



# Michael J. Adams

Direct Testimony and Exhibits

**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. 78 )**

**Case No. 19-00317-UT**

**NEW MEXICO GAS COMPANY, INC. )**

**Applicant.** )

**DIRECT TESTIMONY AND EXHIBITS**

**OF**

**MICHAEL J. ADAMS**

**December 23, 2019**

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

**TABLE OF CONTENTS**

I.	INTRODUCTION AND PURPOSE .....	1
II.	COST OF SERVICE MODEL .....	6
A.	FULLY FUNCTIONAL MODEL .....	6
B.	TIME PERIODS CONTAINED IN THE MODEL.....	10
C.	HOW THE MODEL WORKS.....	13
D.	THE WORKBOOKS .....	17
i.	The COS Workbook .....	17
ii.	The Rate Base Workbook .....	23
iii.	The Operations Expense Workbook .....	33
E.	NON-FULLY FUNCTIONAL DATA.....	46
III.	CONCLUSION.....	50

NMGC EXHIBIT MJA-1	Résumé of Michael J. Adams
NMGC EXHIBIT MJA-2	Instructions for Cost of Service Functional Model
NMGC EXHIBIT MJA-3	COS
NMGC EXHIBIT MJA-4	Rate Base
NMGC EXHIBIT MJA-5	Operations Expense

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20

**I. INTRODUCTION AND PURPOSE**

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

**A.** My name is Michael J. Adams. I am a Senior Vice President with Concentric Energy Advisors, Inc. (“Concentric”). My business address is 293 Boston Post Road West, Marlborough, MA, 01752.

**Q. ON WHOSE BEHALF ARE YOU FILING THIS DIRECT TESTIMONY?**

**A.** I am filing this direct testimony in support of New Mexico Gas Company, Inc.’s (“NMGC” or the “Company”) rate case filing.

**Q. PLEASE DESCRIBE CONCENTRIC.**

**A.** Concentric is a management consulting and economic advisory firm focused on the North American energy and water industries. Concentric specializes in regulatory and litigation support, transaction-related financial advisory services, energy market strategies, market assessments, energy commodity contracting and procurement, economic feasibility studies, and capital market analyses and negotiations.

**Q. WHAT ARE YOUR RESPONSIBILITIES IN YOUR CURRENT POSITION?**

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1    **A.**    As a consultant, my responsibilities include assisting clients in identifying and  
2           addressing business issues. My primary areas of focus have been regulatory-,  
3           financial-, and accounting-related issues.

4  
5    **Q.    PLEASE DESCRIBE YOUR EDUCATION.**

6    **A.**    I have a Master of Business Administration degree from the University of Illinois  
7           – Springfield and a Bachelor of Science degree from Illinois College. I am a  
8           member of the American Institute of Certified Public Accountants and the Illinois  
9           Society of Certified Public Accountants.

10  
11   **Q.   PLEASE DESCRIBE YOUR QUALIFICATIONS.**

12   **A.**    I have over thirty-five years of direct experience in the public utility industry. I  
13           have worked for an investor-owned utility, a regulatory agency, and most recently  
14           as a consultant to the energy industry. I have managed and/or participated in a wide  
15           variety of consulting engagements.

16  
17   **Q.   HAVE YOU EVER TESTIFIED IN A REGULATORY PROCEEDING?**

18   **A.**    Yes. I have provided expert testimony or reports before the following regulatory  
19           commissions: Federal Energy Regulatory Commission (“FERC”); Arkansas Public  
20           Service Commission; Connecticut Public Utilities Regulatory Authority; Georgia  
21           Public Service Commission; Hawaii Public Utility Commission; Idaho Public

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1 Utilities Commission; Illinois Commerce Commission; Maine Public Utilities  
2 Commission; Maryland Public Service Commission; Massachusetts Department  
3 of Telecommunications and Energy; Missouri Public Service Commission; New  
4 Hampshire Public Utilities Commission; Oklahoma Corporation Commission;  
5 Pennsylvania Public Utility Commission; Public Service Commission of West  
6 Virginia; Public Utilities Commission of Texas; State of New Jersey Board of  
7 Public Utilities; State Corporation Commission of Virginia; and Ontario Energy  
8 Board.

9  
10 My testimonies typically address issues related to cost of service/revenue  
11 requirement, shared services, accounting, cost allocations and/or regulatory  
12 practices and policies.

13  
14 **Q. HAVE YOU PREPARED AN EXHIBIT SUMMARIZING YOUR**  
15 **QUALIFICATIONS AND EXPERIENCE?**

16 **A.** Yes. NMGC Exhibit MJA-1 sets forth a statement of my education and experience.

17  
18 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**  
19 **PROCEEDING?**

20 **A.** First, I describe the components that make up NMGC's future test year cost of  
21 service model (the "Model"). The Model sets forth the information required when

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1           utilizing a future test year in a rate proceeding in New Mexico. Second, I provide a  
2           walk-through of the Model. Finally, I identify where and why non-fully functional  
3           data was used within the Model.

4

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

7   **A.**   No, I am not. My testimony pertains solely to the design and functionality of the  
8           Model. NMGC Witness Jimmie L. Blotter sponsors the Company financial data  
9           contained in the Model.

10

11 **Q.    HAVE YOU PREVIOUSLY WORKED WITH OTHER UTILITY CLIENTS**  
12 **THAT FILED FOR RATE INCREASES EMPLOYING FUTURE TEST**  
13 **YEARS?**

14 **A.**   Yes. Concentric generally, and I specifically, have worked with a number of clients  
15           in various state regulatory jurisdictions that have sought rate relief that relied upon  
16           future test years. The use of future test years in rate proceedings is prevalent  
17           throughout the United States and has been widely relied upon to establish just and  
18           reasonable rates in electric and gas regulated utilities’ rate proceedings.

19

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1 **Q. IS THE WORK YOU HAVE DONE IN THIS CASE SIMILAR TO WHAT**  
2 **YOU HAVE DONE IN OTHER JURISDICTIONS AS IT RELATES TO**  
3 **DEVELOPING AND WORKING WITH A FUTURE TEST YEAR MODEL?**

4 **A.** Yes, very similar. Each state, including New Mexico, is different of course, and  
5 the Model is tailored to meet the specific requirements of the specific jurisdiction,  
6 but the theory behind a future test year case and model is relatively similar  
7 throughout the jurisdictions. Based on Concentric's work in multiple state  
8 jurisdictions, we bring to bear our experience and expertise to craft a model that  
9 works well in the unique circumstances of each jurisdiction, including in New  
10 Mexico.

11

12 **Q. IN YOUR EXPERIENCE, WHAT ARE THE ADVANTAGES OF A**  
13 **COMPANY USING A FUTURE TEST YEAR WHEN SETTING RATES AS**  
14 **OPPOSED TO USING AN HISTORIC TEST YEAR?**

15 **A.** Assuming that the objective of a rate proceeding is to establish rates that will allow  
16 a Company to recover its prudently incurred expenses and earn a fair return on its  
17 investment in assets determined necessary to provide service to its customers, the  
18 use of a future test year provides the Company with a better opportunity to do so in  
19 a timely manner. In contrast, the use of an historical test year does not provide such  
20 an opportunity when significant investment in plant is occurring.

