

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

Case No. 19-00317-UT

DIRECT TESTIMONY AND EXHIBITS

OF

RYAN A. SHELL

December 23, 2019

**DIRECT TESTIMONY OF
RYAN A. SHELL
NMPRC CASE NO. 19-00317-UT**

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

2 **A.** My name is Ryan A. Shell. I am President of New Mexico Gas Company, Inc.
3 (“NMGC” or the “Company”) and have held this position since January 2015. My
4 business address is 7120 Wyoming Blvd NE, Albuquerque, New Mexico 87109.

5
6 **Q. PLEASE BRIEFLY DESCRIBE YOUR BUSINESS EXPERIENCE AND
7 EDUCATIONAL BACKGROUND.**

8 **A.** From 1989 to 1997, I worked as a Certified Public Accountant at BDO Seidman
9 LLP, a national accounting and consulting firm. From 1997 to 2009, I worked in
10 various financial roles at SEMCO Energy, Inc., a natural gas local distribution
11 company with operations in Michigan and Alaska. In 2009, I joined NMGC and
12 served as Vice President of Finance, Controller and Treasurer prior to becoming
13 President in January 2015.

14
15 I have a Master’s Degree in Business Administration from the University of New
16 Mexico and a Bachelor’s Degree in Accounting from Oakland University. My
17 professional experience and education are described in more detail in NMGC
18 Exhibit RAS-1.

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

4 **A.** Yes, please refer to NMGC Exhibit RAS-1.

5

6 **Q. WHAT IS THE PRIMARY PURPOSE OF YOUR TESTIMONY IN THIS**
7 **CASE?**

8 **A.** I am the chief policy witness for the Company. My testimony describes the current
9 business conditions faced by the Company; the operations of the Company; and
10 introduces this future test year rate case and the reasons we are filing at this time.
11 I will introduce the witnesses and testimony setting forth the proposed revenue
12 increase, and rate design in the case. In the last section of my testimony I will
13 summarize on the status of the economic development initiatives undertaken with
14 NMGC’s shareholder money as provided for in the Stipulation in NMPRC Case
15 No. 15-00327-UT (the “Emera Stipulation”).

16

17 **I. COMPANY OPERATIONS AND ACTIVITIES**

18 **Q. BEFORE WE GET INTO A DISCUSSION OF RATE CASE, PLEASE**
19 **DISCUSS NMGC’S CURRENT OPERATIONS.**

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1 **A.** NMGC currently has around 700 employees and operates throughout the State. I
2 am sponsoring Schedule R-3 required by 17.10.630 NMAC (Rule 630), which is a
3 description of the Company.

4
5 NMGC has worked to contain its operating expenses while maintaining excellent
6 service levels. NMGC continues to work to control these costs and NMGC and our
7 customers benefit from using a shared services company to economically provide
8 certain high-quality back-office services to our customers. While it is always
9 difficult to measure service standards, there are many activities and actions that
10 demonstrate that NMGC’s customer service levels are excellent.

- 11 • Customer complaints to the NMPRC have decreased.
- 12 • NMGC has fully complied with the customer metrics filing requirements
13 established in NMPRC Case No. 09-00163-UT.
- 14 • The NMGC customer satisfaction survey completed by Brian Sanderoff’s
15 firm, Research & Polling, Inc., in 2017 reflected an overall customer
16 satisfaction rating of 90%.
- 17 • The survey conducted by Research & Polling, Inc., in 2019 reflected an
18 overall customer satisfaction rating of 91%.
- 19 • During 2018, NMGC answered 92.49% of customer calls within 60
20 seconds, with an average time to answer of 61 seconds.

21

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1 Each of these measures are indicative of NMGC’s commitment to maintaining
2 excellent and cost-effective services to our customers.

3
4 NMGC is entering into a period of significant capital investment. As I explain
5 below this is the primary driver for filing this future test year case at this time.
6 Operations and maintenance (“O&M”) cost increases make up only a small part of
7 the revenue request in this rate case. Also, as I explain below, NMGC is embarking
8 on initiatives to reduce its carbon footprint in the State. These initiatives are in
9 keeping with the State’s overall initiatives in this area.

10

11 **Q. PLEASE DISCUSS THE COMPANY’S COMPLIANCE WITH ITS**
12 **COMMITMENTS TO THE STATE RESULTING FROM THE**
13 **COMPANY’S RECENT ACQUISITIONS.**

14 **A.** As you know, in 2014, NMGC was purchased by TECO Energy, Inc. (“TECO”), a
15 Florida-based utility holding company. As spelled out in the TECO Stipulation
16 entered into as part of that acquisition, NMGC agreed to several commitments. All
17 of these commitments have been complied with.

