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 NOS. 70 AND 71

NEW MEXICO GAS COMPANY, INC.

Applicant.

Case No. 18-__________-UT

DIRECT TESTIMONY AND EXHIBITS

OF

SCOTT A. HASTINGS

February 26, 2018
I. INTRODUCTION

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

A. My name is Scott A. Hastings. I am Vice President, Finance of New Mexico Gas Company, Inc. (“NMGC” or the “Company”). My business address is 7120 Wyoming Boulevard NE, Albuquerque, NM 87109.

Q. PLEASE BRIEFLY DESCRIBE YOUR BUSINESS EXPERIENCE AND EDUCATIONAL BACKGROUND.

A. My professional experience and education are described in NMGC Exhibit SAH-1.

Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS VICE PRESIDENT, FINANCE FOR NMGC.

A. I am responsible for the financial operations of NMGC, including the accounting, financial reporting, tax compliance, budgeting, financial planning and treasury functions. My responsibilities include using data from the Company’s accounting books and records to develop the Company’s revenue requirement presented in this filing. In essence, that revenue requirement represents all of the costs of providing service to the Company’s more than 524,000 customers. Those costs are detailed in various Schedules required to be submitted with this filing pursuant to 17.10.630 NMAC (“Rule 630”).

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION (“NMPRC” OR THE “COMMISSION”)?
DIRECT TESTIMONY OF
SCOTT A. HASTINGS
NMPRC CASE NO. 18-_______-UT

A. Yes, I submitted testimony and testified in NMPRC Case No. 17-00027-UT. That case involved NMGC’s application for the Commission’s authorization to amend its $125 million revolving credit agreement.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony in this proceeding is to:

- I. Provide a financial overview of NMGC since the last rate case, NMPRC Case No. 11-000-42-UT (“2011 Rate Case”);
- II. Sponsor certain Rule 630 Schedules included in the Company's request for Commission approval of revised base rates;
- III. Present and support the “Base Period” (October 1, 2016 to September 30, 2017) and “Test Period” (Base Period adjusted for known and measurable adjustments) revenue requirement calculations shown in NMGC Exhibit SAH-2;
- IV. Present and support Test Period Adjustments (“TPA”) shown in NMGC Exhibit SAH-3 and NMGC Exhibit SAH-4 that make NMGC’s rate base and on-going operating expenses appropriate for use in setting revised base rates in this proceeding (“2018 Rate Case”);
- V. Discuss NMGC’s affiliate transactions;
- VI. Describe NMGC’s approach to implementing federal and state tax reform into the rate case;
- VII. Describe the status of the Company’s retiree medical plan and the suggested treatment in this rate case;
- VII. Describe other matters impacting the rate case; and
VIII. Describe NMGC’s compliance with prior Commission orders.

II. FINANCIAL OVERVIEW SINCE NMGC’S 2011 RATE CASE

Q. PLEASE PROVIDE AN OVERVIEW OF NMGC’S FINANCIAL PERFORMANCE SINCE THE 2011 RATE CASE.

A. Since the 2011 Rate Case, NMGC’s average annual return on equity (“ROE”) has been 8.0%, and most recently, 6.9% ROE in 2017.

During this timeframe, NMGC has controlled its operating expenses within the context of the shared services model of operation with its new owners, and has expended capital to enhance and improve the safety and reliability of its system which has resulted in a higher rate base and capital related expenses (depreciation and taxes other than income taxes). As explained further in this case by NMGC Witnesses Shell, Kacer, and Yardley, the Company intends to continue these efforts.

Outside of the Company’s direct operational control, the most significant driver effecting financial results of the Company has been weather variability and trends.

A. Operating Results

Q. PLEASE SUMMARIZE THE CHANGES IN OPERATING EXPENSES SINCE THE 2011 RATE CASE.

A. Test Period operating expenses, including TPAs and corporate income taxes, are $149.5 million (NMGC Exhibit SAH-2, line 126 and 128) for the 2018 Rate Case, compared to
$150.4 million for the 2011 Rate Case. The following table details the comparison of operating expenses and corporate income taxes between the two rate cases:

<table>
<thead>
<tr>
<th>In Millions</th>
<th>2011 Rate Case</th>
<th>2018 Rate Case</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating and Maintenance Expenses (&quot;O&amp;M&quot;)</td>
<td>$92.9</td>
<td>$89.3</td>
<td>-$3.6</td>
</tr>
<tr>
<td>Miscellaneous Interest Expense</td>
<td>0.3</td>
<td>0.4</td>
<td>0.1</td>
</tr>
<tr>
<td>Taxes Other Than Income Taxes (&quot;TOTI&quot;)</td>
<td>9.1</td>
<td>10.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Depreciation and Amortization</td>
<td>27.8</td>
<td>38.9</td>
<td>11.1</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>$130.1</td>
<td>$139.1</td>
<td>$9.0</td>
</tr>
<tr>
<td>Corporate Income Taxes</td>
<td>20.3</td>
<td>10.4</td>
<td>(9.9)</td>
</tr>
<tr>
<td>Total Operating Expenses and Corporate Taxes</td>
<td>$150.4</td>
<td>$149.5</td>
<td>-$0.9</td>
</tr>
</tbody>
</table>

The $0.9 million reduction in total operating expenses and corporate income taxes represents a decrease of approximately 0.6% since the 2011 Rate Case. O&M decreased since the 2011 Rate Case while capital related expenses (depreciation and TOTI) have increased as a result of NMGC’s ongoing investment in the quality and reliability of its system. This increase in capital related expenses is almost entirely offset by the benefit of the recent federal tax reform which is reflected in the rate case and thereby passed through to customers.

Q. PLEASE SUMMARIZE THE REDUCTION OF O&M SINCE THE 2011 RATE CASE.

A. As reflected in the table above, O&M expenses have decreased since the 2011 Rate Case. O&M expenses include: labor and wages, employee benefits and expenses, materials and supplies, insurance, outside services, etc. I would like to make three points about the Company’s containment of O&M over the last seven years.
• First, the $89.3 million of Test Period O&M (NMGC Exhibit SAH-2, line 55) reflect all costs, including charges from all affiliates, including TECO Services, Inc. ("TSI"), under the shared services model of operation;

• Second, as reflected in the Company’s customer satisfaction numbers, and other measures of service and operations filed with the NMPRC, we believe that these cost savings have been achieved while maintaining and even improving customer satisfaction and service levels (including all customer and service provisions and agreements in the Emera Stipulation approved on June 22, 2016 in NMPRC Case No. 15-00327-UT (the “Emera Stipulation”)); and

• Third, during the period since the last rate case, the consumer price index has risen 12.4%. NMGC has contained O&M in despite the rise in the consumer price index.

Q. PLEASE DISCUSS THE IMPACT OF THE SHARED SERVICES MODEL ON THESE OPERATING & MAINTENANCE EXPENSES.

A. In 2014, the Commission approved a stipulation that allowed TECO Energy, Inc. ("TECO") to acquire NMGC’s sole shareholder, New Mexico Gas Intermediate, consistent with that stipulation, TSI began and has been providing back-office services to NMGC. In 2016, TECO became part of Emera Inc. ("Emera"). Under Emera’s ownership, and consistent with the provisions of the Emera Stipulation, TSI and affiliates provide back-office functions for NMGC. All charges to NMGC from affiliates are included in its O&M for both the Base and the Test Period. As detailed below, and by NMGC Witness Shell, these shared services are cost effective and beneficial to NMGC. Finally, in addition to receiving services from
affiliates, NMGC has provided services to affiliates thereby reducing O&M by charging affiliates.

Q. PLEASE SUMMARIZE THE OTHER FACTORS THAT HAVE IMPACTED THE COMPANY’S OPERATING EXPENSES SINCE THE LAST RATE CASE.

A. There have been changes to the Company’s TOTI, as well as changes to the Company’s depreciation and amortization expenses since the 2011 Rate Case. Since the 2011 Rate Case, NMGC has invested approximately $250 million, net of retirements, to maintain and improve the Company’s gas system and related assets. These investments are the primary reason for the increase in TOTI and depreciation. Additionally, corporate income taxes have decreased since the 2011 Rate Case because of the impacts of recent federal and state tax reform. The benefits of tax reform are passed through to customers in this rate case and discussed at length later in my testimony.

B. Rate Base

Q. PLEASE SUMMARIZE THE CHANGES IN THE RATE BASE SINCE THE 2011 RATE CASE.

A. The following summarizes the changes to rate base since the 2011 Rate Case:

<table>
<thead>
<tr>
<th>In millions</th>
<th>2011</th>
<th>2018</th>
<th>$ Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Plant in Service</td>
<td>$494.4</td>
<td>$594.7</td>
<td>$100.3</td>
</tr>
<tr>
<td>Accumulated Deferred Income Taxes</td>
<td>(8.5)</td>
<td>(29.0)</td>
<td>(20.5)</td>
</tr>
<tr>
<td>Net Adjustments (Additive less Subtractive)</td>
<td>18.2</td>
<td>-2.9</td>
<td>(21.1)</td>
</tr>
<tr>
<td>Working Capital</td>
<td>23.6</td>
<td>15.5</td>
<td>(8.1)</td>
</tr>
<tr>
<td><strong>Total Rate Base</strong></td>
<td>$527.7</td>
<td>$578.3</td>
<td>$50.6</td>
</tr>
</tbody>
</table>
As shown in this table, net plant has increased by $100.3 million to $594.7 million, while total rate base has increased by $50.6 million to $578.3 million.

