation, whether the recommendation be positive or negative or otherwise suggest a manner of disposition; exceptions to the certification may be filed within ten (10) days after the date the settlement stipulation is certified to the commission, unless the commission or presiding officer directs otherwise.

This Stipulation is uncontested. The Signatories have submitted a Stipulation accompanied by...“a reconciliation statement showing the dollar impact of the settlement and the resulting rates” pursuant to 1.2.2.20. A (2) NMAC. A hearing was held regarding the content of the Stipulation and to determine whether the terms therein resulted in a fair, just and reasonable result.

This Stipulation is a classic “black box” settlement. The parties agreed on an additional revenue increase for the Company, but the agreement does not specify the ratemaking treatment of any component in the Cost of Service. In this matter, the Illustrative Cost of Service specifies two adjustments, a Return on Equity of 9.1% and an equity component of 52%. The “Illustrative Cost of Service” (“COS”) is provided to support the reasonableness of the rates proposed in the Stipulation. The Signatories to the Stipulation did not agree to any single COS study to derive the proposed rates.

III. STIPULATION

A. Base Revenue Increase and Stipulated Rates

The proposed rate schedules originally filed by NMGC under Notice Nos. 70 and 71 were withdrawn, and NMGC filed revised rate schedules to support the terms of the Stipulation. The Stipulation resolves all issues between the Signatories in relation to NMGC's Application and, more specifically, the parties agree to:

1.) an increase in NMGC annualized base revenues by \$2.5 million, which will be phased-in over a two-year period as follows: \$1 million in 2019 and an additional \$1.5 million in 2020;

2.) an increase in revenues generated from increased Miscellaneous Service charges under Rate 11 of \$453,031.00;

3.) the cancellation of Original Rate 1-2 and Original Rate 1-7;

4.) changes to Rate Schedules 31, 35, 54, 56 and 58 to better reflect the Company's current practice used in its annual review of the rate classifications for its customers.

5.) the withdrawal of the proposed approval to implement an integrated management program ("IMP") cost recovery mechanism and withdrawal of request for approval to implement economic development rates in New Mexico.

Stipulation **Exhibit 1**, the reconciliation required by 1.2.2.20 NMAC, contains the information listed in 1.2.2.36(F) NMAC and was prepared by NMGC. This Exhibit is prepared for illustrative purposes and represents one scenario within the zone of reasonableness. The parties concur that these stipulated metrics shall not constitute a

precedent for any future proceedings. The reconciliation is a proxy. The parties agree the metrics represent rates that are fair, just and reasonable.

Testimonial Support of the Stipulation by NMGC

During the Stipulation hearing, NMGC witness Scott A. Hastings discussed the methodology to produce cost of service schedules based upon the \$2.5 million dollar revenue agreement, and the “test period” numbers contained in the Application. The Stipulated COS schedules reconcile the test period cost of service supportive of the agreed upon Stipulation revenue requirement. “For its Stipulated COS Schedules, the Company assumed an illustrative return on equity (“ROE”) of 9.1%, an illustrative pre-tax cost of long term debt of 4.65%, and an illustrative capital structure of 52% equity and 48% long term debt. These assumptions result in an illustrative weighted average cost of capital (“WACC”) of 6.9%.”¹

The Stipulating Parties agreed on the revenue increase, without agreeing on a specific ROE or WACC as appropriate for the Company, and that a range of ROEs and other adjustments could be used to support the revenue increase stipulated to.²

Attached as Stipulated Schedule 2 is a schedule showing increases in the cost of service revenue for all rate classes for recovery of the full \$2.5 million base revenue increase. The increase is shown for each rate schedule for the full \$2.5 million increase and the total percent change in revenues for each rate class. The Signatories agreed that the allocation of these base rate increases by rate class is reasonable.

¹ Hastings testimony in support of stipulation, p.5.

² Hastings, p.7, 18-17.

Attached as Stipulation Exhibit No. 3, the first four pages delineate the present and proposed rate for each affected rate class during the Step 1 increase of \$1.0 million. This increase will remain in effect for one year. The following four pages of the schedule delineate the full impact of the additional \$1.5 million agreed to in the Stipulation. The Signatories agreed upon the revised base rates reflected in Stipulation Exhibit No. 3, stating that they are fair, just, and reasonable.