18

19 In 2016, TECO merged with Emera and the Emera Stipulation entered into as part
20 of that merger was approved by the Commission in Case No. 15-00327-UT. As
21 part of the Emera Stipulation in that case, NMGC agreed to continue most of the

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1 commitments of the TECO Stipulation and to add some additional commitments
2 such as:

- 3 • NMGC would maintain at least 675 full-time positions after the closing and
4 maintain substantially comparable wages, benefits and other terms and
5 conditions of employment as well as other employment protection
6 provisions;
- 7 • The first rate case NMGC filed after the merger would be a historic test year
8 case;
- 9 • Emera would make contributions for economic development initiatives in
10 New Mexico including \$5 million for economic development, \$10 million
11 for infrastructure expansion, \$5 million for an expanded pipeline to Mexico,
12 and increase community contributions for three years;
- 13 • NMGC would continue to operate under the CAM and collaborate on
14 changes to the CAM;
- 15 • NMGC would control and review intercompany services and related
16 charges, show a preference for local services, if consistent with good
17 governance practices, and to the extent possible, use direct charges for
18 intercompany services; and
- 19 • NMGC and Emera would establish an NMGC Board of Directors with local
20 representation and diversity.

21

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1 All of these commitments have been met or are in progress with the expectation of
2 full compliance.

3
4 Let me speak to a few of these commitments in particular. NMGC’s Board of
5 Directors continues to be comprised of the same members as initially appointed in
6 mid-2017, has continued to meet on a quarterly basis, and is very engaged in
7 business governance. The majority of the Board consists of New Mexico residents
8 not otherwise affiliated with the Company or its operations. Additionally, the same
9 local management team essentially remains in place with one addition, NMGC
10 Witness Jimmie L. Blotter has joined us as Vice President of Finance. She is a
11 witness in this case.

12
13 NMGC continues to receive services from TECO Service, Inc. (“TSI”), a subsidiary
14 of TECO, although, as described below and in NMGC Witness Blotter’s testimony,
15 the plan is that services currently performed by TSI will be performed by Tampa
16 Electric Company (“Tampa Electric”), another subsidiary of TECO, starting in
17 January 2020. The Cost Allocation Manual (“CAM”) will continue in effect, but
18 will be amended to reflect this change in the shared service provider, and otherwise
19 the expenses allocated or direct charged to NMGC for shared services will be
20 handled in the same manner as they have been since the TECO Acquisition and
21 will, as always, be subject to review by the Commission.

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1 NMGC remains a locally run and locally directed utility with deep ties to New
2 Mexico, that is providing its customers with safe and reliable natural gas at a fair
3 and reasonable cost. The things that made NMGC successful in the past continue
4 to this day.

II. THIS RATE CASE

7 **Q. TURNING TO THIS RATE CASE, PLEASE START BY EXPLAINING**
8 **WHY THE COMPANY HAS FILED THIS CASE?**

9 **A.** The Company's primary reason for filing this case is the need to recover the costs
10 associated with capital investments the Company has and will be making in
11 property, plant, equipment and related assets over the period from September 30,
12 2017 (the end of the test period in the Company's last rate case) to December 31,
13 2021 (the end of the future test year period in this case, the "Future Test Year"), a
14 period that spans four years and three months. During this period, NMGC will
15 have invested approximately \$400 million in capital investments to improve its
16 system and to serve its customers. Included in this is the Company's anticipated
17 investments in certain greenhouse gas emissions ("GHG Emissions") reduction
18 initiatives.

19
20 To a lesser degree the Company is filing this rate case to recover its O&M costs
21 and expenses which are increasing as the costs of doing business increase. As I

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1 stated, the Company focuses on controlling O&M costs. However, some O&M
2 expenses are either outside of our control, or driven by expanded regulation, and
3 these costs are growing at a rate greater than other expenses. We have also taken
4 steps to lower certain O&M expenses. NMGC Witness Blotter provides a good
5 overview of our O&M expenses in her testimony. In total, the amount of the
6 revenue increase in this case that is attributable to increased O&M is much smaller
7 than the amount driven by the capital investment the Company is making.