Q. PLEASE EXPLAIN WHAT IS INCLUDED IN THE $100.3 MILLION OF NET PLANT IN SERVICE.

A. Between the 2011 Rate Case and this rate case, investments totaling approximately $250 million were made to maintain and improve the Company’s gas transmission and distribution system and related assets. The plant placed in service, net of retirements, breaks down as follows: $120.9 million (48%) for distribution plant; $62.4 million (25%) for transmission plant; $38.0 million (15%) for general plant; $28.6 million (12%) for intangible plant. The plant investments are partially offset by an increase of $167.7 million to the accumulated depreciation balance over the same period. The net result of this plant activity, when combined with the TPAs of $18.1 million, is a $100.3 million increase to Net Plant since the 2011 Rate Case.

Q. PLEASE EXPLAIN WHY ACCUMULATED DEFERRED INCOME TAXES ("ADIT") IS INCLUDED IN RATE BASE AND THE REASON FOR THE $20.5 MILLION CHANGE IN ADIT BETWEEN THE 2011 RATE CASE AND THE 2018 RATE CASE.

A. Under normalization accounting, tax expense is recognized in the same period as the income or expense from which it is derived. An ADIT account is created for the portion of the tax that is deferred and payable in a future year. The ADIT account is then included in rate base.
The sum of all ADIT accounts is generally a liability and reduces rate base. The inclusion of the net ADIT liability as a reduction to rate base ensures that customers receive the benefit of the cost-free source of capital for the utility. The increase in ADIT is primarily driven by bonus tax depreciation on the investments made since the 2011 Rate Case. As previously allowed by the tax code, bonus tax depreciation was an acceleration of tax depreciation more than normal Modified Accelerated Cost Recovery System tax depreciation.

Q. WHAT IS REFLECTED IN THE NET ADJUSTMENTS LINE IN THE TABLE ABOVE?

A. The change in the net adjustments to rate base shown in the table above is primarily driven by the inclusion of the Income Tax Regulatory Liability of $28.9 million. The Income Tax Regulatory Liability is a result of the recent state and federal tax reforms discussed in more detail later in my testimony. Also included in the net adjustments line is an increase in right-of-way ("ROW") investments. Since the 2011 Rate Case, NMGC has spent $18 million on new ROWs and renewals.

Q. WHAT IS REFLECTED IN THE WORKING CAPITAL LINE IN THE TABLE ABOVE?

A. The working capital line reflects Natural Gas Storage, Materials and Supplies, Prepayments and the allowance for cash working capital. The decrease in working capital since the 2011 Rate Case is driven by a lower allowance for cash working capital. The allowance for cash working capital is approximately $7 million lower than the 2011 Rate Case due mostly to the
impact of lower purchased gas costs in the internally prepared working capital or lead lag study.

Q. PLEASE SUMMARIZE THE FACTORS DRIVING THE REVENUE REQUEST IN THIS RATE CASE.

A. The primary reason for this revenue request is the Company’s ongoing capital investments to maintain and improve its transmission and distribution system and related assets. These investments have increased NMGC’s capital related operating expenses (depreciation and TOTI) and rate base. These drivers were partially offset by lower O&M expenses and the inclusion of the benefits related to the recent federal tax reform making operating expenses essentially flat since the 2011 Rate Case. Without federal tax reform NMGC’s revenue request would have been $17.6 million, but because of tax reform this amount is reduced to $8 million. This rate case reflects the transfer of the federal tax reform benefits to our ratepayers.

III. RULE 630 SCHEDULES

Q. PLEASE LIST ALL OF THE RULE 630 SCHEDULES YOU ARE SPONSORING.

A. I am sponsoring the following Rule 630 Schedules: A-1; A-3 through A-5; B-1 through B-10; C-1 through C-3; D-1; D-2; E-1 through E-5; F-1; G-1 through G-10; H-1 through H-16; I-1 through I-3; J-1; J-2; K-2; Q-2 through Q-4; R-1; R-3; and R-4 through R-7. These Rule 630 Schedules have been prepared by me or under my direction.
IV. BASE AND TEST PERIOD REVENUE REQUIREMENT OVERVIEW

Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES RELATED TO THE DEVELOPMENT OF THE COMPANY’S REVENUE REQUIREMENT.

A. I am responsible for developing the Company’s total cost of providing service to customers, or what is commonly referred to as the Company’s “revenue requirement” or “total cost of service.” I worked with other NMGC witnesses to prepare this revenue requirement. NMGC Witness Fernald of Fernald Consulting prepared and testifies as to the fully allocated cost of service (“FACOS”) study, and NMGC Witness McKenzie testifies as to the appropriate return on equity (“ROE”) that should be used to determine the revenue requirement.

Q. WHAT TWELVE-MONTH PERIOD WAS USED TO DEVELOP THE BASE PERIOD TOTAL COST OF PROVIDING SERVICE TO THE COMPANY’S CUSTOMERS?

A. Results for the twelve-month period ended September 30, 2017, were used in the development of what is known as the “Base Period” total cost of service. I have prepared and attached NMGC Exhibit SAH-2, which includes the Base Period cost of service. As discussed below, Base Period data is the starting point for the development of data that is appropriate for setting revised base rates in this proceeding.

Q. PLEASE DESCRIBE HOW THE BASE PERIOD AMOUNTS SHOWN IN NMGC EXHIBIT SAH-2 ARE DERIVED.

A. In NMGC Exhibit SAH-2, the column labeled “Base Period” reflects actual balance sheet and income statement amounts for the twelve-month period ending September 30, 2017. These
amounts come directly from the Company’s accounting books and records in accordance with Rule 630.7F. The Base Period also includes the costs charged to customers under Rate Rider 4 (the Purchased Gas Adjustment Clause, or “PGAC”) and Rate Rider 14 (the mechanism used to charge or refund Commission-approved amounts to customers). The costs charged to customers through Rate Rider 4 and Rate Rider 14 are collectively referred to in my testimony and NMGC Exhibit SAH-2 as “Rate Rider 4 & 14 Activity.”

Q. PLEASE DESCRIBE HOW THE TEST PERIOD AMOUNTS SHOWN IN NMGC EXHIBIT SAH-2 ARE DERIVED.

A. The amounts included in NMGC Exhibit SAH-2 under the column labeled “Test Period” are determined in a two-step process. First, the amounts in the column labeled “Rate Rider 4 & 14 Activity” are subtracted from the Base Period amounts to derive the column labeled “Base Period (Excl. Rate Rider 4 & 14 Activity)”. Then the “Base Period (Excl. Rate Rider 4 & 14 Activity)” is adjusted for TPAs to determine the amounts in the column labeled “Test Period”.

The basic concept is to adjust Base Period data by the TPAs and Rate Rider 4 & 14 Activity so that the Test Period reflects historic data adjusted for known and measurable items. This makes the Test Period data suitable for determining revised base rates for the Company's customers.

Q. IS THERE ANYTHING ELSE ABOUT NMGC EXHIBIT SAH-2 THAT YOU WOULD LIKE TO EXPLAIN?
Q. WHAT IS NMGC’S TEST PERIOD REVENUE REQUIREMENT AND THE RESULTING REVENUE DEFICIENCY?

A. NMGC’S Test Period revenue requirement, after revenue credits, is $185.4 million as shown in NMGC Exhibit SAH-2 (line 148) labeled "Test Period" and in Rule 630 Schedule A-1 labeled “Test Period.” NMGC’s Test Period normalized revenue, after revenue credits, is $177.4 million, as shown in Rule 630 Schedule A-1 labeled “Test Period.” NMGC Witness Fernald calculates and supports the Test Period normalized revenue in his testimony and related exhibits. The Test Period revenue requirement of $185.4 million, when compared to Test Period normalized revenue of $177.4 million, shows a Test Period revenue deficiency of $8.0 million. This revenue deficiency is also reflected in Rule 630 Schedule A-1 of this filing and is the annual revenue increase for which Commission approval is sought in this proceeding.

Q. WHAT TYPES OF TEST PERIOD ADJUSTMENTS WERE MADE IN DEVELOPING THE TEST PERIOD REVENUE REQUIREMENT?

A. The TPAs made in developing the Test Period revenue requirement generally can be classified into three types: (i) annualization adjustments; (ii) normalization adjustments; and (iii)
amortization adjustments. Collectively, these are the known and measurable adjustments to the Base Period data, producing the Test Period totals. 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. These adjustments eliminate significant non-recurring costs and revenues experienced in the Base Period that are not expected to occur during the period of time when the rates will be in effect.
- Amortization adjustments typically reflect one-time expenses that should be amortized, so that those expense amounts are recouped or refunded during the period when rates will be in effect.

Q. DOES RATE RIDER 4 & 14 ACTIVITY HAVE ANY IMPACT ON THE TEST PERIOD REVENUE REQUIREMENT IDENTIFIED BY THE COMPANY IN THIS FILING?

A. No. Rate Rider 4 & 14 Activity is excluded from the Company’s calculation of the final Test Period revenue requirement, because Rate Rider 4 & 14 Activity is charged to customers through the Rate Rider 4 and 14 mechanisms rather than in base rates. Rule 630 Schedule H-3 contains a reconciliation of revenues generated through Rate Rider 4 & 14 Activity for the twelve-month period ended September 30, 2017.
Q. WHAT CAPITAL STRUCTURE WAS USED IN THE DEVELOPMENT OF THE BASE AND TEST PERIOD REVENUE REQUIREMENT FIGURES?