Attached to this Stipulation as Stipulation Exhibit No. 4 is a schedule showing percentage changes in residential bills in 5 therm increments. The rate design for residential customers in Rate No. 10, Residential Service (“Rate 10”) as well as other heat sensitive customers used a ten-year normal weather standard.

Rate Implementation

The rates set forth in this Stipulation and Stipulation Exhibits shall be implemented in two phases as set forth in Stipulation Paragraph 9. Phase I will be implemented with Cycle 1 of the month following the Commission final order. NMGC shall file appropriate advice notices to implement the revised rates at least five days prior to their effective dates. Phase II will be implemented with Cycle 1 of the thirteenth month following the final order.

The base rates agreed to in this Stipulation will not increase prior to January 1, 2021, at the earliest. This provision of the Stipulation reflects a balancing of interests, including (on one hand) NMGC’s statutory right to petition the Commission, from time-to-time, to revise the Company’s rates and (on the other hand) the interests of customers in rate stability.

The Company proposed, and the signatories agreed that two rate schedules should be cancelled because they were no longer being used: NMGC Original Rate No. 1-2, NTUA

Transportation Charge (Rate Rider No. 2). This rate recovered a transportation charge of \$0.095 per MCF and was only applicable to customers served through Navajo Tribal Utility Authority pipelines. There are no current customers, nor have there been any for many years, making Rate Rider 2 unnecessary.

Rate Rider 7 was a special charge for short term oil and gas well drilling services. NMGC does not have any customers on this rate and has not had any customers subject to this rate rider for many years, making the rate rider no longer necessary.

Wording changes to the following rates were agreed to in the Stipulation, including new language and renaming the rates as revised: Second Revised Rate No. 31; Second Revised Rate No. 35; Second Revised Rate No. 54; Second Revised Rate No. 56; Second Revised Rate No. 58.

B. Weather Normalization Adjustment Mechanism Pilot Program

The WNA was presented in the Application and was supported in the Stipulation by the Company's consultant Mr. Daniel Yardley. In his testimony, Mr. Yardley stated that wide fluctuations in weather in recent winter heating seasons have affected customers' bills and have contributed directly to fluctuations in the level of base revenue recoveries to the Company. He proposed a Weather Normalization Adjustment Mechanism (the "Weather Mechanism") to address this problem. The Weather Mechanism is not intended to provide the Company with a guarantee that it will earn its authorized revenue requirement in any given year but to provide the Company with a reasonable opportunity of earning that authorized revenue requirement. The Company's actual recovery will be determined pursuant to the annual Weather Mechanism rate proceeding as provided for in this

Stipulation. The Signatories agree with the implementation of the Weather Mechanism and concur that this pilot program will provide results to determine whether the program results in a reduction of revenue risk to NMGC. Such a result should, therefore, be reflected by a reduction in the Company's return on equity.

Operation of the Mechanism

The Signatories agree that the Weather Mechanism shall operate as a five-year pilot program and shall terminate at the end of the five-year period unless the Commission expressly approves otherwise. The Weather Mechanism shall also be subject to review in NMGC's next general rate case. Additionally, the Commission may, for good cause shown, after a hearing and issuance of an order, terminate the Weather Mechanism before the end of the five-year term upon the occurrence of unforeseen events.

The Weather Mechanism shall operate as described in the direct testimony of NMGC Witness Daniel P. Yardley and as described as follows:

- a.** the Weather Mechanism will use average heating degree days over the last ten (10) years to establish normal weather ("Normal Weather"), and that the initial Normal Weather amounts shall be set in this rate case and shall be reestablished in each of NMGC's successive rate cases going forward;
- b.** the following five National Oceanographic and Atmospheric Administration weather stations will be utilized to measure actual heating degree days: Albuquerque, Deming, Farmington, Roswell, and Santa Fe;
- c.** the Weather Mechanism will apply to the following two NMGC rate classes:
Rate 10, and Rate 54;

