BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF NEW MEXICO GAS COMPANY, INC.'S APPLICATION FOR AN EXPEDITED VARIANCE APPROVING ITS PLAN FOR RECOVERY OF THE GAS COSTS RELATED TO THE 2021 WINTER EVENT	)	
	)	**CASE NO. 21-______-UT**
NEW MEXICO GAS COMPANY, INC.,	)	
Applicant.	)	

NEW MEXICO GAS COMPANY, INC.'S APPLICATION FOR EXPEDITED APPROVAL OF A VARIANCE APPROVING ITS PLAN FOR RECOVERY OF 2021 WINTER EVENT GAS COSTS UNDER THE EXTRAORDINARY CIRCUMSTANCES PROVISION OF 17.10.640.14 NMAC

New Mexico Gas Company, Inc. ("NMGC" or the "Company"), pursuant to 17.10.640.12(F) NMAC, 17.10.640.14 NMAC and 17.10.640.15 NMAC, respectfully requests that the New Mexico Public Regulation Commission ("NMPRC" or the "Commission") grant NMGC a variance from NMGC's First Revised Rule No. 25 – Rate Rider No. 4 Details ("Rule No. 25"), NMGC's Original Rider No. 1-4 Rate Rider No. 4 – Cost of Gas Component ("Rider No. 4"), and 17.10.640.13 NMAC in order to allow NMGC to change the methodology by which it may recover the increased cost of gas incurred by the Company during February 2021 under extraordinary circumstances that will materially impact the cost of gas in NMGC's Commission-approved Purchase Gas Adjustment Clause ("PGAC"), and collect this amount over a longer period than the normal PGAC reconciliation period, thereby reducing the monthly bill impact to customers. In support of its request, NMGC states as follows:

Introduction

1. In February 2021, New Mexico and the surrounding region experienced a storm of unusual severity and duration. Around February 9th, NMGC learned that this storm was coming and took steps to arrange for natural gas supplies during the storm. As described below, the Company's actions were reasonable, prudent, and appropriate. During the storm, gas supply failures in Texas, combined with significant increases in demand for natural gas throughout the region, caused natural gas prices to spike to levels never seen before. In this environment, NMGC ensured continuous gas supply for its customers, but in doing so, was subject to the dynamics of the exceptionally volatile natural gas markets, and ultimately incurred over $110 million in extraordinary gas costs over a period of six days – roughly the amount that NMGC spent for natural gas during the full year 2020.

In an effort to help decrease the impact of these extraordinary costs on customers, in this filing NMGC is proposing to recover the $110 million over an extended period of time – by December 2023, which is outside of the normal timeframe provided for under the Company's PGAC. Additionally, NMGC is proposing to implement a method of recovery within the PGAC that is designed specifically to help mitigate bill fluctuations on residential customers.

Background of Events and Actions Taken by NMGC In February 2021

2. For NMGC and its customers, the February 2021 cold weather event consisted of several intertwined components including 1) extremely cold weather, 2) increased demand for natural gas and electric service throughout the Southwest and Rocky Mountain regions, especially in Texas and New Mexico, 3) well-head and pipeline freeze-offs in natural gas and oil production areas in Texas and New Mexico, resulting in significantly decreased production of natural gas in

the Permian Basin, 4) electricity and natural gas disruptions throughout the region, and 5) extreme volatility in the natural gas markets throughout the Rocky Mountain and Southwest regions that resulted in significant and sustained price increases for natural gas on a scale that NMGC has never seen before (these events collectively are referred to as the "2021 Winter Event" or "Event").

3. The critical days that impacted NMGC, its customers, and NMGC's PGAC are February 13 through February 18, 2021. However, to provide a fuller picture of how rapidly events beyond NMGC's control impacted both natural gas supply and gas prices, NMGC also provides information related to the prices and events on February 10th, 11th, and 12th and February 19th, 20th, and 21st. Attached to this motion as Exhibit 1 is a chronology reflecting the events and developments and information NMGC relied upon, and the actions NMGC took before during and after the 2021 Winter Event. Exhibit 1 details not only the storm, but also the volatility in the natural gas markets, the increased demand for natural gas from NMGC's customers, and the steps NMGC took to ensure the continued flow of natural gas to its customers. Attached, as Exhibit 2 is the Direct Testimony of NMGC Witness Ryan Shell. Mr. Shell is the President of NMGC and will testify as to the Company's overall handling of the 2021 Winter Event and the Company's request for the relief sought herein. Attached, as Exhibit 3 is the Direct Testimony of NMGC Witness Joshua Tilbury. Mr. Tilbury is the Director of Gas Management for NMGC and was directly responsible for purchasing the gas supplies necessary to ensure that there was no disruption of service to NMGC's customers during the Event.