8
9 **Q. WHY IS THE COMPANY CHOOSING TO FILE A FUTURE TEST YEAR**
10 **CASE?**

11 **A.** As stated above, the primary driver for this rate case is the recovery of significant
12 capital investments the Company has and will be making to improve its system and
13 provide safe and reliable service to its customers. It is anticipated that regardless
14 of whether the Company files an historic or a future test year case, newly requested
15 rates would probably go into effect in January 2021. Filing a future test year case,
16 and thereby moving the test year forward to match the period that new rates go into
17 effect, best matches revenues with costs. Such a linking up of costs with revenues
18 is consistent with the provision in NMSA §62-6-14 which provides that “the
19 commission shall set rates based on a test period that the commission determines
20 best reflects the conditions to be experienced during the period when the rates
21 determined by the commission take effect.” Given that the amount of capital being

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1 invested while this case is pending is and will be significant, getting timely recovery
2 of the full amount of investment is critical, and a revenue request based on the
3 provisions of the future test year rules and requirements best reflects costs that will
4 be incurred during the period when customers begin paying the new rates. For
5 these reasons, the Company is choosing to proceed with a future test year filing in
6 this case and to make that future test year the year that rates go into effect. NMGC
7 Witnesses Blotter and Michael J. Adams provide the details of NMGC's future test
8 year filing in their testimonies.

A. Capital Investments

11 **Q. PLEASE DESCRIBE NMGC'S CAPITAL INVESTMENT PROGRAM.**

12 **A.** NMGC provides natural gas utility service to approximately 530,000 customers
13 throughout New Mexico. Over 90% of the Company's customers are households
14 or small businesses that primarily use natural gas for heat. These customers rely
15 upon us to provide safe and reliable service, and NMGC is continually maintaining
16 and improving its system in order to meet its customers' needs.

17
18 **Q. WHO ARE THE WITNESSES THAT WILL TESTIFY ABOUT THE**
19 **COMPANY'S CAPITAL INVESTMENT PROGRAM?**

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1 **A.** The business reasons for the Company’s investments will be described and
2 explained further by me below, and also by NMGC Witnesses Thomas C. Bullard,
3 Kevin D. Sturgill, Denise E. Wilcox, and Edward J. Kacer.

4
5 NMGC Witness Bullard, NMGC’s Vice President of Engineering, Gas
6 Management and Technical Services, will detail the amounts of capital investments
7 being made by the Company to maintain and improve its transmission and
8 distribution systems. As discussed by NMGC Witness Bullard, NMGC regularly
9 invests in plant and equipment to maintain and improve service to customers. It
10 makes these investments on its own initiative and in response, in whole or in part,
11 to regulation and/or legislation or some combination of all three. From September
12 30, 2017 through the end of 2021, investments totaling approximately \$400 million
13 will be made to maintain and improve the Company’s gas transmission and
14 distribution system and related assets. Typically, the Company’s base annual
15 capital investment program is between \$60-80 million. In addition, the Company,
16 as detailed by NMGC Witness Bullard, also engages in larger projects as needed
17 for the expansion and improvement of its system to meet special needs and growth
18 issues. These large and special projects are critical to maintaining and improving
19 our service to our customers.

20

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1 The other primary focus of NMGC Witness Bullard’s testimony will be to identify
2 and describe the Company’s expanding integrity management program. NMGC
3 Witness Bullard will explain that as a result of increasing federal regulation, as well
4 as on the Company’s own initiatives, the Company is engaged in significant
5 integrity management projects which will continue on into the future and increase
6 NMGC’s O&M expenses going forward. This spending will continue as a regularly
7 scheduled amount and Mr. Bullard will explain how the ability to schedule and
8 budget for this work over a number of years will improve the efficiency of this
9 work.

10
11 NMGC Witnesses Sturgill, Wilcox, and Kacer provide the business reasons and
12 describe the benefits received by the Company and its customers because of
13 investments in information technology and telecommunications (“IT&T”),
14 facilities, and GHG Emissions reduction activities. NMGC Witness Sturgill,
15 NMGC’s Interim Director of IT&T, will describe the business reasons for the
16 Company’s capital investment in IT&T programs and equipment; NMGC Witness
17 Wilcox, NMGC’s Vice President of Human Resources, will describe the business
18 reasons for the Company’s capital investment in improving the security of many of
19 the Company’s facilities; and NMGC Witness Kacer, NMGC’s Vice President of
20 Strategy & Major Projects, will describe the business reasons for the Company’s
21 capital investment in GHG Emissions reduction initiatives.

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1 As to the amounts invested in each of these areas, NMGC Witness Bullard, who is
2 primarily responsible for the Company's overall capital budget process, will detail
3 the dollars being spent in total by the Company for capital investment during the
4 period covered by this case.