- d. consistent with NMSA 1978, Section 62-8-7(E), on June 30, 2019 the Company shall provide notice and opportunity for hearing to all persons on the official Certificate of Service in this case for the purpose of establishing the Weather Mechanism rate to be used over the twelve-month period beginning with Cycle 1 October, 2019;
- e. thereafter, for as long as the Weather Mechanism is in place, the Company shall, on June 30 of each year, provide similar notice and opportunity for hearing for the purpose of establishing the Weather Mechanism rate to be used over the twelve-month period beginning with Cycle 1 October of that year. With each annual June 30 filing, NMGC shall include testimony or an affidavit of a witness or witnesses in support of NMGC's Weather Mechanism rate. Any changes to the Weather Mechanism rate would only take effect after notice and opportunity for hearing and approval by the Commission or by operation of law.
- f. Mirroring the process for the Purchase Gas Adjustment Clause, NMGC shall have an independent accounting firm, paid for by NMGC, perform agreed-upon procedures related to the Company's annual June 30 Weather Mechanism filing with the Commission. NMGC shall work with Staff to develop the procedures to be performed by the independent accounting firm. If required, NMGC and Staff will provide written confirmation of their agreement to the agreed-upon procedures to be performed. Once completed,

NMGC shall file the independent accounting firm's agreed-upon procedures report with its annual June 30 Weather Mechanism filing each year.

- g.** Consistent with the “good cause” exception in NMSA 1978, Section 62-8-7(B), if no objection is filed with the Commission within fourteen days of the notice from the Company, the proposed Weather Mechanism Rate shall go into effect with Cycle 1 October that year. If objection is filed with the Commission within two weeks, the Signatories agree that a hearing should be held expeditiously, and preferably, within 30 days of the objection. The notices and hearings shall set the Weather Mechanism rate for the twelve-month period beginning with Cycle 1 October of that year.
- h.** As with the Company's filings under the Company's Purchase Gas Adjustment Clause, the Company shall file a statement with the Commission monthly reflecting its best estimate of the rate impact of the Weather Mechanism.
- i.** To the extent that the Weather Mechanism is not continued beyond the term of the pilot or is discontinued or replaced for any reason, the amount recorded in the Weather Normalization Adjustment Balancing Account as of the effective date of the termination or replacement of the Weather Mechanism shall be credited to customers or charged to customers through the Weather Mechanism.

Attached as Stipulation Exhibit No. 5 are the proposed tariffs reflecting the Weather Mechanism.

IV. INFORMATION REQUIRED BY THE PROCEDURAL ORDER

The Procedural Order issued on April 18, 2018 in this case by the Hearing Examiner requires that “any stipulation shall, at a minimum, identify the following cost of service components to apply following the issuance of a final order: 1) Depreciation rates; 2) Return on equity; 3) Tax unadjusted weighted average cost of capital; [and] 4) Annual amortization amount for each amortized item in the cost of service.”

Stipulation Exhibit No. 1 includes a Company-prepared illustrative cost of service with the following cost of service components:

- j.** Depreciation Rates - NMGC shall continue to use its current depreciation rates until they are changed in accordance with 17.3.340 NMAC;
- k.** Return on Equity (“ROE”) of 9.1% ;
- l.** Tax Unadjusted Weighted Average Cost of Capital (“WACC”) of 6.96%;
- m.** Annual Amortization Amounts will be derived the same as the amounts reflected in NMGC’s Application.

For the sole purpose of computing the illustrative cost of service in this case, the Company used a 9.1% ROE and a 6.96% WACC. None of Signatories are agreeing to a specific ROE or WACC in this Stipulation.

The Signatories agreed that this imputed ROE and WACC have no precedential value and are only used to compute the illustrative cost of service. The Signatories agreed that the imputed ROE and WACC, as well as the other reconciliation adjustments reflected in the illustrative cost of service were not used to determine, and have no impact on, the

Company's revenue requirement in this Stipulation. NMPRC Rule 1.2.2.20(D) NMAC states:

Precedential Effect. Unless the commission explicitly provides otherwise in the order approving the stipulation, approval of a stipulation does not constitute approval of or precedent regarding any principle or issue in the proceeding.

The purpose of the restriction in 1.2.2.20(D) NMAC is to recognize that stipulating parties do not necessarily agree on each individual issue in a case, but rather agree to the end result and that the stipulation is a fair resolution of the issues in the case.

The Stipulation is not opposed. No party filed any testimony in opposition to the Stipulation. The parties agreed that the Stipulation resulted from an arm's length good faith negotiation among the Joint Applicants and the other parties and that the Stipulation does not violate any important regulatory principle or practice.