21



**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1 **Q. PLEASE PROVIDE AN OVERVIEW OF THE REMAINDER OF YOUR**  
2 **TESTIMONY.**

3 **A.** I will first discuss the New Mexico Public Regulation Commission’s (“NMPRC”  
4 or the “Commission”) requirements for a cost of service model in a rate proceeding  
5 premised upon a future test year period. I will then provide an overview of how the  
6 Model, which was developed to determine the Company’s cost of service in this  
7 proceeding works and comports with the NMPRC’s requirements.

8

9 **II. COST OF SERVICE MODEL**

10 **A. Fully Functional Model**

11 **Q. ARE YOU FAMILIAR WITH THE NMPRC’S REQUIREMENTS FOR A**  
12 **FULLY 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 Base period, linkage data and future test year period data filed to support  
16 the rate application must be provided in fully functional electronic format  
17 so that amounts in schedules and supporting work papers required by this  
18 rule and the commission’s data rules can be traced with relative ease to  
19 supporting, detailed data.

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

- 1                   A. Fully functional electronic format allows staff and intervenors to  
2                   make adjustments that would carry through to the jurisdictional  
3                   revenue requirement.
- 4                   B. If the inputs to the fully functioning electronic support for the future  
5                   test year period are fed by systematic calculations within other  
6                   programs that are not downloadable to fully functioning and  
7                   executable spreadsheets, the utility will rerun such supporting  
8                   programs for input changes reasonably required by the staff or  
9                   intervenors so as to be able to capture the impact of such proposed  
10                  input changes on the future test year period jurisdictional cost of  
11                  service model.
- 12                  C. The utility shall identify any data that is not provided in fully  
13                  functional electronic format and provide the reason why the data is  
14                  not provided in fully functional electronic format.

15

16           17.1.3.12 NMAC further provides that “The rate application shall include:

- 17                   A. a base period;
- 18                   B. an adjusted base period;
- 19                   C. a future test year period; and

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1           D. verifiable information for the linkage data to allow commission staff and  
2           intervenors to assess the validity of the information contained in the future  
3           test year period described in Sections 15, 16, 17 and 18 of this rule.”

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

7   **A.**   Yes. Concentric and NMGC have worked together to develop a fully functional  
8   Excel-based model to support its rate filing.

9  
10 **Q.    AS PART OF CONCENTRIC’S ROLE IN THE PREPARATION OF**  
11 **NMGC’S RATE CASE, WAS THE MODEL TESTED FOR ITS**  
12 **ACCURACY?**

13 **A.**   Yes. Concentric undertook a detailed review of the Model. We ensured the  
14 inclusion of necessary historical data in the Model, reviewed adjustments to the  
15 historical data through the linkage periods, confirmed the resulting impacts on the  
16 future test year data, reviewed the results for reasonableness, and tested and verified  
17 the flow of data within the Model.

18  
19 **Q.    IN YOUR OPINION, DOES THE MODEL COMPLY WITH THE**  
20 **COMMISSION’S REQUIREMENTS AS SET FORTH IN THE NMAC?**

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1    **A.**    Yes, the Model, is (with a few exceptions that I will discuss later in my testimony)  
2           fully functional and provides all required data to support the determination of the  
3           Company’s cost of service. The amounts in all schedules and workpapers can be  
4           easily traced, and the assumptions used to develop the future test year cost of  
5           service are provided in working electronic files.  
6

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

9    **A.**    Yes. Based upon my review of prior filings before the NMPRC, the fully functional  
10           Model presented by NMGC in this proceeding provides the same general form and  
11           functionality as that provided by Public Service Company of New Mexico (“PNM”)  
12           in NMPRC Case No. 16-00276-UT.  
13

14   **Q.    IN YOUR OPINION, CAN THE NMPRC, ITS STAFF AND OTHER  
15           PARTIES TO THIS RATE PROCEEDING REASONABLY RELY UPON  
16           THE MODEL TO ESTABLISH NEW RATES IN THIS PROCEEDING?**

17   **A.**    Yes. The Model contains historical and forecasted data pertinent to the Company’s  
18           cost of providing services to its customers. Company witnesses are providing  
19           detailed information, data, and testimony discussing specific initiatives and  
20           supporting the requested levels of rate base and operations expenses. The Model  
21           captures and summarizes the cost of, and investment in, these initiatives. In my

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1 opinion, the Model provides a functional and appropriate means by which to  
2 review, modify, and determine the Company’s cost of service in this rate  
3 proceeding. The Model provides detailed information regarding all components of  
4 rate base and operations expenses. Adjustments, if any, can be easily flowed  
5 through the Model.

6  
7 **B. Time Periods Contained In The Model**

8 **Q. WHAT TIME PERIODS DID NMGC USE TO DEVELOP THE REVENUE**  
9 **REQUIREMENTS SUPPORTING THE COMPANY’S RATE REQUEST IN**  
10 **THIS PROCEEDING?**

11 **A.** As described in greater detail in the direct testimony of NMGC Witness Blotter, the  
12 Company’s base period reflects data for the twelve months ending June 30, 2019  
13 (“Base Period”). The adjusted base period (“Adjusted Base Period”) reflects data  
14 for this same twelve-month period. The Company then utilized a future test year  
15 period consisting of the twelve-month period ending December 31, 2021 (“Future  
16 Test Year”). As required by the Future Test Year Rule, linkage period data is  
17 provided to “bridge the gap” between the historical base period and the future test  
18 period. Linkage Period 1 provides data for the twelve months ended June 30, 2020  
19 (“Linkage Period 1”), while Linkage Period 2 sets forth information for the twelve  
20 months ending December 31, 2020 (“Linkage Period 2,” collectively the “Linkage  
21 Periods”).

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1   **Q.   PLEASE DESCRIBE THE SOURCE OF THE DATA USED IN THE**  
2       **MODEL FOR THE BASE PERIOD.**

3   **A.**   The Base Period represents twelve months of actual, unadjusted historical financial  
4       data from the Company’s financial books and records. Therefore, the data  
5       represents the actual, per books, expenses incurred during the twelve-month period  
6       ending June 30, 2019.

7

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

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

15

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

17  **A.**   The Linkage Periods effectively bridge the gap between the Adjusted Base Period  
18       and the Future Test Year to allow the Commission’s Utility Staff (the “Staff”) and  
19       Intervenors to assess the validity of the information contained in the Future Test  
20       Year. In this proceeding, the Base Period ends June 30, 2019 while the Future Test  
21       Year period ends December 31, 2021. The Linkage Periods provide data to better

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1 understand the change in rate base and operations expenses from the Base Period  
2 to the Future Test Year.