5

6 **Q. PLEASE DESCRIBE THE COMPANY'S INVESTMENT IN ITS**
7 **HEADQUARTERS.**

8 **A.** The Company has entered into a contract to purchase the Company's headquarters
9 in Albuquerque in early 2020. Since 2009 the Company has leased its headquarters.
10 Recently, the Company was afforded an opportunity to purchase the headquarters
11 building, plus additional square footage in the shopping center.

12

13 While NMGC Witness Bullard discusses the reasons why this acquisition is cost-
14 effective for our customers, let me just add that we are excited about being able
15 save our customers money in the long run as a result of this acquisition, make
16 changes, as an owner, to our facility to make it safer and more user friendly for our
17 employees by providing better control over access to the parking lots holding our
18 trucks and the building itself, and give us an opportunity to plan for growth and
19 expansion, all without having to move.

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B. Greenhouse Gas Initiatives

Q. PLEASE INTRODUCE THE COMPANY'S GHG EMISSIONS REDUCTION INITIATIVES.

A. In 2019, Governor Lujan Grisham signed an Executive Order committing New Mexico to comply with the Paris Climate Accords. In 2019, the New Mexico legislature, with executive support, signed significant legislation whereby the State took action to fulfill the commitments of the Governor's Executive Order.

NMGC, understands that climate change is an important issue for many New Mexicans. Accordingly, NMGC began to examine how it could participate in these statewide efforts by decreasing GHG Emissions related to or associated with the NMGC's operations. The Company began this effort by self-evaluating its usage of natural gas as well as the natural gas usage by its customers. Also, to get a sense of the customers' interests in this regard, the Company retained the New Mexico firm Research & Polling, Inc. to survey its customers to determine their appetite for these types of measures. As described by NMGC Witness Kacer in his testimony, we found that the vast majority of the Company's customers support these types of initiatives. This polling data helped drive the Company's decisions in this regard.

The Company also retained Navigant Consulting to help it explore these issues and help it examine how best to fulfill its obligations to its customers to provide natural

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1 gas, while reasonably and prudently proposing initiatives both within and outside
2 of this rate case to limit GHG Emissions resulting from Company and customer
3 activities.

4
5 The Company ultimately identified three areas to focus on: 1) seek to repurpose \$5
6 million of the economic development dollars provided to the State in the Emera
7 Stipulation toward GHG Emissions reduction technology in the use of natural gas;
8 2) increase the Company's Energy Efficiency program to reduce GHG Emissions
9 at the burner tip;, and 3) propose specific GHG Emissions reduction initiatives in
10 this rate case. The first two are outside of this rate case and I will just mention
11 them briefly. I refer you to NMGC Witness Kacer's testimony to cover in detail
12 the Company's proposed GHG Emissions reduction initiatives.

13
14 **Q. PLEASE DISCUSS THE COMPANY'S FIRST AREA OF FOCUS.**

15 **A.** NMGC, in consultation with Navigant and others, concluded that opportunities to
16 reduce GHG Emissions from the use of natural gas are in various stages of
17 development. Further research and development (R&D) may spur technological
18 developments such that products or procedures could be brought to bear to affect
19 the GHG Emissions from natural gas usage. To help fund this R&D, NMGC filed
20 a request for variance in NMPRC Case No. 15-00327-UT seeking to repurpose \$5
21 million of shareholder money that NMGC and Emera, Inc. had intended to spend

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1 to construct a pipeline to Mexico away from the proposed pipeline and toward a
2 R&D program directed at GHG Emissions reduction technology. At present the
3 types of programs being discussed include renewable natural gas programs, fuel
4 cell initiatives, and hydrogen blending, among others.

5
6 As discussed in the Company's motion for variance, as part of the Emera
7 Stipulation, Emera committed to investing up to \$5 million to build a larger pipeline
8 to Mexico. Despite substantial efforts the Company has been unable to date to
9 complete this project. The variance sought was granted and NMGC is beginning
10 its work on an R&D initiative.

11

12 **Q. DESCRIBE THE COMPANY'S SECOND AREA OF FOCUS.**

13 **A.** NMGC has identified a way to have a significant impact on lowering burner-tip
14 emissions and to also help customers most in need of reducing their energy costs.
15 NMGC is working with the State to develop a proposal for a furnace replacement
16 program for its low-income customers. The program as currently contemplated
17 would be a joint effort between NMGC and the state of New Mexico to replace
18 older, less efficient natural gas furnaces with newer and higher efficiency furnaces
19 in low income homes. This program might be able to replace as many as 1000 or
20 more furnaces per year and thereby reduce burner tip emissions throughout the
21 State. The results would benefit the customer by lowering their energy costs while

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1 simultaneously lowering carbon emissions in the State. A similar program to
2 replace inefficient natural gas water heaters could also be feasible and is being
3 explored. NMGC anticipates these programs would fall under the Company's
4 Energy Efficiency programs.