V. TESTIMONY OF STAFF SUPPORTING THE STIPULATION

NMGC's original Application requested \$8 million in new revenues for the Company. During the hearing of the Stipulation, witness Ryan Shell stated, "In this (Stipulated) case we stipulated to \$2.5million, so well under 50% of the original ask."³ Additionally, the original Application requested the implementation of the following:

1. Increase in access fees for customers;
2. Implementation of an Integrated Management Program cost recovery mechanism;
3. Implementation of economic development rates.

³ September 24, 2018, Tr. P.6, 1.9-11.
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None of these proposals were incorporated in the Stipulation. As such, the Stipulation results in a significant decrease in rates to the customer, and eliminates requests for programs that would have affected customer rates.

Charles Gunter testified in support of the Stipulation for Staff. He stated he had done his own cost of service analysis and, “while I didn’t file direct testimony recommending a position, the adjustments I had identified at the time staff was engaging in settlement discussions was such that the \$2.5 million increase was only slightly above an amount I was likely to have recommended... and it would be phased in over two years. So in my opinion the agreed upon increase was likely better than could have been achieved through a litigated process.”⁴

Staff witness Elisha Leyba-Tercero submitted testimony regarding the design of base rates considering the stipulated revenue increase, and other rate design matters. She first testified regarding the allocated cost of service. Concerning specifically the residential and irrigation rate schedules, the study demonstrated that “the existing revenues for these two classes exceed their cost of service, so to some extent they were subsidizing other customer classes.”⁵ She therefore concludes that “the lower proportional increase to these classes is appropriate, as it will reduce the cost of subsidies among customer classes, which is a goal in designing rates.”⁶

⁴ Gunter Tr. P.53, 120-25; p.54, 1.1-8.

⁵ Leyba-Tercero Tr. P.58, 112-16.

⁶ Tr. P. 58, 116-19.

Ms. Leyba-Tercero also discusses the changes to Rate 11 Miscellaneous Fees and Charges of \$453,031, referring to the testimony of witness for the Company John M. Fernald. He testified, “Updates to miscellaneous fees and charges reflects changes for increases in base labor charges and adjustment to hours of service provided. This amount was derived from data in the books and records in the Company, and the adjustments for known and measureable changes.”⁷

Ms. Leyba-Tercero states the increases apply to the following service charges under Rate 11: turn on meter order fees; read-in meter order fees; technical service labor rates (hand tools only); construction and maintenance labor rates (using heavy machinery); additional charges for services requiring heavy machinery.⁸

It is important to note that a principle of rate design is that fees and charges should apply to the customer groups that incur them. In this case, Leyba-Tercero states, “these fees and charges are not relevant to the majority of NMGS’s customers, and therefore the costs of the services should be paid by the customers who cause the company to incur them.”⁹

Ms. Leyba-Tercero also notes that NMGC does not financially benefit from these charges because the company deducts the anticipated revenues generated from Rate 11 from the company test period revenue requirement.¹⁰

Staff witness Heidi Pitts, Ph.D. testified in support of the Weather Normalization Mechanism. As previously detailed, this is a five year pilot program that will automatically

⁷ Fernald Direct Testimony, p.16.

⁸ Leyba-Tercero testimony, p.6-7.

⁹ Testimony in support of stipulation, p.7

¹⁰ Tr. P.60.

cease at the end of five years, absent Commission approval to continue, or if the Commission decides to end the program for any just cause following a hearing.

Staff is supporting a normalization rider in this case but has not supported similar mechanisms requested by electric utilities. Dr. Pitts explained, “gas distribution utilities face a different type of risk, because their revenues are more weather sensitive, weather dependant, because they move gas to customers for end use...for this particular utility with residential and small general service for heating related issues. Weather has been warming resulting in the company is more susceptible to weather impact.”¹¹ She further testified, “...because this is a pilot program, it is worthwhile, in our opinion, to see if this stabilizes revenues and mitigates the impact of warming weather. At the end of five years, there will be data to review and, “all parties and the Commission can weigh in on any impact.”¹²

Dr. Pitts was asked to explain the two types of weather normalization mechanisms that have been developed. Dr. Pitts stated that, “the Type 1 method tracks individual usage, while Type 2 is per therm usage applicable to everyone in a rate class, resulting in a charge or credit per rate class.”¹³ From an administrative standpoint Dr. Pitts stated, the Company felt the individual usage would be cumbersome to implement, and less understandable to the end user. Finally, Dr. Pitts states that, the Staff will be watching to see if, “this does help them [the Company] to stabilize their revenues and, therefore, should be reflected in a lower ROE in future rate cases.”¹⁴

¹¹ Tr. P.66.

