

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF NEW MEXICO GAS COMPANY, INC.)
FOR APPROVAL OF REVISIONS TO ITS)
RATES, RULES, AND CHARGES PURSUANT)
TO ADVICE NOTICE NO. 96)
NEW MEXICO GAS COMPANY, INC.)
Applicant.)**

Case No. 23-00255-UT

DIRECT TESTIMONY AND EXHIBITS

OF

ERIK C. BUCHANAN

September 14, 2023

**DIRECT TESTIMONY OF
ERIK C. BUCHANAN
NMPRC CASE NO. 23-00255-UT**

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Erik C. Buchanan. I am the Vice President of Finance for New Mexico Gas Company, Inc. (“NMGC” or the “Company”). My business address is 7120 Wyoming Boulevard, NE, Suite 20, Albuquerque, New Mexico 87109.

Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS VICE PRESIDENT OF FINANCE.

A. I am responsible for the financial operations of NMGC, including the accounting, financial reporting, tax compliance, budgeting, cost of service, financial planning and treasury functions. Additionally, I am responsible for developing the Company’s revenue requirement in this filing. I also sponsor the various Schedules required to be submitted with this filing pursuant to 17.10.630 NMAC (“Rule 630”).

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I have a Bachelor of Business Administration degree from the University of New Mexico, and I am a Certified Public Accountant. I have summarized my educational background and professional experiences in NMGC Exhibit ECB-1.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION (“NMPRC OR THE “COMMISSION”)?

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1 **A.** Yes, I included my prior testimony information in NMGC Exhibit ECB-1.

2
3 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
4 **PROCEEDING?**

5 **A.** The purpose of my Direct Testimony is to

- 6 1. Discuss the financial reasons for the rate case;
- 7 2. Present the Company's weighted average cost of capital ("WACC") for the Future
8 Test Year for this case, October 1, 2024 through September 30, 2025 ("Future Test
9 Year");
- 10 3. Support the recovery of certain rate case expenses the Company has incurred in
11 relation to this rate case filing;
- 12 4. Provide the details of and justification for the regulatory assets and liabilities the
13 Company is seeking to recover and refund in this filing;
- 14 5. Describe the components that make up NMGC's Future Test Year cost of service
15 model ("Model"), including how to use the Model. I also identify where and why
16 non-fully functional data was used within the Model.
- 17 6. Provide NMGC's cost of service ("COS") during the Base Period, Linkage Periods,
18 and Future Test Year. I provide the inputs to the Model starting with the
19 adjustments to the Base Period, then discuss the information in the Linkage Periods,
20 and finally the basis for the Future Test Year revenue requirement.
- 21 7. Using the Model and COS, I develop the revenue requirement in this case.

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1 **Q. ARE YOU TESTIFYING TO THE COMPANY’S FINANCIAL DATA**
2 **CONTAINED IN THE MODEL?**

3 **A.** Yes. My testimony also discusses the operation of the Model and the ultimate revenue
4 deficiency as shown in the Model.

6 **Q. ARE YOU SPONSORING ANY SCHEDULES REQUIRED BY RULE 630?**

7 **A.** Yes, I am sponsoring several Rule 630 Schedules, as listed in NMGC Exhibit ECB-2.
8 NMGC Exhibit ECB-2 identifies the Rule 630 Schedules that I am sponsoring and is also
9 a comprehensive list of all the Rule 630 Schedules filed in this case. Certain of these
10 schedules are included as part of the fully functional Model and are therefore in executable
11 electronic format. NMGC Exhibit ECB-2 notes the format, as well as the sponsor, of each
12 Rule 630 Schedule.

14 **Q. HAS NMGC PROVIDED OPERATING RESULTS AND FINANCIAL DATA**
15 **THAT ARE PREPARED IN THE NORMAL COURSE OF BUSINESS FOR THE**
16 **THREE YEARS PRECEDING THE BASE PERIOD, AS REQUIRED BY 17.1.3.13**
17 **NMAC?**

18 **A.** Yes, NMGC files its FERC Form No. 2 report as part of the annual report NMGC files
19 with the Commission in compliance with 17.3.610 NMAC. The data required by 17.1.3.13
20 NMAC is contained in these FERC Form No. 2 reports. I have attached as NMGC Exhibit
21 ECB-6 a list of the filing dates of the financial data for 2019, 2020, 2021, and 2022.

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1 **Q. HAS NMGC COMPLIED WITH THE REQUIREMENTS OF 17.1.3.15 NMAC?**

2 **A.** Yes, the data for Base Period, Adjusted Base Period, Linkage Periods, and Future Test
3 Year are presented in conformity with the applicable Uniform System of Accounts
4 (“USOA”) prescribed by the Commission.

5
6 **Q. HAS NMGC PROVIDED OPERATING EXPENSES DATA, AS REQUIRED BY
7 17.1.3.16(B) NMAC?**

8 **A.** Yes, NMGC’s application, testimonies, and exhibits in this case present Operations and
9 Maintenance (“O&M”) information in compliance with the requirements of 17.1.3.16(B)
10 NMAC. NMGC only serves customers in New Mexico, therefore the total Company
11 amounts are also the jurisdictional amounts.

12
13 **Q. HAS NMGC PROVIDED RATE BASE DATA, AS REQUIRED BY 17.1.3.16(C)(1)
14 AND (2) NMAC?**

15 **A.** Yes, NMGC’s rate base is presented as required by 17.1.3.16(C)(1) and (2) NMAC in
16 NMGC’s Rule 630 Schedule A-4.

17
18 **Q. HAS NMGC COMPLIED WITH THE REQUIREMENTS OF 17.1.3.16(D)(2), (3),
19 (5), AND (6) NMAC?**

20 **A.** Yes. We have complied with the following requirements, as shown in NMGC Exhibit
21 ECB-7:

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- 1 • 17.1.3.16(D)(2) NMGC is providing projections for the Future Test Year 2025,
2 calendar years 2026 and part of calendar year 2027;
- 3 • 17.1.3.16(D)(3) NMGC is providing information related to its short-term debt
4 balances, external financing requirements, and projected capitalized ratios;
- 5 • 17.1.3.16(D)(5) NMGC is providing information on its estimates of interest and
6 preferred dividend coverages; and
- 7 • 17.1.3.16(D)(6) NMGC is providing information related to the computations of
8 ratios of earnings to fixed charges.

9
10 **Q. HAS NMGC COMPLIED WITH THE REQUIREMENTS OF 17.1.3.17 NMAC?**

11 **A.** Yes.
12

13 **II. FINANCIAL OVERVIEW OF RATE CASE FILING**
14

15 **Q. FROM A FINANCIAL PERSPECTIVE, WHY IS NMGC FILING THIS RATE**
16 **CASE?**

17 **A.** As shown in NMGC Exhibit ECB-3, NMGC is projecting a Future Test Year COS revenue
18 requirement of \$265.2 million, with a Future Test Year Revenue amount at current rates of
19 \$216.2 million, resulting in a revenue deficiency of \$48.97 million under NMGC's current
20 rates. The reasons for NMGC's revenue deficiency are:

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1 **1)** Continued capital investments NMGC will make during the period covered
2 by this case, which ultimately result in an increase in rate base of \$163 million compared
3 to what current rates are based upon;

4 **2)** O&M expenses are expected to increase from \$99.7 million in the Adjusted
5 Base Period to \$115.1 million in the Future Test Year;

6 **3)** Depreciation and amortization is expected to increase from \$43.8 million in
7 the Adjusted Base Period to \$49.6 million in the Future Test Year;

8 **4)** General taxes, which are primarily made up of property taxes and payroll
9 taxes, are expected to increase from \$14.9 million in the Adjusted Base Period to \$18.3
10 million in the Future Test Year;

11 **5)** Other Allowable Expenses (Returns), which are primarily made up of
12 amortization of rights-of-way and regulatory assets and liabilities, are expected to increase
13 from \$1.3 million in the Adjusted Base Period to \$2.4 million in the Future Test Year;

14 **6)** Revenue credits, which reflect revenues earned by NMGC that are credited
15 back to customers through non-fuel cost of service rates, are expected to decrease from
16 \$10.7 million in the Adjusted Base Period to \$9.7 million in the Future Test Year;

17 **7)** Income and other taxes, which are made up of federal and state income taxes
18 and fees paid to the Commission, are expected to increase from \$14 million in the Adjusted
19 Base Period to \$17.7 million in the Future Test Year; and

20 **8)** an expected decrease in net revenues at existing rates of \$4.7 million in the
21 Future Test Year due to decreasing customer usage and the expiration of a minimum-take
22 off-system sales agreement with a third party.

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Q. PLEASE BRIEFLY DISCUSS THE INCREASE IN NMGC'S EXPENSES.

A. NMGC has seen continued increases in operating expenses – both O&M and non-O&M. O&M expenses include items such as labor and wages, employee benefits and expenses, materials and supplies, insurance, and outside services. The Company works hard to control costs by shopping smartly for services and materials. However, the Company, is not immune to the significant inflation that has occurred since 2021. Like many businesses across the nation, NMGC is experiencing O&M cost increase pressures in almost all areas. As a provider of an essential service, NMGC is constrained in what it can cut without negatively impacting customers. In total, O&M expenses have increased by \$12.5 million between the settlement reconciliation in NMGC’s last rate case, NMPRC Case No 21-00267-UT (“2021 Rate Case”), and the Future Test Year.

Non-O&M operating expenses include things like payroll taxes, property taxes, possessory interest taxes, and depreciation and amortization. In total, operating expenses have increased by \$9.9 million between the settlement reconciliation in the 2021 Rate Case and the Future Test Year.

III. BASE PERIOD

Q. WHAT TWELVE-MONTH PERIOD DID NMGC USE TO DEVELOP THE BASE PERIOD TOTAL COST OF PROVIDING SERVICE TO THE COMPANY'S CUSTOMERS?

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1 **A.** NMGC used the twelve-month period ending March 31, 2023, to develop its Base Period
2 total COS. As discussed below, the Base Period amounts are the starting point for the
3 development of data used to determine the Company's revenue deficiency in this
4 proceeding.

6 **Q. HOW DID NMGC DETERMINE THE BASE PERIOD COSTS?**

7 **A.** All of the unadjusted amounts in the Base Period are taken directly from the Company's
8 books and records, in accordance with 17.10.630.7(F) NMAC. These amounts have been
9 reviewed by the accounting firm Ernst & Young, as demonstrated in Rule 630 Schedule R-
10 7. The Base Period reflects actual balance sheet amounts as of March 31, 2023, and income
11 statement amounts for the twelve-month period ending March 31, 2023. Please see Rule
12 630 Schedule A-1 for these costs.

14 **Q. ARE THERE ANY SPECIFIC EXPENSES IN THE BASE PERIOD YOU WANT**
15 **TO TALK ABOUT?**

16 **A.** Yes. I would specifically like to address affiliate charges related to shared services between
17 affiliate companies and advertising expenses.

19 **A. AFFILIATE SHARED SERVICES**

21 **i. Affiliate Charges to NMGC for Shared Services**

22 **Q. DOES THE BASE PERIOD INCLUDE CHARGES TO AND FROM AFFILIATES?**

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1 **A.** Yes, the Base Period contains charges that NMGC receives from its affiliates, and credits
2 for the services NMGC provides to its affiliates.

3
4 **Q. PLEASE DESCRIBE HOW NMGC DETERMINES SERVICES TO BE**
5 **PERFORMED BY AND FOR AFFILIATE COMPANIES.**

6 **A.** As described throughout this section of my Testimony, consistent with good governance
7 practices and subject to its business needs and objectives, NMGC is constantly reviewing
8 its business operations to determine which, if any, services it will obtain from its affiliates.
9 This is an ongoing examination based on review of its business needs, customer needs and
10 operations.

11
12 **Q. IS NMGC SEEKING RECOVERY OF THE AFFILIATE CHARGES IT**
13 **RECEIVES FROM AFFILIATES?**

14 **A.** Yes. To determine this amount, NMGC takes the Base Period expenses and depending on
15 the nature of the charges either escalates or separately forecasts those charges through the
16 Future Test Year. The net amount of transactions with affiliates included in the Model
17 during the Base Period was \$11.4 million, which includes \$11.8 million in charges from
18 affiliates offset by \$0.4 million that NMGC charged to affiliates. During the Future Test
19 Year, the total net amount NMGC is seeking to recover related to affiliate charges, while
20 excluding charges related to affiliates' long-term incentive programs, is \$11.8 million. See
21 Rule 630 Schedule H-14.

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1 **Q. WHAT AFFILIATE CHARGES IS NMGC SEEKING IN THIS CASE?**

2 **A.** NMGC is seeking to recover the affiliate charges in the following:

- 3 • **Information Technology and Telecommunications (“IT&T”) & Security**
- 4 **Services** – Major services include: desktop computer support and performance
- 5 management, employee service support (on-site and off-site), IT&T infrastructure
- 6 maintenance and support, IT&T asset management, information and cyber security,
- 7 telecommunications, the support/maintenance of the SAP Enterprise Resources
- 8 Program and other applications, and the asset usage fee, which is a fee for use of
- 9 shared IT hardware.
- 10 • **Finance and Related Services** – Major services include: accounts payable,
- 11 insurance risk, treasury (including cash management), corporate tax, corporate
- 12 accounting and research, internal audit, investor relations, budget and planning, and
- 13 general assistance with financial matters.
- 14 • **Corporate and Related Services** – Major services include: corporate support
- 15 services from Emera which includes IT, security, safety, HR and finance-related
- 16 functions, and a portion of executive compensation.
- 17 • **Human Resources and Related Services** – Major services include: healthcare and
- 18 benefits-related administration, payroll, compensation, human resources policy
- 19 administration, recruitment, training and development, and assessment and
- 20 development.

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- 1 • **Legal and Related Services** – Major services include: risk management and claims
2 support, compliance, assistance with federal affairs, general assistance with legal
3 matters, and related administrative support and technology.

4
5 I will describe the process the Company applies to determine the amount of these charges
6 and will provide some detail about these charges.

7
8 **Q. DO THESE AFFILIATE CHARGES COMPLY WITH THE COMMISSION**
9 **RULES ON AFFILIATE TRANSACTIONS?**

10 **A.** Yes. The Commission’s rules, specifically 17.6.450 NMAC, establish the requirements
11 and guidelines utilities must observe when undertaking a transaction, such as these, with a
12 corporate affiliate. NMGC has complied with all of the requirements provided for in the
13 Commission’s rules.

14
15 **Q. CAN TRANSACTIONS BETWEEN AFFILIATES BENEFIT CUSTOMERS?**

16 **A.** Yes. The central benefit of a shared services company is to allow related companies to
17 employ economies of scale and to take advantage of a special expertise that may already
18 exist at one company without having to undertake the expense of replicating that expertise
19 at each of the companies under shared ownership. These benefits are passed along to
20 customers in the form of lower costs.

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1 **Q. PLEASE EXPLAIN THE EVOLUTION OF NMGC’S AFFILIATE**
2 **TRANSACTIONS.**

3 **A.** Since TECO Energy, Inc.’s (“TECO”) acquisition of NMGC in 2014, NMGC has been
4 part of a larger corporate group that utilizes a shared services model for many back-office
5 functions. The assignment of shared services costs from affiliates to NMGC is governed
6 by the Cost Allocation Manual (“CAM”) that was agreed to among the parties and filed
7 with the Commission pursuant to the Commission’s Final Order in NMPRC Case No. 13-
8 00231-UT. The CAM was updated on July 1, 2016, to reflect the acquisition of TECO by
9 Emera, and was updated on December 31, 2019, to reflect a change from TECO Services,
10 Inc. (“TSI”) to Tampa Electric Company (“Tampa Electric” or “TEC”) as the centralized
11 shared services company under the CAM.

12
13 **Q. PLEASE DESCRIBE HOW NMGC HAS FORMALIZED THE SERVICES**
14 **PERFORMED BETWEEN AFFILIATE COMPANIES.**

15 **A.** NMGC has entered into services agreements with Tampa Electric, Emera Brunswick
16 Pipeline (“EBP”), and Emera. The Tampa Electric and Emera services agreements detail
17 the nature of the services and related charges to be provided to and from NMGC. The EBP
18 service agreement details the services and charges to be provided by NMGC to EBP.

19
20 The current services agreements were applicable during the Base Period and remain in
21 place. These agreements are on file with the NMPRC. NMGC also files annual Class I
22 Transaction Reports that report the charges between NMGC and its affiliates.

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1 **Q. HOW ARE AFFILIATE CHARGES DETERMINED?**

2 **A.** All charges are determined in accordance with the CAM. Under the CAM, there are three
3 methods available for collecting and charging affiliate charges:

4 1) direct costs charged to an affiliate are direct charges;

5 2) indirect costs for shared services assessed to more than one affiliate using various
6 methodologies are assessed charges; and

7 3) remaining indirect costs are allocated charges to multiple affiliates using the
8 Modified Massachusetts Method (“MMM”).

9 These three methods of affiliate charges are described in detail below. No cost is charged,
10 accessed, or allocated twice to any affiliate.

11
12 **Q. HOW ARE AFFILIATE SHARED SERVICES DIRECTLY CHARGED UNDER**
13 **THE CAM?**

14 **A.** Affiliate shared services to NMGC are direct charged whenever possible. This is the
15 preferred method for affiliate charges, and is applied when a service is provided directly to
16 NMGC by an affiliate because of a unique or distinguishable need by NMGC that is not
17 sought by or shared with other affiliates. Under the shared services model, while direct
18 charges are preferred, they are not always the best method of assigning shared costs fairly
19 and equitably.

20
21 The amount of direct charges in the Base Period are detailed in NMGC Exhibit ECB-8 and
22 NMGC Exhibit ECB-9 attached to my testimony.

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Q. HOW ARE AFFILIATE CHARGES ASSESSED UNDER THE CAM?

A. The assessed charges method of charging for affiliate services under the CAM describes a process whereby applicable costs are gathered and then charged to affiliates that receive a benefit from these services using various methodologies. These assessment methodologies are summarized here in Table 1:

Table 1 – Assessment Methodology to Determine NMGC’s Assessed Charges

Services Assessed to NMGC	Assessment Methodology
IT&T Services	Assessed based on % of IT services utilized
Human Resources and Related Services, Safety and Security, and Payroll	Assessed based on the % of headcount receiving the service
Procurement and Related Services, Accounts Payable, and Claims	Assessed based on % of total purchase orders, invoices, or claims processes

During the Base Period NMGC’s Assessed Charges from affiliates were \$7.6 million. The amount of assessed charges in the Base Period are detailed in NMGC Exhibit ECB-8 and NMGC Exhibit ECB-9 attached.

Q. HOW ARE AFFILIATE CHARGES ALLOCATED UNDER THE CAM?

A. Charges that have not been directly charged or assessed under one of the assessment methodologies discussed above are allocated between affiliates using the MMM. The MMM is a standard allocation methodology utilized in the industry for this purpose and is

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based on a blended rate of each operating affiliate's total operating assets (excluding cash and acquisition adjustments, including goodwill), total operating revenues and net income. When allocating costs pursuant to the MMM, the costs are gathered and charged to affiliates that benefit from such services using the MMM.