4. Definitions: Set forth in this paragraph are some terms and definitions commonly used in the gas supply area and used throughout this pleading.

a. Baseload Demand: "Baseload Demand" is the minimum gas demand expected for sales customers. Baseload targets are developed each spring based on NMGC's analysis of the Company's average monthly demand over the past 10 years. Before each winter heating season begins, NMGC purchases fixed monthly quantities of gas to satisfy this Baseload Demand. Baseload gas is priced based on indexes (discussed below), and the vast majority of NMGC's baseload gas is set at the beginning of each month (as described in greater detail later) and locked into place for the entire month.

b. Swing Demand: "Swing Demand" is the daily incremental demand above or below baseload demand for sales customers. Swing Demand is variable and largely influenced by changes in heating load, often due to changes in weather. When the demand on any day is below the anticipated baseload volume, the Company has excess gas, and this excess gas can be put into storage, added to line pack, or if NMGC has no other way to store the gas, sold off-system. When demand on any day is above the anticipated baseload, the Company needs additional gas to meet this additional demand, and NMGC takes steps to address the shortage through one of the following actions: 1) arranging to have previously stored gas delivered to NMGC ("Storage Gas"), 2) purchasing gas through peaking contracts it has in place that are linked to the Gas Daily Index price for each day ("Day-ahead Gas"), or 3) purchasing gas through intraday contracts which are either priced at an index price or priced through direct negotiation with suppliers based on market forces at the time of contracting ("Intraday Gas"). It is important to note, as described below, when NMGC's customer demand is greater than the amount contracted for baseload, NMGC's objective is to first seek out the most cost-effective and reliable gas available, which is often

Storage Gas and Day-ahead Gas, and lastly on the typically more volatile Intraday Gas. Ultimately, very little of NMGC's gas purchases are based on intraday negotiated prices.

c. Platts Gas Daily Pricing/"Gas Daily Average": S&P Global Platts Gas Daily ("Platts") is the industry standard for natural gas pricing information. Platts' methodologies are designed to produce price assessments and indices that are representative of market value of the various markets to which they relate. Platts' overall objective is to reflect the average transactable value of natural gas. Platts relies on participants in the market voluntarily reporting pricing, and FERC regulations control the reporting to ensure reliability. This creates confidence in the prices reported to and out of Platts and Platts' pricing numbers are relied on throughout the industry, including by NMGC. As detailed below, NMGC purchases gas in some of the markets that Platts provides information on.

For the daily market, Platts publishes three price components: the midpoint, the common range, and the absolute range. The midpoint or "index" price, also called the GDA ("Gas Daily Average"), is the volume weighted average of all transactions submitted to Platts.

d. Monthly Index Pricing: To set the "Monthly Indexed Price", Platts collects transaction data for the last five business days of each month and then publishes prices on the first business day of the following month. The index is the volume-weighted average of all the transactions submitted to Platts over the last five-business-days of the prior month. These volume-weighted averages are used to calculate the index price, and the Monthly Indexed Price is commonly and reasonably used by parties contracting for the purchase and sale of natural gas throughout the industry for that month.

e. Platts Monthly Indexed Prices are the industry standard used to set the price for gas in prearranged contracts and formed the price for most of the gas purchased by NMGC during the 2021 Winter Event and throughout this filing are referred to as the indexed price.

5. NMGC's Activities During the 2021 Winter Event: As described in more detail in Exhibits 1, 2 and 3, NMGC took the following actions in advance of and in response to events of the 2021 Winter Event:

a. NMGC Utilized Baseload Gas: NMGC relies on what is known as "baseload gas." As described above, the baseload gas level for each winter heating month is set each spring prior to the heating season based upon average usage for each winter heating month over the last ten years. Having established its baseload levels for the upcoming heating season, in the summer before the heating season, NMGC ensures it has contracts in place to provide the baseload needs of the Company for each month during the winter heating season. While the quantities are fixed during the spring and summer, this baseload gas is typically priced at the beginning of each month utilizing the Platts published monthly index price defined above. Additionally, NMGC hedges its baseload gas during the peak usage months of December through February by purchasing financial call options each summer to cover 100% of the forecasted baseload volume of gas. The hedging mechanisms allow NMGC to fix a maximum price it will pay (on behalf of customers) for gas. This price is determined each summer, well before the heating season occurs.

For February 2021, NMGC had established a baseload demand of 116,600 MMBtu/day, and this gas was priced according to the Platts index at $2.67 per MMBtu. During the 2021 Winter Event, NMGC fully utilized its firm supply of index-priced baseload gas.