¹² Tr. P.67.

¹³ Tr. P.68.

¹⁴ Tr. P.70.

Timothy A. Martinez testified on behalf of Staff regarding whether the stipulation meets the standards for consideration of stipulations as detailed in Rule 1.2.2.20 NMAC, and criteria applied by the Commission. He testified that the Settlement meets all of the requirements for it to be approved by the Commission. He testified that:

1. All parties engaged in serious discussions and were capable, knowledgeable parties.¹⁵
2. The Stipulation as a whole benefits NMGC, customers and the public interest. For the Company, the Stipulation provides a modest increase in base rates to NMGC and an increase in miscellaneous charges. The Stipulation permits the five-year pilot program for weather normalization which will be studied to determine if the program stabilizes Company rates and contributes to the decrease in risk.¹⁶
3. The Stipulation as a whole provides a limited rate increase to customers in two phases, and the first increase will not take effect until January 1, 2021. The Company agreed to forego approval of the proposed Integrity Management Cost Recovery Mechanism. Customers will commence receiving benefits from the federal tax reduction from the TCJA.¹⁷
4. The Stipulation as a whole does not violate any important regulatory principle or practice.

¹⁵ Martinez testimony in support of stipulation, p.9.

¹⁶ Testimony, p.9.

¹⁷ Testimony, p.10.

5. The Stipulation is a fair and reasonable resolution to the many issues submitted in the case by NMGC. The Stipulation provides a resolution to many issues and provides benefits to both the Company and customers. Staff believes the Stipulation is in the public interest and should be approved by the Commission.¹⁸

VI. TESTIMONY OF THE ATTORNEY GENERAL

SUPPORTING STIPULATION

Andrea Crane, the NMAG consultant, provided Direct Testimony and Testimony in support of the Stipulation. Ms. Crane concurs with the testimony of the Company and Staff, and further discusses just and reasonable rates. Ms. Crane states that the Stipulation will result in just and reasonable rates. “A monthly increase of \$0.07 per residential customer and an additional \$0.08 increase the following year results in an increase of \$0.15 per month. Small commercial customers will also experience only a modest increase in their customer charges. Volumetric rates for residential and small commercial customers will remain unchanged. In addition, these modest increases...will provide additional rate stability to NMGC.”¹⁹

Regarding the Weather Normalization Mechanism, Ms. Crane states, “I have opposed single-mechanisms that attempt to compensate utilities between base rate cases. Nevertheless, I do recognize the impact weather can have on a natural gas utility and its earnings variability.”²⁰

¹⁸ Testimony, p. 10.

¹⁹ Crane testimony in support of stipulation, p.10.

²⁰ Crane Testimony, p.11.

She further concludes that the WNA mechanism, together with the other provisions of the Stipulation, provide a reasonable balance in this case. As such she states: “It is important to recognize that the WNA mechanism is a pilot program with a term of five years”²¹and is subject to review in the Company’s next base rate case.

Ms. Crane also concurs that the Stipulation is in the public interest and recommends that the Commission approve the Stipulation.

VII. ANALYSIS

All parties to this case participated in the negotiation of this Stipulation. NMGC, the Attorney General, PRC Staff, DOE/NNSA/FEA, and NMIEC are all signatories to the Stipulation. The City of Albuquerque, the County of Los Alamos, and SPS take no position but do not object to the Stipulation. All of the Intervenors are knowledgeable and have expert understanding of the issues contained in the Application and the Stipulation. There were no public written or verbal comments entered in the record of this matter.

The fundamentals of the Stipulation are supported by all signatories and not objected to by the remaining parties. The revenue increase of \$2.5 million is substantially lower than the Application requested and results in an increase of approximately 1.4% phased in over two years. Additionally, the agreed- to- rates have recognized a slight disparity in cost of service to several rate classes and lowered the rates for residential and irrigation classes.