During the Base Period, the Allocated Charges to NMGC were \$2.5 million. The amount of allocated charges in the Base Period are detailed in NMGC Exhibit ECB-8 and NMGC Exhibit ECB-9.

Q. PLEASE PROVIDE A SUMMARY OF ALL THE AFFILIATE CHARGES FOR THE BASE PERIOD.

A. A summary of all services and charges from all affiliates by each category of service during the Base Period is set forth here in Table 2:

Table 2 – Summary of All Affiliate Charges for the Base Period

	Tampa Electric	Emera	Total
IT&T and Security Services	\$ 6,304,146	\$ -	\$ 6,304,146
Finance and Related Services	3,273,473	-	3,273,473
Corporate and Related Services	-	1,685,160	1,685,160
Human Resources and Related Services	458,331	-	458,331
Legal and Related Services	81,788	-	81,788
Total Direct Expenses	\$ 10,117,738	\$ 1,685,160	\$ 11,802,898

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A summary of all affiliate charges broken down into direct, assessed, and allocated charges from all affiliates by category of service during the Base Period is set forth here in Table 3:

Table 3 – Direct, Assessed and Allocated Charges for the Base Period

	Direct	Assessed	Allocated	Total
IT&T and Security Services	\$ 100,242	6,203,904	\$ -	\$6,304,146
Finance and Related Services	\$ 75,762	\$192,654	2,505,057	3,273,473
Corporate and Related Services	1,008,282	676,878	-	1,685,160
Human Resources and Related Services	-	458,331	-	458,331
Legal and Related Services	-	81,788	-	81,788
Total Charges from Affiliates	\$ 1,684,286	\$ 7,613,555	\$2,505,057	\$11,802,898

Q. TABLE 3 REFLECTS THAT THE ASSESSED CHARGES CATEGORY OF CHARGING AFFILIATE SERVICES IS THE LARGEST. WHY IS THIS?

A. Assessing costs to several affiliates based on determinable factors such as percent of headcount or users receiving the service, percent of total purchase orders, percentage of claims, or percentage of invoices is the best way to fairly charge these services between multiple affiliates, each of whom uses the service.

Q. WILL NMGC HAVE AFFILIATE CHARGES IN THE FUTURE TEST YEAR?

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A. Yes. Table 4 identifies the amount of direct, assessed, and allocated charges anticipated from affiliates during the Future Test Year.

Table 4 – Direct, Assessed and Allocated Charges for the Future Test Year

	Direct	Assessed	Allocated	Total
IT&T and Security Services	\$102,813	\$6,980,079	\$ -	\$7,082,891
Finance and Related Services	347,223	411,132	1,763,871	2,522,227
Corporate and Related Services ¹	852,619	864,057	-	1,716,676
Human Resources and Related Services	-	440,637	-	440,637
Legal and Related Services	-	61,729	-	61,729
Total Charges from Affiliates	\$1,302,654	\$8,757,635	\$1,763,871	\$11,824,160

Q. HOW DID NMGC DETERMINE ITS AFFILIATE CHARGES FOR THE FUTURE TEST YEAR?

A. First, NMGC as part of its ongoing planning process prepared forecasts for departmental operations anticipated in the Future Test Year. These forecasts include shared service costs. NMGC then asked its shared services providers to provide it with cost projections for affiliate charges in the Future Test Year.

¹ The total amount shown for Corporate and Related Services in this table includes \$0.7 million of costs associated with long-term incentive programs charged to NMGC. NMGC has excluded charges related to these long-term incentive programs from the Future Test Year cost of service.

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1 TEC separately forecasted the cost of its affiliate charges to NMGC through the Future
2 Test Year. NMGC reviewed and analyzed these forecasts and determined these costs are
3 reasonable, and that NMGC cannot duplicate these services at a lower cost than what its
4 shared services providers are charging. This analysis was done on a department level by
5 senior leadership familiar with the department capabilities and options for services, and
6 subsequently reviewed by the executive team.

7
8 Emera separately forecasted the cost of its affiliate charges to NMGC for 2024. Based on
9 discussions with personnel at Emera, NMGC then escalated the costs for the first three
10 quarters of 2025. NMGC reviewed and analyzed these forecasts and determined these
11 costs are reasonable and that NMGC cannot duplicate these services at a lower cost than
12 what its shared services providers are charging. This analysis was done on a department
13 level by senior leadership familiar with the department capabilities and options for services.

14
15 **Q. PLEASE PROVIDE DETAILS FOR THE AFFILIATE CHARGES IN THE**
16 **FUTURE TEST YEAR.**

17 **A.** Please see NMGC Exhibit ECB-8 for the details of the forecasted charges from TEC to
18 NMGC, and NMGC Exhibit ECB-9 for the forecasted charges from Emera to NMGC.

19
20 **Q. PLEASE DESCRIBE THE PROVISIONS IN THE STIPULATION IN NMPRC**
21 **CASE NO. 15-00327-UT (“THE EMERA STIPULATION”), RELATED TO**
22 **NMGC’S REVIEW AND CONTROL OF AFFILIATE CHARGES.**

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1 **A.** In paragraph 28 of the Emera Stipulation, NMGC committed to the following three
2 provisions as they relate to affiliate charges:

- 3 • 28.a. NMGC management will, consistent with good governance practices and
4 based on an examination of its business needs, customer needs, and objectives,
5 control and annually determine which, if any, services it will obtain from its
6 affiliates.
- 7 • 28.b. Subject to its business needs and objectives, and consistent with good
8 governance practices, in an effort to bring value to its customers through cost
9 savings, NMGC will show a preference for services to be performed in New
10 Mexico by NMGC employees for NMGC.
- 11 • 28.c. NMGC shall make any and all charges, assessments or allocations from its
12 affiliates transparent, and shall, to the greatest extent possible, use direct charges,
13 as opposed to assessments or allocations, when identifying costs for recovery under
14 the CAM.

15
16 **Q. PLEASE DESCRIBE HOW NMGC COMPLIES WITH PARAGRAPH 28.A OF**
17 **THE EMERA STIPULATION.**

18 **A.** On an annual basis as part of its budgeting process, the NMGC management team reviews
19 the services to be provided to NMGC by all affiliates – not just Tampa Electric. The
20 services and related charges are first reviewed and approved by the appropriate
21 management team members and then by members of executive management. Then,
22 throughout the year, the charges are billed to NMGC by the affiliates and each invoice is

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1 reviewed before being approved and paid. Throughout the year we continue to look for
2 ways to control costs and expenses from both affiliates and within NMGC.

3
4 **Q. PLEASE DESCRIBE HOW NMGC COMPLIES WITH PARAGRAPH 28.B OF**
5 **THE EMERA STIPULATION.**

6 **A.** As a team, we consider what services can be provided in-house as opposed to from an
7 affiliate. We provide services within New Mexico where feasible and cost effective. Some
8 areas to highlight include:

- 9 • Regulatory;
- 10 • Gas supply and control;
- 11 • Call center;
- 12 • Certain billing and credit operations;
- 13 • Certain human resources functions;
- 14 • Certain financial functions;
- 15 • Certain legal functions; and
- 16 • Certain IT&T support.

17
18 **Q. PLEASE DESCRIBE HOW NMGC COMPLIES WITH PARAGRAPH 28.C OF**
19 **THE EMERA STIPULATION.**

20 **A.** As reflected in NMGC Exhibit ECB-5 and in my Direct Testimony, we are providing
21 transparency and detail on all the affiliate charges to and from NMGC's affiliates. NMGC
22 continues to emphasize the use of direct charges, but in many instances assessments or

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1 allocations under the CAM are the best way to spread costs amongst all the affiliates
2 receiving services.

3
4 **Q. WHAT FACTORS DOES NMGC CONSIDER WHEN EVALUATING THE**
5 **VALIDITY OF SERVICES PROVIDED BY AFFILIATES?**

6 **A.** NMGC considers two primary factors when evaluating the appropriateness of services
7 provided by affiliates: 1) the cost of the service, and 2) the quality of the service. While
8 NMGC is always focused on the cost of services provided for our customers, in many
9 instances it is difficult to make direct cost comparisons – in considering or accounting for
10 qualitative differences in services. There are areas where affiliates provide a service that
11 NMGC cannot economically replicate, such as cyber security and internal audit services
12 wherein NMGC’s affiliates in Florida and Nova Scotia provide these services to NMGC.
13 In other areas, we believe NMGC provides a better-quality service to its customers than
14 can be obtained from affiliates. These areas include the call center and customer service.
15 NMGC and its affiliates continue to evaluate the balance between shared and local services
16 on an ongoing basis.

17
18 **ii. Affiliate Services NMGC charges to Affiliates**

19 **Q. PLEASE DESCRIBE THE SERVICES NMGC PROVIDES TO AFFILIATES.**

20 **A.** NMGC provides IT&T desktop services to affiliates in Florida. NMGC also provides
21 services to EBP for certain management, budgeting and administrative services,
22 engineering services, gas control services, gas management services, and financial and

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1 accounting services. The amounts allocated by NMGC to these affiliates for the Base
2 Period were \$0.4 million.

B. ADVERTISING AND LOBBYING EXPENSES

6 **Q. PLEASE DESCRIBE 17.3.350 NMAC.**

7 **A.** Rule 17.3.350 NMAC governs the treatment of certain expenses in setting a utility's rates.
8 The operating expenses covered by this rule include advertising expenses, contributions,
9 donations, dues, subscriptions and membership fees, and lobbying expenses. Advertising
10 expenses are defined under 17.3.350 NMAC as all expenses made for the development,
11 publication, and dissemination of information to a utility's customers, the public at large,
12 or to stockholders.

14 **Q. UNDER 17.3.350 NMAC, CAN ALL ADVERTISING EXPENSES BE INCLUDED**
15 **IN COST OF SERVICE RATES?**

16 **A.** No. Under 17.3.350.9(B) NMAC, in order to be included in rates, advertising expenses
17 must be reasonable and must meet one of the following requirements:

- 18 • Advises ratepayers of matters of public safety, health or emergency situations;
- 19 • Advocates conservation of energy and reduction of peak demand;
- 20 • Explains billing practices, services and rates to customers;
- 21 • Is required to be filed with governmental authorities or financial institutions;

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- 1 • Provides information required to be available to customers under state or federal
- 2 law; or
- 3 • Otherwise results in a measurable reduction in operating costs and more efficient
- 4 service to customers.

5

6 In addition, advertising costs that are described as “Unallowable Expenditures” in

7 17.3.350.9I NMAC are not properly includable in cost-of-service rates.

8

9 **Q. DID NMGC ANALYZE ITS ADVERTISING EXPENSES TO DETERMINE**

10 **WHETHER THEY ARE RECOVERABLE?**

11 **A.** Yes, NMGC has reviewed its advertising expenses and NMGC is seeking recovery of \$0.4

12 million for allowable advertising expenses in the Future Test Year, the details of which can

13 be found in Rule 630 Schedule H-5. In addition, Rule 630 Schedule H-5, Workpaper H-5-

14 1 includes a summary of NMGC’s analysis as to why such expenses are allowable under

15 17.3.350.9(B) NMAC.

16

17 **Q. IS NMGC SEEKING RECOVERY OF ANY LOBBYING EXPENSES?**

18 **A.** No.

19

20 **Q. HAS NMGC REMOVED LOBBYING EXPENSES THAT ARE PART OF ANY**

21 **MEMBERSHIP DUES NMGC IS SEEKING RECOVERY OF?**

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1 **A.** Yes. NMGC has specifically excluded the lobbying portion of the membership dues paid
2 to the American Gas Association.

3
4 **C. WEIGHTED AVERAGE COST OF CAPITAL**

5
6 **Q.** **WHAT WEIGHTED AVERAGE COST OF CAPITAL DID YOU USE FOR THE**
7 **FUTURE TEST YEAR?**

8 **A.** I used a WACC of 7.38% for the Future Test Year. I arrived at this number by using a
9 long-term cost of debt of 3.86%, a return on equity of 10.5%, and a capital structure of
10 53% equity and 47% long term debt. Please see Rule 630 Schedule G-3 for the calculation
11 related to NMGC's long-term cost of debt, and the Direct Testimony of NMGC Witness
12 Dylan W. D'Ascendis for details of the proposed return on equity.

13
14 NMGC's cost of debt was 3.15% for the Base Period. NMGC then made an adjustment to
15 incorporate the amount and rate of a debt issuance planned in late 2023, which resulted in
16 an average cost of debt of 3.17% during the Linkage 1 Period and 3.74% during the Linkage
17 2 Period. Finally, NMGC made an adjustment to incorporate the planned amount and rate
18 of a debt issuance in February 2025 and calculated the 13-month average of its cost of debt
19 in the Future Test Year, which resulted in an adjustment of -0.07% as required by 17.1.3
20 NMAC. Therefore, 3.86% long-term cost of debt is used in the Future Test Year.

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1 **Q. NMGC ISSUED A \$100 MILLION TERM LOAN IN ASSOCIATION WITH THE**
2 **FEBRUARY 2021 WINTER WEATHER EVENT. IS THIS INCLUDED IN THE**
3 **COMPANY’S LONG-TERM CAPITAL STRUCTURE?**

4 **A.** No. The \$100 million term loan that was issued to fund the extraordinary gas costs incurred
5 as a result of the February 2021 Winter Weather Event was never included in NMGC’s
6 capital structure. In addition, this loan will be repaid before the Future Test Year and is
7 not included in NMGC’s Future Test Year capital structure. This loan and its associated
8 interest costs are being recovered through the Company’s Purchased Gas Adjustment
9 Clause and are not applicable to NMGC’s rate base in any way. Additionally, this is a
10 short-term debt which will mature in less than 18 months and, as such, the custom and
11 practice in New Mexico is to not include these types of loans in a utility’s regulatory capital
12 structure.

13
14 **Q. WHAT ARE THE ASSUMPTIONS RELATED TO EQUITY CONTRIBUTIONS**
15 **FROM NMGC’S PARENT DURING THE LINKAGE PERIODS AND FUTURE**
16 **TEST YEAR?**

17 **A.** NMGC expects to issue \$100 million of new long-term debt in late 2023 and \$70 million
18 of new long-term debt in February 2025. This new debt is also expected to be matched
19 with an equity contribution from our parent company. It is expected that the parent
20 company would match the debt issuance at NMGC’s authorized regulatory capital structure
21 at the time the long-term debt is issued. Therefore, the 2023 issuance will be matched
22 based on NMGC’s 52% equity capital structure approved in the 2021 Rate Case. The

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1 Future Test Year issuance of \$70 million of new long-term debt in February 2025 is
2 assumed to be matched with equity contributions based on NMGC's 53% equity capital
3 structure requested in this case. This results in equity contributions of approximately \$108
4 million for the 2023 \$100 million long-term debt issuance and approximately \$79 million
5 for the February 2025 \$70 million long-term debt issuance. NMGC anticipates receiving
6 these equity contributions in 2024 and in 2025.

7
8 **Q. IS NMGC USING ITS ACTUAL CAPITAL STRUCTURE IN THE FUTURE TEST**
9 **YEAR REVENUE REQUIREMENT?**

10 **A.** No. The actual capital structure in the Base Period was impacted by accounting for several
11 acquisitions and the inclusion of goodwill on the balance sheet of NMGC, which under
12 generally accepted accounting principles ("GAAP") results in an equity structure of
13 approximately 35% debt and 65% equity. Because NMGC does not seek to recover
14 goodwill, the Company does not use its actual capital structure for rate making purposes.

15
16 Consistent with this approach, NMGC is proposing an imputed capital structure consisting
17 of 47% long-term debt and 53% equity in the development of its Future Test Year revenue
18 requirement.

19
20 As discussed by NMGC Witness D'Ascendis, this is a reasonable capital structure when
21 considering the proxy group he used to determine his recommended return on equity for
22 NMGC.

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1 **Q. HOW WAS THE CAPITAL STRUCTURE DEVELOPED THAT WAS USED IN**
2 **THE FUTURE TEST YEAR REVENUE REQUIREMENT?**

3 **A.** NMGC's proposed capital structure is based on balancing the need to use an imputed
4 capital structure while recognizing the benefits of a strong GAAP balance sheet.
5 Additionally, all of NMGC's currently outstanding long-term debt issuances have
6 covenants that restrict how much debt NMGC is able to incur. From my experience, this
7 is quite normal in the utility industry. Without NMGC's GAAP balance sheet that gives
8 credit for goodwill, NMGC would need additional equity injections from its parent in order
9 to ensure NMGC did not violate its debt covenants when incurring additional debt,
10 including both short- and long-term debt.

11
12 **Q. PLEASE EXPLAIN HOW A STRONG BALANCE SHEET PROVIDES BENEFITS**
13 **TO CUSTOMERS.**

14 **A.** Having a strong balance sheet is important for a couple of reasons. First, credit rating
15 agencies consider, among other things, a company's total debt to total capitalization when
16 assigning a credit rating. A stronger balance sheet helps support a good credit rating.

17
18 Second, lenders consider the Company's balance sheet when considering whether to enter
19 into loan agreements with the Company, which is one of the important ways NMGC
20 accesses the capital necessary to run its day-to-day operations and provide utility service
21 to customers. In my experience, a strong balance sheet enhances NMGC's ability to
22 borrow money, especially on short notice. For example, after Winter Storm Uri caused an

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1 unprecedented spike in natural gas prices, NMGC had to pay gas suppliers over \$100
2 million in less than 30 days. NMGC was able to borrow this significant amount on short
3 notice and without violating its debt covenants. If NMGC's balance sheet was less robust,
4 it could hamper NMGC's ability to borrow, especially large amounts on short notice,
5 during volatile times.

6
7 NMGC believes that a capital structure of 53% equity and 47% long-term debt strikes the
8 correct balance.

9
10 **Q. WHAT INTEREST RATE DID NMGC ASSUME FOR THE FUTURE DEBT**
11 **ISSUANCES?**

12 **A.** NMGC coordinated with Treasury Department personnel at Emera and with Royal Bank
13 of Canada ("RBC") to establish the forecasted long-term interest rates used in this case.
14 Based on information provided by these contacts, and using an assumed maturity of 10-
15 years, NMGC used a long-term debt rate of 5.86% related to its planned late 2023 \$100
16 million debt issuance and 5.14% related to its planned February 2025 \$70 million debt
17 issuance.

18
19 **Q. IN THE DEVELOPMENT OF ITS EQUITY AND DEBT AMOUNTS FOR THE**
20 **WACC, DID NMGC UTILIZE AN AVERAGE AS REQUIRED BY 17.1.3.16(D)(4)**
21 **NMAC?**

22 **A.** Yes.