3

4 **Q. WHY DO THE LINKAGE PERIODS OVERLAP?**

5 **A.** The Linkage Periods are intended to provide a clear, annualized line of sight from  
6 the Base Period to the Future Test Year period. Given that there is an 18-month  
7 span between the Base Period and the Future Test Year period, the Company  
8 provided data for two twelve-month periods between the Base and Future Test Year  
9 periods to provide the annualized data between periods. Linkage Period 1 provides  
10 data for the twelve months immediately following the Base Period. Linkage Period  
11 2 provides data for the twelve months immediately preceding the Future Test Year.  
12 As such, there is an overlap between the Linkage Periods. The overlap period is  
13 January 1, 2020 through June 30, 2020.

14

15 **Q. PLEASE EXPLAIN THE FUTURE TEST YEAR.**

16 **A.** The Future Test Year represents financial and operating data for a future period of  
17 time. In this proceeding, the Company is employing a future test year to reflect the  
18 twelve months ended December 31, 2021. Various Company witnesses will  
19 discuss the forecasted levels of revenues, operations expenses and rate base through  
20 the period ending December 31, 2021 and the justification for the projected levels  
21 of revenues and costs. The Future Test Year costs are developed and supported by

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1 the fully functional executable Model, which I will discuss in the following section  
2 of my testimony.

3

4

**C. How The Model Works**

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

7 **A.** Yes. NMGC Exhibit MJA-2 provides instructions to facilitate Staff's and  
8 Intervenors' review of the Model. It is important that users read and understand  
9 these instructions before attempting to utilize the Model.

10

11 Additionally, it is my understanding that NMGC will be arranging sessions with  
12 Staff and Intervenors to facilitate their understanding of the operations of the Model  
13 and to answer any questions regarding functionality of the Model.

14

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

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

21



**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

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

3   **A.**    Yes. I use the terms “workbook,” “worksheet,” and “tab” extensively throughout  
4       my 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  
6       individual tab within an Excel® workbook. A linked workbook refers to an  
7       external Excel® workbook outside of the existing Excel® workbook. A linked  
8       worksheet refers to a worksheet within the existing Excel® workbook.

9

10   **Q.    PLEASE IDENTIFY THE WORKBOOKS THAT COMPOSE THE**  
11       **MODEL.**

12   **A.**    The Model consists of three separate workbooks. The first workbook is the Cost  
13       of Service workbook (the “COS Workbook”) and is labeled as NMGC Exhibit  
14       MJA-3. The workbook summarizes data from the remaining workbooks and  
15       supports the calculation of the Company’s overall cost of service, including rate  
16       base and operations expenses.

17

18       The second workbook, which has been labeled as NMGC Exhibit MJA-4, is the  
19       Rate Base workbook (the “Rate Base Workbook”), and as the name implies,  
20       provides details and support for each component of rate base.

21

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1           The third and final workbook, which has been labeled as NMGC Exhibit MJA-5,  
2           is the Operations Expense workbook (the “Operations Expense Workbook”) and  
3           provides details and support for each category of NMGC’s operations and  
4           maintenance (“O&M”) expenses included in the filing.

5

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

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

14

15          The COS Workbook is, in essence, a summary of the Rate Base Workbook and the  
16          Operations Expense Workbook. Parties should make changes to the Model in the  
17          Rate Base Workbook and/or the Operations Expense Workbook. These two  
18          workbooks contain input worksheets, which are colored blue, where any changes  
19          should be made. These blue input worksheets contain specific columns to  
20          summarize the content or derivation of the cost of service, rate base, and operations  
21          expenses. When a party proposes an adjustment in the appropriate column in the

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1 Rate Base or Operations Expense Workbooks, the impact of the adjustments will  
2 be reflected in the adjusted total column and will flow forward to the appropriate  
3 location within the COS Workbook. For the most part, no changes need to be made  
4 to the COS Workbook. However, there are a few instances where parties can make  
5 adjustments because some data is either hard-coded/non-fully functional or the  
6 adjustments need to be calculated within NMGC Exhibit MJA-3. These instances  
7 are described later in my testimony. As a reminder, all workbooks need to be open  
8 when a party enters an adjustment. If all workbooks are not open, the adjustment  
9 will not flow properly throughout the Model.

10

11 **Q. WITHIN EACH WORKBOOK, FOR WHAT PERIODS OF TIME IS**  
12 **INFORMATION PROVIDED?**

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

15

16 **Q. AS YOU DISCUSS THE CONTENT OF THE WORKBOOKS IN THE**  
17 **MODEL, ARE THERE ANY GAPS IN THE ROWS OR COLUMNS CITED?**  
18 **IF SO, PLEASE EXPLAIN WHY.**

19 **A.** As previously described, the Model is an Excel based model. As I discuss the  
20 content of the various workbooks within the Model, I will refer to the Excel  
21 columns and rows in which data exists. For presentation purposes, there are blank

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1 columns in the workbooks. Therefore, as I discuss each workbook, the referenced  
2 columns may not be sequentially labeled. In addition, there are some instances  
3 where there are “placeholders” for line items. These rows were not needed in the  
4 Model, but could not be deleted in order to maintain a fully functional model.

5  
6 **Q. PLEASE EXPLAIN HOW THE MODEL IS BEING PROVIDED TO STAFF  
7 AND INTERVENORS.**

8 **A.** First, NMGC Exhibits MJA-3 through MJA-5, as identified above, are paper copies  
9 of the three workbooks that comprise the model. Second, an electronic fully  
10 functional copy of the Model has been provided on a CD-ROM with the pleadings  
11 filed in this rate case. Finally, a fully functional electronic copy of the Model is  
12 also available on SharePoint as NMPRC Case No. 19-00317-UT-2019 NMGC  
13 2019 Rate Case.

14  
15 **D. The Workbooks**

16 **i. The COS Workbook**

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

18 **A.** The COS Workbook, which has been labeled as NMGC Exhibit MJA-3, contains  
19 five worksheets. The first worksheet in the COS Workbook is the lead worksheet  
20 and details the contents of the workbook. The second worksheet provides a  
21 summary of the cost of service (“COS Summary”). The remaining three worksheets

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1 contain “630 Schedule A-5” for the Base Period, Adjusted Base Period, and Future  
2 Test Year.

3

4 **Q. PLEASE DESCRIBE THE INFORMATION CONTAINED IN THE COS**  
5 **SUMMARY WORKSHEET.**

6 **A.** The second worksheet in the COS Workbook summarizes the Company’s rate base  
7 and operations expenses. The worksheet provides information pertaining to each  
8 of the following items:

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

---

<sup>1</sup> The adjustments presented in Column H of the COS Summary, NMGC Exhibit MJA-3, are discussed by NMGC Witness Blotter.

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

- 1           9)     Future Test Year adjustments (column O);
- 2           10)    adjusted Future Test Year (column P). The totals presented in column P
- 3                 were derived by summing the figures in columns N and O; and
- 4           11)    columns R and S allow for and reflect the results of Intervenor adjustments.

