New Mexico GAS COMPANY®
AN EMERA COMPANY
A Natural Choice.

# Executive Summary
# New Mexico Gas Company Inc.'s 2023 Rate Case
# NMPRC Case No. 23-00255-UT

New Mexico Gas Company ("NMGC") serves over 545,000 customers throughout New Mexico. This translates into serving over 1.3 million individuals throughout the State. Approximately ninety-nine percent of our customer base is made up of residential and small business customers that rely on us primarily to provide natural gas to heat their homes and businesses. Our residential and business customers also use natural gas to heat water and to cook. In addition, many of our business and industrial customers rely on us to provide natural gas for any number of commercial and industrial needs including roasting chiles, mixing asphalt for our roads, making products, and generating electricity.

NMGC is headquartered in Albuquerque and has 26 offices throughout the state. We operate with local management under a 9-member Board of Directors – six of whom are independent directors living and working in New Mexico. Our business is the delivery, not the production, of natural gas. As a distribution utility, we purchase natural gas from suppliers, as cost-effectively as we can, and pass the cost of the natural gas we purchase on to our customers without markup. We charge our customers for the cost of providing our distribution service.

When NMGC's rates no longer cover the costs of providing service to our customers, a revenue deficiency results, and we must request a rate increase from the New Mexico Public Regulation Commission ("NMPRC"). As described below, we are filing this rate case to recover additional capital investments in our system and in our operations, and to recover increasing operating expenses. The investments we have already made and plan to make in our system, and the costs we incur in serving our customers, allow us to meet our prime objective of ensuring a safe, reliable system, and better serving our customers. The investments and operating costs we are seeking to recover in this rate case include:

**Capital Investments by the Company:** NMGC is seeking recovery of approximately $278 million of additional capital investments. Some of these investments include:

- Continuing investment in the Company's 12,400 miles of pipelines and related infrastructure, which includes upgrades and improvements to ensure safe and uninterrupted delivery of natural gas to customers.

- Continuing investment in the Company's Integrity Management Program, which ensures compliance with expanding federal and state regulations as well as our own self-directed goals. These investments include additional testing and replacement of pipelines, thoroughly inspecting areas where our pipelines are close to other underground infrastructure, and replacing equipment consistent with industry standards for safety and reliability.

- Continuing investment in information technology, including the replacement of an aging Customer Information System. Other IT spending priorities are around cyber security, business functionality, and improved customer experience.

- Ongoing investment in new technology and equipment to track and access key data related to the operation of our pipelines, including detection and repair of leaks, all as part of our continuing effort to reduce Greenhouse Gas emissions from Company operations.

  As well, the Company is also investing in research and development to determine the potential benefits and feasibility of hydrogen blending in New Mexico, and the possible development of renewable natural gas in our State. But no costs for these initiatives are included in this rate case; this is currently being paid from a research and development fund created and entirely funded by NMGC's owner, Emera Inc.

**Ongoing Operating Costs Incurred by the Company:** NMGC works diligently to control operating costs, but, like other businesses, is facing higher costs for many goods and services. These include inflation, a challenging labor market, and increasing regulatory demands on the natural gas industry – both state and federal. A key driver in higher operating costs is retaining and attracting employees. When NMGC became a stand-alone company in July 2009, we had 765 employee positions. We currently have 790 positions, but continue to experience a high number of vacancies because of an extremely competitive labor market. We are therefore investing to meet ongoing labor market challenges to fill existing vacancies and retain our talented and committed workforce.

**Regulatory Assets and Liabilities:** This rate case includes requests for establishing several regulatory assets and liabilities which allows NMGC to spread the costs over time and to return recovered funds to customers over time.

**Other Significant Aspects of this Case Include:**

The Company's request seeks to recover a $48.97 million revenue deficiency, a 10.5% return on equity and, a 53%/47% capital structure.

NMGC has separate rates for each of its classes of customers including residential and commercial customers, among others. In this rate case, we are proposing updates to most of our rate classes. Bills for residential customers, our largest class, consist of two primary components: a charge for our service, and a pass-through of the commodity (natural gas) charge. This rate case does not affect the gas cost portion of a bill, only the service-charge portion of the bill. The service-charge portion of the bill consists of a fixed access fee to help pay our fixed costs of providing service, and a volumetric charge based on usage. We are proposing increases in both elements of a residential bill. The monthly residential fixed access charge would increase from $12.40 to $15.50 which will slightly improve the match of the fixed access charge with our actual fixed costs.

New rates would not take effect until October 2024, after a thorough review before the New Mexico Public Regulation Commission. For a residential customer using an average of 53 therms per month, the monthly increase would be $6.71 a month. This would be 11.2% higher than an average residential total bill under current rates. Customers in other rate classes would see increases on their bills.