²¹ Crane testimony, p.11.
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The WNA has been agreed to as a pilot program that will provide data useful to the Commission and other natural gas utilities. As previously detailed, there are safeguards built into the program, and, as detailed, the parties have agreed to a specific five- year- term for the mechanism. However, it is important to note that the program may be reviewed annually. NMGC will file with the Commission the independent accounting firm's report regarding the procedures in place in the pilot program, and the cost of the report will be paid for by the NMGC. The elements of the Stipulation meet the requirements of 1.2.2.20(A) NMAC and have been found to be in the public interest.

VIII. FINDINGS OF FACT AND CONCLUSIONS OF LAW

The Hearing Examiner recommends that the Commission **FIND** and **CONCLUDE** as follows:

1. All findings and conclusions in Sections I through VII of this Certification of Stipulation are incorporated into this Section as findings and conclusions.
2. NMGC is a public utility subject to regulation by the Commission under the Public Utility Act.
3. The Commission has jurisdiction over the parties and the subject matter of this case.
4. Reasonable, proper, and adequate notice of this case has been given.
5. The proposed Stipulation, subject to the conditions, commitments and representations contained therein and elsewhere in the record, is not inconsistent with the public interest or unlawful.

6. The Stipulation is fair, just, and reasonable and in the public interest, and there were no objections to the terms therein.

7. The revenue increase agreed to of \$2.5 million implemented over a two-year period is reasonable and consistent with NMCG and with the public interest.

8. The proxy cost of service was agreed to by the signatories and resulted in a decrease to the residential and irrigation classes, as it was determined there was a disparity in the allocation of rates to those classes.

9. The Weather Normalization Mechanism pilot has been supported by the parties, and is intended to address fluctuations in recent weather heating seasons that have affected gas utility customer bills and utility revenue recoveries. The Signatories have agreed to various required reviews and filings by the Company. The pilot has a specific sunset date; thus for good cause, and after a hearing, the Commission may discontinue the pilot at any time.

10. The signatories agreed the approval of the cancellation of two rate schedules should be cancelled because they were no longer being used: NMGC Original Rate No. 1-2, NTUA Transportation Charge (Rate Rider No. 2) should no longer be in effect. Rate Rider 7 does not have any customers and has not had any customers for many years, making the rate rider no longer necessary and should be eliminated.

11. Wording changes to the following rates were agreed to in the Stipulation, including new language and renaming the rates as revised as follows: Second Revised Rate No. 31, Second Revised Rate No. 35, Second Revised Rate No. 54, Second Revised Rate No. 56, and Second Revised Rate No. 58. These changes should be approved.

12. Approval of all provisions of NMGC's Stipulation is in the public interest.

IX. DECRETAL PARAGRAPHS

The Hearing Examiner recommends that the Commission **ORDER** as follows:

A. The Stipulation is approved, adopted, and replaces in its entirety the original Application of NMGC.

B. The Weather Normalization Adjustment Pilot, subject to the conditions, commitments, and representations contained in the Stipulation and elsewhere in the record, is approved.

C. NMGC's requested revenue increase of \$2.5 million to be phased in over a two-year period is reasonable and in the public interest and is approved.

D. Nothing contained herein shall be considered a determination of precedent by the Commission of the proxy values included to produce the cost of service agreed to in the Stipulation.

E. NMGC is authorized to use actuarial reports for annual review of the WNA Pilot. All costs thereto shall be assumed by NMGC.

F. NMGC Original Rate No. 1-2, NTUA Transportation Charge (Rate Rider No. 2 and Rate Rider No. 7) do not have any customers and have not had any customers for many years and are eliminated.

G. The wording changes to the following rates agreed to in the Stipulation are approved: Second Revised Rate No. 31, Second Revised Rate No. 35, Second Revised Rate No. 54, Second Revised Rate No. 56, and Second Revised Rate No. 58.

H. Any suggested corrections to the Transcript are adopted to the extent that they correct errors in transcription by the court reporters.

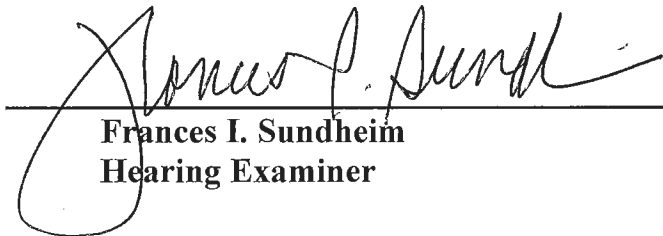
I. Any matter or issue not specifically ruled on during the hearing or in this Final Order is disposed of consistent with this Final Order.