A. The capital structure used in the development of the Base Period revenue requirement is the actual capital structure based on the Company’s books and records. This results in 29% long-term debt and 71% equity as shown on lines 1 and 2 of Schedule G-1. The actual capital structure in the Base Period is impacted by the accounting for several acquisitions and the inclusion of goodwill on the balance sheet of NMGC. It should be noted this actual capital structure, including the impacts of goodwill, are not used to calculate the revenue requirement as part of the rate case. NMGC adjusted the Test Period capital structure to the capital structure NMGC agreed to in Paragraph 25 of the Emera Stipulation. Paragraph 25 of the Emera Stipulation capped the equity component of NMGC’s capital structure at 54% for purposes of this general rate case. Satisfying this commitment, the Company used a capital structure consisting of 46% long-term debt and 54% equity in the development of its Test Period revenue requirement. NMGC Witness McKenzie discusses this topic in more detail in his testimony.

Q. WHAT ROE IS NMGC PROPOSING TO USE IN THE DETERMINATION OF BASE AND TEST PERIOD REVENUE REQUIREMENT FIGURES?

A. The ROE used in the calculation of the Base Period revenue requirement is 10%, from the illustrative cost of service filed in the 2011 Rate Case. The Company is proposing to use an ROE of 10.2%, in conjunction with the Weather Normalization Adjustment and Integrity Management Program Cost Recovery Mechanisms proposed by NMGC Witness Yardley. The calculation of the appropriate ROE is discussed by NMGC Witness McKenzie.
Q. WHAT COST OF DEBT DID THE COMPANY USE IN THE DEVELOPMENT OF BASE AND TEST PERIOD REVENUE REQUIREMENT FIGURES?

A. The Company used its actual effective cost of long-term debt (4.65%) for both the Base Period and Test Period to develop the respective revenue requirements. Further support for the cost of debt for the Base Period and Test Period is contained in Rule 630 Schedule G-3.

A. Adjustments to Rate Base

Q. PLEASE SUMMARIZE ALL TEST PERIOD ADJUSTMENTS YOU PROPOSE TO MAKE TO RATE BASE.

A. The total proposed TPAs are $8.8 million which represents approximately 1.6% of the rate base. These proposed TPAs are as follows:

- TPA-(1) Increase Net Plant for Pilar Reroute Project
- TPA-(2) Increase Net Plant for Transportation
- TPA-(3) Increase Net Plant for Corto Loop
- TPA-(4) Remove Start-Up Cost Net Plant
- TPA-(5) Remove ADIT for Non-Utility Other Income and Deductions
- TPA-(6) Remove ADIT Asset for Start-up and Organization Costs
- TPA-(7) Add ADIT for Accelerated Tax Depreciation for Net Plant TPAs
- TPA-(8) Add ADIT for Rate Case Expenses
- TPA-(9) Remove ADIT for amortization of Start-up and Organization Costs
- TPA-(10) Remove ADIT for amortization of Goodwill
- TPA-(11) Impact to ADIT of Tax Reform
- TPA-(12) Inclusion of Income Tax Regulatory Liability
- TPA-(13) Include Unamortized Rate Case Expenses
- TPA-(14) Remove Pilar Reroute Project Costs from CWIP
- TPA-(15) Remove CWIP Scheduled to be Placed In-Service Beyond 150 Days from the End of the Base Period
- TPA-(16) Remove Revenue Producing Projects from CWIP
- TPA-(17) Remove Transportation Equipment Project Costs from CWIP
- TPA-(18) Remove Corto Project Costs from CWIP
- TPA-(19) 13-Month Average of Prepayment Balances
- TPA-(20) 13-Month Average of Materials and Supplies Balances
- TPA-(21) Adjustment for Cash Working Capital Allowance
DIRECT TESTIMONY OF
SCOTT A. HASTINGS
NMPRC CASE NO. 18-______-UT

Q. PLEASE PROVIDE DETAIL ON ALL TPAS YOU PROPOSE TO MAKE TO RATE BASE.

A. For ease of reference, I have included the detailed explanations of each proposed rate base TPA in NMGC Exhibit SAH-3.

Q. GIVEN THE RECENT FEDERAL TAX REFORM, HAVE THE PROPOSED TPAS APPROPRIATELY REFLECTED THE IMPACTS OF FEDERAL TAX REFORM ON RATE BASE?

A. Yes, the Company has included TPAs to reflect the impact of federal tax reform on the rate base, including the amortization of the regulatory liability created as a result of federal and state tax reform. These TPAs are discussed in NMGC Exhibit SAH-3 as well as later in my testimony.

Q. ARE THERE ANY RATE BASE MATTERS OR TPAS ASSOCIATED WITH PROVISIONS OF THE EMERA STIPULATION THAT YOU WOULD LIKE TO DISCUSS?

A. Yes. Consistent with paragraph 1 of the Emera Stipulation, the Company does not include any goodwill or any other Emera stipulation items in the rate base calculations.
B. Adjustments to Operating Expenses

Q. PLEASE SUMMARIZE ALL TPAS YOU PROPOSE TO MAKE TO OPERATING EXPENSES.

A. On a combined basis, the TPAs made to operating expenses (including corporate income taxes) resulted in a decrease of $5.4 million or -3.6% of the Base and Test Period operating expenses.

The following TPAs are included in the calculation of the operating expenses for the purposes of determining the cost of service revenue requirement:

- TPA-(A) Compensation Annualization
- TPA-(B) STIP and LTIP Adjustment
- TPA-(C) Amortization of Rate Case Expenses
- TPA-(D) Insurance Expense
- TPA-(E) 401K Company Match
- TPA-(F) Pension Costs
- TPA-(G) Retiree Medical
- TPA-(H) Settlement Expenses
- TPA-(I) Lobbying Expenses
- TPA-(J) Depreciation Adjustments
- TPA-(K) Depreciation of Pilar Reroute Project
- TPA-(L) Depreciation of Transportation Equipment
- TPA-(M) Depreciation of Corto Loop
- TPA-(N) Depreciation of Start-Up Costs
- TPA-(O) Amortization of ROW
- TPA-(P) Native American Tax
- TPA-(Q) Payroll Tax Adjustments
- TPA-(R) Federal Pipeline Inspection Tax
- TPA-(S) NMPRC Inspection and Supervision Fees
- TPA-(T) Property Tax
- TPA-(U) Federal Income Tax Rate Change
- TPA-(V) State Income Tax Rate Change
- TPA-(W) Amortization of Excess Deferred Federal Income Taxes
- TPA-(X) Amortization of Excess Deferred State Income Taxes
- TPA-(Y) Debt Only Return Adjustment (Case 12-00264-UT)
- Rate Rider 4 & 14 Activity Elimination
Q. PLEASE PROVIDE DETAIL ON ALL TPAS YOU PROPOSE TO MAKE TO OPERATING EXPENSES.

A. For ease of reference, I have included the detailed explanations of each proposed operating expense TPA in NMGC Exhibit SAH-4.

Q. GIVEN THE RECENT FEDERAL TAX REFORM, HAVE THE PROPOSED TPAS APPROPRIATELY REFLECTED THE IMPACTS OF FEDERAL TAX REFORM ON INCOME TAX EXPENSES?

A. Yes, the Company has put forward TPAs to reflect federal tax reform in the calculation of the Test Period operating expenses. These TPAs and income tax methodology are discussed in NMGC Exhibit SAH-4, as well as later in my testimony.

C. Adjustments to Revenue Credits

Q. WERE ANY TPAS MADE TO REVENUE CREDITS TO DETERMINE THE TEST PERIOD REVENUE REQUIREMENT?

A. Yes, NMGC increased discounted on-system transportation revenues by $232,599 and increased the miscellaneous service revenues by $453,031. The support and basis for these adjustments are discussed by NMGC Witness Fernald. These adjustments are reflected in NMGC Exhibit SAH-2, page 4 of 4, on lines 135 and 140.
V. AFFILIATE TRANSACTIONS

Q. PLEASE EXPLAIN THE EVOLUTION OF AFFILIATE TRANSACTIONS SINCE THE 2011 RATE CASE.

A. As discussed by NMGC Witness Shell, since the 2011 Rate Case, NMGC has been incorporated into larger organizations (Emera and TECO) that utilize the shared services model for back-office and support services in an effort to provide high quality services to customers while being cost effective. As discussed below, the use of the shared services model has helped ensure that NMGC’s customers benefit through high quality back-office service at reduced O&M compared to the 2011 Rate Case. At the same time, some guidance on the application of the shared services model were agreed to in the Emera Stipulation, and the Company’s compliance with these guidelines is discussed below.