5

6 As I stated above, neither of these first two areas of focus are in this case. They are
7 mentioned as background.

8

9 **Q. PLEASE BRIEFLY INTRODUCE THE COMPANY'S IDEAS AS THEY**
10 **RELATE TO GHG EMISSIONS REDUCTION INITIATIVES THAT ARE**
11 **IN THIS CASE.**

12 **A.** The Company is proposing recovery of certain GHG Emission reduction initiatives
13 in this case.

14

15 We believe these kinds of initiatives are consistent with and in line with the
16 Governor's executive order that the State comply with the Paris Climate Accords.
17 Second, we believe these expenditures are prudent expenditures by the Company
18 consistent with the mandate of the New Mexico Public Utility Act (the "PUA") that
19 "[p]ublic utilities ... are affected with the public interest in that, among other things:
20 ... the development and extension of public utilities' business directly affects the
21 development, growth and expansion of the general welfare, business and industry

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1 of the State.” Lastly, as NMGC Witness Kacer details in his testimony, we believe,
2 based on our polling data that our customers support these types of initiatives.

3
4 I will conclude this section of my testimony by saying that NMGC is interested in
5 helping the State and NMGC’s customers to reduce GHG Emissions while
6 continuing to promote the economic welfare of our customers and the use of natural
7 gas to benefit our State economically. We think that making these GHG Emissions
8 expenditures at this time is a prudent way to position the Company for longer term
9 viability in a changing environment that is consistent with the provisions of the
10 PUA, the Energy Transition Act, and the other legislative enactments in the 2019
11 legislative session.

12
13 NMGC Witness Kacer in his testimony will detail our proposed initiatives.

14
15 **C. The Company’s Revenue Request**

16 **Q. PLEASE INTRODUCE THE REVENUE INCREASE THAT NMGC IS**
17 **REQUESTING IN THIS FUTURE TEST YEAR CASE AND THE**
18 **WITNESSES SUPPORTING THIS REVENUE INCREASE.**

19 **A.** NMGC is requesting a revenue increase of approximately \$13.23 million based on
20 a proposed overall weighted average cost of capital of 7.36%, including a requested
21 return on equity (“ROE”) of 10.20%. It is anticipated that new rates would go into

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1 effect in 2021. This proposed increase represents a 6.9% increase over the
2 Company's forecasted 2021 cost of service revenues. The proposed increase in
3 rates would amount to an increase of approximately 4.2% on an average residential
4 bill that reflects 50 therms of consumption.

5

6 There are seven witnesses supporting this revenue request. Let me take them in
7 order:

8

9 NMGC Witness Wilcox will be testifying about employee headcount, wages,
10 compensation, and benefit expenses. She will also briefly address NMGC's capital
11 investment and O&M expenditures on enhanced security measures at the
12 Company's facilities. The Company has payment center-only locations, and
13 combined payment and service centers throughout the State. Having these offices
14 throughout the State enhances our customers' experience in dealing with the
15 Company. At the same time, given that these facilities handle payments, we are
16 increasingly focusing on the security at these offices. NMGC Witness Wilcox
17 addresses these efforts and NMGC Witness Blotter details the amounts being
18 expended on increased security throughout the State.

19

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1 NMGC Witness Sturgill, will testify about IT&T related capital investments and
2 O&M expenses incurred by NMGC in the Base Period, the Linkage period and the
3 Future Test Year, including allocations under the CAM related to shared services.

4

5 NMGC Witness Lesley J. Nash is Legal Counsel for NMGC. She testifies about
6 litigation expenses, rate case expenses, and the Company's compliance with final
7 orders.

8

9 NMGC Witness Adams describes the model that NMGC is using to link the base
10 period to the Future Test Year period.

11

12 NMGC Witness Davicel Avellan, Director of Regulatory Plant and Tax Accounting
13 at Tampa Electric, will provide testimony on tax-related issues, including
14 Accumulated Deferred Income Tax ("ADIT"), income tax expense, and will
15 support the request to treat the amortization of income tax expense as a regulatory
16 liability.

17

18 NMGC Witness Adrien M. McKenzie, Financial Concepts and Applications, Inc.,
19 identifies and discusses the proposed ROE in his testimony.