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D. REGULATORY ASSETS AND LIABILITIES

Q. IS NMGC SEEKING APPROVAL FOR ANY REGULATORY ASSETS OR LIABILITIES IN THIS CASE?

A. Yes, NMGC is seeking approval for the following:

- Approval to establish and recover a regulatory asset related to rate case expenses for this case;
- Approval to establish and recover a regulatory asset related to unique costs incurred by the Company in the implementation of the upgrade to its customer information system (the “Hansen CIS Regulatory Asset”);
- Approval to recover the costs included in its existing COVID-19 Regulatory Asset;
- Approval to establish and begin crediting to customers a new regulatory liability related primarily to litigation recovery amounts;
- Approval to establish a new regulatory asset for potential recovery in a future rate case related to certain credit card processing fees;
- Approval to continue to credit customers for Accumulated Deferred Income Taxes in the same manner NMGC has been since its 2019 Rate Case; and
- Approval to establish a new regulatory asset for potential recovery in a future rate case related to certain expenses for the liquified natural gas storage facility proposed in Case No. 22-00309-UT.

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1 NMGC is also proposing the unamortized balances for its 2021 Rate Case expenses and
2 for the Integrity Management Regulatory Asset approved in its 2021 Rate Case, be
3 extended for two years starting October 1, 2024. Please see NMGC Exhibit ECB-3 and
4 Rule 630 Schedule H-12 for a summary of all of the regulatory assets and regulatory
5 liabilities included in the Future Test Year.

6
7 **Q. PLEASE DISCUSS NMGC’S REQUESTED REGULATORY ASSET FOR ITS**
8 **RATE CASE EXPENSES.**

9 **A.** NMGC is requesting approval to establish a new regulatory asset to begin recovering
10 incremental rate case expenses incurred in this proceeding (“2023 Rate Case Expenses”),
11 as well as a regulatory asset to complete recovery of the remaining balance of the 2021
12 Rate Case expenses. My understanding is that NMGC should be allowed to recover the
13 costs it incurs in filing its rate case applications, as NMGC cannot take unilateral action to
14 raise its prices to deal with increased costs, which is what non-regulated businesses do.

15
16 NMGC has reflected the balances associated with the 2023 Rate Case Expenses in Other
17 Rate Base, pending approval of these regulatory assets in this filing. See Rule 630
18 Schedule I-1.1.

19
20 **Q. ARE YOU TESTIFYING AS TO ANY SPECIFIC RATE CASE EXPENSES?**

21 **A.** Yes, I provide information regarding the Company’s need to retain PA Consulting, Inc.,
22 ScottMadden, Inc., and Concentric Energy Advisors, Inc.

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1 **Q. PLEASE EXPLAIN WHY THE COMPANY NEEDED TO RETAIN PA**
2 **CONSULTING, INC.**

3 **A.** Preparing an interactive future test year cost of service model is complex and time-
4 consuming endeavor. Due to continued labor pressures, NMGC lost key personnel vital to
5 constructing the Model for this case with only internal resources. This necessitated the
6 Company retaining outside consultants to assist in populating, updating, and preparing the
7 Model. PA Consulting, Inc. will also perform any COS modeling runs requested by Staff
8 and Intervenors.

10 **Q. PLEASE EXPLAIN WHY THE COMPANY NEEDED TO RETAIN**
11 **SCOTTMADDEN, INC.**

12 **A.** NMGC retained NMGC Witness Timothy Lyons and NMGC Witness D'Ascendis for their
13 expertise in rate making and return on equity/appropriate utility capitalization structure
14 respectively. NMGC does not have anyone with the experience and the qualifications
15 necessary to perform rate design or render an opinion relating to the appropriate return on
16 equity and capitalization structure. NMGC therefore retained Mr. Lyons and Mr.
17 D'Ascendis.

19 **Q. PLEASE EXPLAIN WHY THE COMPANY NEEDED TO RETAIN**
20 **CONCENTRIC ENERGY ADVISORS, INC.**

21 **A.** Due to labor challenges, NMGC did not have the internal resources necessary to perform
22 a fully allocated cost of service study. Moreover, because of the age and uniqueness of

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1 NMGC's customer information system which stores much of the data necessary to perform
2 a fully allocated cost of service, NMGC had very limited options to retain outside experts
3 to assist with this endeavor. One of Concentric Energy Advisors, Inc.'s employees
4 previously worked with NMGC and was both qualified to prepare a fully allocated cost of
5 service study, and already knew how to utilize the Company's customer information
6 system.

7
8 **Q. WHAT AMOUNT IS NMGC SEEKING TO RECOVER IN RATE CASE**
9 **EXPENSES FOR THE CURRENT CASE?**

10 **A.** NMGC is seeking recovery of approximately \$2.3 million in rate case expenses, as is
11 detailed in the Direct Testimony of Alana M. De Young. NMGC is requesting to establish
12 a regulatory asset to recover these costs over a two-year period.

13
14 **Q. WHAT IS THE BASIS FOR NMGC USING A TWO-YEAR AMORTIZATION**
15 **PERIOD FOR THESE RATE CASE EXPENSES?**

16 **A.** NMGC is proposing a two-year amortization period to recover these costs. NMGC
17 believes that a two-year amortization period balances the timely recovery of these costs by
18 NMGC and the impacts to our customers.

19
20 **Q. WHY IS NMGC SEEKING TO RE-AMORTIZE COSTS RELATED TO ITS**
21 **PRIOR RATE CASE EXPENSES?**

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1 **A.** In the stipulation of NMGC’s 2021 rate case, Case No. 21-00267-UT, NMGC was allowed
2 to amortize its rate case expenses over a period of two years beginning January 2023. By
3 the beginning of the Future Test Year in this case, there will still be a balance and
4 amortization included in rates resulting from these rate case expenses. NMGC would over-
5 collect these costs if an adjustment is not made to the existing recovery period. NMGC is
6 proposing to extend the recovery period for these costs for an additional two years
7 beginning October 2024. The amount to be re-amortized is approximately \$319,000.

8
9 **Q. PLEASE DESCRIBE THE NEW REGULATORY ASSET RELATED TO THE**
10 **HANSEN CIS SOFTWARE IMPLEMENTATION.**

11 **A.** NMGC is seeking a regulatory asset for implementation costs the Company will incur for
12 the Hansen CIS.

13
14 **Q. WHY IS NMGC REQUESTING RECOVERY OF A NEW REGULATORY ASSET**
15 **RELATED TO THE HANSEN CIS SOFTWARE IMPLEMENTATION?**

16 **A.** As NMGC Witness Tommy H. Sanders states in his Direct Testimony, the Hansen CIS
17 project is a significant software update, which therefore requires significant
18 implementation efforts. Implementation of the Hansen CIS project will result in costs
19 associated with training NMGC personnel on how to properly utilize the system to provide
20 service and assistance to customers. This training is substantial, both in the time required
21 and the cost of training. All of the training must be completed before the Hansen CIS
22 system is used and useful for customers. As such, the training will occur before the Future

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1 Test Year. NMGC believes it is appropriate to allow recovery of these unique and
2 significant one-time training costs, and is therefore requesting permission to book a
3 regulatory asset in the amount of \$2.3 million related to training costs, and to begin
4 recovering such costs with rates effective October 1, 2024.

5
6 **Q. OVER WHAT PERIOD IS NMGC SEEKING RECOVERY OF THE HANSEN CIS**
7 **REGULATORY ASSET?**

8 **A.** Fifteen years to coincide with the amortization of the Hansen CIS software.
9

10 **Q. HAS NMGC RECORDED A COVID-19 REGULATORY ASSET?**

11 **A.** Yes. As of the filing of this rate case, NMGC has recorded a COVID-19 Regulatory Asset
12 of approximately \$5.7 million, as detailed in Rule 630 Schedule I-1.6. During the COVID-
13 19 Pandemic and through June 20, 2023, NMGC tracked the incremental expenses and
14 associated savings resulting from the COVID-19 Pandemic. With the exception of bad
15 debt expense, this tracking resulted in costs and savings that offset.
16

17 **Q. WHAT COSTS ARE INCLUDED IN NMGC'S PROPOSED COVID-19**
18 **REGULATORY ASSET?**

19 **A.** NMGC is only seeking the increased cost of bad debt, net of unused COVID relief funds,
20 that occurred during the COVID-19 Pandemic.

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1 **Q. HAS NMGC EVALUATED OTHER COSTS AND POTENTIAL OFFSETS TO**
2 **THOSE COSTS AS REQUIRED BY THE COMMISSION IN NMPRC CASE NO.**
3 **20-00069-UT?**

4 **A.** Yes. NMGC performed a preliminary analysis of all other costs incurred, as well as offsets
5 such as savings it incurred. The result of that analysis was that the additional costs,
6 excluding bad debt, were only slightly more than the additional savings NMGC
7 experienced. As such, NMGC is only seeking recovery of the increased bad debt expense.

8
9 **Q. WHAT FUNDS DID NMGC USE TO OFFSET BAD DEBTS INCLUDED IN THE**
10 **COVID-19 REGULATORY ASSET?**

11 **A.** During the pandemic period, NMGC contributed approximately \$1.2 million in funding to
12 help residential and small commercial customers impacted by the COVID-19 pandemic
13 pay their gas bills. Despite various efforts made by NMGC to distribute these funds to
14 individual customers, as of December 2022 approximately \$1 million of these funds
15 remained unused. The COVID-19 Regulatory Asset requested in this case includes an
16 offset for these unused relief funds, which is consistent with NMGC's intent to utilize these
17 funds for COVID-19 relief.

18
19 **Q. HAS NMGC NORMALIZED BAD DEBT IN ITS MODEL TO ACCOUNT FOR**
20 **THE FACT IT IS SEEKING RECOVERY OF A REGULATORY ASSET**
21 **RELATED TO THE INCREASED BAD DEBT DURING THE COVID-19**
22 **PANDEMIC?**

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1 **A.** Yes. For the portion of the model that deals with bad debt expense, NMGC normalized
2 bad debt and excluded the time frame of the COVID-19 Pandemic.

3
4 **Q.** **WHAT AMORTIZATION PERIOD IS NMGC PROPOSING FOR THE COVID-19**
5 **REGULATORY ASSET?**

6 **A.** NMGC is proposing a four-year amortization period.

7
8 **Q.** **WHY IS NMGC PROPOSING A FOUR-YEAR AMORTIZATION PERIOD FOR**
9 **THE COVID-19 REGULATORY ASSET?**

10 **A.** NMGC began tracking costs pursuant to the Commission's orders and the Governor of
11 New Mexico's public health order in March 2020. The Governor's emergency health order
12 related to the Pandemic expired in March 2023. This resulted in NMGC tracking and
13 accumulating costs and savings related to the pandemic over a three-year period. As
14 discussed by NMGC Witness Sanders, a significant backlog of uncollected customer bills
15 still exists and it will likely take an extended period for NMGC to recover or write-off these
16 balances. NMGC also continues to work with its customers to help them pay their bills
17 and to recover the outstanding accounts receivable that resulted from the moratorium on
18 customer disconnections. Should NMGC not be successful in recovering the majority of
19 the outstanding accounts receivable, or if NMGC is successful in recovering these
20 uncollected balances, then NMGC may need adjust the value of the regulatory asset related
21 to the COVID-19 Pandemic in a future rate proceeding. Based on this, NMGC believes its
22 request to amortize the regulatory asset over a period of four years is reasonable.

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1 **Q. PLEASE BRIEFLY EXPLAIN THE REGULATORY LIABILITIES NMGC HAS**
2 **INCLUDED IN THIS CASE.**

3 **A.** NMGC is seeking to continue crediting certain Accumulated Deferred Income Tax
4 (“ADIT”) balances to customers. NMGC is also seeking to credit to customers a new
5 regulatory liability related to the proceeds from the settlement of certain litigation and the
6 gain on the sale of an NMGC building NMGC sold in Carlsbad, New Mexico.

7
8 **Q. PLEASE DESCRIBE THE NEW PROPOSED REGULATORY LIABILITY NMGC**
9 **IS PROPOSING TO REFUND CUSTOMERS IN THIS CASE?**

10 **A.** The new regulatory liability is composed of two pieces. First, NMGC sold a building in
11 Carlsbad, New Mexico for a gain of approximately \$27,000 after expenses. NMGC is
12 proposing to provide this amount as a refund to customers via a regulatory liability, as this
13 is not normal income to NMGC.

14
15 Second, NMGC recently resolved a litigated matter which resulted in a payment to NMGC
16 in the amount of approximately \$1.3 million. NMGC is proposing to provide this amount
17 back to customers as well. NMGC proposes to use a regulatory liability as the income will
18 come as a lump sum during the Linkage Period, and will not be repeated again during the
19 Future Test Year Period. As this is a unique circumstance involving material refund to
20 customers, NMGC believes a regulatory liability is the appropriate methodology to provide
21 a credit to customers. For ease of calculations, both a litigation refund and a property
22 refund are being proposed via a combined regulatory liability.

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1 **Q. WHAT PERIOD OF TIME IS NMGC PROPOSING TO AMORTIZE THE NEW**
2 **REGULATORY LIABILITY?**

3 **A.** NMGC is proposing to amortize these amounts over a two-year period, consistent with
4 NMGC's general approach to amortizing regulatory assets.

6 **Q. PLEASE DISCUSS THE REGULATORY LIABILITY RELATED TO CERTAIN**
7 **ADIT BALANCES NMGC IS SEEKING TO REFUND IN THIS CASE.**

8 **A.** NMGC is seeking to continue to refund certain ADIT amounts to NMGC's customers.
9 NMGC has been providing credits to customers related to ADIT balances since its 2019
10 Rate Case. NMGC Witness Davicel Avellan discusses the treatment of ADIT in greater
11 detail in his Direct Testimony, and the details can be found in Rule 630 Schedule H-12.
12 NMGC's proposal is the same proposal it made in its 2019 and 2021 Rate Cases. The
13 Future Test Year period in this case contains credits related to these ADIT balances of \$0.7
14 million, which reflects amortization of these balances over a period of 27 years.

16 **Q. PLEASE DESCRIBE THE PROPOSED CREDIT CARD PROCESSING FEE**
17 **REGULATORY ASSET.**

18 **A.** As discussed in NMGC Witness Sanders' Direct Testimony, NMGC is aware that Public
19 Service Company of New Mexico ("PNM") has requested the ability to include in rates the
20 costs that banks charge to PNM when customers use their credit cards to pay their bills.
21 Like PNM, NMGC is charged fees by banks to process credit cards. Currently, NMGC
22 requires the customer requesting to use a credit card to cover these costs. In the event the

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1 Commission approves PNM's request, NMGC seeks permission to record a regulatory
2 asset for the same purpose and include the fees it actually incurs when customers pay their
3 bills with credit cards. NMGC would seek recovery of these amounts in a future rate case
4 filing.

5
6 **Q. PLEASE DESCRIBE THE LNG REGULATORY ASSET.**

7 **A.** In order to move forward in a timely manner with the LNG project that the Commission is
8 considering in NMPRC Case No. 22-00309-UT, NMGC must incur certain costs related to
9 certain engineering studies that are the foundation for the construction of the LNG facility.
10 In the event that the Commission does not approve NMGC's application to build the LNG
11 facility, NMGC will have expended significant amounts of money on the project with no
12 other way to recover the costs. This regulatory asset will only be triggered in the event the
13 Company's application in NMPRC Case No. 22-00309-UT is denied.

14
15 **Q. WHAT AMOUNT DOES NMGC ANTICIPATE WILL BE INCLUDED IN THE**
16 **LNG REGULATORY ASSET?**

17 **A.** NMGC currently anticipates the cost will be between \$7 million and \$10 million. These
18 amounts include: 1) the cost of the preFEED and owner's engineer advice from Lisbon,
19 Inc., 2) the option fee for the proposed LNG site, and 3) the costs related to the three FEED
20 studies the Company has requested from engineering procurement and construction
21 contractors.

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1 **Q. PLEASE DESCRIBE NMGC’S CURRENT INTEGRITY MANAGEMENT**
2 **PROGRAM (“IMP”) REGULATORY ASSET?**

3 **A.** In the stipulation of NMGC’s 2021 rate case, Case No. 21-00267-UT, NMGC was allowed
4 to record a regulatory asset comprised of depreciation, property taxes, and a post-tax
5 carrying charge for certain qualifying IMP projects placed in service during calendar year
6 2022.

7
8 NMGC began recovering this regulatory asset in 2023, with a duration of two years. By
9 the beginning of the Future Test Year in this case, there will still be a balance and
10 amortization included in rates resulting from the IMP Regulatory Asset. NMGC would
11 over-collect this asset if an adjustment is not made to the existing recovery period. NMGC
12 is proposing to extend the recovery period for these costs for an additional two years
13 beginning October 2024. The amount to be re-amortized is approximately \$15,000.

14
15 **E. WORKING CAPITAL**
16

17 **Q. WHAT IS WORKING CAPITAL AND WHAT ARE THE COMPONENTS OF**
18 **WORKING CAPITAL IN RATE BASE?**

19 **A.** Working capital for rate making purposes is a measure of funding daily operating
20 expenditures and other non-plant investments that are necessary to sustain ongoing
21 operations of the utility. In other words, it is a measure of ongoing funding requirements

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1 on average for day-to-day operations. Working capital in rate base consists of natural gas
2 inventories, materials and supplies, prepayments, and cash working capital.

3
4 **Q. PLEASE DESCRIBE THE DEVELOPMENT OF THE FUTURE TEST YEAR**
5 **BALANCES FOR NATURAL GAS INVENTORIES.**

6 **A.** NMGC developed a forecast of natural gas inventories by utilizing forecasted natural gas
7 prices and historical injection and withdrawal rates to develop expected monthly balances
8 of natural gas in storage through September 30, 2025. See Rule 630 Schedule E-4 for these
9 details.

10
11 **Q. PLEASE DESCRIBE HOW THE FUTURE TEST YEAR BALANCES WERE**
12 **DEVELOPED FOR MATERIALS AND SUPPLIES.**

13 **A.** NMGC utilized the thirteen-month average balances for materials and supplies included in
14 the Adjusted Base Period as the balances in the Future Test Year revenue requirements.
15 NMGC does not anticipate any significant changes in these balances. The Adjusted Base
16 Period is a reasonable representation of balances expected during the Future Test Year.
17 See Rule 630 Schedule E-2.1.

18
19 **Q. PLEASE DESCRIBE HOW THE FUTURE TEST YEAR BALANCES WERE**
20 **DEVELOPED FOR PREPAYMENTS.**

21 **A.** NMGC utilized the thirteen-month average balances for prepayments included in the
22 Adjusted Base Period as the balances in the Future Test Year revenue requirements.

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1 NMGC removed prepayments related to its revolving credit facility and its prepaid
2 supervision and inspection fees from this balance. NMGC does not anticipate any
3 significant changes in the thirteen-month average balances. The Adjusted Base Period is
4 a reasonable representation of balances expected during the Future Test Year. See Rule
5 630 Schedule E-2.2.