5

6           For more detailed information regarding each column, please refer to the green lead

7           sheets at the beginning of each exhibit workbook or NMGC Exhibit MJA-2.

8

9   **Q.     WHAT ARE THE COMPONENTS THAT MAKE UP THE COMPANY'S**

10           **COST OF SERVICE AS NAMED IN COLUMNS A THROUGH D OF THE**

11           **COS SUMMARY?**

12   **A.**    Columns A through D in the COS Summary name the components of rate base and

13           operations expenses, which collectively make up the Company's cost of service.

14           The components of rate base, as set forth on lines 5 through 134, are:

- 15                 • Net Transmission Plant;
- 16                 • Net Distribution Plant;
- 17                 • Net General and Intangible Plant;
- 18                 • Accumulated Deferred Income Taxes;
- 19                 • Regulatory Assets and Liabilities;
- 20                 • Other Rate Base Items; and
- 21                 • Working Capital.

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1           The components of operations expenses, as set forth on lines 137 through 450,  
2 include:

- 3           • Fuel-Related Expenses;
- 4           • Transmission O&M;
- 5           • Distribution O&M;
- 6           • Customer Related O&M;
- 7           • Administrative and General expenses;
- 8           • Depreciation and Amortization Expense;
  - 9               ▪ Transmission;
  - 10              ▪ Distribution;
  - 11              ▪ General and Intangible; and
  - 12              ▪ Other;
- 13          • General Taxes;
  - 14              ▪ Property taxes;
  - 15              ▪ Payroll taxes; and
  - 16              ▪ Other taxes;
- 17          • Other Allowable Expenses;
- 18          • Federal Income Taxes;
- 19          • State Income Taxes; and
- 20          • Revenue Credits.

21           The information is summarized to produce a total cost of service.

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1 **Q. PLEASE EXPLAIN THE PURPOSE OF COLUMN R.**

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

7

8 **Q. WHAT IS THE PURPOSE OF COLUMN S?**

9 **A.** Column S, entitled “Intervenor Change Ending 12/31/2021,” presents the net total  
10 of the Company’s adjusted Future Test Year balances presented in column P and  
11 the proposed balances net of any proposed adjustments reflected in column R as  
12 made by that individual party.<sup>2</sup>

13

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

15 **A.** Columns U and V summarize the change from the Adjusted Base Period to the  
16 adjusted Future Test Year for each component of rate base. Column U shows the  
17 variance in dollar amount, while column V shows it as a percentage. This  
18 information is provided for informational purposes to provide an order of

---

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



**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1 magnitude assessment of change from each of the periods to the Future Test Year  
2 period.

3

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

6

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

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

- 15 • Accumulated Deferred Income Taxes;
- 16 • Income Tax Regulatory Liability;
- 17 • Interest on Long-term Debt;
- 18 • Tax/Book Adjustments;
- 19 • Amortization of Excess Deferred Income Taxes (Both Federal and State);
- 20 • Debt-only adjustment for Williams; and

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1           • Weighted Average Cost of Capital (“WACC”).<sup>3</sup>

2   **Q. PLEASE DESCRIBE THE OTHER WORKSHEETS IN THE COS**  
3   **WORKBOOK.**

4   **A.** 630 Schedule A-5 comprises the remaining three worksheets in the COS Workbook  
5   and calculates the weighted average cost of capital (“WACC”) for the Base,  
6   Adjusted Base, and Future Test Year periods. The WACC calculations in these  
7   tabs are used to calculate the return on rate base.

8

9                           **ii. The Rate Base Workbook**

10 **Q. PLEASE PROVIDE AN OVERVIEW OF THE RATE BASE WORKBOOK,**  
11 **NMGC EXHIBIT MJA-4.**

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

16

17 The first worksheet in NMGC Exhibit MJA-4 entitled the “Lead Sheet Rate Base”  
18 in green is a table of contents for the entire workbook. This worksheet provides

---

<sup>3</sup> The Company has added a section in 630 Schedule A-5 Test in NMGC Exhibit MJA-3. These parties can make changes to the return on equity and debt rates. These changes will flow through the Intervenor adjustment columns in the COS Summary.

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1 hyperlinks to each of the tabs in the workbook, summarizes and outlines the  
2 purpose of each worksheet, and notes which worksheets the tabs provide  
3 information to and which worksheets the tabs require information from. There are  
4 four blue input worksheets: “WP Plant COS Inputs,” “WP Depreciation COS  
5 Inputs,” “WP Working Capital COS Inputs,” and “WP Other RB COS Inputs.”  
6 These are the worksheets where parties should make changes to the Model and their  
7 contents are described in further detail below. Following the input worksheets are  
8 630 Schedules in gold and workpapers in purple. Workpapers and 630 Schedules  
9 support or provide inputs to the COS Workbook.

10

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

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

- 15 • column A identifies the major categories of plant (e.g., net transmission  
16 plant, net distribution plant, net general and intangible plant);
- 17 • column B provides further delineation of the components of plant within  
18 each major category;
- 19 • column D provides the specific FERC accounts within each component of  
20 plant;

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

- 1           • column E provides the unadjusted Base Period balance for each component  
2           of plant, per the Company’s books and records;
- 3           • column F sets forth the adjustments to Base Period balances. The derivation  
4           of the adjustments is provided on Worksheet “WP Plant 1 – Net Plant  
5           Balances;”
- 6           • column G presents the Adjusted Base Period balances and reflects the sum  
7           of columns E and F;
- 8           • column H provides the balances, by component, for Linkage Period 1. The  
9           derivation of the Linkage Period 1 balances can be found in the supporting  
10          worksheet entitled “WP Plant-1 – Net Plant Balances” column AG;
- 11          • column I presents the balances for each component of rate base for Linkage  
12          Period 2. The derivation of the Linkage Period 2 balances can be found in  
13          the worksheet entitled “WP Plant-1 – Net Plant Balances” column AM;
- 14          • column J sets forth the balances for each component of rate base for the  
15          Future Test Year. The derivation of the Future Test Year balances can be  
16          found in the worksheet entitled “WP Plant-1 – Net Plant Balances” column  
17          AZ;
- 18          • column K reflects an adjustment to recognize the averaging of the 2020 and  
19          2021 balances Given that the Company is utilizing a Future Test Year in  
20          this proceeding, rate base needs to reflect a thirteen-month average of the  
21          ending balances of calendar year 2020 and 2021;

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

- 1           • column L reduces the balances at year end December 31, 2021 to reflect the  
2           thirteen-month average of year end 2020 and 2021 balances;
- 3           • column N calculates the net change in each component of rate base from the  
4           Adjusted Base Period balance to the Future Test Year;
- 5           • similarly, column O provides the percentage change from the Adjusted Base  
6           Period balance to the Future Test Year balance;
- 7           • column Q provides a column for the parties to this proceeding to propose  
8           adjustments to the Company’s test year account balances;
- 9           • column R calculates the adjusted balance of each component of rate base  
10          reflecting the proposed Staff/Intervenor adjustments;
- 11          • column T provides an explanation for the increase or decrease between the  
12          Base Period and Future Test Year; and
- 13          • column U provides a cross-reference to either exhibits, 630 Schedules, or  
14          workpapers where appropriate.