Q. PLEASE DESCRIBE HOW NMGC HAS FORMALIZED THE SERVICES TO BE PERFORMED BY AFFILIATE COMPANIES.

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

The services agreements applicable during the Base Period have been filed with the NMPRC. NMGC has also filed annual Class I Transaction Reports that report the charges between NMGC and its affiliates.
A. Affiliate Charges to NMGC and Related Services

i. Affiliate Charges to NMGC

Q. PLEASE PROVIDE A BREAKDOWN OF THE CHARGES FROM AFFILIATES FOR THE BASE AND TEST PERIODS.

A. The following table summarizes the services and charges from affiliates during the Base and Test Periods:

<table>
<thead>
<tr>
<th>Service</th>
<th>TSI</th>
<th>Emera</th>
<th>Tampa Electric</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT &amp; Security Services</td>
<td>$3,185,057</td>
<td>-</td>
<td>$271,187</td>
<td>$3,456,244</td>
</tr>
<tr>
<td>Finance &amp; Related Services</td>
<td>929,996</td>
<td>$442,413</td>
<td>-</td>
<td>1,372,409</td>
</tr>
<tr>
<td>Corporate &amp; Related Services</td>
<td>1,160,320</td>
<td>-</td>
<td>-</td>
<td>1,160,320</td>
</tr>
<tr>
<td>Human Resources &amp; Related Services</td>
<td>1,123,714</td>
<td>-</td>
<td>-</td>
<td>1,123,714</td>
</tr>
<tr>
<td>Pension &amp; Benefits &amp; Related Services</td>
<td>965,202</td>
<td>-</td>
<td>-</td>
<td>965,202</td>
</tr>
<tr>
<td>Legal &amp; Related Services</td>
<td>146,446</td>
<td>-</td>
<td>-</td>
<td>146,446</td>
</tr>
<tr>
<td><strong>Total Charges from Affiliates</strong></td>
<td>$7,510,735</td>
<td>$442,413</td>
<td>$271,187</td>
<td>$8,224,335</td>
</tr>
</tbody>
</table>

| % of Total Affiliate Charges | 92% | 5% | 3% | 100% |

ii. Affiliate Services to NMGC

Q. PLEASE DESCRIBE THE SERVICES PROVIDED TO NMGC BY AFFILIATES.

A. NMGC receives the following categories of services:

- **IT & Security Services** – Major services include: desktop computer support and performance management, employee service support (on-site and off-site), IT infrastructure maintenance and support, IT asset management, information and cybersecurity, telecommunications and the support/maintenance of the SAP Enterprise Resources Program and other applications.

- **Finance & Related Services** – Major services include: accounts payable, insurance risk, treasury (including cash management), corporate tax, corporate accounting
and research, internal audit, investor relations, budget and planning, and general
assistance with financial matters.

- **Corporate & Related Services** – Major services include: support from the
executives of TSI and Emera.

- **Human Resources & Related Services** – Major services include: corporate
communications, safety, emergency management, payroll, compensation, human
resources policy administration, recruitment, training and development, assessment
and development.

- **Pension & Benefits** – Major services include: providing employees with benefits
including retirement savings plan, employee incentive program, retirement plan,
medical, dental and vision insurance, life insurance, long-term care insurance,
disability and other employee benefits.

- **Legal & Related Services** – Major services include: claims support, compliance,
assistance with federal affairs, and general assistance with legal matters.

A more detailed table describing TSI services and charges is attached to my testimony at
NMGC Exhibit SAH-5.

### iii. Determination of the Charges from Affiliates

**Q. HOW ARE THE CHARGES FROM EACH AFFILIATE DETERMINED?**

**A.** The majority of charges to NMGC are from TSI and Tampa Electric (95% during the Base
and Test Periods) and these charges are determined in accordance with the Cost Allocation
Manual ("CAM") that was agreed to pursuant to the Commission’s Final Order in NMPRC
Case No. 13-00231-UT and was updated to reflect the acquisition of TECO by Emera on July 1, 2016. Because TECO owns utilities that are in multiple states it has a shared services company that provides services to affiliate companies. The shared services company and the use of the CAM are specifically designed to ensure there is no cross subsidization amongst affiliates.

The remaining 5% of the affiliate charges are related to Emera. These amounts are direct charges of costs incurred by Emera related to NMGC.

Q. PLEASE BRIEFLY DESCRIBE HOW THE CAM WORKS.

A. Under the CAM, TSI performs certain centralized functions in support of multiple operating companies including executive oversight of the shared service organization. Services provided by TSI include: information technology, finance, human resources, pension and benefits, and legal.

Q. HOW ARE COSTS HANDLED UNDER THE CAM?

A. Costs are collected and assigned using three methods. Costs are assigned in the following order: 1) direct costs charged to an affiliate (“Direct Charges”); 2) indirect costs for services assessed to more than one affiliate using assessment methodologies (“Assessed Charges”); 3) remaining indirect costs are allocated (“Allocated Charges”) to multiple affiliates using the Modified Massachusetts Method (“MMM”). Non-allocable costs are assigned directly to TECO and not NMGC or its operating affiliates. No cost is allocated or charged twice to any affiliate.
Q. WHAT COSTS ARE DIRECTLY CHARGED TO NMGC UNDER THE CAM?

A. Costs that are specifically associated with an identified affiliate are directly charged to that affiliate with no profit or mark-up. During the Base Period NMGC’s Direct Charges from TSI were $476,591 or 6% of the total TSI charges. The Direct Charges by service category are detailed in NMGC Exhibit SAH-5.

Q. HOW ARE COSTS ASSESSED UNDER THE CAM?

A. The Assessed Charges relate to the costs of providing indirect services to affiliates. Applicable costs are gathered and charged to affiliates that receive a benefit from these services. During the Base Period NMGC’s Assessed Charges from TSI were $4,238,369 or 56% of the total TSI charges. The following outlines the assessment methodology used to determine NMGC’s Assessed Charges:

<table>
<thead>
<tr>
<th>Services Assessed to NMGC</th>
<th>Assessment Methodology</th>
<th>% of Assessed Charges from TSI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Technology Services and most of Human Resources &amp;</td>
<td>Assessed based on % of total headcount receiving the service</td>
<td>90%</td>
</tr>
<tr>
<td>Related Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Resources (Procurement Admin, Inventory Management,</td>
<td>Assessed based on % of total purchase order spend</td>
<td>6%</td>
</tr>
<tr>
<td>Supplier Diversity, and Contracts Admin)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance (Accounts Payable)</td>
<td>Assessed based on % of accounts payable transaction processed</td>
<td>3%</td>
</tr>
<tr>
<td>Legal &amp; Related Services (Claims)</td>
<td>Assessed based on % of average outstanding claims</td>
<td>1%</td>
</tr>
</tbody>
</table>

The Assessed Charges by service category are detailed in NMGC Exhibit SAH-5.
Q. WHAT COSTS ARE ALLOCATED TO NMGC UNDER THE CAM AND ACCORDING TO THE MMM?

A. The Allocated Charges are those charges that have not been direct charged or assessed as discussed above. The determined allocated costs are gathered and charged to affiliates that benefit from such services using the MMM. The MMM is a standard methodology utilized for this purpose and is based on a blended rate of each operating affiliate’s total operating assets (excluding cash & acquisition adjustments, including goodwill), total operating revenues and net income. During the Base Period NMGC’s Allocated Charges from TSI were $2,795,775 or 37% of the total TSI charges from TSI. The Allocated Charges by service category are detailed in NMGC Exhibit SAH-5.

Q. BRIEFLY DISCUSS HOW THE TAMPA ELECTRIC AND EMERA CHARGES ARE DETERMINED.

A. The Tampa Electric charges are determined in accordance with the CAM, in the same manner as the TSI charges described above. The Emera charges are all direct charges.

iv. Compliance with the Shared Service Provisions of the Emera Stipulation

Q. PLEASE DESCRIBE THE EMERA STIPULATION ITEMS RELATED TO NMGC’S REVIEW AND CONTROL OF AFFILIATE CHARGES.

A. In paragraph 28 of the Emera Stipulation, NMGC committed to the following as related to the affiliate charges:
28.a. NMGC management will, consistent with good governance practices and based on an examination of its business needs, customer needs and objectives, control and annually determine which if any services it will obtain from TSI.

28.b. Subject to its business needs and objectives, and consistent with good governance practices, in an effort to bring value to its customers through cost savings, NMGC will show a preference for services to be performed in New Mexico by NMGC employees for NMGC.

28.c. NMGC shall make any and all charges, assessments or allocations from TSI transparent, and shall, to the greatest extent possible, use direct charges, as opposed to assessments or allocations, when identifying costs for recovery under the CAM.

Q. PLEASE DESCRIBE HOW NMGC HAS COMPLIED WITH PARAGRAPH 28.A. OF THE EMERA STIPULATION.

A. On an annual basis as part of its budgeting process, the NMGC management team reviews the services to be provided to NMGC by all affiliates – not just TSI. The services and related charges are first reviewed and approved by the appropriate management team members and then by the executive team. For example, I review and approve all services related to the Finance area as the Vice President of Finance of NMGC. Then, throughout the year the charges are billed to NMGC by the affiliates and each invoice is reviewed before being approved and paid. Throughout the year we continue to look for ways to control costs and expenses from both affiliates and within NMGC.
Q. PLEASE DESCRIBE HOW NMGC HAS COMPLIED WITH PARAGRAPH 28.B.

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

- Regulatory;
- Gas supply and control;
- Call center;
- Local IT support; and
- Communications

Since 2015, the overall the employee count in New Mexico has increased and currently stands at approximately 715. This increase has been steady and consistent with good operations and governance. We see this trend continuing in the future to ensure that we continue to meet the needs of our customers. NMGC Witness Shell discusses the NMGC customer service levels in his testimony.