6
7 **Q. DID NMGC INCLUDE CASH WORKING CAPITAL IN RATE BASE FOR THE**
8 **FUTURE TEST YEAR?**

9 **A.** Yes. NMGC included a cash working capital (“CWC”) amount in the Future Test Year
10 revenue requirements. The CWC allowance is based on the lead-lag study performed by
11 Expergy, as discussed later in my Direct Testimony. The calculation of the CWC amount
12 is included in Rule 630 Schedule E-1.

13
14 **Q. HOW DID YOU DETERMINE THE LEVEL OF BANK BALANCES TO INCLUDE**
15 **IN CWC?**

16 **A.** I considered the results of two approaches to quantify the minimum reasonable level of
17 bank balances to include in CWC:

18
19 The first approach examined bank balances during the period March 2022 through
20 February 2023. The monthly balances ranged from \$1,259,995 to \$132,608,116 and
21 showed an average balance of \$7,634,217. This average included unusually high bank

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1 balances in February 2023 resulting from the receipt of funds related to NMGC's winter
2 hedging activities that had not yet been refunded to customers through the PGAC.

3 For the second approach, I removed the impact of the unusually high balances in February
4 2023 from the average, and used the median bank balances of \$4,059,881. NMGC
5 routinely carries a cash balance as a part of its daily operations to fund amounts that may
6 come due and that can't be borrowed from its Revolver on short notice. Therefore, NMGC
7 believes the \$4,059,881 discussed above is a reasonable balance and is included in
8 NMGC's requested cash working capital balance in this case.

9
10 **Q. PLEASE EXPLAIN WHAT "LEAD-LAG" MEANS IN THE CONTEXT OF**
11 **UTILITY REGULATION AND ACCOUNTING.**

12 **A.** A lead-lag study is a method used to measure the amount of CWC required to finance a
13 utility's day-to-day operations. I use the terms "Revenue Lag" and "Expense Lead" as
14 follows: (i) Revenue Lag is the number of days between when bills for service go out to
15 the Company's customers and when payments are received from customers; and (ii)
16 Expense Lead is the number of days between when the Company uses goods or services
17 and when it pays for those goods or services. The composite Revenue Lag days were
18 developed from the billing and payment patterns exhibited by the Company's customers.
19 Similarly, the Expense Lead days for each of the various categories of expense were
20 developed by measuring the period of time from when the costs were incurred until related
21 payments were made. The net difference between the computed Revenue Lag days and

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1 the computed Expense Lead days was multiplied by the average daily revenue requirement.

2 The resulting amount is the net CWC requirement.

3
4 **Q. DOES THE REVENUE LAG TAKE INTO CONSIDERATION THE COST OF GAS**
5 **DELIVERED TO CUSTOMERS?**

6 **A.** Yes, but only to the extent the cost of gas has been paid by NMGC and has not yet been
7 paid by customers.

8
9 **Q. IS THERE A RULE 630 SCHEDULE THAT SUMMARIZES THE LEAD-LAG**
10 **STUDY AND THE MEASUREMENT OF INVESTOR-PROVIDED FUNDS FOR**
11 **THE CWC?**

12 **A.** Yes. Rule 630 Schedule E-1 CWC contains a summary of the Lead-Lag Study results and
13 calculates the CWC requirement.

14
15 **IV. THE COMPANY'S COST OF SERVICE**

16
17 **Q. DID YOU UTILIZE THE MODEL TO DETERMINE THE COMPANY'S TOTAL**
18 **COS AND RESULTING REVENUE DEFICIENCY?**

19 **A.** Yes.

20
21 **A. BASE PERIOD EXCLUSIONS AND ADJUSTMENTS**

22
23 **Q. WAS THE BASE PERIOD ADJUSTED?**

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1 **A.** Yes. The Base Period was adjusted to either exclude certain items or to adjust the amounts
2 of certain items and is presented as the Adjusted Base Period. The exclusions and
3 adjustments can be found in various exhibits and schedules including NMGC Exhibits
4 ECB-3, ECB-4, and ECB-5, as well as Rule 630 Schedule A-3.

5
6 **i. Exclusions From Base Period**

7 **Q. WHAT ARE EXCLUSIONS FROM THE BASE PERIOD?**

8 **A.** Exclusions from the Base Period are Base Period Adjustments (“BPA” or BPAs”) that
9 remove something entirely from the COS. As a result of excluding the item from the Base
10 Period, its impact is removed from the Adjusted Base Period, the Linkage Data and the
11 Future Test Year. An example of this is the Company’s expense related to long-term
12 incentive compensation, which is not being requested for recovery in this case.

13
14 **Q. IS NMGC EXCLUDING ANY EXPENSES OR REVENUES EXPERIENCED IN**
15 **THE BASE PERIOD?**

16 **A.** Yes. NMGC is completely removing certain expenses and revenues it experienced during
17 the Base Period. We excluded these expenses and revenues either because: 1) they are not
18 properly included in the COS revenue deficiency calculations, 2) the Company agreed to
19 exclude these items in previous cases, or 3) the Company elected to exclude certain items
20 as part of this case. I provide the details for the exclusions below.

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1 **Q. IS NMGC EXCLUDING AMOUNTS RELATED TO NMGC RATE RIDER NO. 4**
2 **AND NMGC RATE RIDER NO. 14 (THE MECHANISM USED TO CHARGE OR**
3 **REFUND COMMISSION -APPROVED AMOUNTS TO CUSTOMERS)**
4 **(COLLECTIVELY “RATE RIDERS 4 AND 14 ACTIVITY”)?**

5 **A.** Yes. Rate Riders 4 and 14 Activity is excluded from the Company’s calculation because
6 Rate Riders 4 and 14 Activity is charged to customers through the Rate Riders 4 and 14
7 mechanisms rather than in the COS for base rates. Rule 630 Schedule H-3 contains a
8 reconciliation of revenues generated through Rate Riders 4 and 14 Activity for the twelve-
9 month period ended March 31, 2023.

11 **Q. IS NMGC EXCLUDING ANY OTHER EXPENSES OR REVENUES RELATED**
12 **TO THE PURCHASED GAS ADJUSTMENT CLAUSE (“PGAC”) FROM THE**
13 **BASE PERIOD?**

14 **A.** Yes. NMGC is excluding all revenues associated with the asset management agreements
15 (“AMA”) with British Petroleum (“BP”), and Tenaska Energy Services (“TES”), wherein
16 BP and TES pay NMGC for the right to use any of NMGC’s excess pipeline capacity, and
17 splits with NMGC any profits made from such excess capacity. NMGC is also excluding
18 all revenues from its storage optimization agreements (“Storage Agreements”) with Koch
19 Energy Services (“KES”), wherein KES is given the ability to inject and withdraw from
20 storage, subject to NMGC’s approval. As we explained in the last case, NMGC splits the
21 revenues paid by BP, TES, and KES with the Purchase Gas Adjustment Clause (“PGAC”)

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1 on a 70/30 basis, with customers receiving 70% of the revenues and NMGC receiving 30%
2 of the revenues below the line.

3
4 NMGC is also excluding the fuel costs and interest costs NMGC incurred in relation to the
5 February 2021 Winter Weather Event recovery permitted under NMPRC Case No. 21-
6 00095-UT.

7
8 **Q. WHY IS NMGC EXCLUDING ALL REVENUES RELATED TO THE AMA AND**
9 **STORAGE AGREEMENTS FROM THE REVENUE REQUIREMENT**
10 **CALCULATION?**

11 **A.** These revenues arise from assets associated with NMGC's PGAC, which is separate from
12 NMGC's rate base and operating expenses. NMGC is treating the Company's share of the
13 revenues the same way NMGC treats similar revenues, such as revenues from off-system
14 sales, and therefore is excluding them from the Adjusted Base Period.

15
16 **Q. IS NMGC EXCLUDING ANY OTHER REVENUES FROM THIS CASE?**

17 **A.** Yes. In addition to the Rate Rider No. 4 activity (which includes the AMA and Storage
18 Agreements Contract revenues) and Rate Rider No. 14 activity, NMGC is also excluding
19 revenues related to Federal Utility Energy Service Contracts ("UESC").

20
21 **Q. PLEASE EXPLAIN WHAT A UESC PROJECT IS.**

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1 **A.** The federal government is allowed to contract with utilities serving federal facilities to
2 have those utilities provide measurable energy efficiency and water conservation measures.
3 These contracts can span a period of several years and generate revenue for NMGC. All
4 of the projects NMGC is involved in deal with the provision of energy efficiency and water
5 conservation measures in federal buildings or on federal installations.

6
7 **Q. WHY IS NMGC PROPOSING TO EXCLUDE THIS INCOME?**

8 **A.** First, it is uncertain whether NMGC will have the contracts in place to deliver revenue
9 from these projects in the Future Test Year. Because of the nature of the UESCs and the
10 way they are negotiated, NMGC does not control and cannot predict the timing or scope
11 of the federal entities' decisions about pursuing UESCs. Additionally, under the
12 agreements, the UESC revenues are not uniform payments over time. Instead, NMGC
13 receives most of the income early in the project in a lump sum. This type of income is not
14 appropriate to reflect in a rate case since it is not predictable or certain.

15
16 Given the uncertain nature of these programs, NMGC has proposed that income related to
17 UESC projects be shared with customers through Rate Rider No. 14. At this time, the
18 amount NMGC has received would result in a credit of less than one cent per therm to the
19 average residential customer. NMGC plans to make a filing to utilize Rate Rider No. 14
20 for UESC income once the amount to be distributed would be greater than one cent per
21 therm for the average residential customer. In the meantime, NMGC is tracking the income
22 it receives under this program and maintaining a liability on its books for these funds. As

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1 Rate Rider No. 14 revenues and costs are normally excluded from rate case determinations,
2 NMGC has excluded these potential revenues in this case.

3
4 **Q. IS NMGC EXCLUDING CONTRIBUTIONS, DONATIONS AND LOBBYING**
5 **EXPENSES IN THIS RATE CASE PROCEEDING, AS THOSE TERMS ARE**
6 **USED IN RULE 350.10?**

7 **A.** Yes.

8
9 **Q. IS NMGC EXCLUDING ANY DUES FOR PROFESSIONAL OR TRADE**
10 **ASSOCIATIONS AND SUBSCRIPTIONS TO PUBLICATIONS UNDER**
11 **17.3.350.10 NMAC?**

12 **A.** Yes. NMGC and its employees are members of numerous industry and professional
13 associations. These memberships contribute to the professional education and standing of
14 the Company's employees, and, therefore, are allowable expenses under 17.3.350.10B
15 NMAC. However, one of these associations, the American Gas Association ("AGA"),
16 engages in lobbying activities. We have excluded the lobbying portion of the AGA
17 expense incurred in the Base Period, as shown in NMGC Exhibit ECB-5.

18
19 **Q. ARE YOU FAMILIAR WITH THE PROVISIONS OF THE EMERA**
20 **STIPULATION IN NMPRC CASE NO. 15-00327-UT ("EMERA ACQUISITION**
21 **CASE")?**

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1 **A.** Yes. I have reviewed the Commission’s Final Order, as well as the Stipulation (the “Emera
2 Stipulation”) that was approved by the Commission, in the Emera Acquisition Case.

3
4 **Q.** **IS NMGC MAKING ANY EXCLUSIONS ASSOCIATED WITH PROVISIONS OF**
5 **THE EMERA STIPULATION?**

6 **A.** Yes. Consistent with the provisions of the Emera Stipulation, the Company does not
7 include any goodwill or any other Emera Stipulation items in the rate base calculations.

8
9 **Q.** **ARE YOU FAMILIAR WITH THE REVISED AMENDED STIPULATION AND**
10 **THE COMMISSION’S FINAL ORDER IN NMPRC CASE NO. 12-00264–UT, THE**
11 **COMMISSION’S INVESTIGATION RELATED TO GAS SERVICE TO CERTAIN**
12 **GAS CUSTOMERS IN NORTHWEST NEW MEXICO?**

13 **A.** Yes, I have reviewed the Commission’s Final Order, as well as the Revised Amended
14 Stipulation (the “Revised Amended Stipulation”) that was approved by the Commission,
15 in NMPRC Case No. 12-00264-UT.

16
17 **Q.** **IS NMGC MAKING ANY EXCLUSIONS PURSUANT TO THE PROVISIONS OF**
18 **THE REVISED AMENDED STIPULATION?**

19 **A.** Yes. NMGC has complied with the Revised Amended Stipulation by taking the following
20 steps. NMGC has removed the return on equity (debt only return) on the depreciated value
21 of the rate base investment. This can be seen on NMGC Exhibit ECB-3. The supporting
22 calculation is included in NMGC Exhibit ECB-4 WP Plant 7 Williams.

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1 **Q. ARE YOU FAMILIAR WITH THE PROVISIONS OF THE STIPULATION**
2 **APPROVED IN NMPRC CASE NO. 08-00078-UT, RELATED TO THE START-UP**
3 **OF NMGC AS ITS OWN COMPANY?**

4 **A.** Yes. I have reviewed the Commission’s Final Order, as well as the Amended Stipulation
5 (the “Amended Stipulation”) that was approved by the Commission, in NMPRC Case No.
6 08-00078-UT.

7
8 **Q. IS NMGC MAKING ANY EXCLUSIONS PURSUANT TO THE PROVISIONS OF**
9 **THE AMENDED STIPULATION?**

10 **A.** Yes. Pursuant to the provisions of the Amended Stipulation in NMPRC Case No. 08-
11 00078-UT, we have excluded all goodwill, original office build-out costs, and any start-up
12 technology costs from rate base.

13
14 **Q. DID NMGC EXCLUDE THE EXPENSES FOR ITS LONG-TERM INCENTIVE**
15 **COMPENSATION PROGRAM AND 401K PERFORMANCE MATCH?**

16 **A.** Yes, we elected to exclude all costs related to the Company’s Long-Term Incentive
17 Program. We also elected to exclude the amount of the 401k performance match paid by
18 the Company related to the achievement of certain financial performance metrics in the
19 Base Period. See NMGC Exhibit ECB-5 WP OM 3 BPA.

20
21 **Q. DID NMGC EXCLUDE THE EXPENSES FOR DEFERRED COMPENSATION?**

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1 **A.** Yes. NMGC excluded deferred compensation of \$42,626 related to the NMGC president's
2 compensation.

3
4 **Q. DID YOU EXCLUDE ANY OTHER AMOUNTS RELATED TO LABOR?**

5 **A.** Yes. NMGC also excluded the following Labor expenses:

- 6 • an amount that was paid in severance during the Base Period (including the impact
- 7 of the severance on the 401k Base Period amount);
- 8 • direct labor that was charged from affiliates, which are separately forecasted as a
- 9 component of affiliate charges; and
- 10 • vacation accruals that are included as base labor.

11
12 These adjustments are shown in NMGC Exhibit ECB-5 WP OM 3 BPA.

13
14 **B. BASE PERIOD ADJUSTMENTS THAT CARRY FORWARD**

15
16 **Q. IS NMGC MAKING ANY ADJUSTMENTS TO THE BASE PERIOD FOR ITEMS**
17 **THAT CARRY FORWARD TO THE FUTURE TEST YEAR?**

18 **A.** Yes. NMGC is making adjustments to certain expenses experienced in the Base Period
19 that carry forward to the Future Test Year. These adjustments were performed to create a
20 12-month period that reflects our ongoing and normalized costs of serving customers based
21 on known and measurable changes.

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Q. PLEASE PROVIDE AN OVERVIEW OF THE BASE PERIOD ADJUSTMENTS THAT CARRY FORWARD TO THE FUTURE TEST YEAR.

A. The Company made adjustments to rate base, operating expenses, and revenues. Contained within these are two types of BPA's: (i) annualization adjustments; and (ii) normalization adjustments. Collectively, these are the known and measurable adjustments to the Base Period data. The following explains these types of adjustments further:

- Annualization adjustments are intended, as the name suggests, to ensure that both the costs and revenues for the Base Period reflect information for a full twelve-month period.
- Normalization adjustments are intended to ensure that costs and revenues are representative of expected NMGC operations in the period when revised base rates are expected to be in effect.

i. Adjustments to Rate Base

Q. PLEASE SUMMARIZE THE BPAS MADE TO RATE BASE.

A. First, we made the exclusions which I have discussed above. Second, we adjusted rate base to reflect rate base items on a thirteen-month average. See NMGC Exhibit ECB-4 WP Other RB COS Inputs.

ii. Adjustments to Operating Expenses

Q. PLEASE SUMMARIZE THE BPA'S MADE TO OPERATING EXPENSES.

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1 **A.** In addition to the BPA's discussed as exclusions previously in my Direct Testimony,
2 NMGC has made several other BPA's to operating expenses to provide a better view of
3 the COS associated with the Future Test Year, including compensation-related matters,
4 administrative and general ("A&G") capitalized costs, and bad debt expenses.

5
6 **Q. PLEASE DISCUSS THE COMPENSATION AND BENEFITS RELATED**
7 **ADJUSTMENTS.**

8 **A.** NMGC made the following compensation and benefit-related BPA's, which are included
9 in NMGC Exhibit ECB-5 WP OM 3 BPA and in ECB-5 WP 5 OM 630 Schedule H-4
10 Labor:

- 11 • remove severance and labor from affiliates as discussed above;
- 12 • annualize NMGC's labor expense to reflect merit and other increases that were
13 granted during the Base Period;
- 14 • adjust NMGC's Short-Term Incentive Plan ("STIP") expense to an amount that
15 represents what the Company refers to as an "at target" STIP payout;
- 16 • remove vacation accruals;
- 17 • remove long-term incentive and deferred compensation;
- 18 • adjusts the Company's 401(k) fixed match expense to account for the changes
19 resulting from compensation-related BPA's and to remove the 401(k)-performance
20 match;

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- 1 • normalize the Base Period Pension and Other Post-Employment Benefits, and
- 2 Active Medical Expenses to reflect recent studies as determined by the Company’s
- 3 actuary, Mercer Health and Benefits, LLC (“Mercer”);
- 4 • adjust active medical expenses as determined by Mercer; and
- 5 • normalize labor vacancies and overtime pay to reflect historical levels.
- 6

7 **Q. DID NMGC MAKE ANY ADJUSTMENTS RELATED TO THE INSPECTION**
8 **AND SUPERVISION FEES PAID ANNUALLY TO THE COMMISSION?**

9 **A.** Yes. NMGC removed the Inspection and Supervision fees when calculating the Adjusted
10 Base Period. See NMGC Exhibit ECB-5 WP GT 4 Misc Taxes. NMGC recalculated this
11 amount in the Future Test Year. See NMGC Exhibit ECB-3 COS Summary.

13 **Q. DID THE COVID-19 PANDEMIC IMPACT NMGC’S BUSINESS?**

14 **A.** Yes. NMGC’s business was impacted by the effects of the COVID-19 Pandemic. As
15 discussed earlier in my Direct Testimony, other than bad debt expenses, the costs and
16 savings incurred by NMGC during the base period essentially offset.