15

16 **Q. PLEASE DESCRIBE THE CONTENTS OF WORKSHEET “WP**  
17 **DEPRECIATION COS INPUTS.”**

18 **A.** The information contained in each column in the worksheet “WP Depreciation COS  
19 Inputs” is summarized as follows:

- 20           • column A identifies the major categories of depreciation expense (e.g.,  
21           Transmission, Distribution, General and Intangible);

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

- 1           • column B provides further delineation of the components of depreciation  
2           expense within each major category;
- 3           • column D provides the specific FERC accounts within each component of  
4           depreciation<sup>4</sup>;
- 5           • column E provides the unadjusted Base Period balance for each component  
6           of depreciation expense, per the Company’s books and records;
- 7           • column F sets forth the adjustments to Base Period depreciation. The  
8           derivation of the adjustments is provided on worksheet “630 Schedule H-  
9           7b”, column L;
- 10          • column G presents the Adjusted Base Period depreciation expenses and  
11          reflects the sum of columns E and F;
- 12          • column H provides the depreciation expense, by component, for Linkage  
13          Period 1. The derivation of the Linkage Period 1 balances can be found in  
14          the supporting workpaper entitled “630 Schedule H-7b” column R;
- 15          • column I presents the depreciation expense for each component for Linkage  
16          Period 2. The derivation of the Linkage Period 2 balances can be found in  
17          the supporting workpaper entitled “630 Schedule H-7b” column X;
- 18          • column J sets forth the depreciation expense for each component for the  
19          Future Test Year. The derivation of the Future Test Year depreciation

---

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

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1 expense can be found in the supporting workpaper entitled “630 Schedule  
2 H-7b” column AD;

3 • column K presents the adjustments to the Future Test Year period  
4 depreciation expense. The Company is not proposing any adjustments to  
5 depreciation expense in the Future Test Year period, so, this column is  
6 blank;

7 • column L presents the adjusted depreciation expense for the Future Test  
8 Year;

9 • column N calculates the net change in each component of from the Adjusted  
10 Base Period expense to the Future Test Year expense;

11 • column O provides the percentage change from the Adjusted Base Period  
12 to the Future Test Year expense;

13 • column Q provides a column for the parties to this proceeding to propose  
14 adjustments to the Company’s Future Test Year account expenses;

15 • column R calculates the adjusted balance of each component of rate base  
16 reflecting the proposed Staff and Intervenor adjustments;

17 • column T provides an explanation for the increase or decrease between the  
18 Base and Future Test Year periods; and

19 • column U presents references to supporting files or tabs.

20 **Q. PLEASE DESCRIBE THE CONTENTS OF WORKSHEET “WP**  
21 **WORKING CAPITAL COS INPUTS.”**

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

- 1    **A.**    The information contained in each column in the worksheet “WP Working Capital  
2            COS Inputs” is summarized as follows:
- 3            •    column A identifies the major categories of working capital (e.g., fuel stock,  
4                    materials and supplies, prepayments, ROW, and cash working capital);
  - 5            •    column B provides the unadjusted Base Period balance for each component  
6                    of working capital, per the Company’s books and records;
  - 7            •    column C sets forth the adjustments to Base Period balances. The derivation  
8                    of the adjustments is provided on 630 Rule E Schedules for fuel stock,  
9                    materials and supplies, and prepayments; and Rule 630 H-7 Schedules for  
10                    ROW;
  - 11           •    column D presents the Adjusted Base Period balances and reflects the sum  
12                    of columns B and C;
  - 13           •    column E provides the balances, by component, for Linkage Period 1. The  
14                    derivation of the Linkage Period 1 balances can be found in 630 Rule E  
15                    Schedules for fuel stock, materials and supplies, and prepayments; and Rule  
16                    630 Schedule H-7 for ROW;
  - 17           •    column F presents the balances for each component for Linkage Period 2.  
18                    The derivation of the Linkage Period 2 balances can be found in 630 Rule  
19                    E Schedules for fuel stock, materials and supplies, and prepayments; and  
20                    Rule 630 Schedule H-7 for ROW;



**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

- 1           • column G sets forth the balances for each component for the Future Test  
2           Year. The derivation of the Future Test Year balances can be found in 630  
3           Rule E Schedules for fuel stock, materials and supplies, prepayments, and  
4           cash working capital; and Rule 630 Schedule H-7 for ROW;
- 5           • given that the Company is utilizing a future test year in this proceeding, rate  
6           base needs to reflect a thirteen-month average of the ending balances of  
7           calendar year 2020 and 2021. Column H reflects an adjustment to recognize  
8           the averaging of the 2020 and 2021 balances;
- 9           • the amount in column I reduces the balances at year end December 31, 2021  
10          to reflect the thirteen-month average of year end 2020 and 2021 balances;
- 11          • column K calculates the net change in each component of working capital  
12          from the Adjusted Base Period balance to the test year;
- 13          • similarly, column L provides the percentage change from the Adjusted Base  
14          Period to the Future Test Year balance;
- 15          • column N provides a column for the parties to this proceeding to propose  
16          adjustments to the Company’s Future Test Year account balances;
- 17          • column O calculates the adjusted balance of each component of rate base  
18          reflecting the proposed Staff and Intervenor adjustments;
- 19          • column Q presents information pertaining to the changes made by the  
20          Company; and
- 21          • column R presents references to supporting files or tabs.

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1

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

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

- 6 • column A identifies the major categories (e.g., customer deposits, RWIP,  
7 Revenue Credits, etc.);
- 8 • column B provides the FERC account associated with each line item;
- 9 • column E provides the unadjusted Base Period balance for each component,  
10 per the Company’s books and records;
- 11 • column F sets forth the adjustments to the Base Period;
- 12 • column G presents the Adjusted Base Period balances and reflects the sum  
13 of columns E and F;
- 14 • column I provides the balances, by component, for Linkage Period 1;
- 15 • column J presents the balances for each component for Linkage Period 2;
- 16 • column L sets forth the balances for each component for the Future Test  
17 Year Period;
- 18 • column M reflects an adjustment to recognize the averaging of the 2020 and  
19 2021 balances. Given that the Company is utilizing a Future Test Year in  
20 this proceeding, rate base needs to reflect a thirteen-month average of the  
21 ending balances of calendar year 2020 and 2021;

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

- 1           • column N adjusts the balances at year end December 31, 2021 to reflect the
- 2           thirteen-month average of year end 2020 and 2021 balances;
- 3           • column P calculates the net change in each component of from the Adjusted
- 4           Base Period balance to the Future Test Year;
- 5           • similarly, column Q provides the percentage change from the Adjusted Base
- 6           Period to the Future Test Year balance;
- 7           • column S provides a column for the parties to this proceeding to propose
- 8           adjustments to the Company’s Future Test Year account balances;
- 9           • column T calculates the adjusted balance of each component of rate base
- 10          reflecting the proposed Staff/Intervenor adjustments;
- 11          • column V provides an explanation for the increase or decrease between the
- 12          Base and Future Test Year periods; and
- 13          • column R presents references to supporting files or tabs.