Q. PLEASE DESCRIBE HOW NMGC HAS COMPLIED WITH PARAGRAPH 28.C.

A. As reflected in NMGC Exhibit SAH-5 and throughout my testimony, we are providing transparency and detail on all the affiliate charges to and from NMGC’s affiliates. NMGC continues to emphasize the use of direct charges, but in many instances assessments or allocations under the CAM are more cost effective for NMGC and a better way for NMGC to receive value while still receiving high quality services.
Q. WHAT FACTORS DOES NMGC CONSIDER WHEN ASSESSING THE VALIDITY OF SERVICES PROVIDED BY AFFILIATES?

A. NMGC considers two primary factors when assessing the appropriateness of services provided by affiliates. NMGC considers the cost of the service as well as the quality of the service. While NMGC is always focused on the cost of services provided for our customers, in many instances it is difficult to make direct cost comparisons – especially when you also consider or account for qualitative differences in services. There are areas where affiliates provide a service that NMGC cannot economically replicate. Some examples of this include cybersecurity and internal audit services from TSI. TSI maintains excellent departments for both cybersecurity and internal audit and TSI provides a quality level of service that NMGC does not believe it could replicate at the price NMGC is charged. These are a couple of those areas that are hard to quantify but provide the quality that comes from scale that NMGC cannot replicate given its size. Other services are more easily quantified such as accounts payable, treasury, and tax services. In many areas, we believe NMGC provides a better-quality service than can be obtained from TSI regardless of cost. Call center and customer service are two examples of these types of service. NMGC and its affiliates continue to evaluate the balance between shared and local services.
B. NMGC Charges to Affiliates and Related Services

i. NMGC Charges to Affiliates

Q. PLEASE PROVIDE A BREAKDOWN OF THE CHARGES FROM NMGC TO AFFILIATES FOR THE BASE AND TEST PERIODS WHICH ARE INCLUDED IN O&M.

A. The following table summarizes the services and charges from NMGC to affiliates during the Base and Test Periods:

<table>
<thead>
<tr>
<th>In dollars</th>
<th>TSI</th>
<th>TECO Energy &amp; Partners</th>
<th>Tampa Electric</th>
<th>Peoples Gas</th>
<th>Emera Brunswick Pipeline</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT &amp; Security Services</td>
<td>$101,288</td>
<td>$518,942</td>
<td>$116,524</td>
<td>$366,563</td>
<td>$1,103,317</td>
<td></td>
</tr>
<tr>
<td>Finance &amp; Related Services</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>73,641</td>
<td>73,641</td>
<td></td>
</tr>
<tr>
<td>Corporate &amp; Related Services</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>84,900</td>
<td>84,900</td>
<td></td>
</tr>
<tr>
<td>Other Services</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>116,404</td>
<td>116,404</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$101,288</strong></td>
<td><strong>$518,942</strong></td>
<td><strong>$116,524</strong></td>
<td><strong>$641,508</strong></td>
<td><strong>$1,378,262</strong></td>
<td></td>
</tr>
</tbody>
</table>

% of Total Charges: 7% 37% 8% 47% 100%

ii. NMGC Services to Affiliates

Q. PLEASE DESCRIBE THE SERVICES PROVIDED TO TSI, TAMPA ELECTRIC AND PEOPLES GAS BY NMGC.

A. NMGC provides IT desktop services to these affiliates. The amounts allocated by NMGC to these affiliates for the Base and Test Period were $736,754.

Q. PLEASE DESCRIBE THE SERVICES PROVIDED TO EMERA BRUNSWICK PIPELINE BY NMGC.

A. NMGC provides and charges EBP for certain management, budgeting and administrative services, engineering services, gas control services, gas management services, financial
services and accounting services. The amounts allocated by NMGC to EBP for the Base and Test Period were $641,508.

iii. Determination of Charges to Affiliates

Q. HOW DOES NMGC DETERMINE THE AMOUNT TO BE CHARGED TO AFFILIATES?

A. NMGC charges to affiliates are based on the services provided and are a combination of direct and allocated charges. For example, IT related costs to TSI are based on estimated time spent per employee and allocated based on headcount.

C. Overall Benefits of Affiliate Transactions

Q. WHAT IS THE TOTAL OF AFFILIATE TRANSACTIONS IN THE BASE PERIOD?

A. The net amount of transactions with affiliates during the Base and Test Period are $6.8 million, which includes $8.2 million in charges from affiliates and $1.4 million charges to affiliates.

Q. GIVE EXAMPLES OF AREAS IN WHICH SERVICES HAVE IMPROVED THAT BENEFIT NMGC CUSTOMERS.

A. While a number of back-office services are performed by affiliates, the vast majority of the customer service roles continue to be performed by NMGC employees in New Mexico. Customers have benefited from the synergies provided by those back-office services being performed by other affiliates through the reduction of O&M expenses and the economies of scale that come with being part of a larger organization. Examples of the back-office services include but are not limited to:
DIRECT TESTIMONY OF
SCOTT A. HASTINGS
NMPRC CASE NO. 18-_______-UT

- Information technology and cybersecurity services
- Insurance and risk management
- Treasury functions
- Corporate tax
- Accounts payable and procurement

Q. BESIDES LOWER O&M RELATED TO THE USE OF A SHARED SERVICES ORGANIZATION ARE THERE OTHER WAYS THAT NMGC BENEFITS FROM BEING PART OF A LARGER ORGANIZATION?

A. Yes, in two additional ways: 1) NMGC provides services to other affiliates which reduces NMGC’s O&M, and 2) we are able to procure goods at lower costs.

Q. PLEASE PROVIDE EXAMPLES OF HOW NMGC BENEFITED FROM THE ECONOMIES OF SCALE RELATED TO PROCUREMENT.

A. NMGC has a recent example of the benefit related to the economies of scale related to procurement. In 2017, TSI and NMGC employees installed 468 computers throughout New Mexico to facilitate the upgrade to Windows 10. These computers were acquired by TSI, on NMGC’s behalf as part of a larger order that included computers for TSI, Tampa Electric, Peoples Gas and other smaller TECO affiliates. Given the size of the order, over 4,000 computers in total, these computers were acquired at a 34% discount to market pricing. These cost savings reduced the impacts on the rate base and related depreciation which lowers the overall cost of service revenue requirement as part of this rate case and demonstrates a direct benefit to customers. In addition to this example, I would also reference the testimony of
NMGC Witness Shell who refers to the procurement savings of $4.3 million related to the pipe and materials for the Rio Puerco project in 2016.

Q. IN SUMMARY, HAVE NMGC CUSTOMERS BENEFITED FROM THE USE OF AFFILIATE TRANSACTIONS?

A. Yes, for four main reasons: First, TSI and Emera provide a level of expertise in certain areas that NMGC would be hard pressed to replicate in a cost-effective manner - simply due to the economies of scale that a larger organization provides. Second, I believe that TSI and Emera, under NMGC’s guidance and management, are able to provide services in a cost-effective manner. This is evident in part as O&M has been reduced since the 2011 Rate Case despite inflationary pressure. Third, NMGC’s customers have benefited from the revenue offset stemming from NMGC’s provision of services to other affiliates which has reduced the cost of service to NMGC customers. Finally, NMGC has been able to leverage being part of a larger organization to procure items at a lower cost.

VI. STATE AND FEDERAL TAX REFORM

Q. PLEASE EXPLAIN THE TYPES OF TAX REFORM THAT ARE ADDRESSED IN THIS RATE CASE.

A. There are two types of tax reform that are impacting this rate case, and addressed in this section of my testimony: 1) the recent federal corporate tax reform, and 2) the 2013 New Mexico state corporate tax reform.
A. Federal Tax Reform

Q. PLEASE DISCUSS THE FEDERAL INCOME TAX REFORM RELATED TO REGULATED UTILITIES.

A. On December 22, 2017 the U.S. Tax Cuts and Jobs Act of 2017 (“TCJA”) was enacted into law. The TCJA involved several changes related to regulated utilities, but the most significant to NMGC are as follows:

- Federal corporate tax rates were reduced from 35% to 21% starting January 1, 2018;
- TCJA provided for the normalization of a regulated utility’s excess accumulated deferred income taxes (the difference between the Company’s accumulated deferred taxes at a 35% rate versus 21% rate), consistent with what was provided in the Tax Reform Act of 1986; and
- New 100% asset expensing provision, however this provision is not available for public utility property, and the phasing down of the existing 50% bonus tax depreciation.

Q. PLEASE EXPLAIN HOW TCJA IMPACTS NMGC AND ITS CUSTOMERS.

A. Consistent with the Company’s response to the Commission’s Order dated February 2, 2018 (NMPRC Case No. 18-00016-UT), NMGC is proposing that the full impact of the TCJA on NMGC and its customers be addressed in this rate case rather than in a separate case or actions.

In our view, there are three matters from a regulatory and rate setting perspective that need to be considered because of the TCJA:
• First, in accordance with the guidance given in the TCJA the Company’s federal ADIT accounts were remeasured and adjusted at December 31, 2017 using the new 21% federal corporate income tax rates. The reduction in the federal tax rate creates a regulatory liability which will then be amortized to reduce the Company’s revenue requirement as part of this case. This proposed treatment is set forth in NMGC Exhibit SAH-2 and discussed in detail later in my testimony.