18 **Q. HAS NMGC MADE ANY ADJUSTMENTS TO THE BASE PERIOD TO REFLECT**
19 **THE IMPACTS OF THE COVID-19 PANDEMIC?**

20 **A.** Yes. NMGC has made BPAs to normalize bad debt expense to historical levels. In
21 addition, NMGC has normalized certain revenue credits, including miscellaneous service
22 revenues and late payment penalties to historical levels in the Base Period. These

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1 adjustments serve to reduce bad debt expenses and increase revenue credits and carry
2 forward into the Future Test Year.

3
4 **Q. HOW DID NMGC ADJUST THE BASE PERIOD TO NORMALIZE THESE**
5 **COSTS AND REVENUES?**

6 **A.** NMGC took historical data for the three years prior to the pandemic – July 2016 through
7 June 2019 – and averaged the values. NMGC then adjusted these values for inflation to
8 arrive at the Adjusted Base Period values.

9
10 **iii. Adjustments to Revenue**

11 **Q. WERE ANY BPAS MADE TO REVENUE CREDITS?**

12 **A.** Yes, revenue for the discounted on-system transportation were adjusted by:

- 13 • reducing revenue related to a customer capacity contract that is scheduled to expire
14 in April 2024;
- 15 • normalizing late payment penalties and miscellaneous revenue to historical levels
16 based on the three-year average from the years 2017 through 2019 (see discussion
17 above).

18
19 **iv. Adjustments to Taxes**

20 **Q. WERE ANY BPAS MADE TO TAXES?**

21 **A.** Yes, adjustments were made to taxes. First, NMGC made an adjustment to General Taxes,
22 to true-up the Base Period amounts for actual taxes owed. See NMGC Exhibit ECB-5 WP

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1 Gen Tax COS Inputs. Second, NMGC made an adjustment to payroll taxes to account for
2 compensation adjustments made to the Base Period and to remove the impact of an
3 accounting error related to state unemployment taxes that occurred during the Base period
4 and was corrected in Linkage Period 1. See NMGC Exhibit ECB-5 WP GT 3 Payroll Tax.
5 Third, adjustments were made related to Federal and New Mexico Income Taxes, as
6 discussed by NMGC Witness Avellan.

C. LINKAGE PERIODS AND FUTURE TEST YEAR

i. Development of Revenue Requirement

11 **Q. WHAT FUTURE TEST PERIOD DID NMGC USE TO DEVELOP THE REVENUE**
12 **REQUIREMENT SUPPORTING THE COMPANY’S RATE REQUEST IN THIS**
13 **PROCEEDING?**

14 **A.** The Future Test Period used to determine the revenue requirements for the rates requested
15 by NMGC in this proceeding is the twelve-month period ending September 30, 2025.

17 **Q. WHAT IS NMGC’S REVENUE REQUIREMENT IN THE FUTURE TEST YEAR?**

18 **A.** NMGC’s revenue requirement during the Future Test Year is \$265.2 million and is shown
19 in NMGC Exhibit ECB-3 COS Summary.

21 **Q. IS THERE A REVENUE DEFICIENCY RESULTING FROM THE REVENUE**
22 **REQUIREMENT IN THE FUTURE TEST YEAR?**

1 **A.** Yes. The revenue deficiency in the Future Test Year is \$48.97 million. See NMGC Exhibit
2 ECB-3 COS Summary.

3

4 **Q. PLEASE DESCRIBE GENERALLY HOW NMGC DEVELOPED THE FUTURE**

5 **TEST YEAR REVENUE REQUIREMENT.**

6 **A.** The Future Test Year was developed by using certain forecasts related to capital
7 investments, operating expenses, income taxes, and revenue credits. A detailed discussion
8 of the methodologies used to develop the amounts included in the Future Test Year revenue
9 requirement is presented below. As required under Rule 17.1.3.12(D) NMAC, NMGC
10 included the required linkage data from the Adjusted Base Period to the Future Test Year
11 revenue requirement in the workpapers supporting the COS. The details of the capital
12 investments are provided by NMGC Witnesses Tom C. Bullard, Denise E. Wilcox, Tommy
13 H. Sanders, and Kevin I. Farr.

15 **ii. Rate Base**

16 Q. PLEASE DESCRIBE THE RATE BASE USED IN THE DEVELOPMENT OF THE
17 FUTURE TEST YEAR REVENUE REQUIREMENT IN THIS CASE?

18 **A.** Pursuant to 17.1.3.16(C)(1) NMAC, because the Future Test Year period begins at least
19 twelve months after the end of the Base Period, an average rate base is required to be used,
20 utilizing the projected thirteen-month average of the Future Test Year period. NMGC
21 developed its Future Test Year rate base using a projected thirteen-month average of
22 balances through September 30, 2025, which is the end of the Future Test Year.

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1 **Q. PLEASE DESCRIBE THE ADJUSTMENTS THAT WERE MADE TO RATE**
2 **BASE IN THE FUTURE TEST YEAR COST OF SERVICE STUDY.**

3 **A.** The rate base adjustments made in the Future Test Year COS study include adjustments to
4 net plant-in-service, ADIT, Regulatory Assets and Liabilities, Other Rate Base Items, and
5 Working Capital. Please refer to NMGC Witness Avellan's Direct Testimony for a
6 discussion of ADIT included in the Future Test Year revenue requirement. The other areas
7 are discussed below.

8
9 **Q. WHAT IS NET PLANT-IN-SERVICE?**

10 **A.** Net plant-in-service is the gross plant in service minus accumulated depreciation and
11 amortization.

12
13 **Q. PLEASE DESCRIBE HOW THE NET PLANT-IN-SERVICE WAS DEVELOPED**
14 **FOR THE FUTURE TEST YEAR RATE BASE.**

15 **A.** The net plant-in-service balance included in the Future Test Year is based on a thirteen-
16 month average of the net plant-in-service balances. NMGC's Net Plant-In-Service
17 balances for this period begin with the per book net plant-in-service balances as of March
18 31, 2023. NMGC then added the projected plant clearings and accumulated depreciation
19 for each month from April 2023 through September 2025, to develop the monthly net plant-
20 in-service balances. NMGC calculated a thirteen-month average of the monthly net plant-
21 in-service balances from September 2024 through September 2025 to develop the rate base
22 amount included in the Future Test Year. Please refer to NMGC Witness Bullard's Direct

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1 Testimony for further discussion of the development of the capital budget for capital
2 investments. Please see NMGC Exhibit ECB-4 WP Plant 1 Net Plant Balances.

3
4 **Q. PLEASE SUMMARIZE THE PLANT CLEARINGS TO GROSS PLANT THAT**
5 **ARE INCLUDED IN THE LINKAGE DATA AND FUTURE TEST YEAR**
6 **PERIODS.**

7 **A.** NMGC Witness Bullard's Direct Testimony includes NMGC Exhibits TCB-2 through
8 TCB-8, which represent capital forecasts related to this rate case. For the exhibits which
9 represent specifically forecasted capital projects, the Model relies on inputs that assume
10 projects clear to plant-in-service one month after the last month of forecasted capital
11 spending.

12
13 For the exhibits which represent Transmission and Distribution Blankets, spending levels
14 are assumed to clear to plant in service per the following schedule:

- 15 • March Clearings: January and February forecasts
- 16 • June Clearings: March, April and May forecasts
- 17 • September Clearings: June, July and August forecasts
- 18 • December Clearings: September, October, November and December forecasts.

19
20 For certain other capital expenditures, which include IT hardware, facilities security, and
21 certain transmission and distribution projects, spending levels are assumed to clear to plant
22 yearly in December.

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1 In addition, as forecasts clear to plant-in-service, the Model also checks for any March 31,
2 2023 Construction Work In Progress (“CWIP”) balances and clears those amounts as well.
3

4 **Q. PLEASE EXPLAIN HOW ACCUMULATED DEPRECIATION IS DETERMINED**
5 **FOR THE FUTURE TEST YEAR.**

6 **A.** The accumulated depreciation balances were developed by taking the actual accumulated
7 depreciation balances as of March 31, 2023 and including calculated monthly depreciation
8 expense based on the forecasted plant-in service balances. See NMGC Exhibit ECB-4 WP
9 Plant 6 Accum Res Balances. The monthly depreciation expense through August 2023
10 was calculated using NMGC’s depreciation rates approved in the 2019 Rate Case. Starting
11 in September 2023, depreciation expense and related accumulated depreciation balances
12 were calculated using depreciation rates pursuant to 17.3.340.10(E) NMAC, which were
13 filed with the Commission on June 30, 2023.
14

15 **Q. HOW HAS NMGC TREATED ACCUMULATED DEFERRED INCOME TAXES**
16 **IN THE LINKAGE PERIODS AND FUTURE TEST YEAR?**

17 **A.** NMGC Witness Avellan, in his Direct Testimony, addresses how NMGC treated
18 accumulated deferred income taxes.
19

20 **Q. PLEASE IDENTIFY THE OTHER RATE BASE ITEMS IN THE FUTURE TEST**
21 **YEAR REVENUE REQUIREMENT.**

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1 **A.** Please refer to NMGC Exhibit ECB-4 WP Other RB COS Inputs for a summary of items
2 in the Future Test Year revenue requirement. NMGC has included balances associated
3 with customer deposits, injuries and damages, non-refundable contributions in aid of
4 construction (“CIAC”), certain AROs, rights-of-ways (“ROW”), IMP Regulatory Asset,
5 COVID Regulatory Asset, Hansen CIS Regulatory Asset, a Legal Regulatory Liability,
6 and the Rate Case Expenses. I discuss the treatment of each of these balances in the Future
7 Test Year below. Please refer to the Regulatory Assets and Liabilities, and Other
8 Allowable Expenses sections for discussion on the Regulatory Assets and Liabilities and
9 the Rate Case Expenses.

10
11 **Q.** **PLEASE DISCUSS THE CUSTOMER DEPOSITS AND INJURIES AND**
12 **DAMAGES BALANCES INCLUDED IN THE FUTURE TEST YEAR REVENUE**
13 **REQUIREMENT.**

14 **A.** The Future Test Year balances are the same as the Adjusted Base Period balances as
15 NMGC does not expect any significant changes to these balances.

16
17 **Q.** **PLEASE DISCUSS THE TREATMENT OF NON-REFUNDABLE CIAC IN THE**
18 **FUTURE TEST YEAR REVENUE REQUIREMENT.**

19 **A.** Non-refundable CIAC amortizes throughout the periods and reflects a Future Test Year
20 adjustment to reflect a thirteen-month average.

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1 **Q. PLEASE DISCUSS THE TREATMENT OF COSTS FOR RIGHTS-OF-WAY IN**
2 **THE FUTURE TEST YEAR REVENUE REQUIREMENTS.**

3 **A.** NMGC determined monthly rights-of-way balances, beginning with actual balances as of
4 March 31, 2023, less monthly amortization from April 2023 through September 2025, plus
5 any new rights-of-way or renewals of rights-of-way projected during the same period.
6 NMGC included expected amortization of rights-of-way renewals from April 2023 through
7 September 2025. Rights-of-way amortization expense is included in operating expenses.
8 Please refer to the Direct Testimony of NMGC Witness Bullard for a discussion of rights-
9 of-way renewals included in the linkage data and Future Test Year NMGC also makes a
10 Future Test Year adjustment to reflect a thirteen-month average. Please see NMGC Exhibit
11 ECB-5 630 Schedule H-7.1 Dist ROW and 630 Schedule H-7.2 Tans ROW.

12
13 **iii. O&M Expense**

14 **Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO O&M EXPENSES IN THE**
15 **FUTURE TEST YEAR REVENUE REQUIREMENTS.**

16 **A.** The starting point for the Future Test Year O&M was the Adjusted Base Period O&M.
17 NMGC Exhibit ECB-5 WP 2 OM 630 Sched H1 OM Summary provides the calculation
18 of the portion of non-labor O&M that is based on the escalation factors, and NMGC Exhibit
19 ECB-4 WP OM 4 Separately Forecasted provides a summary of the specific O&M items
20 that were individually projected to develop the Future Test Year.

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1 **Q. PLEASE SUMMARIZE THE O&M EXPENSES INCLUDED IN THE FUTURE**
2 **TEST YEAR REVENUE REQUIREMENTS THAT ARE SEPARATELY**
3 **FORECASTED.**

4 **A.** NMGC Exhibit ECB-5 WP OM 4 Separately Forecasted provides the adjustments to O&M
5 that have been specifically identified and separately forecasted based on individual factors.
6 These adjustments include: labor, short term incentive compensation, 401(k), active
7 medical and dental, pension and retiree medical, transmission integrity programs, general
8 liability insurance costs, Board of Directors costs, non-interest revolver costs, Hansen CIS
9 expenses (which reflect O&M costs which are not included in the amounts included
10 regulatory asset request), removing the Espanola facility lease expense, facilities security
11 costs, savings from the installation of solar panels on certain facilities, and allocations from
12 shared services, net of amounts removed for allocated long-term incentive programs.

13
14 **Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO LABOR EXPENSES**
15 **FROM THE ADJUSTED BASE PERIOD TO THE FUTURE TEST YEAR**
16 **REVENUE REQUIREMENTS.**

17 **A.** Base labor and overtime expenses were escalated from the Adjusted Base Period using a
18 5.5% annual labor escalator, a 1.75% escalator for Linkage Period 1, a 1.72% for Linkage
19 Period 2, and a 11.23% escalator in the Future Test Year. Please refer to the Direct
20 Testimony of NMGC Witness Wilcox for further discussion of these labor changes. See
21 NMGC Exhibit ECB-5 WP OM 5 630 Schedule H-4 Labor for the impact of these
22 adjustments.

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1 **Q. DOES THE COMPANY HAVE A PENSION PLAN?**

2 **A.** Yes, the Company has a qualified plan, as defined by the Employee Retirement Security
3 Act.

4

5 **Q. IS NMGC SEEKING TO INCLUDE ANY AMOUNTS IN ITS RATE BASE**
6 **ASSOCIATED WITH PENSION ASSETS AND LIABILITIES?**

7 **A.** No.

8

9 **Q. IS NMGC SEEKING RECOVERY OF PENSION EXPENSES?**

10 **A.** Yes.

11

12 **Q. WHAT IS THE BASIS FOR THESE EXPENSES?**

13 **A.** As discussed in the Direct Testimony of NMGC Witness Wilcox, NMGC's pension plan
14 expense is based on actuarial calculations prepared by NMGC's actuary, Mercer, in
15 accordance with ASC 715-30.

16

17 **Q. HOW IS NMGC ACCOUNTING FOR OTHER POST-RETIREMENT BENEFITS**
18 **COSTS?**

19 **A.** NMGC's post-retirement benefits costs (i.e., retiree medical) are well funded and result in
20 a net credit to forecasted expenses. Therefore, NMGC is including the net periodic benefit
21 credit associated with the plan in its COS, which benefits customers.

22

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1 **Q. HOW DID NMGC DEVELOP THE ACTIVE MEDICAL AND DENTAL EXPENSE**
2 **FOR THE FUTURE TEST YEAR REVENUE REQUIREMENTS?**

3 **A.** As discussed in the Direct Testimony of NMGC Witness Wilcox, NMGC used forecasts
4 from its actuary, Mercer, to forecast the Linkage period and Future Test Year active
5 medical and dental expenses. See NMGC Exhibit ECB-5 WP OM 4 Separately Forecasted.

6
7 **Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO THE SHORT-TERM**
8 **INCENTIVE PLAN EXPENSE TO DEVELOP THE FUTURE TEST YEAR**
9 **REVENUE REQUIREMENTS.**

10 **A.** The estimated Future Test Year expense is based on authorized positions and wages as of
11 June 2023 and includes normalizing the amount for vacancies. Labor is then multiplied by
12 the expected incentive plan target-level percentages discussed in the Direct Testimony of
13 NMGC Witness Wilcox. The resulting amount is then escalated using the labor escalators
14 described above. These amounts are included in NMGC Exhibit ECB-5 WP OM 4
15 Separately Forecasted, NMGC Exhibit ECB-5 OM 630 Schedule H-4 Labor, and NMGC
16 Exhibit ECB-5 WP OM 6 Incentive Comp.

17
18 **Q. PLEASE SUMMARIZE THE O&M EXPENSES INCLUDED IN THE FUTURE**
19 **TEST YEAR REVENUE REQUIREMENT THAT ARE ALLOCATED TO NMGC**
20 **FROM AFFILIATES.**

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1 **A.** The starting point for the Future Test Year O&M was the Adjusted Base Period O&M.
2 Separate forecasts for allocations from affiliates were used in the Linkage and Future Test
3 Year periods. This is shown in NMGC Exhibit ECB-5 WP OM 4 Separately Forecasted.

4
5 **Q. HOW WERE SHARED SERVICES O&M EXPENSES ALLOCATED TO NMGC**
6 **IN THE FUTURE TEST YEAR REVENUE REQUIREMENTS?**

7 **A.** The CAM methodologies were used for shared services O&M expenses in the Future Test
8 Year.

9
10 **iv. Depreciation and Amortization Expense**

11 **Q. WHAT DEPRECIATION RATES HAS NMGC USED TO ESTIMATE**
12 **DEPRECIATION EXPENSE IN THE FUTURE TEST YEAR AND LINKAGE**
13 **DATA?**

14 **A.** NMGC has utilized the depreciation rates that were submitted to the Commission on
15 October 21, 2019, and went into effect by operation of law on December 20, 2019, to
16 develop depreciation expense through August 2023. Starting in September 2023,
17 depreciation expenses are calculated using depreciation rates filed with the Commission
18 on June 30, 2023. See NMGC Exhibit ECB-4 630 Schedule C-2 Depr Rates.

19
20 **Q. DID NMGC MANUALLY CALCULATE AMORTIZATION OR DEPRECIATION**
21 **EXPENSE FOR ANY ASSETS IN THE LINKAGE DATA AND FUTURE TEST**
22 **YEAR?**

1 **A.** Yes. The depreciation expense associated with the ARO accretion is input based on the
2 values provided in NMGC Exhibit ECB-4 630 Schedule I-1.4 ARO. See NMGC Exhibit
3 ECB-4 WP Plant 5 Depreciation Exp and NMGC Exhibit ECB-4 630 Schedule H-7b for
4 details.

6 Q. PLEASE DESCRIBE HOW RIGHTS-OF-WAY AMORTIZATIONS AND
7 RENEWALS ARE HANDLED IN THE LINKAGE AND FUTURE TEST YEAR
8 PERIODS.

9 **A.** Amortizations of existing rights-of-way balances have been included in the Linkage and
10 Future Test Year periods based on existing amortization schedules, which typically follow
11 the expected term of the underlying right-of-way agreement. In addition, amortizations of
12 the new rights-of-way and rights-of-way renewals expected to occur between April 2023
13 and September 2025 are included in the Linkage Periods and Future Test Year Period.
14 Please refer to the Direct Testimony of NMGC Witness Bullard for a detailed discussion
15 of new rights-of-way and rights-of-way renewals. See NMGC Exhibit ECB-4 630
16 Schedule H-7.1 Trans ROW and 630 Schedule H-7.2 Dist ROW.

