

NEW MEXICO GAS COMPANY

FIRST REVISED RULE NO. 28
CANCELLING ORIGINAL RULE NO. 28

BALANCING
(x)

I. PURPOSE

This Rule sets forth the procedures to address Imbalance management. When the amount of Gas tendered by a Transportation Customer is unequal to the amount of Gas consumed by its End-users plus Transport Fuel over the course of a Gas Day, an Imbalance results.

II. POLICY

It is the Company's policy that Imbalances be managed to prevent adverse impacts to system reliability and to avoid cost subsidization between Sales Customers and Transportation Customers. Under the terms of the Standard Transportation Contract (the "Contract") Transportation Customers are required to use diligent efforts to match Gas supply with Gas consumption daily.

III. DEFINITIONS

Capitalized terms used but not defined herein shall have the respective meaning assigned in the Contract and the regulations of the NMPRC. Capitalized terms defined below shall have the following meaning:

1. Cash-Out - the payment by the Transportation Customer or the Company for a Contract Imbalance resulting from an Over-Delivery or an Under-Delivery during a specified period on a monthly basis calculated in accordance with Table 1 of this Rule.
2. Critical Condition Penalty - during periods of a Critical System Conditions ("CSC") Event, the Company in its CSC Event may impose a financial penalty to be paid by Transportation Customers whose Daily Imbalance exceeds tolerances established in Table 2. The penalty shall be calculated in accordance with Table 2 of this Rule.
3. Critical Condition Rate - the price per MMBtu by which penalties associated with periods of a CSC Event are determined. The rate shall be established from information posted in the Daily Price Survey of the Platts Gas Daily publication corresponding to the period a CSC Event is in effect. For Northwest System Transportation Contracts, the applicable Critical Condition Rate shall be the MidPoint El Paso, San Juan. For Southeast System Transportation Contracts, the applicable Critical Condition Rate shall be the MidPoint El Paso, Permian. For Remote System Transportation Contracts, the Critical Condition Rate shall be the average of the Northwest System and Southeast System Critical Condition Rates. In the event Platts Gas-Daily is no longer published or changes its format, another similar nationally recognized report shall be used to determine common prices.
4. Daily Imbalance - is the sum of imbalances for Daily Meters and Monthly Meters within the same Contract occurring over a Gas Day. The component for Daily Meters shall be calculated as the difference between the sums of the Daily Meters scheduled quantities and the sum of the Daily Meters delivered quantities on a Gas Day. The component for Monthly Meters shall be calculated as the difference between the sum of the Monthly Meters Nominated quantities and the sum of the Monthly Meters Scheduled quantities on a Gas Day.

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Advice Notice No. 55

Rebecca Carter
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Director, Legal and Regulatory Affairs

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5. Daily Meter - an End-User meter with telemetry and the capability to communicate Gas volumes used on a daily basis.

6. Monthly Cash-out Price - the price per MMBtu by which Monthly Imbalance Cash-outs are determined. The price shall be calculated from information posted in the Daily Price Survey of the Platts Gas Daily publication. An average of the applicable daily MidPoint price shall be calculated over the Month the Imbalance occurs. For Northwest System Transportation Contracts, the applicable daily MidPoint price shall be El Paso, San Juan. For Southeast System Transportation Contracts, the applicable daily MidPoint price shall be El Paso, Permian. For Remote System Transportation Contracts, the Monthly Cash-out Price shall be the average of the Northwest System and Southeast System Monthly Cash-out Prices. In the event Platts Gas Daily is no longer published or changes its format, another similar nationally recognized report shall be used to determine common prices.

7. Monthly Imbalance - the quantity of Gas at the end of any Month Tendered by the Transportation Customer to the Company that does not equal the quantity of Gas delivered by the Company to the End-User(s) that Month, as adjusted for Transport Fuel.

8. Monthly Meter - an End-User meter that is without telemetry and typically read on a monthly cycle basis.

9. Notices Warnings and Events:

- a. System Condition Notice- is a notice issued by the Company that anticipated conditions exist which, may adversely impact System reliability, safe operations, or cause other End Users to be adversely affected. Notice that is anticipatory in nature that identifies a potential issue the Company believes may have an impact on system reliability.
- b. Strained System Condition Warning ("SSC Warning") - a warning that the system has reached a strained condition and instructing Transportation Customers to have a daily Imbalance no greater than 10%.
- c. Critical System Condition Event ("CSC Event") - a notice issued by the Company that conditions presently exist that adversely impact System reliability, safe operations, or causes an adverse impact on other End-Users, instructing Transportation Customers to balance daily or be assessed penalties

10. Over-Delivery Imbalance - the quantity of Gas Tendered by the Transportation Customers to the Company, as adjusted for Transport Fuel, that is greater than the quantity of Gas delivered by the Company to the End-User(s) during a specified period.