14

15 **Q. PLEASE DESCRIBE THE OTHER WORKSHEETS IN THE RATE BASE**

16 **WORKBOOK.**

17 **A.** The remaining worksheets in the Rate Base Workbook are 630 Schedules and

18 workpapers as follows:

- 19           • 630 Schedules B-1, B-2, and B-3;
- 20           • 630 Schedule C-1a, C-1b;
- 21           • 630 Schedule C-2 Depreciation Rates;

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

- 1           • 630 Schedule 7-b;
- 2           • WP Plant 1 Net Plant Balances;
- 3           • WP Plant 2 Gross Activity;
- 4           • WP Plant 3 Gross Balances;
- 5           • WP Plant 4 Depreciation Activity;
- 6           • WP Plant 5 Depreciation Exp;
- 7           • WP Plant 6 Accumulated Reserve Balances;
- 8           • 630 Schedules E-1, E-2.1, E-2.2, E-4;
- 9           • 630 Schedules H-7.1, H-7.2, and H-7.3; and
- 10          • 630 Schedules 1-1, 1-2, and 1-3.

11           These workpapers and schedules are detailed further in NMGC Exhibit MJA-2.

12

13                           **iii.     The Operations Expense Workbook**

14   **Q.     PLEASE PROVIDE AN OVERVIEW OF THE OPERATIONS EXPENSE**  
15   **WORKBOOK, NMGC EXHIBIT MJA-5.**

16   **A.**    The Operations Expense Workbook summarizes the development of the  
17           Company’s operations expenses. It provides the same information pertaining to  
18           operations expenses that was detailed above when describing the COS Workbook.  
19           The Operations Expense Workbook is linked to the COS Workbook and the data

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1           that is calculated in it flows directly to the COS Workbook, NMGC Exhibit MJA-  
2           3.

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

16

17   **Q.   PLEASE DESCRIBE THE CONTENTS OF WORKSHEET “WP OM COS**  
18   **INPUTS.”**

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

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

- 1           • column A identifies the major categories of operations expenses (e.g., fuel  
2           related expenses, O&M non-fuel, including transmission O&M,  
3           distribution O&M, customer related O&M, and administrative and general  
4           expenses);
- 5           • column B provides further description of the components of expenses  
6           within each major category;
- 7           • column C is subtotals;
- 8           • column E identifies the specific FERC accounts within each component of  
9           operations expenses;
- 10          • column F provides the unadjusted Base Period balance for each component  
11          of operations expenses, per the Company’s books and records. These  
12          balances were brought forward from “WP 2 OM 630 Schedule H1 OM  
13          Summary”;
- 14          • column G sets forth the adjustments to Base Period expense levels. The  
15          derivation of the adjustments is provided on worksheet “WP OM 2 630  
16          Sched H1 OM Summary”;
- 17          • column H presents the Adjusted Base Period balances and reflects the sum  
18          of columns F and G;
- 19          • column I provides the balances, by component, for Linkage Period 1. The  
20          derivation of the Linkage Period 1 balances can be found in the worksheet  
21          entitled “WP OM 2 630 Sched H1 OM Summary”;

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

- 1           • column J presents the balances for each component of operations expense  
2           for Linkage Period 2. The derivation of the balances can be found in the  
3           supporting worksheets entitled “WP 2 OM 630 Schedule H1 OM  
4           Summary”;
- 5           • column K sets forth the balances for each component of expenses for the  
6           Future Test Year. The derivation of the Future Test Year balances can be  
7           found in the supporting workpaper entitled “WP 2 OM 630 Schedule H1  
8           OM Summary”;
- 9           • column L reflects test year adjustments;
- 10          • column M reflects the sum of columns K and L;
- 11          • column O calculates the net change in each component of expenses from  
12          the Adjusted Base Period balance to the Future Test Year;
- 13          • Similarly, column P provides the percentage change from the Adjusted Base  
14          Period balance to the Future Test Year balance;
- 15          • column R provides a column for the parties to this proceeding to propose  
16          adjustments to the Company’s Future Test Year operations expenses, by  
17          FERC Account;
- 18          • column S calculates the adjusted balance of each component of operations  
19          expenses reflecting the proposed Staff and Intervenor adjustments;
- 20          • column U is the explanation of the percentage change; and
- 21          • column V shows cross references.

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1

2 **Q. PLEASE DESCRIBE THE CONTENTS OF WORKSHEET “WP GEN TAX**  
3 **COS INPUTS.”**

4 **A.** Worksheet “WP Gen Tax COS Inputs” presents NMGC’s expenses for general  
5 taxes. The information contained in each column is summarized as follows:

- 6 • column A identifies the major categories of operating expenses (e.g.  
7 Property, Payroll, and Other Taxes);
- 8 • column B provides further description of the components of expenses  
9 within each major category;
- 10 • column C identifies the specific FERC accounts within each component of  
11 operating expenses;
- 12 • column D provides the unadjusted Base Period expense for each component  
13 of general taxes, per the Company’s books and records;
- 14 • column E sets forth the adjustments to Base Period expenses, pulling data  
15 forward from “WP GT 2 Property Tax,” “WP GT 3 Payroll Tax,” or “WP  
16 GT 4 Misc Taxes”;
- 17 • column F presents the Adjusted Base Period expenses and reflects the sum  
18 of columns D and E;
- 19 • column G provides the expenses, by component, for Linkage Period 1,  
20 pulling data forward from “WP GT 2 Property Tax,” “WP GT 3 Payroll  
21 Tax,” or “WP GT 4 Misc Taxes”;



**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

- 1           • column H presents the expenses for each component for Linkage Period 2,  
2           pulling data forward from “WP GT 2 Property Tax,” “WP GT 3 Payroll  
3           Tax,” or “WP GT 4 Misc Taxes”;
- 4           • column I sets forth the expenses for each component of general taxes for the  
5           Future Test Year, pulling data forward from “WP GT 2 Property Tax,” “WP  
6           GT 3 Payroll Tax,” or “WP GT 4 Misc Taxes”;
- 7           • column J presents the adjustments to the Future Test Year period general  
8           taxes. The Company is not proposing any adjustments to general taxes in  
9           the Future Test Year, so this column is blank;
- 10          • column K calculates the adjusted Future Test Year expenses ending  
11          12/31/2021. It is the sum of columns I and J;
- 12          • column M calculates the net change in each component of general taxes  
13          from the Adjusted Base Period to the Future Test Year;
- 14          • similarly, column N provides the percentage change from the Adjusted Base  
15          Period to the Future Test Year expense;
- 16          • column P provides a column for the parties to this proceeding to propose  
17          adjustments to the Company’s Future Test Year general taxes, by FERC  
18          account;
- 19          • column Q calculates the adjusted expense of each component of operating  
20          expenses reflecting the proposed Staff/Intervenor adjustments;
- 21          • column S provides an explanation for changes; and

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

- 1           • column T provides a cross-reference with back-up files or tabs.