In addition to its Monthly Index Priced baseload gas, NMGC also had one contract for baseload gas for 10,000 MMBtu/day priced at the Gas Daily average index which averaged $93.47 over the 2021 Winter Event. NMGC contracted for this small amount of baseload gas priced at the Gas Daily index in order to maintain supplier diversity.

b. NMGC Obtained "Swing Gas": As described above, when customer demand exceeds the volumes of baseload gas available, the difference in volume is defined as Swing Demand and any shortage is made up with access to or acquisition of what is called "Swing Gas". At NMGC, Swing Gas can be sourced three ways: Storage Gas, Day-ahead Gas (i.e. gas purchased a day ahead of need in the "day ahead" market), and Intraday Gas (i.e. gas purchased on the day needed in the "intraday market"). Taking these in order of preference:

i. Storage Gas: For many years, NMGC annually has acquired and stored natural gas in storage caverns in West Texas at the Keystone Storage Facility ("Keystone Facility") for use as needed including during the high-demand winter months, and for events such as the 2021 Winter Event. Since this gas was previously purchased by the Company at a lower price and then placed in storage until needed it offers some price protection and additional reliability to NMGC and its customers. To receive delivery of this stored gas, NMGC has an ongoing storage contract with Kinder Morgan ("KM") which allows the Company to call for and receive delivery of this gas owned by NMGC from the Keystone Facility at predetermined levels. As the 2021 Winter Event was approaching, NMGC anticipated using up to 165,000 MMBtu/day of gas from the Keystone Facility. This number reflects NMGC's contractual allotment. Accordingly, during the 2021 Winter Event, NMGC began requesting its gas from the Keystone Facility. NMGC first requested delivery of gas from the Keystone Facility for delivery on Saturday, February 13th in order to increase linepack in preparation for the storm. This gas was delivered to the Company. NMGC again sought to withdraw gas from the Keystone Facility storage on Sunday, February 14th, however, as reflected in Exhibit 1, the Keystone Facility declared a force majeure event on Sunday, and cut the amount of gas it delivered to NMGC, stating that the facility was "experiencing a mechanical failure and low field pressure". This prevented NMGC from accessing the full amount of gas it had contracted for from the Keystone Facility. Thereafter, throughout the remainder of the 2021 Winter Event, NMGC was able to obtain some gas from storage, but at amounts far less than it had contracted for. Because of the Keystone Facility's failure to provide NMGC with the full amount NMGC should have been able to withdraw from storage, NMGC was forced to purchase more Swing Gas than it had anticipated purchasing in order to meet demand.

ii. Day-ahead and Intraday Markets: As noted above, Day-ahead Gas is gas NMGC previously contracted-for which is then called for the day before it is required. Intraday Gas is gas ordered and used the same day. Day-ahead Gas is typically more expensive than baseload or Storage Gas when market demand for gas is increasing, which was the situation during the 2021 Winter Event. Intraday Gas is typically more expensive than Day-ahead Gas, and therefore it is purchased only as needed. Because of increased demand, lack of gas from storage, and concern about freeze-offs impacting supply coming from the Permian Basin, NMGC had no choice but to resort to purchasing both Day-ahead and Intraday Gas during the 2021 Winter Event. Purchasing Day-ahead and Intraday Gas, although expensive, helped NMGC maintain enough supply to meet demand throughout the 2021 Winter Event. Here, it is worth noting that NMGC does not hedge Day-ahead and Intraday Gas because the need for, volume of, and total cost for such gas is uncertain. NMGC is not aware of any utility that hedges Day-ahead or Intraday Gas volumes. The Company has primarily relied on its prior acquisition of and contracts for delivery of Storage Gas, index-priced Day-ahead Gas contracts, and occasionally small Intraday Gas purchases to provide reliable and cost-effective gas for its customers. The price impact to NMGC and its customers of purchasing Day-ahead and Intraday Gas during the 2021 Winter Event is described below.

c. NMGC Utilized Linepack Capacity: Linepack is a term used to describe gas purchased and placed in the Company's pipes that is available to meet customer demand during peak consumption hours. Linepack is sometimes described as "horizontal storage" since it is essentially gas "stored" in the Company's pipes for later use. Typically, linepack can be increased throughout the day and at night and then used to help meet the evening demand as people return home from work, and the morning demand as people wake up and turn on their heat. Planning ahead to use linepack in this fashion allows the Company to effectively store gas in the system's existing pipes as storage in anticipation of increased demand the following day and avoid more expensive Intraday Gas purchases to the extent possible. As described in Exhibit 1, NMGC has a linepack goal for each day, and during the Event was generally successful in maintaining linepack.