11. Under-Delivery Imbalance - the quantity of Gas that is Tendered by the Transportation Customer to the Company, as adjusted for Transport Fuel, that is less than the quantity of Gas delivered by the Company to the End-User(s) during a specified period.

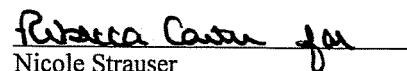
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IV. MONTHLY IMBALANCE CASH-OUT

Monthly Imbalances shall be totaled through the last day of the Month and Cashed-out, unless otherwise agreed to by the Company. Cash-out calculations shall be performed in accordance with Table 1 of this Rule.

Table 1 – Monthly Cash-Out Calculation

Over-Delivery Monthly Imbalance as a percent of total Gas Tendered, adjusted for Transportation Fuel during the Month.

>0% to 10%	Monthly Imbalance	x	Monthly Cash-out Price		
≥10% to <20%	Monthly Imbalance	x	Monthly Cash-Out Price	x	.85
≥20	Monthly Imbalance	x	Monthly Cash-Out Price	x	.65

Under-Delivery Monthly Imbalance as a percent of total Gas Tendered, adjusted for Transportation Fuel during the Monthly.

>0% to 10%	Monthly Imbalance	x	Monthly Cash-out Price		
≥10% to <20%	Monthly Imbalance	x	Monthly Cash-Out Price	x	1.3
≥20	Monthly Imbalance	x	Monthly Cash-Out Price	x	1.5

V. SYSTEM CONDITION NOTICES, SSC WARNINGS AND CSC EVENTS

In order to maintain system reliability the Company provides the following Notices, Warnings or Events:

- System Condition Notice
- SSC Warning
- CSC Event

If anticipated or actual conditions arise which may require additional actions of the Transportation Customer, a System Condition Notice would be issued informing Transportation Customers of the situation causing the notice to be issued.

The Company may issue a System Condition Notice when it determines actual or anticipated System conditions may potentially adversely impact System reliability, safe operations, or cause other End-Users to be adversely affected. A System Condition Notice may address less severe current circumstances than an SSC Warning or CSC Event and may be purely anticipatory in nature. It is intended to advise Transportation Customers of existing or possible conditions that require additional actions. To the extent reasonably practicable, the Company shall issue a System Condition Notice and/or an SSC Warning prior to declaring a CSC Event.

Examples of severe operational conditions which could lead to the issuance of a System Condition Notice include, but are not limited to, (1) when extreme weather conditions develop or (2) when line pack exceeds (above or below) operational tolerances.

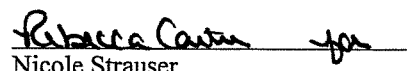
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A System Condition Notice may be issued in advance of a storm, and request Transportation Customer to take preparatory actions to ensure balance between supply and usage. A System Condition Notice is notice for Transportation Customers that an SSC Warning or a CSC Event may be issued.

Typically, the Company will issue a System Condition Notice then an SSC Warning followed by a CSC Event. However, the Company is not required to issue these Notices, Warnings, or Events in any particular sequence or order.

An SSC Warning or CSC Event may follow or even precede a System Condition Notice depending on the severity of the situation and the speed with which action is required to maintain system safety, reliability and integrity by the Company and Transportation Customers.

An SSC Warning or a CSC Event will contain the following information – at a minimum:

1. The nature of the problem and the reason for the issuance of the SSC Warning or CSC Event;
2. The starting time and anticipated duration of the SSC Warning or CSC Event;
3. The area of the Company system for which the SSC Warning or CSC Event is applicable, i.e. System-wide, Segment(s) of the Company's System, specific Point(s), or specific Transportation Customer(s); and
4. The actions required of the Transportation Customer(s) during the SSC Warning or CSC Event including Daily Imbalance management and special supply Delivery requirements.

An SSC Warning or CSC Event will remain in effect until withdrawn by the Company, or until it expires by the terms in the applicable SSC Warning or CSC Event. In the event a CSC Event specifies pack scenarios, no imbalance penalty will be assessed for any under-delivery or if such notice specifies draft scenarios, no Imbalance penalty will be assessed for any over-delivery. The Company may only impose a Critical System Conditions Penalty for any Daily Imbalances stated in CSC Event notice. Daily Imbalances in the opposite direction of the CSC Event will be treated as a monthly Imbalance. Emergency Gas Service will not be charged during periods when a CSC Event is in effect. SSC Warnings and CSC Events do not replace or supersede System Emergency, Curtailment and Interruption, or Allocation notices as specified in the Company's Rule No. 21.

SSC Warnings and CSC Events shall advise Transportation Customers to match the quantities of Gas to be delivered to the quantities expected to be consumed by their End-Users, while also providing the ability to over deliver or under deliver without penalty, as provided in the notice. Any such over or under deliveries in compliance with a CSC Event notice shall not be subject to any daily Imbalance penalties.

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VI. CRITICAL SYSTEM CONDITION EVENT PENALTY CALCULATION

The Critical Condition Penalty shall be calculated in accordance with Table 2 of this Rule.

