

## Rate Case Executive Summary NMPRC Case No. 19-00317-UT

New Mexico Gas Company, Inc. (“NMGC”) is filing this rate case to recover costs associated with the significant capital investments in its system.

- Between September 2017 and December 2021, NMGC will have invested approximately \$400 million on improving, expanding, and maintaining its 12,200 miles of pipelines and related infrastructure throughout the state of New Mexico.
- Primarily as a result of these capital investments, NMGC is requesting a \$13.23 million increase in annual base revenues.
- If this request is approved:
  - It is anticipated that new rates would go into effect in January 2021.
  - As before, NMGC will continue to charge its customers for the cost of the services we provide in delivering gas. The cost of the gas itself appears on the bill as a pass through to customers without markup by NMGC.
  - An average residential bill of 50 therms will increase by approximately \$1.71 from \$40.61 to \$42.32: a 4.2% bill increase. Included in this would be an increase in the residential customer access fee from \$11.65 to \$12.70.
  - The average NMGC residential bill for services provided by NMGC would remain among the lowest in the region, having increased on average only 1.95% annually between 2009 and 2021.
- NMGC has worked to contain its operating expenses while maintaining excellent service levels. NMGC continues to work to control these costs and NMGC and our customers benefit from using a shared services company to economically provide certain high-quality back-office services to our customers. Operations and maintenance cost increases make up only a small part of the revenue request in this rate case.

**Business Background:** NMGC currently employs 700 employees and serves approximately 530,000 customers with 26 offices throughout New Mexico. NMGC is locally managed, is headquartered in Albuquerque, and operates under a Board of Directors – a majority of which are New Mexicans.

NMGC is a “heating load” utility meaning that over 90% of our customers are residents and businesses in New Mexico that rely on us to provide natural gas to heat their living and working

## NMGC System and Service Areas



spaces, heat their water, dry their clothes, and cook their food. The remainder of our customers are businesses that use natural gas for commercial and industrial needs such as roasting chiles and mixing asphalt for our roads.

NMGC is a “distribution utility” meaning that our business is the delivery of natural gas purchased from third parties – NMGC does not explore for or produce natural gas. NMGC’s business is seasonal, with the bulk of our revenues and earnings realized during the winter heating season: October through April.

**Capital Investment:** The key driver for filing this rate case at this time is the need to recover costs associated with our capital investments in the

following important projects, programs, and initiatives undertaken to better serve our customers:

- Looping of the “Santa Fe Mainline” between Bernalillo and Santa Fe to maintain and enhance reliability of service to north central New Mexico including the cities of Santa Fe, Los Alamos, Espanola, Taos, Questa, Red River and surrounding towns and Pueblos.
- Construction of the “Malaga” pipeline in the Permian Basin near Loving to enhance gas supply to our system from the Permian Basin, facilitate the production of natural gas in the state, and help alleviate the flaring or venting of natural gas during its production in the Permian Basin.
- Ongoing investment in our annual capital investment program to maintain, improve, and enhance our system throughout the state.
- Ongoing investment in our integrity management programs and projects throughout the state driven both by increased federal regulation and our own self-initiated programs to enhance and improve the integrity, safety and reliability of our system.
- Investment in Information Technology and Telecommunication projects and programs to enhance the Company’s computer system reliability with an emphasis in cyber security and business functionality.

- Investment in new initiatives to reduce Green House Gas (“GHG”) emissions associated with our system to help New Mexico meet its declared goal of reducing GHG emissions in the state. NMGC’s goal is to reduce GHG emissions associated with our system while continuing to provide cost effective natural gas service to our customers. These initiatives include investment in compressed natural gas (“CNG”) stations to serve the state’s governmental and business transportation needs; investment in solar at NMGC owned facilities throughout the state; and repair and replacement programs at our pipeline and related facilities. Through these initiatives, NMGC is working to be part of the state’s initiatives to reduce GHG emissions throughout the state.
- Acquisition of NMGC’s headquarters building in Albuquerque which recently became available for purchase. This building houses most of our back-office employees and services. For the last 10 years we have leased this building, and this acquisition will benefit NMGC’s customers, and ownership of our own facility will allow us to make it better serve our needs.

**Rate Design:** NMGC is proposing modifications to our rate design to better balance our fixed and variable rate charges and to update and improve our rate structure to allow us to better serve our customers and efficiently recover our costs and expenses. Also, in this case, NMGC is proposing the following two specific changes to rates:

- Adoption of an Integrity Management Cost Recovery Mechanism: A portion of NMGC’s annual investments on infrastructure is for “integrity management programs” which includes the replacement and upgrading of legacy systems that are better and safer when updated or replaced. NMGC is already undertaking these programs and is simply proposing a method of recovering these investments annually to promote better planning and budgeting by NMGC, and better communication with the regulators overseeing these programs. These types of recovery mechanisms are commonly used throughout the country for all these reasons.
- Modification of NMGC’s CNG Rate: NMGC is proposing a modification to our Compressed Natural Gas Rate to facilitate the development of CNG stations and the use of CNG by municipal or truck fleets in various parts of the state. Fleet use of CNG for large trucks is environmentally smart and economically prudent, and we are hoping our modified rate will promote the use of CNG by cities and business throughout the state.

**Return on Equity:** The requested revenue increase would provide a fair and reasonable return on equity of 10.2% which would enable NMGC to continue to attract financing capital on reasonable terms, as well as bring NMGC’s actual ROE more in line with other natural gas utilities.