J. This Order is effective immediately.

K. This docket is closed.

Issued at Santa Fe, New Mexico on **April 8, 2019**

NEW MEXICO PUBLIC REGULATION COMMISSION



Frances I. Sundheim
Hearing Examiner

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION OF)
NEW MEXICO GAS COMPANY, INC. FOR)
REVISIONS TO ITS RATES, RULES, AND)
CHARGES PURSUANT TO ADVICE NOTICE)
NOS. 70 AND 71.)

Case No. 18-00038-UT

NEW MEXICO GAS COMPANY, INC.)
APPLICANT)
_____)

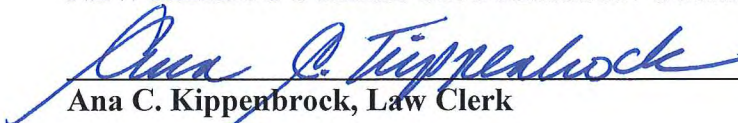
CERTIFICATE OF SERVICE

I CERTIFY that on this day I sent to the individuals listed below, via email only, a true and correct copy of the **PHASE I CERTIFICATION OF STIPULATION**.

Clyde F. Worthen	cfw@keleher-law.com ;	Mario Contreras	Mario.a.contreras@xcelenergy.com ;
Brian Haverly	bjh@keleher-law.com ;	Ruth Sakya	Ruth.sakya@xcelenergy.com ;
Thomas Domme	thomas.domme@nmgco.com ;	Rishi Garg	rishi.garg@hq.doe.gov ;
Rebecca Carter	Rebecca.carter@nmgco.com ;	Matthew Zogby	Matthew.Zogby@hq.doe.gov ;
Nicole Strauser	Nicole.strauser@nmgco.com ;	Saul J. Ramos	Saul.Ramos@nnsa.doe.gov ;
Sunny Nixon	snixon@rodey.com ;	Ronald (R.J.) Coldwell	Ronald.Colwell@hq.doe.gov ;
Peter Gould	pgouldlaw@gmail.com ;	Dwight D. Estheridge	detheridge@exeterassociates.com ;
Richard C. Mertz	rcmertz7@outlook.com ;	Felipe A. Salcedo	fsalcedo@exeterassociates.com ;
James Dauphinais	jdauphinais@consultbai.com ;	Jane L. Yee	jyee@cabq.gov ;
Cholla Khoury	ckhoury@nmag.gov ;	Edward Montoya	eamontoya@cabq.gov ;
Anne E. Minard	aminard@nmag.gov ;	Tony A. Gurule	Tgurule@cabq.gov ;
Robert F. Lundin	rlundin@nmag.gov ;	Saif Isamil	sismail@cabq.gov ;
Elaine Heltman	Eheltman@nmag.gov ;	Charles Gunter	charles.gunter@state.nm.us ;
Andrea Crane	ctcolumbia@aol.com ;	Elisha Leyba-Tercero	Elisha.Leyba-Tercero@state.nm.us ;
Douglas Gegax	dgegax@nmsu.edu ;	John Reynolds	john.reynolds@state.nm.us ;
Tim Glasco	Ta.glasco@lacnm.us ;	Timothy Martinez	timothy.martinez@state.nm.us ;
Daniel A. Najjar	dnajjar@virtuelaw.com ;	Cydney Beadles	Cydney.beadles@state.nm.us ;
Jeffrey L. Fonaciari	jfonaciari@hinklelawfirm.com ;	Bradford Borman	Bradford.borman@state.nm.us ;
Stephen Fogel	stephen.e.fogel@xcelenergy.com ;	Michael Smith	Michaelc.smith@state.nm.us ;
Dana S. Hardy	dhardy@hinklelawfirm.com ;		
William A. Grant	william.a.grant@xcelenergy.com ;		
Evan D. Evans	evan.d.evans@xcelenergy.com ;		

DATED on April 8, 2019.

NEW MEXICO PUBLIC REGULATION COMMISSION



Ana C. Kippenbrock, Law Clerk