• Second, NMGC has reflected the new federal income tax rate (21%) in the calculation of its revenue requirement for this rate case.

• Third, is consideration of the potential impact of the TCJA on the Company’s current rates and pending approval of the new rates sought in this case. NMGC is aware that some state commissions have had companies modify existing rates to pass the benefits of the TCJA to customers in 2018. This approach does not make sense for NMGC. NMGC is proposing that existing rates not be affected because of TCJA. The Company takes this position for three reasons:

  • First, the suggested approach is consistent with what took place in New Mexico in 1986 - the last instance that major federal income tax reform legislation was passed. The Commission in 1986 recognized that it was important to consider the earnings performance of each utility, the validity of the cost of service calculation being considered, and the overall economic picture for each utility. Ultimately, each investor-owned utility in New Mexico updated its cost of service calculation
through rate cases to reflect the transfer of the 1986 tax reform benefits to its customers.

• Second, NMGC’s last cost of service study was completed in the 2011 Rate Case. Any changes to the existing established rates to reflect the TCJA, or otherwise, would be both piecemeal and retroactive rate making and inconsistent with long held principles of rate making in New Mexico.

• Third, NMGC’s ROE for the calendar year 2017 was 6.9%. Even reflecting the TCJA’s lower tax rate the Company’s ROE in 2018 is expected to be approximately 8.1%. Thus, even with the benefits of the TCJA, the Company is substantially underearning. Requiring the Company to reflect the new tax rates in existing utility rates, if permissible, would only exacerbate this underearning condition.

Q. PLEASE DESCRIBE HOW FEDERAL INCOME TAX REFORM HAS BEEN REFLECTED IN THE NMGC CALCULATION OF COST OF SERVICE REVENUES.

A. Given that the TCJA was approved outside the Base Period, NMGC has included TPAs to reflect the required changes for both the income tax expenses and the rate base calculations.

Q. PLEASE EXPLAIN THE IMPACT OF FEDERAL TAX REFORM ON THE RATE BASE AND HOW HAS THIS BEEN REFLECTED IN THE RATE CASE?
The proposed treatment in this rate case results in minimal impact on the total rate base but there is a shifting between balance sheet accounts. In accordance with Accounting Standards Codification 740 related to income taxes, the deferred tax liability, which was historically determined using a 35% federal tax rate, is revalued using the new federal tax rate of 21%. The difference is then recorded as a regulatory liability that is to be amortized or refunded to customers through a reduction to the Company’s revenue requirement in this rate case. The period over which the amounts will be refunded to customers is determined based on the characteristics that created the original deferred tax liability. There are two different types of deferred tax liabilities: 1) protected; and 2) unprotected.

1. The protected portion of the deferred tax liability primarily related to timing differences between book and tax depreciation on property, plant and equipment.

2. The unprotected portion of the deferred tax liability includes all non-depreciation timing book differences, which for NMGC primarily relates to differences in the book and tax treatment of tax repairs and benefit pension expense.

Q. PLEASE EXPLAIN HOW THE REGULATORY LIABILITY RELATED TO FEDERAL TAX REFORM WILL BE REFUNDED TO CUSTOMERS.

A. The income tax expense included in this rate case has been reduced by the annual amortization of the related regulatory liability. The reduced income tax expenses have reduced the cost of service revenues resulting in the transfer of the TCJA benefit to customers. This reduction is reflected on NMGC Exhibit SAH-2, line 102 and TPA-(U).
Q. PLEASE EXPLAIN HOW THE AMORTIZATION OF THE REGULATORY LIABILITY RELATED TO FEDERAL TAX REFORM WILL BE DETERMINED.

A. As previously referenced, there are two components of the deferred tax liability that will create a regulatory liability in accordance with the TCJA. The following discusses the proposed treatment of the protected and unprotected portion deferred tax liability that created the regulatory liability as part of federal tax reform:

- The protected excess deferred taxes will be amortized using the average rate assumption method or ARAM as provided in TCJA Section 1561(d). The protected portion has been calculated to be returned to customers over the weighted average remaining regulatory lives of the property that gave rise to the reserve for deferred taxes. This is consistent with industry practice and the guidance provided in the TCJA.

- The unprotected portion should be amortized against the income tax expenses over a thirty-three-year straight-line basis which represents the average regulatory book life.

The income tax expenses will be reduced by the amortization of the protected and unprotected portions of the regulatory liability which will reduce the cost of service revenue requirement resulting in lower rates to customers.

Q. PLEASE EXPLAIN THE IMPACT OF FEDERAL TAX REFORM ON INCOME TAX EXPENSES AND HOW THIS HAS BEEN REFLECTED IN THE RATE CASE.

A. The following recoverable income tax provisions are impacted by the federal corporate tax reform:
- As previously mentioned, the income tax expenses are reduced by the annual amortization of the regulatory liability. Using this approach, the estimated test period adjustment related to the annual amortization of the regulatory liability is $0.4 million.

- Secondly, the income tax expense was reduced to reflect the approved federal tax rate of 21%. This reduced NMGC’s revenue request by $9.2 million.

B. State Tax Reform

Q. PLEASE DISCUSS THE NEW MEXICO INCOME TAX RATE CHANGE.

A. In 2013, New Mexico House Bill 641 was signed into law. Among other things, the bill amended NMSA 1978 §7-2A-5 to include prospective reductions in the New Mexico corporate income tax rate. The tax rate reductions phase in over five years beginning in 2014.

Q. HOW DOES THE TAX RATE CHANGE AFFECT THE COST OF SERVICE CALCULATION?

A. The state income tax rate used in calculating income tax expense is reduced from the historic rate of 5.84% in the Base Period to 5.57% in the Test Period, thereby reducing the amount of income tax expense included in the cost of service. Additionally, ADIT in the Test Period cost of service is revalued at the lower tax rate with the difference recorded to the regulatory liability which is consistent with the treatment described above in the federal tax reform discussion. The regulatory liability is then amortized against the income tax expense to reflect the Company providing the benefit to its customers.
Q. HAVE TPAS BEEN INCLUDED TO REFLECT THE CHANGE IN STATE CORPORATE TAX RATES?
A. Yes, these TPAs (TPA X, TPA V) are discussed in greater detail in NMGC Exhibit SAH-4. In addition to the TPAs, the calculation of the revenue requirement is completed using the lower state tax rate as shown on lines 115 and 117 of NMGC Exhibit SAH-2.

VII. RETIREE MEDICAL PLAN

Q. WHAT IS THE RETIREE MEDICAL PLAN?
A. The retiree medical plan (the “Plan”) is a plan related to 360 NMGC employees that was created in 2008 when the Company was established. In accordance with this Plan, the Company provides certain medical, dental, vision and prescription drug benefits to eligible employees, their spouses, and covered dependents, after the employees retire from the Company.

Q. WHAT IS THE STATUS OF THE PLAN?
A. The Plan is currently overfunded by approximately $6.3 million as of December 31, 2017. The fair value of the Plan assets is $31.1 million as of December 31, 2017, as compared to the liability of $24.8 million determined as part of an Actuarial Valuation Report produced by independent consults.

Q. HOW HAS THE RETIREE MEDICAL PLAN BECOME OVERFUNDED?
A. The Plan became overfunded for three reasons. First, the assets in the Plan have performed very well, including earning a return of $3.2 million in 2017. Second, as required, NMGC has
continued to make contributions to the Plan that are equal to the amounts received from our customers as part of the rates determined in the 2011 Rate Case. Lastly, the Plan only paid $0.6 million in claims for 2017.

Q. HOW DOES THE COMPANY PROPOSE DEALING WITH THE OVERFUNDED STATUS OF THE PLAN?

A. NMGC is proposing as part of this rate case that no additional funding be collected from customers or contributed to the Plan. In the future we will continue to assess the status of the Plan and may request funding from customers in future rate cases depending on the status of the Plan at the time.

Q. HOW DOES THE COMPANY ENSURE CUSTOMERS DO NOT PAY ADDITIONAL AMOUNTS FOR RETIREE MEDICAL EXPENSES?

A. Base Period retiree medical expense is comprised of two components: 1) an actuarially determined net benefit of $0.7 million, and 2) an offset of $1.1 million in amortization of net regulatory assets related to retiree medical. The net result is Base Period retiree medical expense of $0.4 million. This rate case includes a TPA of $0.4 million to reduce the amortization of the net regulatory asset to $0.7 million. The Test Period amortization of $0.7 million offsets the actuarially determined net benefit of $0.7 million, resulting in a zero retiree medical expense in the case. As a result, the Company would not make any contributions to its external retiree medical trusts once new rates go into effect as part of this case.
Q. WHAT APPROVALS ARE YOU SEEKING RELATED TO RETIREE MEDICAL EXPENSE?

A. Consistent with the approach described above, NMGC is seeking approval to record annual amortization of its net regulatory assets related to retiree medical at an amount equal to the annual net retiree medical benefit determined by the Company’s actuaries so that the resulting overall annual retiree medical expense on the Company’s books is zero. This amortization method is authorized, and will continue until changed in a general rate case or until the regulatory assets are eliminated, whichever occurs first.