20

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1 Finally, NMGC Witness Blotter, will detail how the Company's capital
2 investments, along with the associated depreciation and property taxes, have
3 increased the Company's revenue requirement. Her testimony addresses the Base
4 Period, Base Period adjustments, the Linkage Periods, the Future Test Year revenue
5 requirement, and various Rule 630 schedules, as well as to explain the rate case
6 expenses for the work performed by Expergy and Concentric in this case.

D. O&M Expenses and Allocations

9 **Q. PLEASE BRIEFLY DESCRIBE CHANGES IN NMGC'S OPERATING**
10 **EXPENSES SINCE FILING THE LAST RATE CASE.**

11 **A.** As detailed in NMGC Witness Blotter's testimony, the Company's operating
12 expenses include: O&M expenses, depreciation and amortization, taxes other than
13 income taxes, and corporate income taxes. While the details for the Company's
14 O&M numbers are provided by NMGC Witness Blotter in her testimony and
15 exhibits, let me simply state that the Company is ever mindful that O&M expenses
16 directly impact the bills of our customers. We know that for many New Mexicans,
17 utility bills make up a large portion of their monthly expenses. The Company
18 continually strives to contain, and where possible reduce, O&M expenses and
19 economically utilize shared services from affiliates. We are mindful that in certain
20 areas, such as areas influenced heavily by federal regulation, or other outside
21 influences, the ability of the Company to control or ameliorate increases in O&M

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1 are lessened. In these areas we will continue to do our best to control expenses and
2 explain our processes to the Commission.

3

4 **Q. PLEASE BRIEFLY DESCRIBE THE COMPANY’S EFFORTS TO**
5 **CONTROL INTER-COMPANY CHARGES FROM AFFILIATES.**

6 **A.** Inter-company charges and allocations are O&M expenses. NMGC is very aware
7 of its obligation to comply with the provisions of the CAM and the provisions in
8 the Emera Stipulation dealing with inter-company allocations from its shared
9 service organization. We represented then, and believe now, that a shared services
10 model of doing business is a prudent and efficient model and beneficial to NMGC
11 customers. As I stated earlier, services previously provided by TSI will, starting in
12 2020, be provided by Tampa Electric. Most of the people who provided services
13 to NMGC from TSI will continue, but as Tampa Electric employees.

14

15 Within this context, NMGC continuously evaluates ways to control the amount of
16 inter-company charges and allocations to NMGC while at the same time,
17 attempting to control local O&M costs and show a preference for work to be
18 performed in New Mexico. A proper balance is beneficial to NMGC’s customers.
19 NMGC meets with TSI (and will continue this practice with Tampa Electric) to
20 ensure that services and charges are prudent and reasonable.

21

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1 **Q. PLEASE PROVIDE SOME EXAMPLES OF THE SERVICES PROVIDED**
2 **BY THE SHARED SERVICES PROVIDER TO NMGC.**

3 **A.** The services that Tampa Electric (and TSI before that) provides are primarily
4 services that Tampa Electric is uniquely, or practically, best situated to provide to
5 NMGC. One of the most significant services that NMGC is provided continues to
6 be related to cybersecurity. Cybersecurity has been identified in the industry, and
7 across industries, as a growing concern. Tampa Electric continues to support a
8 first-rate cybersecurity department and they have continued to provide advice and
9 support to NMGC in this area. As we all know, cybersecurity is a very specialized
10 field and one that benefits from high expertise of employees in the area. I am
11 confident that we are receiving high-quality services that could not be economically
12 replicated in New Mexico. Additionally, the hardware and facilities in Florida are
13 excellent, and could not be economically replicated in New Mexico. Tampa
14 Electric provides these same services to other Emera affiliates, and this is a prime
15 example where shared services benefit all Emera companies. Consistent with the
16 provisions of the Emera Stipulation, NMGC continually scrutinizes the allocations
17 it receives to ensure that they are beneficial to the Company and cost effective while
18 showing a preference for New Mexico provided services.

19

20 We also continue to see additional benefits in other areas, such as purchasing
21 business insurance, employee benefits, and IT&T.

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1 NMGC Witnesses Sturgill and Blotter discuss details of other examples of savings
2 from the shared services model in their testimonies.

3

4 **Q. CAN YOU ASSURE US THAT THE SHARED SERVICES MODEL WILL**
5 **CONTINUE TO WORK AS THOSE SHARED SERVICES ARE**
6 **TRANSFERRED TO TAMPA ELECTRIC?**

7 **A.** Yes. We at NMGC carefully monitor the services received and the cost of those
8 services, and we will continue this same level of scrutiny as the services are
9 transferred from TSI to Tampa Electric.