Table 2 – Critical System Condition Event Calculation

When a CSC Event is in effect, the following penalty calculation will apply to any Daily Imbalance.

Under Delivery	NMGC System Condition is in Low Line Pack "DRAFT"				
	Daily Imbalance	x	Critical Condition Rate	x	2.5
Over Delivery	NMGC System Condition is in High Line Pack "PACK"				
	Daily Imbalance	x	Critical Condition Rate	x	2.5

Penalties will not be assessed on a System Condition Notice or a SSC Warning, or during a CSC Event for Daily Imbalances of less than 3% or 500 MMBtus, whichever is greater.

Penalties will not be assessed for the Gas Day arising out of a System Condition Notice or SSC Warning, or during a CSC Event declared less than two hours prior to final intraday nomination as set forth in the Company's Form No. 38.

VII. ALLOCATION OF PENALTY COLLECTIONS

In the event NMGC declares a CSC Event, which results in penalties being collected, NMGC will calculate the Net Transportation Program Imbalance for each day the CSC Event is in effect. The Net Transportation Program Imbalance is the net of all Daily Imbalances incurred by Transportation Customers. Penalties collected will be shared on a pro rata basis between (1) all Transportation Customers who complied with the CSC Event and, if applicable, (2) the PGA. In no event shall the total of all Transportation Customer credits exceed the total of penalties collected.

The following examples illustrate the allocation of collected penalties:

Example 1: PGA Keeps Transportation Program Whole – PGA Shares in Penalty Collections

Step 1: Calculation of Net Transportation Program Imbalance

X = Total Net Daily Imbalance of Transportation Customers who complied with the CSC Event = 6,000 MMBtu

X1 = Individual Transportation Customer Daily Imbalance = 4,000 MMBtu

X2 = Individual Transportation Customer Daily Imbalance = 2,000 MMBtu

Y = Total Daily Imbalance of Transportation Customers who did not comply with the CSC Event = 10,000 MMBtu

Z= This results in a Net Transportation Program Imbalance of -4,000 MMBtu, which must be made whole by the PGA.

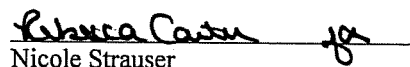
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PC = Penalty collections = \$75,000

Step 2: Calculation of Allocation of Penalty Collections

Therefore, PGA Credit Allocation: $Z \div Y * PC (4,000 \div 10,000) * \$75,000 = \$30,000$

Therefore, X1 Transportation Customer Credit Allocation: $(PC - PGA \text{ Credit Allocation}) * (X1/X) (\$75,000 - \$30,000) * (4,000 \div 6,000) = \$30,000$

X2 Transportation Customer Credit Allocation: $(PC - PGA \text{ Credit Allocation}) * (X2/X)$ Therefore, X2 Transportation Customer Credit = $(\$75,000 - \$30,000) * (2,000 \div 6,000) = \$15,000$.

Example 2: PGA Is Not Required to Keep Transportation Program Whole – PGA Does Not Share in Penalty Collections

Step 1: Calculation of Net Transportation Program Imbalance

X = Total Net Daily Imbalance of Transportation Customers who complied with the CSC Event = 20,000 MMBtu

X1 = Individual Transportation Customer Daily Imbalance = 15,000 MMBtu

X2 = Individual Transportation Customer Daily Imbalance = 5,000 MMBtu

Y = Total Daily Imbalance of Transportation Customers who did not comply with the CSC Event = 10,000 MMBtu

Z = This results in a Net Transportation Program Imbalance of +10,000 MMBtu

PC = Penalty collections = \$75,000

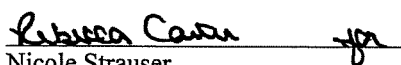
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Step 2: Calculation of Allocation of Penalty Collections

X1 Transportation Customer Credit Allocation: $PC * (X1/X) \$75,000 * (15,000 \div 20,000) = \$56,250$

X2 Transportation Customer Credit Allocation: $PC * (X2/X) \$75,000 * (5,000 \div 20,000) = \$18,750$

VIII. RETROACTIVE ADJUSTMENTS

In the event a Transportation Customer reasonably relies upon information provided by the Company and such reliance results in an Imbalance on either a daily or monthly basis, or both, the portion of the Imbalance which resulted from the Transportation Customer's reliance upon information provided by the Company shall not be subject to any penalties.

In the event that an act or omission by the Company or an event of force majeure as defined in the applicable Transportation Contract directly results in an Imbalance by a Transportation Customer on either a daily or monthly basis, or both, such Imbalance shall not be subject to any penalties, including those identified in this Rule.

IX. AGGREGATION OF METERS

Aggregation of meters by segment may be allowed under this Rule on a case-by-case basis.

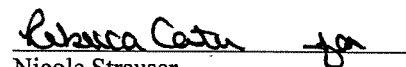
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