18 **v. General Taxes**

19 **Q. PLEASE DESCRIBE HOW PROPERTY TAXES WERE DERIVED IN THE**
20 **FUTURE TEST YEAR REVENUE REQUIREMENT.**

21 **A.** Property taxes were derived in the Future Test Year as follows: NMGC first determined
22 the location of the taxable plant in service at the end of the Base Period (i.e. whether the

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1 plant was located on land owned by private parties and governmental entities, or was it
2 located on land owned by Native American Pueblos, Tribes, and Nations). NMGC
3 determined that 95% of the taxable plant in service is located on lands owned by private
4 parties or governmental entities (and thus is taxable for property tax purposes), and 5% is
5 located on lands owned by Native American Pueblos, Tribes, and Nations (“Native
6 American Lands”). Second, since property tax rates differ depending on the location of
7 the plant in service, NMGC developed composite property tax rates for both state and
8 Native American Lands.

9
10 **Q. HOW DID NMGC CALCULATE COMPOSITE PROPERTY TAX RATES IN THE**
11 **FUTURE TEST YEAR REVENUE REQUIREMENT?**

12 **A.** The composite tax rates for state and Native American Lands were calculated using 2022
13 actual assessed values and property taxes. This same rate was then used to calculate
14 property taxes during the Future Test Year.

15
16 **Q. PLEASE DESCRIBE HOW NMGC FORECASTS THE TAXES PAYABLE FOR**
17 **STATE LANDS IN THE FUTURE TEST YEAR REVENUE REQUIREMENT.**

18 **A.** NMGC took 95% of the taxable plant in service balance attributable to state lands, divided
19 the resulting balance by three and multiplied it by the composite property tax rates for State
20 lands for the period. For example, the property tax expense for the Future Test Year was
21 calculated based on the expected taxable plant in service balance as of December 31, 2023

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1 allocated to state lands and multiplied by the estimated state land composite. See NMGC
2 Exhibit ECB-5 WP 2 GT-2 Property Tax for calculation of property tax expense.

3
4 **Q. PLEASE DESCRIBE HOW NMGC FORECASTS THE TAXES PAYABLE TO**
5 **NATIVE AMERICAN PUEBLOS, TRIBES, AND NATIONS IN THE FUTURE**
6 **TEST YEAR REVENUE REQUIREMENT.**

7 **A.** Similar to the process for state lands, NMGC took 5% of its taxable plant in service balance
8 attributable to Native American Lands and multiplied it by the composite tax rate for such
9 lands to calculate expected future Native American possessory interest taxes (“PIT”). See
10 NMGC Exhibit ECB-5 WP GT 2 Property Tax.

11
12 **Q. PLEASE DESCRIBE HOW PAYROLL TAXES WERE DERIVED IN THE**
13 **FUTURE TEST YEAR REVENUE REQUIREMENTS.**

14 **A.** As discussed earlier, NMGC normalized the labor expenses, including incentive
15 compensation, included in the Future Test Year revenue requirements. In addition, NMGC
16 adjusted labor expenses to reflect expected annual merit and other wage increases paid to
17 NMGC employees. NMGC used the historical payroll taxes, adjusted to remove the impact
18 of an accounting error related to state unemployment taxes in the Base Period that were
19 corrected in Linkage Period 1, to derive a composite payroll tax rate. This rate was applied
20 to O&M Labor expenses to determine forecasted Linkage and Future Test Year period
21 payroll tax expenses.

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1 NMGC only included payroll tax expense expected to be incurred for labor that is recorded
2 to the income statement, and not for labor that is capitalized. As a result, the amount of
3 payroll taxes included in the Future Test Year revenue requirements is already reflected
4 net of any payroll taxes that would be capitalized. See NMGC Exhibit ECB-5 WP 3 GT
5 Payroll Taxes for a summary of payroll taxes included in the Future Test Year.
6

7 **Q. WHAT ARE THE OTHER COMPONENTS OF GENERAL TAXES AND HOW**
8 **THEY WERE DERIVED IN THE FUTURE TEST YEAR REVENUE**
9 **REQUIREMENTS?**

10 **A.** The other components of general taxes include other miscellaneous taxes such as pipeline
11 safety fees. NMGC escalated the pipeline safety fees at 1.34% as this is reflective of the
12 increase experienced during the five years ending in 2023. This escalation occurs June
13 2023, June 2024, and June 2025. See NMGC Exhibit ECB-5 WP 4 GT Misc. Taxes.
14

15 **vi. Other Allowable Expenses (Returns)**

16 **Q. PLEASE IDENTIFY THE COMPONENTS INCLUDED FOR RECOVERY IN**
17 **OTHER ALLOWABLE EXPENSES BASED ON AMORTIZATION SCHEDULES.**

18 **A.** NMGC Exhibit ECB-3 COS Summary summarizes the requested other allowable expenses
19 (returns) used to develop the Future Test Year revenue requirements. These other allowable
20 expenses include the following:

- 21 • interest on customer deposits;
- 22 • IMP Regulatory Asset amortization;

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- 1 • rights-of-way accruals on unrenewed ROWs;
- 2 • amortization of COVID Regulatory Asset;
- 3 • amortization of Hansen CIS Regulatory Asset;
- 4 • amortization of Legal Regulatory Liability;
- 5 • amortization of rate case expenses including expenses related to this case.

6

7 **Q. PLEASE DISCUSS THE TREATMENT OF INTEREST ON CUSTOMER**
8 **DEPOSITS INCLUDED IN OTHER ALLOWABLE EXPENSES IN THE FUTURE**
9 **TEST YEAR REVENUE REQUIREMENT.**

10 **A.** Consistent with past rate case treatment, NMGC included recovery of interest on customer
11 deposits. NMGC does not expect any significant changes to customer deposit balances or
12 to the interest charged on customer deposits, so NMGC used the amounts included in the
13 Adjusted Base Period as the forecast for the Future Test Year revenue requirement. The
14 expense associated with these deposits is included in Other Allowable Expenses and the
15 balance of customer deposits held by NMGC is included as a reduction to rate base. See
16 NMGC Exhibits ECB-3 COS Summary, and NMGC Exhibit ECB-4 WP Other RB COS
17 Inputs.

18

19 **Q. PLEASE DISCUSS ACCRUALS FOR UNRENEWED RIGHTS-OF-WAY**
20 **INCLUDED IN OTHER ALLOWABLE EXPENSES IN THE FUTURE TEST**
21 **YEAR REVENUE REQUIREMENT.**

1 **A.** NMGC expects some rights-of-way agreements will not be renewed by September 30,
2 2025. However, because NMGC continues to use this land to provide service it is required
3 to record a liability to reflect an estimate of the costs that will be paid upon the renewal of
4 the agreement. This liability is included in Rate Base and the associated expense is
5 included in Other Allowable Expenses. See NMGC Exhibit ECB-4 630 Schedule 7.1 Dist
6 ROW and 630 Schedule 7.2 Trans ROW for more information.

9 **Q. HOW HAS NMGC CALCULATED THE INCOME TAX EXPENSES INCLUDED**
10 **IN THE FUTURE TEST YEAR REVENUE REQUIREMENTS?**

1 **A.** The income tax expense included in the Future Test Year revenue requirements is based
2 on the applicable 21% federal and 5.57% state income tax rates that are expected to be
3 effective in the Future Test Year. See NMGC Exhibit ECB-3 COS Summary. Please refer
4 to NMGC Witness Avellan for further discussion of the income tax expense included in
5 the Future Test Year revenue requirements.

8 Q. HOW WERE THE AMOUNTS FOR THE REVENUE CREDITS DEVELOPED
9 FOR PURPOSES OF THE FUTURE TEST YEAR REVENUE REQUIREMENTS?

A. Discounted on-system transportation revenues were adjusted with a forecast for each discounted transportation customer for the time periods following the Base Period. The late payments and miscellaneous revenue were adjusted to remove the impact of COVID-

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1 19 during the Base Period and escalated using the total customer count growth of 0.5% to
2 apply an escalation rate. The Other Operating Revenues were adjusted for any contract
3 changes within the Linkage Period and the Future Test Year. Each of these adjustments
4 can be found in NMGC Exhibit ECB-3 Summary COS and NMGC Exhibit ECB-4 WP
5 Other RB COS Inputs.

6
7 **V. FULLY FUNCTIONAL COS MODEL**

8
9 **A. FULLY FUNCTIONAL MODEL**

10
11 **Q. ARE YOU FAMILIAR WITH THE NMPRC'S REQUIREMENTS FOR A FULLY**
12 **FUNCTIONAL MODEL?**

13 **A.** Yes, this is required by rule 17.1.3 NMAC (the "Future Test Year Rule"). The
14 requirements of 17.1.3.11 NMAC are as follows:

15
16 Base Period, linkage data and Future Test Year Period data filed to support the rate
17 application must be provided in fully-functional electronic format so that amounts in
18 schedules and supporting work papers required by this rule and the Commission's data
19 rules can be traced with relative ease to supporting, detailed data.

20 A. Fully-functional electronic format allows Commission Staff and Intervenors (the
21 "Parties") to make adjustments that would carry through to the jurisdictional
22 revenue requirement.

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1 B. If the inputs to the fully functioning electronic support for the Future Test Year
2 period are fed by systematic calculations within other programs that are not
3 downloadable to fully functioning and executable spreadsheets, the utility will
4 rerun such supporting programs for input changes reasonably required by the
5 Parties so as to be able to capture the impact of such proposed input changes on the
6 Future Test Year period jurisdictional Model.

7 C. The utility shall identify any data that is not provided in fully-functional electronic
8 format and provide the reason why the data is not provided in fully-functional
9 electronic format.

10
11 17.1.3.12 NMAC further provides that “The rate application shall include:

- 12 • a Base Period;
- 13 • an Adjusted Base Period;
- 14 • a Future Test Year period; and
- 15 • verifiable information for the linkage data to allow the Parties to assess the validity
- 16 of the information contained in the Future Test Year period described in Sections
- 17 15, 16, 17 and 18 of this rule.”

18
19 **Q. USING THESE REQUIREMENTS AS A STARTING POINT, HAS NMGC**
20 **DEVELOPED A FULLY FUNCTIONING MODEL TO SUPPORT ITS RATE**
21 **REQUEST BASED UPON A FUTURE TEST YEAR?**

22 **A. Yes. NMGC has filed a fully-functional Excel-based model to support its rate case filing.**

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1 **Q. IN YOUR OPINION, DOES THE MODEL COMPLY WITH THE**
2 **COMMISSION’S REQUIREMENTS AS SET FORTH IN THE NMAC?**

3 **A.** Yes, the Model, is (with a few exceptions that I will discuss later in my Direct Testimony)
4 fully functional and provides all required data to support the determination of the
5 Company’s COS. The amounts in all schedules and workpapers can be easily traced, and
6 the assumptions used to develop the Future Test Year COS are provided in working
7 electronic files.

8
9 **Q. AS PART OF THE PREPARATION OF NMGC’S RATE CASE, WAS THE**
10 **MODEL TESTED FOR ITS ACCURACY?**

11 **A.** Yes. NMGC undertook a detailed review of the Model. We ensured the inclusion of
12 necessary historical data in the Model, reviewed adjustments to the historical data through
13 the Linkage Periods, confirmed the resulting impacts on the Future Test Year data,
14 reviewed the results for reasonableness, and tested and verified the flow of data within the
15 Model. In addition, part of PA Consulting’s scope of work in this case was to perform a
16 separate detailed review of the Model to ensure it remains fully functional and that it is
17 clerically accurate.

18
19 **Q. DOES NMGC’S MODEL HAVE THE SAME FUNCTIONALITY AS OTHER**
20 **FUNCTIONAL MODELS ACCEPTED BY THIS COMMISSION?**

21 **A.** Yes. As discussed above, NMGC’s Model contains the same functionality as other
22 functional models used NMGC’s 2019 and 2021 Rate Cases.

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1 **Q. CAN THE NMPRC, STAFF AND OTHER PARTIES TO THIS RATE**
2 **PROCEEDING REASONABLY RELY UPON THE MODEL TO ESTABLISH**
3 **NEW RATES IN THIS PROCEEDING?**

4 **A.** Yes. The Model contains historical and forecasted data pertinent to the Company's cost of
5 providing services to its customers. The Model captures and summarizes the cost of, and
6 investment in, these initiatives. The Model provides a functional and appropriate means
7 by which to review, modify, and determine the Company's COS in this rate proceeding.
8 The Model provides detailed information regarding all components of rate base and
9 operations expenses. Adjustments, if any, can be easily flowed through the Model.

10
11 **B. TIME PERIODS CONTAINED IN THE MODEL**

12
13 **Q. WHAT TIME PERIODS DID NMGC USE TO DEVELOP THE REVENUE**
14 **REQUIREMENTS SUPPORTING THE COMPANY'S RATE REQUEST IN THIS**
15 **PROCEEDING?**

16 **A.** As described in my Direct Testimony, the Company's Base Period reflects data for the
17 twelve months ending March 31, 2023. The Adjusted Base Period reflects data for this
18 same twelve-month period adjusted for known and measurable changes. The Company
19 then utilized a Future Test Year Period consisting of the twelve-month period ending
20 September 30, 2025. As required by the Future Test Year Rule, Linkage Period data is
21 provided to "bridge the gap" between the historical Base Period and the Future Test Year
22 period. Linkage Period 1 provides data for the twelve months ended March 31, 2024

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1 (“Linkage Period 1”), while Linkage Period 2 sets forth information for the twelve months
2 ending September 30, 2024 (“Linkage Period 2,” collectively the “Linkage Periods”).
3

4 **Q. PLEASE DESCRIBE THE SOURCE OF THE DATA USED IN THE MODEL FOR**
5 **THE BASE PERIOD.**

6 **A.** The Base Period represents twelve months of actual, unadjusted historical financial data
7 from the Company’s financial books and records.
8

9 **Q. PLEASE DESCRIBE THE SOURCE OF THE DATA USED IN THE ADJUSTED**
10 **BASE PERIOD.**

11 **A.** The Adjusted Base Period utilizes the same financial data for the twelve-month period used
12 for the Base Period but reflects adjustments for known and measurable changes. Including
13 these known and measurable changes is necessary and appropriate to accurately show rate
14 base and operating expenses on a prospective basis.
15

16 **Q. PLEASE EXPLAIN WHY THE LINKAGE PERIODS OVERLAP.**

17 **A.** The Linkage Periods are intended to provide a clear, annualized line of sight from the Base
18 Period to the Future Test Year period. Given that there is an 18-month span between the
19 Base Period and the Future Test Year period, the Company is providing data for two
20 twelve-month periods between the Base and Future Test Year periods to provide the
21 annualized data between periods. Linkage Period 1 provides data for the twelve months
22 immediately following the Base Period. Linkage Period 2 provides data for the twelve

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1 months immediately preceding the Future Test Year. As such, there is an overlap between
2 the Linkage Periods. The overlap period is October 1, 2023 through March 31, 2024.

C. HOW THE MODEL WORKS

3
4
5
6 **Q. HAVE YOU PROVIDED OPERATING INSTRUCTIONS ON HOW TO UTILIZE**
7 **THE FUNCTIONAL MODEL?**

8 **A.** Yes. NMGC Exhibit ECB-2 provides instructions to facilitate the Parties review of the
9 Model. It is important that users read and understand these instructions before utilizing the
10 Model.

11
12 Additionally, NMGC will be arranging sessions with the Parties to facilitate their
13 understanding of the operations of the Model and to answer any questions regarding
14 functionality of the Model.

15
16 **Q. WHAT DO USERS OF NMGC'S FUTURE TEST YEAR MODEL NEED TO**
17 **KNOW PRIOR TO USING THE MODEL?**

18 **A.** Due to the linkages between the workbooks, for the Model to fully function and update, all
19 workbooks within the Model need to be open at the same time when attempting to modify
20 or adjust any calculations in the Model. In essence, the workbooks need to be able to speak
21 to each other.

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1 **Q. PRIOR TO DISCUSSING THE SPECIFICS OF THE MODEL, CAN YOU DEFINE**
2 **SOME GENERAL TERMS TO BE UNDERSTOOD?**

3 **A.** Yes. I use the terms “workbook,” “worksheet,” and “tab” extensively throughout my
4 Direct Testimony when describing the Model. The term “workbook” refers to an entire
5 Excel file. I use the terms “worksheet” and “tab” interchangeably to refer to an individual
6 tab within an Excel workbook. A linked workbook refers to an external Excel workbook
7 outside of the existing Excel® workbook. A linked worksheet refers to a worksheet within
8 the existing Excel workbook.

10 **Q. PLEASE IDENTIFY THE WORKBOOKS THAT COMPRISE THE MODEL.**

11 **A.** The Model consists of three separate workbooks. The first workbook is the COS
12 Workbook and is labeled as NMGC Exhibit ECB-3. The Workbook summarizes data from
13 the remaining workbooks and supports the calculation of the Company’s overall COS,
14 including rate base and operations expenses.

16 The second workbook, which has been labeled as NMGC Exhibit ECB-4, is the Rate Base
17 Workbook and, as the name implies, provides details and support for each component of
18 rate base.

20 The third and final workbook, which has been labeled as NMGC Exhibit ECB-5, is the
21 Operations Expense Workbook, which provides details and support for each category of
22 NMGC’s O&M expenses included in the filing.

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1 **Q. PLEASE DESCRIBE HOW THE WORKBOOKS INTERRELATE.**

2 **A.** To ensure the functionality of the Model, the worksheets are “linked” so information flows
3 between worksheets and workbooks. Parties can follow the linkages to source/supporting
4 data within the workbooks by placing the cursor on a cell and clicking on “Formulas” in
5 the “ribbon” or “toolbar” and then “Trace Precedents” within the formula auditing section
6 of the ribbon. These linkages need to be preserved to ensure the flow and functionality of
7 the Model. If the linkages are “broken”, the Model will not function as designed and/or
8 intended.

9
10 The COS Workbook is, in essence, a summary of the Rate Base Workbook and the
11 Operations Expense Workbook. Parties should make changes to the Model in the Rate
12 Base Workbook and/or the Operations Expense Workbook. These two workbooks contain
13 input worksheets, which are colored blue, where changes should be made. These blue input
14 worksheets contain specific columns to summarize the content or derivation of the COS,
15 rate base, and operations expenses. When a party proposes an adjustment in the appropriate
16 column in the Rate Base or Operations Expense Workbooks, the impact of the adjustments
17 will be reflected in the adjusted total column and will flow forward to the appropriate
18 location within the COS Workbook. For the most part, no changes need to be made to the
19 COS Workbook. However, there are a few instances where the parties can make
20 adjustments because some data is either hard-coded/non-fully functional or the adjustments
21 need to be calculated within NMGC Exhibit ECB-3. These instances are described later in
22 my Direct Testimony. As a reminder, all workbooks need to be open when a party enters

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1 an adjustment. If all workbooks are not open, the adjustment will not flow properly
2 throughout the Model.