VIII. OTHER RATE CASE MATTERS

A. Advertising Expenses

Q. PLEASE DESCRIBE 17.3.350 NMAC (“RULE 350”).

A. Rule 350 governs the treatment of certain expenses in setting a utility’s rates. The operating expenses covered by Rule 350 include advertising expenses, contributions, donations, dues, subscriptions and membership fees, and lobbying expenses. Advertising expenses are defined under Rule 350 as all expenses made for the development, publication, and dissemination of information to a utility’s customers, the public at large, or to stockholders.

Q. UNDER RULE 350, CAN ALL TYPES OF ADVERTISING EXPENSES BE INCLUDED IN COST OF SERVICE RATES?

A. No. In order to be includable in rates, advertising expenses must be reasonable and must meet one of the following requirements:

– Advises ratepayers of matters of public safety, health or emergency situations;
– Advocates conservation of energy and reduction of peak demand;

– Explains billing practices, services and rates to customers;

– Is required to be filed with governmental authorities or financial institutions;

– Advise customers of employment opportunities with the utility;

– Provides information required to be available to customers under state or federal law;

   or

– Otherwise results in a measurable reduction in operating costs and more efficient service to customers.

In addition, advertising costs that are described as “Unallowable Expenditures” in Rule 350.9C are not properly includable in cost of service rates.

Q. **DID NMGC REVIEW ITS ADVERTISING EXPENSES AND DID THAT REVIEW RESULT IN A TEST PERIOD ADJUSTMENT?**

A. Yes, NMGC did review its Base Period advertising expenses and determined that all of its advertising expenses were allowable under Rule 350.9B. As a result, there is no Test Period Adjustment for advertising expenses. Rule 630 Schedule H-5 includes information regarding NMGC’s advertising expenses. In addition, Rule 630 Schedule H-5, Workpaper H-5-1 includes a summary of NMGC’s analysis as to why such expenses are allowable under Rule 350.9B.
Q. IS NMGC SEEKING TO RECOVER CONTRIBUTIONS, DONATIONS AND LOBBYING EXPENSES IN THIS RATE CASE PROCEEDING, AS THOSE TERMS ARE USED IN RULE 350.10?

A. No.

Q. ARE NMGC’S DUES FOR PROFESSIONAL OR TRADE ASSOCIATIONS AND SUBSCRIPTIONS TO PUBLICATIONS ALL ALLOWABLE UNDER RULE 350.10B OR WAS A TEST PERIOD ADJUSTMENT REQUIRED?

A. NMGC and its employees are members of numerous industry and professional associations. These memberships contribute to the professional education and standing of the Company’s employees, and, therefore, would generally be allowable expenses under Rule 350.10B. However, one of these associations, the American Gas Association (“AGA”) engages in lobbying activities. The Company has included a TPA in NMGC Exhibit SAH-2 to remove the lobbying portion of Base Period AGA dues expense from the determination of Test Period operating expenses, as discussed in Rule 630 Schedule H-16, where it is identified as TPA-(I).

B. Income Tax Calculations and Methodology

Q. PLEASE DESCRIBE NMGC’S METHOD OF CALCULATING INCOME TAX EXPENSE.

A. Rule 630 Schedule H-9, page 1 of 2, shows the Company’s calculation of income tax expense for book (and cost of service) purposes for both the Base Period and Test Period. The calculation shows that net income before income taxes is adjusted for permanent
differences and the resulting amount is multiplied by the statutory state and federal income
tax rates to determine income tax expense. These statutory rates are reflective of the
corporate tax reform for both the state and federal levels. The income tax expense in
Schedule H-9 was calculated using the normalization method, and therefore was not
adjusted for temporary differences. The temporary differences are shown, along with the
permanent differences, on Rule 630 Schedule H-10.

Q. EXPLAIN THE TERMS “TEMPORARY DIFFERENCES” AND “PERMANENT
DIFFERENCES” AS THEY RELATE TO THE CALCULATION OF INCOME TAXES.

A. There are differences between when and if certain items are included in income for book
purposes versus income tax purposes. These differences arise due to differences between
accounting rules and the tax law. Temporary differences are items that are included in
book income in one period and included in taxable income in another period. As a result,
temporary differences do not change the amount of income tax ultimately paid by the
Company. By contrast, permanent differences are items that are included in book income
but are never included in taxable income. As a result, permanent differences do affect the
amount of income tax the Company pays.

Q. PLEASE GIVE AN EXAMPLE OF A TEMPORARY DIFFERENCE.

A. The use of accelerated depreciation for tax purposes is an example of a practice that gives rise
to a temporary difference. Although depreciation on a given asset can only equal the asset’s
cost and can only be taken over the life of the asset, the timing of the depreciation deduction
will differ if different depreciation methods are used for book and tax purposes. When an accelerated depreciation method is used for tax purposes and a straight-line method is used for book purposes, taxable income will be less than book income in the early years of an asset's life, because the deduction for tax purposes is accelerated, or “front-end loaded.” Correspondingly, taxable income will be greater than book income in later years, when the straight-line book method results in a higher depreciation expense than the method used for tax purposes. Over the life of the asset, the cumulative amounts deducted for depreciation will be exactly the same for book and tax purposes.

Q. **PLEASE GIVE AN EXAMPLE OF A PERMANENT DIFFERENCE.**

A. An example of a permanent difference is lobbying expense. For book purposes, lobbying expense is reflected as an expense when incurred. For tax purposes, however, lobbying expense is not deductible. Because the lobbying expense will never be deducted for tax purposes, the Company cannot record an income tax benefit for the lobbying expense. This is accomplished by removing the lobbying expense (permanent difference) from income before income taxes when the Company computes its income tax expense.

Q. **PLEASE EXPLAIN WHAT YOU MEANT WHEN YOU STATED EARLIER THAT INCOME TAX EXPENSE WAS CALCULATED USING THE NORMALIZATION METHOD, AND THEREFORE WAS NOT ADJUSTED FOR TEMPORARY DIFFERENCES.**

A. Two methods have historically been employed by regulated utilities to account for the income tax effect of temporary differences, in the determination of Test Period cost of service. These
methods are the “flow-through” method and the “normalization” method. The flow-through method, which the Company does not use or recommend, simply adjusts the total tax expense in any given year by the cash income tax expense or benefit resulting from the temporary differences in that year. Generally speaking, this adjusted income tax expense would equal the actual income tax liability associated with that year’s federal and state income tax returns. Under the flow-through method, this adjusted income tax amount would be included in the determination of Test Period cost of service. The inclusion in the cost of service of tax expense based on current taxable income rather than on book income results in a mismatch of expense and income. If temporary differences were to result in a net reduction in current taxable income, current customers would benefit unjustly at the expense of future customers – this is what is often called an “intergenerational inequity.” If a net increase in taxable income resulted, it would be the current customers that were adversely affected. On a theoretical basis, therefore, the flow-through method is not the preferred method of calculating income tax expense. In addition, Internal Revenue Code (“IRC”) § 168, mandates that, for cost of service calculations, regulated utilities must use the normalization method, and not the flow-through method, for all plant-related temporary differences, or risk the loss of the use of accelerated depreciation for tax purposes.

The normalization method correctly recognizes that temporary differences, by their nature, reverse over time. As a result, temporary differences affect only the timing of income tax payments, and not overall income tax expense. Accordingly, normalization accounting does not adjust the total income tax expense in any year for temporary differences, but rather creates separate income tax provisions for the amount of income tax currently payable and the amount
of income tax deferred to future years as a result of the temporary differences. Under the normalization method, the only adjustments made to total income tax expense are those required to recognize the income tax effect of permanent differences, as they result in an overall increase or decrease in taxes due.

Q. WHAT HAS CAUSED NMGC TO BE IN A NET OPERATING LOSS CARRYFORWARD POSITION?
A. A net operating loss (“NOL”) is created if tax deductions are greater than an entity’s taxable income. The provisions for bonus depreciation in place since 2008 have created tax depreciation deductions greater than taxable income. NMGC generated NOLs in 2008, 2009, 2010, 2011, 2012, 2014, 2015, 2016, and the Base Period. NMGC has included its NOL carryforward ADIT in rate base consistent with GAAP and IRS Normalization requirements.

Q. PLEASE DISCUSS THE IRS GUIDANCE REGARDING THE INCLUSION OF NOL CARRYFORWARDS ADIT IN RATEBASE.
A. I am aware of six IRS Private Letter Rulings1 (“PLRs”) that address situations almost identical to that of NMGC. PLRs 201436037, 201436038, 20148003, 201519021, and 201548017 confirm and clarify that to avoid normalization violations the NOL carryforward ADIT assets must be included in rate base. Further these PLRs state that the correct method for determining the amount that must be included is a “with-and-without” or “last dollar deducted” calculation. All six PLRs contain language that indicate that “with-and-without”

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1Private letter rulings are not a strictly binding authority on taxpayers other than the taxpayer applying for the ruling. However, private letter rulings reflect the IRS position on the matters discussed in the ruling and provide an important tool for taxpayers and are generally relied upon in applying the IRC and regulations to similar circumstances.
or “last dollar deducted” methods are specifically designed to ensure the portion of the NOL carryforward related to accelerated depreciation is correctly considered. The PLRs further state that this methodology provides certainty and prevents the possibility of “flow through” of the benefits of accelerated depreciation to ratepayers and any other method would not provide the same level of certainty and therefore would be inconsistent with the normalization rules.