2

3   **Q. PLEASE DESCRIBE THE OTHER WORKSHEETS IN THE**  
4   **OPERATIONS EXPENSE WORKBOOK.**

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

- 7           • WP 1 Inputs OM – Gen Tax;
- 8           • WP 2 OM 630 Sched H1 OM Summary;
- 9           • 630 Schedule H-1a Summary;
- 10          • 630 Schedule H-1b Mo Base Per;
- 11          • 630 Schedule H-1c Link 1 and 2;
- 12          • 630 Schedule H-1d Test Period;
- 13          • WP OM 3 Base Period Adjustments;
- 14          • WP OM 4 Separately Forecasted;
- 15          • WP OM 5 630 Schedule H-4 Labor;
- 16          • WP OM 6 Incentive Comp;
- 17          • WP OM 7 401K;
- 18          • WP GT 2 Property Tax;
- 19          • WP GT 3 Payroll Tax;
- 20          • WP GT 4 Misc Taxes; and

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

- 1           • 630 Schedules H-4.1, 4.2, 4.3, 4.4, H-8, 8.2, 8.3, 8.4.

2

3           These workpapers and schedules are detailed further in NMGC Exhibit MJA-2.

4

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

7   A.   Forecasted items in the Operations Expenses Workbook are either specifically  
8       forecasted or escalated.

9

10 **Q.   WHAT ITEMS ARE SPECIFICALLY FORECASTED IN THE**  
11 **OPERATIONS EXPENSE WORKBOOK?**

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

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

18

19           The table below contains a list of the separately forecasted items, the witness who  
20       discusses these forecasts and calculations in his/her testimony, and the column  
21       location where this item is found within worksheet “WP OM 4 Separately

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1           Forecasted.” Explanations of each of these adjustments can also be found in the  
2           Testimony of NMGC Witness Blotter.

3

Specially Forecasted Items	Witness	Base Period Column	Linkage 1 Column	Linkage 2 Column	Test Period Column
Labor Expense	Wilcox	D	P	AB	AN
Incentive Compensation Expense	Wilcox	E	Q	AC	AO
Normalize 401k Match	Blotter	F	R	AD	AP
Medical and Dental Expense	Wilcox	G	S	AE	AQ
Pension Expense	Wilcox and Blotter	H	T	AF	AR
Security Expense	Wilcox	I	U	AG	AS
Wyoming Headquarters Lease Costs	Bullard	J	V	AH	AT
Pigging Expense	Bullard	K	W	AI	AU
Hydro Testing Expense	Bullard	L	X	AJ	AV
Shared Services Expenses	Blotter and Sturgill	M	Y	AK	AW
Total		N	Z	AL	AX

4

5       **Q.       HOW ARE THE SPECIFICALLY FORECASTED ITEMS IN THE TABLE**  
6       **ABOVE INPUTED INTO THE OPERATIONS EXPENSE WORKBOOK?**

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

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

9

10   **Q.    HOW IS THE ESCALATION OF O&M EXPENSES IN THE LINKAGE**  
11           **PERIODS INPUTED INTO THE OPERATIONS EXPENSE WORKBOOK?**

12   **A.**    In handling general O&M expenses, the Model applies an escalator to the amount  
13            of Base Period expenses.  The Model uses an annual 2% escalator in Linkage Period  
14            1.  A 1% escalator is applied in Linkage Period 2 to account for the partial year  
15            overlap with Linkage Period 1.  An annual 2% escalator is used for the Future Test  
16            Year.

17

18            Labor expenses are escalated at 1.5% in Linkage 1, 1.5% in Linkage 2, and 3% in  
19            the Future Test Year.  We do not escalate Linkage 1 by 3% i.e. the annual amount  
20            in the Future Test Year because we make several adjustments to the Base Period  
21            and Linkage 1 labor expenses to reflect a partial year increase.

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1

2 **Q. HOW DO SPECIFICALLY FORECASTED ITEMS AND ESCALATED**  
3 **ITEMS FLOW INTO THE REST OF THE MODEL?**

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

- 8 • column A contains the descriptions and cost elements for each account;
- 9 • column B provides the names used for lookups to pull data into the COS  
10 Workbook;
- 11 • column C provides the specific FERC accounts;
- 12 • columns D through O contain monthly data from the Company’s books and  
13 records for each account and cost element;
- 14 • column P contains the Total Company Unadjusted Base Period, which is  
15 the sum of the monthly data in columns D through O;
- 16 • column Q is the Base Period Adjustments, which pulls from the Total of  
17 the Base Period Adjustments in column Q of the worksheet “WP OM 3  
18 Base Period Adjustments.” These Base Period Specific Adjustments are  
19 discussed in the testimony of Witness Blotter;
- 20 • column R is the Adjusted Base Period, which is the sum of columns P and  
21 Q;

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

- 1           • column S removes the amounts that will not be escalated by the standard  
2           escalation rates detailed in “WP 1 Inputs OM – Gen Tax” (e.g. 2% escalator)  
3           in Linkage 1. Instead, these amounts are separately forecasted in “WP OM  
4           4 Separately Forecasted”;
- 5           • column T (Remaining Base Period O&M to be Escalated) is the sum of  
6           column R and Column S. Because column S is a number of the opposite  
7           sign of the corresponding number in column R, column T is removing the  
8           value in column S from its total. This is done so that the separately  
9           forecasted items are not escalated by the 2% general O&M escalator. Those  
10          items have their own calculations, and therefore do not need the general  
11          escalator. Column T is the remaining value to be escalated by the general  
12          O&M escalator of 2%;
- 13          • column U (Escalated Linkage 1 - Results of Pure Escalation of 2%)  
14          multiplies column T by the O&M escalator found in found in the worksheet  
15          “WP 1 Inputs OM - Gen Tax” in cell D5;
- 16          • column V pulls in the separately forecasted items for Linkage Period 1 from  
17          worksheet “WP OM 4 Separately Forecasted,” column Z;
- 18          • column W is the Total Linkage 1 amount. This includes the sum of columns  
19          U and V. By including this sum, column W represents the separately  
20          forecasted items, plus the other O&M expenses escalated at 2%, and