3
4 **Q. WITHIN EACH WORKBOOK, FOR WHAT PERIODS OF TIME IS**
5 **INFORMATION PROVIDED?**

6 **A.** Each workbook provides information for Base Period, the Adjusted Base Period, Linkage
7 Periods, and the Future Test Year.

8
9 **Q. AS YOU DISCUSS THE CONTENT OF THE WORKBOOKS IN THE MODEL,**
10 **ARE THERE ANY GAPS IN THE ROWS OR COLUMNS CITED? IF SO, PLEASE**
11 **EXPLAIN WHY.**

12 **A.** Yes. As previously described, the Model is an Excel-based model. As I discuss the content
13 of the various workbooks within the Model, I will refer to the Excel columns and rows in
14 which data exists. For presentation purposes, there are blank columns in the workbooks.
15 Therefore, as I discuss each workbook, the referenced columns may not be sequentially
16 labeled. In addition, there are some instances where there are “placeholders” for line items.
17 These rows and columns were not needed in the Model but could not be deleted in order to
18 maintain a fully-functional model.

19
20 **Q. PLEASE EXPLAIN HOW THE MODEL IS BEING PROVIDED TO THE**
21 **PARTIES.**

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1 **A.** NMGC Exhibits ECB-3 through ECB-5, as identified above, are the three workbooks that
2 comprise the Model. An electronic fully-functional copy of the Model has been provided
3 on a USB portable storage drive or “thumb drive” with its Application filed in this rate
4 case. A fully-functional electronic copy of the Model is also available on SharePoint.

D. THE WORKBOOKS

i. The COS Workbook

9 **Q. PLEASE PROVIDE AN OVERVIEW OF THE NMGC COS WORKBOOK.**

10 **A.** The COS Workbook, which has been labeled as NMGC Exhibit ECB-3, contains eleven
11 worksheets. The first worksheet in the COS Workbook is the lead worksheet and details
12 the contents of the workbook. The second worksheet provides a summary of the COS
13 Summary. The remaining worksheets contain the “Intervenor Change Summary,” which
14 help to track adjustments proposed by Intervenorors when compared to the original filing,
15 and the 630 Schedule A-5, Summary of Total Capitalization and Weighted Average Cost
16 of Capital, and 630 Schedule G-3, Embedded Cost of Borrowed Capital, for the Base
17 Period, Linkage Periods, and Future Test Year.

19 **Q. PLEASE DESCRIBE THE INFORMATION CONTAINED IN THE COS**
20 **SUMMARY WORKSHEET.**

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1 **A.** The second worksheet in the COS Workbook summarizes the Company's rate base and
2 operations expenses. The worksheet provides information pertaining to each of the
3 following items:

- 4 • the components of NMGC's rate base/operations expenses (columns A, B, C, and
5 D);
- 6 • the applicable FERC accounts from which the financial data was derived (column
7 E);
- 8 • the unadjusted Base Period balance or expense, by component (column G);
- 9 • a summary of the Company's adjustments to the Base Period (column H);
- 10 • the Adjusted Base Period balances (column I). The totals presented in each line of
11 column I were derived by summing the figures in columns G and H;
- 12 • data pertaining to Linkage Period 1 (column K);
- 13 • data pertaining to the Linkage Period 2 (column L);
- 14 • Future Test Year (column N);
- 15 • Future Test Year adjustments (column O);
- 16 • adjusted Future Test Year (column P). The totals presented in column P were
17 derived by summing the figures in columns N and O; and
- 18 • columns R and S allow for and reflect the results of Intervenor adjustments.

19
20 For more detailed information regarding each column, please refer to the green lead sheets
21 at the beginning of each exhibit workbook or NMGC Exhibit ECB-2.

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Q. WHAT ARE THE COMPONENTS THAT MAKE UP THE COMPANY’S COS AS NAMED IN COLUMNS A THROUGH D OF THE COS SUMMARY?

A. Columns A through D in the COS Summary name the components of rate base and operations expenses, which collectively make up the Company’s COS. The components of rate base, as set forth on lines 5 through 139 are:

- Net Transmission Plant;
- Net Distribution Plant;
- Net General and Intangible Plant;
- Accumulated Deferred Income Taxes;
- Regulatory Assets and Liabilities;
- Other Rate Base Items; and
- Working Capital.

The components of operations expenses, as set forth on lines 142 through 461, include:

- Fuel-Related Expenses;
- Transmission O&M;
- Distribution O&M;
- Customer Related O&M;
- Administrative and General Expenses;
- Depreciation and Amortization Expense;
 - Transmission;
 - Distribution;

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- General and Intangible; and
- Other;
- General Taxes;
 - Property Taxes;
 - Payroll Taxes; and
 - Other Taxes;
- Other Allowable Expenses;
- Federal Income Taxes;
- State Income Taxes; and
- Revenue Credits.

The information is summarized to produce a total COS.

Q. PLEASE EXPLAIN THE PURPOSE OF COLUMN R.

A. Column R, entitled “Intervenor Manual Adjustments,” will reflect the adjustments made by a particular party making a proposed adjustment in NMGC Exhibits ECB-4 and ECB-5, and not adjustments made by other parties. As discussed previously, there are some instances where Intervenors need to make adjustments directly in NMGC Exhibit ECB-3.

Q. WHAT IS THE PURPOSE OF COLUMN S?

A. Column S, entitled “Intervenor Change Ending 9/30/25,” presents the net total of the Company’s adjusted Future Test Year balances presented in column P and the proposed

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balances net of any proposed adjustments reflected in column R as made by that individual party.²

Q. WHAT DO COLUMNS U, V, AND X REFLECT?

A. Columns U and V summarize the change from the Adjusted Base Period to the adjusted Future Test Year for each component of rate base, operating expense, etc. Column U shows the variance in dollar amount, while column V shows it as a percentage. This information is provided for informational purposes to provide an order of magnitude assessment of change from each of the periods to the Future Test Year period.

Column X provides a cross-reference to either exhibits, 630 Schedules or workpapers.

Q. IF PARTIES TO THIS PROCEEDING WISH TO MAKE CHANGES TO THE MODEL, WHERE SHOULD THE CHANGES BE MADE?

A. Any proposed changes to rate base would be made in the Rate Base Workbook, NMGC Exhibit ECB-4 while proposed changes to operations expenses would be made in the Operations Expense Workbook, NMGC Exhibit ECB-5. Those changes will flow forward to the COS Workbook, NMGC Exhibit ECB-3. However, there are several line items that need to be adjusted in NMGC Exhibit ECB-3. This includes the following items:

- Accumulated Deferred Income Taxes;

² If however, a party were to make an adjustment to the escalators in worksheet WP 1 Inputs OM – Gen Tax in NMGC Exhibit ECB-5, this change would be reflected in column S in addition to column P, which is the Company’s proposed COS revenue requirement.

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- Income Tax Regulatory Liability;
- Interest on Long-term Debt;
- Tax/Book Adjustments;
- Amortization of Excess Deferred Income Taxes (Both Federal and State); and
- WACC³

Q. PLEASE DESCRIBE THE OTHER WORKSHEETS IN THE COS WORKBOOK.

A. 630 Schedules A-5 and G-3 comprise the remaining worksheets in the COS Workbook and calculate the WACC for the Base Period, Linkage, and Future Test Year Periods. The WACC calculations in these tabs are used to calculate the return on rate base.

ix. The Rate Base Workbook

Q. PLEASE PROVIDE AN OVERVIEW OF THE RATE BASE WORKBOOK, NMGC EXHIBIT ECB-4.

A. The Rate Base Workbook summarizes the development of the Company's rate base. It provides all the same information pertaining to rate base that was detailed above when describing the COS Workbook. The data that is calculated in the Rate Base Workbook flows directly to the COS Workbook.

³ The Company has added a section in 630 Schedules A-5 Test and G-3 Test in NMGC Exhibit ECB-3. There, parties can make changes to the return on equity, debt rates, and capital structure (debt / equity ratio). These changes will flow through the Intervenor adjustment columns in the COS Summary.

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1 The first worksheet in NMGC Exhibit ECB-4, entitled the “Lead Sheet Rate Base” in
2 green, is a table of contents for the entire workbook. This worksheet provides hyperlinks
3 to each of the tabs in the workbook, summarizes and outlines the purpose of each
4 worksheet, and notes which worksheets the tabs provide information to and which
5 worksheets the tabs require information from. There are four blue input worksheets: “WP
6 Plant COS Inputs,” “WP Depreciation COS Inputs,” “WP Working Capital COS Inputs,”
7 and “WP Other RB COS Inputs.” These are the worksheets where parties should make
8 changes to the Model and their contents are described in further detail below. Following
9 the input worksheets are 630 Schedules in gold and workpapers in purple. Workpapers
10 and 630 Schedules support or provide inputs to the COS Workbook.

11
12 **Q. PLEASE DESCRIBE THE CONTENTS OF WORKSHEET “WP PLANT COS**
13 **INPUTS.”**

14 **A.** The information contained in each column in the worksheet “WP Plant COS Inputs” is
15 summarized as follows:

- 16 • column A identifies the major categories of plant (e.g., net transmission plant, net
17 distribution plant, net general and intangible plant);
- 18 • column B provides further delineation of the components of plant within each major
19 category;
- 20 • column D provides the specific FERC accounts within each component of plant;
- 21 • column E provides the unadjusted Base Period balance for each component of plant,
22 per the Company’s books and records;

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- 1 • column F sets forth the adjustments to Base Period balances and reflects the
2 differences between columns E and G;
- 3 • column G presents the Adjusted Base Period balances and is derived from
4 Worksheet “WP Plant 1 – Net Plant Balances” column R;
- 5 • column H provides the balances, by component, for Linkage Period 1. The
6 derivation of the Linkage Period 1 balances can be found in the supporting
7 worksheet entitled “WP Plant-1 – Net Plant Balances” column AE;
- 8 • column I presents the balances for each component of rate base for Linkage Period
9 2. The derivation of the Linkage Period 2 balances can be found in the worksheet
10 entitled “WP Plant-1 – Net Plant Balances” column AK;
- 11 • column J sets forth the balances for each component of rate base for the Future Test
12 Year. The derivation of the Future Test Year balances can be found in the
13 worksheet entitled “WP Plant-1 – Net Plant Balances” column AX;
- 14 • column K reflects an adjustment to recognize the 13-month averaging of the
15 monthly balances for the 13 months ending September 2025. Given that the
16 Company is utilizing a Future Test Year in this proceeding, rate base needs to
17 reflect a thirteen-month average in the Future Test Year;
- 18 • column L adjusts the balances at year end September 30, 2025 to reflect the
19 thirteen-month average of the monthly balances for the 13 months ending
20 September 2025;
- 21 • column N calculates the net change in each component of rate base from the
22 Adjusted Base Period balance to the Future Test Year;

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- 1 • similarly, column O provides the percentage change from the Adjusted Base Period
- 2 balance to the Future Test Year balance;
- 3 • column Q provides a column for the parties to this proceeding to propose
- 4 adjustments to the Company's Test Year account balances;
- 5 • column R calculates the adjusted balance of each component of rate base reflecting
- 6 the proposed Parties' adjustments;
- 7 • column T provides a cross-reference to either exhibits, 630 Schedules, or
- 8 workpapers where appropriate.

9

10 **Q. PLEASE DESCRIBE THE CONTENTS OF WORKSHEET "WP DEPRECIATION**

11 **COS INPUTS."**

12 **A.** The information contained in each column in the worksheet "WP Depreciation COS

13 Inputs" is summarized as follows:

- 14 • column A identifies the major categories of depreciation expense (e.g.,
- 15 Transmission, Distribution, General and Intangible);
- 16 • column B provides further delineation of the components of depreciation expense
- 17 within each major category;
- 18 • column D provides the specific FERC accounts within each component of
- 19 depreciation⁴;

⁴ Non-referenced columns are blank in order to break up the data and or time periods.

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- 1 • column E provides the unadjusted Base Period balance for each component of
2 depreciation expense, per the Company's books and records;
- 3 • column F sets forth the adjustments to Base Period depreciation. The derivation
4 of the adjustments is provided on worksheet "630 Schedule H-7b", column K;
- 5 • column G presents the Adjusted Base Period depreciation expenses and reflects the
6 sum of columns E and F;
- 7 • column H provides the depreciation expense, by component, for Linkage Period 1.
8 The derivation of the Linkage Period 1 balances can be found in the supporting
9 workpaper entitled "630 Schedule H-7b" column Q;
- 10 • column I presents the depreciation expense for each component for Linkage Period
11 2. The derivation of the Linkage Period 2 balances can be found in the supporting
12 workpaper entitled "630 Schedule H-7b" column W;
- 13 • column J sets forth the depreciation expense for each component for the Future Test
14 Year. The derivation of the Future Test Year depreciation expense can be found in
15 the supporting workpaper entitled "630 Schedule H-7b" column AC;
- 16 • column K presents the adjustments to the Future Test Year period depreciation
17 expense. The Company is not proposing any adjustments to depreciation expense
18 in the Future Test Year period, so, this column is blank;
- 19 • column L presents the adjusted depreciation expense for the Future Test Year;
- 20 • column N calculates the net change in each component of depreciation expense
21 from the Adjusted Base Period expense to the Future Test Year expense;

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- column O provides the percentage change from the Adjusted Base Period to the Future Test Year expense;
- column Q provides a column for the parties to this proceeding to propose adjustments to the Company's Future Test Year account expenses;
- column R calculates the adjusted balance of each component of rate base reflecting the proposed Parties' adjustments; and
- column T presents references to supporting files or tabs.

Q. PLEASE DESCRIBE THE CONTENTS OF WORKSHEET "WP WORKING CAPITAL COS INPUTS."

A. The information contained in each column in the worksheet "WP Working Capital COS Inputs" is summarized as follows:

- column A identifies the major categories of working capital (e.g., fuel stock, materials and supplies, prepayments, and cash working capital);
- column B provides the unadjusted Base Period balance for each component of working capital, per the Company's books and records;
- column C sets forth the adjustments to Base Period balances. The derivation of the adjustments is provided on 630 Schedules E for fuel stock, materials and supplies, and prepayments;
- column D presents the Adjusted Base Period balances and reflects the sum of columns B and C;

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- 1 • column E provides the balances, by component, for Linkage Period 1. The
2 derivation of the Linkage Period 1 balances can be found in 630 Schedules E for
3 fuel stock, materials and supplies, and prepayments;
- 4 • column F presents the balances for each component for Linkage Period 2. The
5 derivation of the Linkage Period 2 balances can be found in 630 Schedules E for
6 fuel stock, materials and supplies, and prepayments;
- 7 • column G sets forth the balances for each component for the Future Test Year. The
8 derivation of the Future Test Year balances can be found in 630 Schedules E for
9 fuel stock, materials and supplies, prepayments, and cash working capital;
- 10 • given that the Company is utilizing a Future Test Year in this proceeding, the rate
11 base needs to reflect a 13-month average of the monthly balances for the 13 month
12 period ending September 2025. Column H reflects an adjustment to Future Test
13 Year amounts recognize the 13-month average in the Future Test Year;
- 14 • the amount in column I adjusts the balances at September 30, 2025 to reflect the
15 13-month average of the monthly balances for the 13 months ending September 30,
16 2025;
- 17 • column K calculates the net change in each component of working capital from the
18 Adjusted Base Period balance to the Future Test Year;
- 19 • similarly, column L provides the percentage change from the Adjusted Base Period
20 to the Future Test Year;
- 21 • column N provides a column for the Parties to this proceeding to propose
22 adjustments to the Company's Future Test Year account balances;

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- column O calculates the adjusted balance of each component of rate base reflecting the proposed Parties’ adjustments; and
- column Q presents references to supporting files or tabs.

Q. PLEASE DESCRIBE THE CONTENTS OF WORKSHEET “WP OTHER RB COS INPUTS.”

A. The information contained in each column in the worksheet “WP Other RB COS Inputs” is summarized as follows:

- column B identifies the major categories (e.g., customer deposits, retirement work in process, Revenue Credits, etc.);
- column C provides the FERC account associated with each line item;
- column E provides the unadjusted Base Period balance for each component, per the Company’s books and records;
- column F sets forth the adjustments to the Base Period;
- column G presents the Adjusted Base Period balances and reflects the sum of columns E and F;
- column I provides the balances, by component, for Linkage Period 1;
- column J presents the balances for each component for Linkage Period 2;
- column L sets forth the balances for each component for the Future Test Year Period;
- column M reflects an adjustment to recognize the averaging of the Future Test Year balances. Given that the Company is utilizing a Future Test Year in this

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proceeding, rate base needs to reflect a thirteen-month average of the monthly balances for the 13 month period ending September 30, 2025;

- for balances, column N adjusts the balances at September 30, 2025 to reflect the thirteen-month average of the monthly balances for the 13 months ending September 30, 2025;
- column P calculates the net change in each component of from the Adjusted Base Period balance to the Future Test Year;
- similarly, column Q provides the percentage change from the Adjusted Base Period to the Future Test Year balance;
- column S provides a column for the parties to this proceeding to propose adjustments to the Company's Future Test Year account balances;
- column T calculates the adjusted balance of each component of rate base reflecting the proposed Parties' adjustments;
- column V presents references to supporting files or tabs.

Q. PLEASE DESCRIBE THE OTHER WORKSHEETS IN THE RATE BASE WORKBOOK.

A. The remaining worksheets in the Rate Base Workbook are 630 Schedules and workpapers as follows:

- 630 Schedules B-1, B-2, and B-3;
- 630 Schedule C-1, C-1.1;
- 630 Schedule C-2 Depreciation Rates;

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- 630 Schedule H-7b;
- WP Plant 1 Net Plant Balances;
- WP Plant 2 Clearings, which reflects plant being placed in service;
- WP Plant 3 Gross Balances;
- WP Plant 4 Depreciation Activity;
- WP Plant 5 Depreciation Exp;
- WP Plant 6 Accumulated Reserve Balances;
- WP Plant 7 Williams;
- 630 Schedules E-1, E-2.1, E-2.2, E-4;
- 630 Schedules H-7.1, and H-7.2; and
- 630 Schedules I-1, I-1.1, I-1.2, I-1.3, I-1.4, I-1.5, I-1.6, I-1.7, I-1.8, I-2, and I-3.

These 630 Schedules are detailed further in NMGC Exhibit ECB-2.

x. The Operations Expense Workbook

Q. PLEASE PROVIDE AN OVERVIEW OF THE OPERATIONS EXPENSE WORKBOOK, NMGC EXHIBIT ECB-5.

A. The Operations Expense Workbook summarizes the development of the Company's operations expenses. It provides the same information pertaining to operations expenses that was detailed above when describing the COS Workbook. The Operations Expense Workbook is linked to the COS Workbook and the data that is calculated in it flows directly to the COS Workbook, NMGC Exhibit ECB-3.