Q. PLEASE EXPLAIN THE “WITH-AND-WITHOUT” METHOD.

A. The calculation for a “with-and-without” approach assumes that the deduction for accelerated tax depreciation is the last expense deducted. Therefore, the taxable income of the utility is calculated with and without accelerated tax depreciation deductions and the difference in the taxable loss between the two calculations is the amount of the NOL carryforward ADIT that must be included in rate base to prevent a normalization violation. To the extent that the difference in the calculations exceeds the NOL, then the entire NOL carryforward ADIT should be attributable to accelerated depreciation and included in rate base.

Q. WHAT WAS THE OUTCOME OF THE COMPANY’S EVALUATION OF ITS NOL CARRYFORWARD ADIT?

A. NMGC performed a tax calculation with and without accelerated depreciation to determine the amount of the NOL carryforward that must be normalized. Through this analysis NMGC determined that the entire NOL carryforward ADIT asset is attributable to accelerated depreciation and has included it in rate base.
C. Depreciation Study

Q. PLEASE DESCRIBE THE DEPRECIATION RATES USED TO DETERMINE THE DEPRECIATION EXPENSE IN THE TEST PERIOD.

A. The Company, as required under the provisions of 17.3.340.10.C(2) NMAC, had a detailed depreciation study prepared based on data as of December 31, 2014 (the “2014 Depreciation Study”), for all of NMGC’s gas plant-in-service accounts. As the Commission is aware, depreciation rates compensate the Company for investments in assets that are used and useful in serving customers, by repaying that investment over the period of time determined to be appropriate in a depreciation rate study. NMGC filed the 2014 Depreciation Study on October 2, 2015, and consistent with 17.3.340.10E NMGC is using those depreciation rates in developing the Test Period data used to establish the Company’s revenue requirement in this case.

Q. WHO PREPARED THE STUDY?

A. NMGC's independent depreciation consultant, Earl M. Robinson, CDP, Principal and Director with AUS Consultants, prepared the 2014 Depreciation Study.

D. NMGC Employee Compensation

Q. THERE ARE TPAS DISCUSSED IN RULE 630 SCHEDULE H-16 PERTAINING TO EMPLOYEE COMPENSATION EXPENSE. PLEASE PROVIDE SOME ADDITIONAL INFORMATION ON THESE ADJUSTMENTS.

A. There are three compensation-related TPAs included in NMGC Exhibit SAH-4, where they are identified as TPA-(A), TPA-(B) and TPA-(E). As shown on Schedule H-16, TPA-(A)
annualizes NMGC’s compensation expense based on recent employee compensation data, and annualizes compensation expense for the impact of employee merit raises occurred in January 2018. TPA-(B) adjusts NMGC’s Short-Term Incentive Plans (“STIP”) expense and Long-Term Incentive Plan (“LTIP”) expense to an amount that represents what the Company refers to as an “at target” STIP and LTIP payout. TPA-(E) accounts for the impacts of salary increases on the Company 401k matching program. Each of these TPAs is discussed more fully in NMGC Exhibit SAH-4.

Q. PLEASE DESCRIBE NMGC’S GENERAL APPROACH TO COMPENSATING ITS EMPLOYEES.

A. Employee compensation consists of four interrelated components – base salary, benefits, STIP and, where applicable LTIP. Market data is used to derive these four components.

Q. DESCRIBE THESE FOUR ELEMENTS OF COMPENSATION AT NMGC IN MORE DETAIL.

A. Base salary is the cash compensation employees receive in their paychecks. All employees receive base salary. Benefits include all indirect and non-cash compensation provided to employees, such as health insurance, life insurance, paid time off, holidays, 401k contributions, and benefits mandated by law. All employees receive these benefits.

STIP are incentive plans that compensate employees for the achievement of annual Company objectives. The STIP includes the Performance Sharing Program and the Key Employee
Short-Term Incentive Program. The achievement of the program objectives are intended to benefit customers. All employees are eligible to receive STIP.

LTIP is an incentive plan to compensate eligible employees for the achievement of three-year performance objectives. A key purpose of the LTIP is to foster balanced decision-making, ensuring that eligible employees pursue both short-term and longer-term objectives at the same time and make appropriate trade-offs between those objectives.

Q. HOW ARE THE EMPLOYEES’ STIP PAYMENTS DETERMINED?

A. STIP payments to employees depend on the achievement of the Company’s STIP goals. The Company’s STIP goals are typically centered around customer satisfaction, asset management and operational efficiency and safety, and include items such as call center metrics, safety-related metrics, system integrity and reliability measures, and cost containment measures. The individual employee eligibility levels are based on the job grade and are determined relative to NMGC’s compensation strategy.

Q. HOW ARE EMPLOYEES’ LTIP PAYMENTS DETERMINED?

A. LTIP payments to employees, similar to STIP, depend on the achievement of Company goals and individual employee eligibility levels. Only certain employees are eligible for LTIP payments based on their position in the Company. Based on predetermined performance metrics employee’s LTIP payments are paid out three years after the original award. The amount of the payments to employees is dependent upon corporate performance metrics, including: growth in earnings per share, growth in cash flow from
operations as well as total shareholder return relative to an index of peer utility companies. Similar to the STIP, the individual employee eligibility levels are based on job grade and are determined relative to NMGC’s compensation strategy.

Q. WHY SHOULD LTIP BE INCLUDED AS A RECOVERABLE EXPENSE?

A. As previously mentioned, it is important to view all components of employee compensation. NMGC considers STIP and LTIP when determining base salaries and other benefits. Should a component of the compensation be removed the Company anticipates there could be significant impacts on our workforce and the Company’s ability to retain and attract qualified employees.

Q. PLEASE PROVIDE AN EXAMPLE OF HOW THE LTIP PROGRAM HELPS RETAIN QUALIFIED EMPLOYEES?

A. As referenced above, the LTIP program has a three-year vesting period for the payout of the annual award to employees. After a three-year period, employees will start to receive the cash benefit from the program. NMGC’s LTIP program and related vesting period is consistent with other similar regulated utilities. Therefore, if an employee were to leave NMGC they would forego approximately three years’ worth of LTIP from NMGC and their vesting period would start over with their new employer. This potential loss acts as a deterrent to employees leaving NMGC for similar opportunities which allows NMGC to retain qualified employees.
Q. ARE YOU FAMILIAR WITH THE REVISED AMENDED STIPULATION AND THE COMMISSION’S FINAL ORDER IN NMPRC CASE NO. 12-00264–UT, THE COMMISSION’S INVESTIGATION RELATED TO GAS SERVICE TO CERTAIN GAS CUSTOMERS IN NORTHWEST NEW MEXICO?

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

Q. PLEASE SUMMARIZE THE PROVISIONS OF THE REVISED AMENDED STIPULATION RELEVANT TO THIS RATE CASE.

A. The Revised Amended Stipulation required NMGC to address the following four items in its next rate case:

- NMGC shall receive no recovery “on equity” amounts expended to extend mainlines to customers;
- NMGC can include in rate base its $3.9 million capital investment to extend its mainlines to customers, as well as depreciation and capital additions related to the investment;
- NMGC will show no effect on rates of the $100,000 that NMGC’s shareholders contributed to the extension of NMGC’s mainlines and conversion to alternative energy sources for customers that lost service; and
- NMGC shall exclude the increased cost to convert Irrigation Customers to an alternative source of energy.
Q. PLEASE IDENTIFY HOW NMGC HAS COMPLIED WITH THE REQUIREMENTS OF THE REVISED AMENDED STIPULATION DISCUSSED ABOVE.

A. NMGC has complied with the Revised Amended Stipulation by taking the following steps:

- NMGC has included a TPA (TPA-(Y)) to remove the return on equity (debt only return) on the depreciated value of the rate base investment ($2.1 million). This can be seen on NMGC Exhibit SAH-2, line 88. The supporting calculation for the TPA is included in NMGC Exhibit SAH-6.

- The depreciated value of the investment is included in Net Plant in the Base Period.

- The $100,000 Company’s shareholder contribution related to the extension of the Company’s mainlines and conversion to alternative energy sources for customers that lost service is not included in the rate base or operating expenses in either the Base or Test Periods.

- The cost to convert irrigation customers to alternative forms of energy is not included in the rate base or operating expenses in either the Base or Test Periods.

Q. PLEASE IDENTIFY OTHER PRIOR COMMISSION ORDERS AND HOW THESE WERE ADDRESSED AS PART OF THIS RATE CASE.

A. The remaining prior Commission orders are addressed as part of NMGC Witnesses Strauser and Shell’s testimonies.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.
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 NOS. 70 AND 71

NEW MEXICO GAS COMPANY, INC.

Applicant.

Case No. 18-_______-UT

AFFIDAVIT OF SCOTT A. HASTINGS

STATE OF NEW MEXICO   )
) ss.
COUNTY OF BERNALILLO    )

SCOTT A. HASTINGS, Vice President, Finance for New Mexico Gas Company, Inc., upon
being duly sworn according to law, under oath, deposes and states: I have read the foregoing Direct
Testimony and Exhibits and they are true and accurate based on my own personal knowledge and
belief.

SIGNED this 16th day of February, 2018.

SCOTT A. HASTINGS

SUBSCRIBED AND SWORN to before me this 16th day of February, 2018.

Notary Public

My commission expires:

2/12/2019

OFFICIAL SEAL
Lisa A. Trujillo
NOTARY PUBLIC
STATE OF NEW MEXICO
My Commission Expires: 2/12/2019

NMGC0 #302212