10

11 **E. NMGC's Rates**

12 **Q. HOW DO NMGC'S RATES COMPARE WITH OTHER SIMILARLY**
13 **SITUATED NATURAL GAS UTILITIES?**

14 **A.** It is difficult to find valid – apples-to-apples – comparisons of the cost of natural
15 gas utility service from jurisdiction-to-jurisdiction or utility-to-utility. Energy
16 costs, rates, rate components, and service components vary, but based on what we
17 know and can see, it is fair to say NMGC's natural gas utility rates are among the
18 lowest in the Country, and certainly well within the most affordable quartile of all
19 natural gas utilities in the Country. A few examples help make this point:

20

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- 1 • “ChooseEnergy.Com” – a group that works with consumer and suppliers on
2 energy switching choices – states that New Mexico is one of the five most
3 affordable states in the Country for affordable residential natural gas service
4 and rates.

- 5 • “Move.Org” – a company focused on educating people as they move around
6 the Country, in 2018 ranked New Mexico as the 45th lowest state in cost of
7 natural gas service with an average cost per month of \$65.36. In contrast,
8 the surrounding states are as follows: Oklahoma was 8th at an average cost
9 per month of \$131.28; Arizona was ranked 13th with an average cost per
10 month of \$115.95; Texas was 17th at an average cost per month of \$110. 58;
11 Colorado was 32nd at average cost per month of \$88.10; and Utah was 49th
12 at an average cost per month of \$52.30.

- 13 • “Energy-Models.Com” – a site for energy modelers, building simulators,
14 architects, and engineers using EIA.gov data in 2017 and 2019, ranked New
15 Mexico as 35th most affordable for average residential natural gas cost.

16

17 These studies show that NMGC rates are low. Even with the increase in rates sought
18 in this request, our customers’ rates will still be well below the natural average, and
19 low in comparison to most of the states surrounding us.

20

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F. Third-Party Contract Revenues

Q. PLEASE INTRODUCE AND DESCRIBE EFFORTS THE COMPANY HAS BEEN UNDERTAKING TO USE ASSETS MORE EFFECIENTLY FOR THE BENEFIT OF THE COMPANY AND ITS CUSTOMERS.

A. Since the mid-1990s, NMGC has engaged in efforts to produce revenues through contracts and agreements with third parties. These contracts and arrangements have been extremely beneficial to customers by reducing their bills.

Historically, the revenue from these types of activities has been shared between the Company and its customers to benefit both the customers and to incentivize the Company to engage in these types of activities. For example, beginning in the mid-1990s, the Company entered into contracts with off-system customers and thereby brought revenues into the Company. These revenues were shared between the Company and the Company’s customers on a 70/30 split whereby the customers received 70% of the revenues and the Company 30%. This relationship was later recognized by the Commission in 2001 when the Commission approved what is presently NMGC Rate Rider No. 14 (and includes a mechanism to share revenues from off-system sales at a rate of 70% to customers and 30% to the Company). NMGC’s customers have benefited by this arrangement through reduced bills.

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1 Beginning in 2018, market factors in the western United States were such that
2 opportunities to create revenues through third-party contractors were available to
3 the Company. As a result, the Company entered into asset management
4 agreements (“AMA”) and storage sharing agreements (“Storage Contracts”) with
5 third-parties putting the Company’s assets – pipelines and storage facilities – to use
6 when not being used for Company needs, and these contracts have generated
7 significant revenues that are being shared between the Company and its customers
8 30/70. The AMAs provide a third-party with the ability to manage 100% of
9 NMGC’s Permian transportation capacity and generate revenue by optimizing any
10 capacity that is not being used by NMGC, with full protections for the Company to
11 ensure supply. NMGC utilizes Storage Contracts to sub-lease a portion of its
12 underground storage facility to third parties, again with protections for our
13 customers. The benefits from these efforts have been substantial and have
14 essentially meant that the gas sales customers of NMGC have received a credit
15 directly to the Purchase Gas Adjustment Clause (“PGAC”), thereby reducing
16 customers’ cost of gas.

17

18 These efforts are described in more detail by NMGC Witness Blotter in her
19 testimony.

20

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1 **Q. HOW IS THE REVENUE EARNED THROUGH AMA AND STORAGE**
2 **CONTRACTS BEING HANDLED BY THE COMPANY?**

3 **A.** The Company is handling these revenues in a manner similar to how it handles
4 revenue from off-system sales, except in this case it is crediting the PGAC with
5 70% of the revenues. Similar to prior treatment, the Company retains 30% of the
6 revenue without a reduction to its revenue requirement when it files rate cases.