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

- 1                   therefore captures all of the accounts regardless of the method used to  
2                   forecast;
- 3                   • column X (Escalated Linkage 2 - Results of Pure Escalation of 1%)  
4                   multiplies column U by the O&M escalator found in the worksheet “WP 1  
5                   Inputs OM - Gen Tax” in cell D6. The escalator is 1% because the first six  
6                   months of Linkage Period 2 (January 2020 through June 2020) have already  
7                   been escalated as a part of the escalations of Linkage Period 1;
  - 8                   • column Y contains Total Linkage 2 Period separately forecasted items, and  
9                   pulls data from worksheet “WP OM\_4\_ Separately Forecast,” Column A;
  - 10                  • column Z sums columns X and Y, resulting in the Total Linkage Period 2  
11                  amount;
  - 12                  • column AA (Escalated Test Year - Results of Pure Escalation of 2%)  
13                  multiplies column X by the O&M escalator found in worksheet “WP 1  
14                  Inputs OM - Gen Tax” in cell D7. The escalator used for the Future Test  
15                  Year is the full 2% since, the Future Test Year reflects a full twelve-month  
16                  period;
  - 17                  • column AB pulls in the separately forecasted items for the Future Test Year  
18                  from worksheet “WP OM 4 Separately Forecasted,” Column AX;
  - 19                  • column AC sums columns AA and AB, resulting in the Future Test Year  
20                  O&M Expense. Once again, this includes the separately forecasted items,



**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

- 1 as well as all general O&M items that are escalated at the general O&M  
2 escalator of 2%;
- 3 • column AE shows the difference between the Adjusted Base Period in  
4 column R and the Test Period in Column AC;
  - 5 • column AF shows the variance percentage between the Future Test Year  
6 and Adjusted Base Period; and
  - 7 • column AH contains explanations for the percentage change.
- 8

9 **E. Non-Fully Functional Data**

10 **Q. WHAT IS NON-FULLY FUNCTIONAL DATA?**

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

19

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1   **Q.   HAVE YOU IDENTIFIED ANY SECTIONS WITHIN THE MODEL THAT**  
2           **ARE NOT FULLY FUNCTIONAL AS DESCRIBED BY THE FUTURE**  
3           **TEST YEAR 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  
6           format and provides the following reason why the data is not provided in fully  
7           functional electronic format”<sup>5</sup>:

- 8                   •   ADIT - As described in the testimony of NMGC Witness Davicel  
9                            Avellan, this data is not available in a fully functioning format. Please  
10                           see NMGC Witness Avellan’s testimony for further discussion.
- 11                   •   Income Taxes - As described in the testimony of NMGC Witness  
12                            Avellan, this data (which includes Income Tax Regulatory Liability,  
13                            Tax/Book Adjustments, and Amortization of Excess Deferred Income  
14                            Taxes) is not available in a fully functioning format. Please see Witness  
15                            Avellan’s testimony for further discussion.
- 16                   •   Cash Working Capital – This calculation is not fully functional and is  
17                            not linked electronically to the Model because of the circularity required  
18                            to calculate the cash working capital requirement. The calculation  
19                            impacts both operations expenses and rate base, which creates a

---

<sup>5</sup> Although these items are non-fully-functional, parties can make adjustments to these amounts in NMGC Exhibit MJA-3, the COS Summary. These items are not provided in NMGC Exhibits MJA-4 or MJA-5 and are instead sourced to files provided by other Company witnesses.

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1 circularity issue when determining the cost of service. The 630  
2 Schedule E-1, filed as a part of this rate case, contains the detail behind  
3 the cash working capital calculations. Users can manually change the  
4 inputs to recalculate cash working capital in this Schedule.

5 • Capital Budget - The allocation of capital clearings to FERC plant  
6 accounts to determine final capital spending amounts are not fully  
7 functional because the calculations are performed by the Company's  
8 capital management software system. Additionally, the Model relies on  
9 hard inputs related to depreciation forecasts and amortization of general  
10 and intangible ("G&I") plant for the Linkage Periods and Future Test  
11 Year, as shown in NMGC Exhibit MJA-5. If the parties request  
12 alternative scenarios pertaining to capital additions, the Company is  
13 prepared to run the scenarios through the Model and provided the results  
14 based upon the alternative scenarios.

15 • Interest on Long-term Debt – In order to calculate taxable income, the  
16 Company deducted interest on Long-term Debt from its Net Return on  
17 Rate Base. These values in the Base Period and Future Test Year are  
18 hard-coded and can be found in 630 Schedule G-3.

19 • Debt-only Adjustment for the Impaired Williams Assets – The  
20 Company is not allowed to earn an equity return on the impaired  
21 Williams assets. In JLB-5, NMGC Witness Blotter calculates the Debt-

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1                                   only adjustment for these assets. This adjustment in the Base Period and  
2                                   Future Test Year is hard-coded in the COS Summary.

3

4   **Q.   HAVE YOU IDENTIFIED SPECIFIC CALCULATIONS WITHIN THE**  
5           **WORKING MODEL THAT ARE NOT FULLY FUNCTIONAL?**

6   **A.**   Yes. The following line items in the Model are not fully-functional:

- 7                               • Net Plant;
- 8                               • Deferred Tax Assets;
- 9                               • Deferred Tax Liabilities – Other Property;
- 10                              • Income Tax Regulatory Liability;
- 11                              • The debt-only return adjustment for the Williams’ impaired assets;
- 12                              • Tax/Book Adjustments to calculate Federal and State income tax; and
- 13                              • Amortization of Excess Deferred Federal and State Income Taxes.

14

15   **Q.   WILL NMGC BE AVAILABLE TO RERUN INPUT CHANGES AS**  
16           **REASONABLY REQUESTED BY THE STAFF OR INTERVENORS IN**  
17           **ORDER TO CAPTURE THE IMPACT OF PROPOSED INPUT CHANGES**  
18           **ON THE FUTURE TEST YEAR PERIOD COST OF SERVICE?**

19   **A.**   Yes. In accordance with 17.1.3.11 NMAC, the Company will respond to all  
20           requests by Staff or Intervenors to capture the impacts on the proposed cost of

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

1 service made through programs for which NMGC is unable to provide in fully  
2 functional format.

3

4

**III. CONCLUSION**

5 **Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY.**

6 **A.** NMGC has filed for an increase in rates that is premised upon a Future Test Year  
7 reflecting the twelve months ending December 31, 2021. The rate relief request is  
8 supported by Testimony and a fully functional and linked Excel® Model. Models  
9 such as the one prepared and presented by the Company are common in regulatory  
10 rate proceedings across the United States and have been relied upon by state  
11 regulatory commissions to establish energy companies' rates in rate proceedings.  
12 Based upon my experience in numerous state regulatory jurisdictions in the United  
13 States, I believe that the Model meets the NMPRC's requirements for a fully  
14 functional model supporting the Company's requested increase in this proceeding,  
15 and provides an effective tool by which the parties to this proceeding can review  
16 and evaluate the Company's cost of service.

17

18 The Company has provided instructions regarding the use of the Model and is  
19 prepared to provide training and support to Staff and other parties, if needed, to  
20 develop an understanding of the content and flow of the Model.

21

**DIRECT TESTIMONY OF  
MICHAEL J. ADAMS  
NMPRC CASE NO. 19-00317-UT**

- 1 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**
- 2 **A.** Yes, it does.