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1 The first worksheet in the Operations Expense Workbook entitled the “Lead Sheet
2 Operations Expense” in green is a table of contents for the entire workbook. This
3 worksheet provides hyperlinks to each of the tabs in the workbook, summarizes and
4 outlines the purpose of each worksheet, and notes which worksheets the tabs provide
5 information to and which worksheets the tabs require information from. There are then
6 two input worksheets in blue entitled “WP OM COS Inputs” and “WP Gen Tax COS
7 Inputs.” These two input worksheets are where parties should make changes to the Model
8 and their contents are described in further detail below. Following the input worksheets
9 are workpapers in purple and 630 Schedules in gold. Workpapers and 630 Schedules
10 support or provide inputs to the COS Workbook. In addition, there are some instances in
11 this workbook where we combine 630 Schedules and workpapers to logically display the
12 data.

13
14 **Q. PLEASE DESCRIBE THE CONTENTS OF WORKSHEET “WP OM COS**
15 **INPUTS.”**

16 **A.** Worksheet “WP OM COS Inputs” presents NMGC’s operating expenses. The information
17 contained in each column is summarized as follows:

- 18 • column A identifies the major categories of operations expenses (e.g., fuel related
19 expenses, O&M non-fuel, including transmission O&M, distribution O&M,
20 customer related O&M, and administrative and general expenses);
- 21 • column B provides further description of the components of expenses within each
22 major category;

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- 1 • column C is subtotals;
- 2 • column E identifies the specific FERC accounts within each component of
- 3 operations expenses;
- 4 • column F provides the unadjusted Base Period activity for each component of
- 5 operations expenses per the Company’s books and records. This activity was
- 6 brought forward from “WP 2 OM 630 Schedule H1 OM Summary”;
- 7 • column G sets forth the adjustments to Base Period activity. The derivation of the
- 8 adjustments is provided on worksheet “WP OM 2 630 Sched H1 OM Summary”;
- 9 • column H presents the Adjusted Base Period activity and reflects the sum of
- 10 columns F and G;
- 11 • column I provides activity by component for Linkage Period 1. The derivation of
- 12 the Linkage Period 1 activity can be found in the worksheet entitled “WP OM 2
- 13 630 Sched H1 OM Summary”;
- 14 • column J presents each component of operations expense for Linkage Period 2.
- 15 The derivation of this activity can be found in the supporting worksheets entitled
- 16 “WP 2 OM 630 Schedule H1 OM Summary”;
- 17 • column K sets forth each component of expenses for the Future Test Year. The
- 18 derivation of the Future Test Year expenses can be found in the supporting
- 19 workpaper entitled “WP 2 OM 630 Schedule H1 OM Summary”;
- 20 • column L reflects Test Year adjustments;
- 21 • column M reflects the sum of columns K and L;

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- 1 • column O calculates the net change in each component of expenses from the
- 2 Adjusted Base Period to the Future Test Year;
- 3 • Similarly, column P provides the percentage change from the Adjusted Base Period
- 4 expense to the Future Test Year;
- 5 • column R provides a column for the parties to this proceeding to propose
- 6 adjustments to the Company's Future Test Year operations expenses, by FERC
- 7 Account;
- 8 • column S calculates the adjusted expenses for each component of operations
- 9 expenses reflecting the proposed Parties' adjustments;
- 10 • column U shows cross references.

11

12 **Q. PLEASE DESCRIBE THE CONTENTS OF WORKSHEET "WP GEN TAX COS**

13 **INPUTS."**

14 **A.** Worksheet "WP Gen Tax COS Inputs" presents NMGC's expenses for general taxes. The

15 information contained in each column is summarized as follows:

- 16 • column A identifies the major categories of operating expenses (e.g. Property,
- 17 Payroll, and Other Taxes);
- 18 • column B provides further description of the components of expenses within each
- 19 major category;
- 20 • column C identifies the specific FERC accounts within each component of
- 21 operating expenses;

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- 1 • column D provides the unadjusted Base Period expense for each component of
2 general taxes per the Company’s books and records;
- 3 • column E sets forth the adjustments to Base Period expenses, pulling data forward
4 from “WP GT 2 Property Tax,” “WP GT 3 Payroll Tax,” or “WP GT 4 Misc
5 Taxes”;
- 6 • column F presents the Adjusted Base Period expenses and reflects the sum of
7 columns D and E;
- 8 • column G provides the expenses, by component, for Linkage Period 1, pulling data
9 forward from “WP GT 2 Property Tax,” “WP GT 3 Payroll Tax,” or “WP GT 4
10 Misc Taxes”;
- 11 • column H presents the expenses for each component for Linkage Period 2, pulling
12 data forward from “WP GT 2 Property Tax,” “WP GT 3 Payroll Tax,” or “WP GT
13 4 Misc Taxes”;
- 14 • column I sets forth the expenses for each component of general taxes for the Future
15 Test Year, pulling data forward from “WP GT 2 Property Tax,” “WP GT 3 Payroll
16 Tax,” or “WP GT 4 Misc Taxes”;
- 17 • column J presents the adjustments to the Future Test Year general taxes. The
18 Company is not proposing any adjustments to general taxes in the Future Test Year,
19 so this column is blank;
- 20 • column K calculates the adjusted Future Test Year expenses. It is the sum of
21 columns I and J;

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- column M calculates the net change in each component of general taxes from the Adjusted Base Period to the Future Test Year;
- similarly, column N provides the percentage change from the Adjusted Base Period to the Future Test Year expense;
- column P provides a column for the parties to this proceeding to propose adjustments to the Company's Future Test Year general taxes by FERC account;
- column Q calculates the adjusted expense of each component of operating expenses reflecting the proposed Parties' adjustments;
- column S provides a cross-reference with back-up files or tabs.

Q. PLEASE DESCRIBE THE OTHER WORKSHEETS IN THE OPERATIONS EXPENSE WORKBOOK.

A. The remaining worksheets in the Rate Base Workbook are 630 Schedules and workpapers as follows:

- WP 1 OM Inputs – Gen Tax;
- WP 2 OM 630 Sched H1 OM Summary;
- WP 3 OM Base Period Adjustment;
- WP 4 OM Separately Forecasted;
- 630 Schedule H-1.1 Summary;
- 630 Schedule H-1.2 Baseline 1 2;
- 630 Schedule H-1.3 Test Period;
- WP 5 OM 630 Schedule H-4 Labor;

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- 630 Schedule H-4.1;
- 630 Schedule H-4.2;
- 630 Schedule H-4.3;
- 630 Schedule H-4.4;
- WP 6 OM Incentive Compensation;
- WP 7 OM 401K;
- WP 2 GT Property Tax;
- WP 3 GT Payroll Tax;
- WP 4 GT Misc Taxes; and
- 630 Schedules H-8, 8.3, 8.4.

These 630 schedules are detailed further in NMGC Exhibit ECB-2.

Q. HOW ARE O&M EXPENSES FORECASTED IN THE OPERATIONS EXPENSE WORKBOOK?

A. Forecasted items in the Operations Expenses Workbook are either escalated or separately forecasted.

Q. WHAT ITEMS ARE SEPARATELY FORECASTED IN THE OPERATIONS EXPENSE WORKBOOK?

A. These items can be found in worksheet “WP OM 4 Separately Forecasted.” The information contained in each column is summarized as follows:

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- column A contains the descriptions and cost elements for each account;
- column B provides the name of the cost element for each account;
- column C provides the specific FERC accounts; and
- column D pulls in the Total Company Adjusted Base Period Amount from worksheet “WP 2 OM 630 Sched H1 OM Summary.”

Table 5 contains a list of the separately forecasted items, the NMGC Witness who discusses these forecasts and calculations in his or her Direct Testimony, and the column location where this item is found within worksheet “WP OM 4 Separately Forecasted.”

Table 5 – Separately Forecasted Items

Specially Forecasted Items	Subject Matter Expert	Base Period Column	Linkage 1 Column	Linkage 2 Column	Test Period Column
Labor Expense	Wilcox	F	S	AH	AW
Incentive Compensation Expense	Wilcox	G	T	AI	AX
Normalize 401k Match	Wilcox	H	U	AJ	AY
Medical and Dental Expense	Wilcox	I	V	AK	AZ
Pension and OPEB Expense	Wilcox	J	W	AL	BA
Transmission Integrity Program	Bullard	K	X	AM	BB
General Insurance Costs	De Young	L	Y	AN	BC

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Specially Forecasted Items	Subject Matter Expert	Base Period Column	Linkage 1 Column	Linkage 2 Column	Test Period Column
Non-interest Revolver Adjustment	Buchanan	M	AA	AP	BD
Espanola Lease Expense	Buchanan	N	AB	AQ	BE
Board of Directors Costs	Buchanan	O	AC	AR	BG
Hansen CIS Expense	Sanders	None	None	None	BH
Shared Service Expenses	Buchanan & Farr	P	AD	AS	BI
Remove Allocated LTIP Costs	Buchanan	None	AE	AT	BJ
Facilities Security	Wilcox	None	Z	AO	BF
Hansen CIS Expense	Sanders	None	None	None	BH
Total		Q	AF	AU	BK

Q. HOW ARE THE SEPARATELY FORECASTED ITEMS IN THE TABLE ABOVE INPUTED INTO THE OPERATIONS EXPENSE WORKBOOK?

A. These forecasted amounts were provided by the witnesses described above. These numbers were either hard-coded into the Operations Expenses Workbook or linked to 630 Schedules or workpapers, which are worksheets in NMGC Exhibit ECB-5. Although several of these numbers are hard-coded, parties can change them manually and the changes will flow throughout the Model. However, unlike changes made in the blue input worksheets, changes made to these hard-coded numbers will be reflected in column P in addition to column S of the COS Summary.

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Q. HOW IS THE ESCALATION OF O&M EXPENSES IN THE LINKAGE PERIODS INPUTTED INTO THE OPERATIONS EXPENSE WORKBOOK?

A. In handling general O&M expenses, the Model applies escalators to the amount of Base Period expenses. The Model uses general and labor O&M escalators for the Linkage Periods and Future Test Year period as seen in Table 6:

Table 6-- Escalators

Escalator	Base Period	Linkage Period 1	Linkage Period 2	Future Test Year
General O&M	None	3.93%	1.62%	2.90%
Labor O&M	5.50%	1.75%	1.72%	11.23%

Q. PLEASE DISCUSS THE NON-LABOR ESCALATIONS IN MORE DETAIL.

A. We anticipate that O&M expenses, other than separately forecasted expenses, will continue to rise in the future. Along with the rest of the nation, we are seeing rising costs tied to inflationary pressures. In order to account for rising costs, we have taken historical consumer price index information and annual forecasts for 2023, 2024 and 2025 from public sources that put forward inflationary forecasts. These entities include: the U.S. Bureau of Labor Statistics, the U.S. Energy Information Administration, the Federal Open Market Committee and information from the University of New Mexico's Bureau of Business & Economic Research. We then average the four general O&M escalators for the Linkage Periods and Future Test Year escalation rates. This methodology relies on

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1 external information and projections of inflationary amounts that are widely accepted and
2 form a reasonable basis of what we should expect in the future.

3
4 **Q. PLEASE DISCUSS THE LABOR ESCALATIONS IN MORE DETAIL.**

5 **A.** Labor expenses are escalated at 5.5% to normalize the Base Period Labor. This 5.5%
6 adjusts the base period to reflect the fact that certain wage adjustments were implemented
7 at various times during the Base Period. For example, as discussed in NMGC Witness
8 Wilcox’s Direct Testimony, NMGC provided additional supplemental pay to its workforce
9 in November 2022. The base period labor adjustment of 5.5% is intended to annualize
10 these known and measurable differences. Linkage 1 then escalated Base Period labor at
11 1.75%, Linkage Period 2 escalates Linkage Period 1 at 1.72%, and the Future Test Year
12 escalates Linkage Period 2 at 11.23%. The Linkage 1 and 2 periods overlap by six months.
13 Therefore, the Linkage 2 escalation rate reflects of the annual 3.44% to avoid double
14 counting.

15
16 **Q. HOW DO SEPARATELY FORECASTED ITEMS AND ESCALATED ITEMS**
17 **FLOW INTO THE REST OF THE MODEL?**

18 **A.** The worksheet “WP 2 OM 630 Sched H1 OM Summary” contains the O&M summary
19 across the Base Period, Linkage Period 1, Linkage Period 2, and the Future Test Year. The
20 information contained in each column is summarized as follows:

- 21 • column A contains the descriptions and cost elements for each account;
- 22 • column B provides the Account Names;

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- 1 • column C provides the specific FERC accounts;
- 2 • columns D through O contain monthly data from the Company's books and records
- 3 for each account and cost element;
- 4 • column P contains the Total Company unadjusted Base Period, which is the sum of
- 5 the monthly data in columns D through O;
- 6 • column Q is the BPA, which pulls from the total of the BPA in column U of the
- 7 worksheet "WP OM 3 Base Period Adjustments";
- 8 • column R is the Adjusted Base Period, which is the sum of columns P and Q;
- 9 • column S removes the amounts that will not be escalated by the standard escalation
- 10 rates detailed in "WP 1 Inputs OM – Gen Tax" in Linkage 1. Instead, these amounts
- 11 are separately forecasted in "WP OM 4 Separately Forecasted";
- 12 • column T (Remaining Base Period O&M to be Escalated) is the sum of column R
- 13 and Column S. Because column S is a number of the opposite sign of the
- 14 corresponding number in column R, column T is removing the value in column S
- 15 from its total. This is done so that the separately forecasted items are not escalated
- 16 by the general O&M escalator. Those items have their own calculations, and
- 17 therefore do not need the general escalator. Column T is the remaining value to be
- 18 escalated by the general O&M escalator for the Linkage 1 Period;
- 19 • column U (Escalated Linkage–1 - Results of Pure Escalation of 3.93%) multiplies
- 20 column T by the O&M escalator found in found in the worksheet "WP 1 OM Inputs
- 21 - Gen Tax" in cell D5;

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- 1 • column V pulls in the separately forecasted items for Linkage Period 1 from
2 worksheet “WP OM 4 Separately Forecasted,” column AG;
- 3 • column W is the Total Linkage 1 amount. This includes the sum of columns U and
4 V. By including this sum, column W represents the separately forecasted items,
5 plus the other O&M expenses escalated at 3.93%, and therefore captures all of the
6 accounts regardless of the method used to forecast;
- 7 • column X (Escalated Linkage–2 - Results of Pure Escalation of 1.62%) multiplies
8 column U by the O&M escalator found in the worksheet “WP 1 Inputs –M - Gen
9 Tax” in cell D6. The escalator is 1.62% is based on a calendar year escalator of
10 3.25% for 2024 because the first six months of Linkage Period 2 have already been
11 escalated as a part of the escalations of Linkage Period 1;
- 12 • column Y contains Total Linkage 2 Period separately forecasted items, and pulls
13 data from worksheet “WP OM_4_ Separately Forecast,” column AV;
- 14 • column Z sums columns X and Y, resulting in the Total Linkage Period 2 amount;
- 15 • column AA (Escalated Test Year - Results of Pure Escalation of 2.90%) multiplies
16 column X by the O&M escalator found in worksheet “WP 1 Inputs –M - Gen Tax”
17 in cell D7. The escalator used for the Future Test Year is the full calendar year
18 2.90% since the Future Test Year reflects a full twelve-month period;
- 19 • column AB pulls in the separately forecasted items for the Future Test Year from
20 worksheet “WP OM 4 Separately Forecasted,” column BL;

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- column AC sums columns AA and AB, resulting in the Future Test Year O&M Expense. Once again, this includes the separately forecasted items, as well as all general O&M items that are escalated at the general O&M escalator of 2.90%;
- column AE shows the difference between the Adjusted Base Period in column R and the Test Period in column AC;
- column AF shows the variance percentage between the Future Test Year and Adjusted Base Period; and
- column AH contains explanations for the percentage change.

E. NON-FULLY-FUNCTIONAL DATA

Q. WHAT IS NON-FULLY-FUNCTIONAL DATA?

A. These are data points in NMGC Exhibits ECB-3, ECB-4, or ECB-5 that are hard-coded (i.e., not linked to a supporting work paper). This means that parties can change those values; however, a change would not be representative of the Company's supported data or internal models. For instance, all Base Period data is hard-coded because it comes from the Company's books and records. In addition, there are several items listed below that are also hard-coded. If a party wishes to see support for these data points it is advised that they submit a data request to the Company.

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1 **Q. HAVE YOU IDENTIFIED ANY SECTIONS WITHIN THE MODEL THAT ARE**
2 **NOT FULLY FUNCTIONAL AS DESCRIBED BY THE FUTURE TEST YEAR**
3 **RULE?**

4 **A.** Yes. As provided for in Section 17.1.3.11.C of the Future Test Year Rule, NMGC
5 identifies the following “data that is not provided in fully-functional electronic format and
6 provides the following reason why the data is not provided in fully-functional electronic
7 format”⁵:

- 8 • ADIT - As described in the Direct Testimony of NMGC Witness Avellan, this data
9 is not available in a fully functioning format. Please see NMGC Witness Avellan’s
10 Direct Testimony for further discussion.
- 11 • Income Taxes - As described in the Direct Testimony of NMGC Witness Avellan,
12 this data (which includes Income Tax Regulatory Liability, Tax/Book Adjustments,
13 and Amortization of Excess Deferred Income Taxes) is not available in a fully
14 functioning format. Please see NMGC Witness Avellan’s Direct Testimony for
15 further discussion.
- 16 • Capital Budget - The allocation of capital clearings to FERC plant accounts to
17 determine final capital investment amounts are not fully functional because the
18 calculations are performed by the Company’s capital management software system.
19 Additionally, the Model relies on hard inputs related to depreciation forecasts. If
20 the parties request alternative scenarios pertaining to capital additions, the

⁵ Although these items are non-fully functional, parties can make adjustments to these amounts in NMGC Exhibit ECB-3, the COS Summary.

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1 Company is prepared to run the scenarios through the Model and provide the results
2 based upon the alternative scenarios.

3
4 **Q. WILL NMGC BE AVAILABLE TO RERUN INPUT CHANGES AS**
5 **REASONABLY REQUESTED BY THE PARTIES IN ORDER TO CAPTURE THE**
6 **IMPACT OF THE PROPOSED INPUT CHANGES ON THE FUTURE TEST**
7 **YEAR PERIOD COS?**

8 **A.** Yes. In accordance with 17.1.3.11 NMAC, the Company will respond to all requests by
9 the Parties to capture the impacts on the proposed COS made through programs for which
10 NMGC is unable to provide in fully-functional format.

11
12 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

13 **A.** Yes, it does.