7

8 **G. Rate Design**

9 **Q. PLEASE INTRODUCE WHAT THE COMPANY IS PROPOSING WITH**
10 **REGARD TO RATE DESIGN AND INTRODUCE THE WITNESSES**
11 **SUPPORTING THESE RATE DESIGN PROPOSALS.**

12 **A.** The Company's rate design proposals will allow NMGC to recover the costs of
13 serving customers in a fair and equitable manner. In this regard, NMGC is
14 specifically proposing base rate increases and changes to its base rate structures,
15 changes to the Company's Rate 39 – CNG Rates, adding a tampering penalty to
16 Rate No. 11, and the adoption of an Integrity Management Program Cost Recovery
17 Mechanism ("IMP Recovery Mechanism").

18

19 In support of these proposals, NMGC relies on the testimonies of NMGC Witnesses
20 Bullard, Blotter, Deirdre M. Kann, Ph.D., and Daniel P. Yardley.

21

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1 NMGC Witnesses Bullard and Blotter have already been introduced. NMGC
2 Witness Kann is an expert in atmospheric and weather-related sciences. Her
3 testimony addresses weather trends and identifies the appropriate timeframe to be
4 used to determine the number of heating degree days to normalize the effects of
5 weather on gas usage.

6
7 NMGC Witness Yardley is an expert in utility rate design and cost recovery. He
8 will testify about the Company's Fully Allocated Cost of Service study, the
9 proposed base rate revenue increase to various customer classes, and the
10 development of specific rates that allow NMGC to recover its revenue requirements
11 from customers. Finally, he will provide the basis for and structure of the proposed
12 IMP Recovery Mechanism.

13
14 **III. UPDATE ON ECONOMIC DEVELOPMENT INITIATIVES**

15 **Q. PLEASE DESCRIBE THE ECONOMIC DEVELOPMENT INITIATIVES**
16 **CONTAINED IN THE EMERA STIPULATION.**

17 **A.** In the Emera Stipulation, Emera and NMGC agreed to three economic development
18 initiatives to be funded solely with shareholder money. These initiatives included
19 funding of \$5 million for a larger and higher capacity pipeline to Mexico, \$5 million
20 for economic development initiatives throughout the state of New Mexico, and \$10
21 million for an infrastructure expansion matching program.

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1 **Q. PLEASE UPDATE THE STATUS OF THESE INITIATIVES.**

2 **A.** Starting first with the \$5 million economic development fund, NMGC has
3 distributed approximately \$3.5 million of the \$5 million allocated and will have
4 allocated an additional \$750,000 through the spring of 2020 as this case is pending.
5 It will allocate and fund the last \$750,000 during the fall of 2020 and the spring of
6 2021. The funds have gone to economic development groups and organizations
7 throughout the state of New Mexico, as well as to innovation labs and
8 entrepreneurial start up programs located in Albuquerque, and at New Mexico State
9 University, the University of New Mexico and at the New Mexico Institute of
10 Mining and Technology.

11
12 The \$5 million to be used to build an expanded pipeline to Mexico has not been
13 spent yet. As set forth in the Company’s motion for variance recently filed and
14 approved by the Commission, NMGC will repurpose the \$5 million of shareholder
15 money previously directed to build the pipeline to Mexico, to instead implement an
16 R&D program directed at greenhouse gas emission reduction technologies as a way
17 to promote economic development of cleaner, more affordable natural gas for New
18 Mexico customers.

19
20 Following consultation with the Utility Staff of the NMPRC and the Attorney
21 General’s office, the \$10 million infrastructure expansion program was

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1 implemented in November 2016. As of the filing of this case the full amount of
2 program's funds has been allocated. As a result of this program the Company has
3 been able to provide service to over 2000 customers, and provide service to over
4 30 communities, or parts of communities, that previously did not have natural gas
5 service.

IV. CONCLUSION

8 **Q. DOES THE TESTIMONY OUTLINED ABOVE FROM THESE**
9 **WITNESSES FULFILL ALL REQUIREMENTS OF THE COMPANY AS**
10 **SET FORTH IN 17.1.3 NMAC, THE FUTURE TEST YEAR RULE?**

11 **A.** Yes. We have carefully prepared this case to comply with all requirements of the
12 statutes and rules regarding future test years. Please see NMGC Exhibit RAS-2 for
13 a list of NMGC Witnesses and the requirements of 17.1.3 NMAC that each address.

15 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

16 **A.** Yes.

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