d. NMGC Switched Gas Supply Sources: NMGC has ongoing contracts for gas from the San Juan, Permian, Piceance, and Green River Basins to allow for supply diversity and flexibility in sourcing. Sourcing gas from multiple basins allows NMGC to increase supplies from one basin should one of the other basins become constrained. In preparation for, and during, the Event NMGC switched as much of its supply as possible from purchasing gas in the Permian Basin to initially seeking withdrawal from the Keystone Facility, which is in the Permian Basin, and then to purchases from the San Juan and Piceance Basins after anticipating and observing disruptions in Texas and the Permian Basin. As the Event progressed, as the Permian Basin supply disruptions increased more than anticipated, and as other problems developed in the Texas energy markets, NMGC continued switching more of its supply from the Permian Basin to the San Juan Basin and the other Northern basins. Switching supply sources like this allowed NMGC to obtain enough gas to maintain service throughout the 2021 Winter Event, but, as described below, the price of gas from the San Juan Basin and elsewhere also increased dramatically as the Event developed.

e. NMGC Worked to Ensure Uninterrupted System Operations: As described in Exhibits 1 and 2, throughout the Event, NMGC's operations and engineering groups closely monitored its internal operations to ensure that its system operated without disruption of service to its customers. Examples of actions taken by the Company are described in Exhibit 1. These actions allowed the Company to avoid any service disruptions during the Event.

f. NMGC Communicated with Customers regarding the Pricing Situation: As described in Exhibit 1, the Company declared a Level 3 supply alert on February 12th, 2021. This alert triggered internal communications and internal actions. This Level 3 alert never elevated to a Level 2 or Level 1 supply alert because the Company was able to avoid a supply disruption and was able to maintain adequate line pack to meet customer demand. As a result, the Company did not involuntary curtail gas service to any customers. On Tuesday, February 16, as the 2021 Winter Event continued unabated, and as prices continued to be elevated, the Company alerted customers through a posting on its website and social media accounts that they could curtail gas use by reducing their thermostats to reduce use and save costs. On February 19th, the Company lifted its Level 3 supply alert.

Regional Price Impacts During the 2021 Winter Event

6. As described in Exhibit 1, during the 2021 Winter Event, gas prices rose exponentially throughout the region. This section discusses how prices for natural gas rose in the region.

7. Regional Average Prices: The attached Exhibit 4 shows that the average price of gas for purchase for use on Wednesday, February 10th was around $3.29 per MMBtu. As discussed in the Chronology, Exhibit 1, this price was a little higher than had been experienced earlier that month, but reasonably in line with the price offered in the region earlier in February and throughout all of the 2020-21 heating season. Exhibit 4 shows that the average price of gas as reported in Platts on Thursday, February 11th was around $4.36 per MMBtu and the average price of gas as reported by Platts on Friday, February 12th was around $10.77 MMBtu. These prices for gas to be used on Thursday and Friday the 11th and 12th were not unexpected with a storm like the one forecasted for the President's Day weekend. For example, and by way of comparison, during the extreme cold weather event that impacted the Permian Basin in February 2011, the price of gas rose from approximately $6/MMBtu to approximately $13/MMBtu.

8. As shown in Exhibit 4, prices for gas to be used on Saturday the 13th through Thursday the 18th rose dramatically before returning to "normal" on the 19th and thereafter. The price spikes shown on the 13th through the 18th were extreme and unlike anything the region (or this Company) had ever seen. Whereas in the 2011 storm the price of gas essentially doubled, during the 2021 Weather Event the price of gas rose over the course of a few days by as much as 76 times the price of gas on February 10th.

9. Regional Swing Prices: Exhibit 4 reflects the average price of gas in the region during the Event and includes prices for Day-ahead Gas. Exhibit 4 does not include the price of Intraday Gas since the average Intraday Gas prices are not aggregated, published, or commonly known. Intraday Gas can be, and often is, more expensive than other gas and typically trades at a premium. For example, during the Event, NMGC paid as much as $252 per MMBtu for a small amount of Intraday Gas, and NMGC has seen reports that other utilities in the region paid as much as $900 per MMBtu for Intraday Gas or Day-ahead Gas. It is our understanding that other utilities in New Mexico and the surrounding states are able, as needed, to purchase gas on this "intraday market" if they choose, and like NMGC, it is believed that many utilities throughout the region make use of the intraday market on an as needed basis. As described below, NMGC entered into the regional intraday market on a limited basis to purchase gas to ensure continued service to customers and paid the going price for gas on the intraday market.

Price Impacts On NMGC of The 2021 Winter Event

10. NMGC, like other utilities in the region, was faced with dramatically increased prices during the 2021 Winter Event.

11. NMGC's Average Price of Gas: The attached Exhibit 5, shows NMGC's weighted average cost of gas ("WACOG") during the event. As discussed in detail in Exhibit 1, during the 2021 Winter Event, NMGC, as it normally does, utilized all available resources to ensure uninterrupted gas utility service for its customers. First, NMGC used its previously hedged baseload gas, then the Company ordered gas from its storage facility, and finally NMGC purchased Swing Gas on the "day ahead" and "intraday" markets as necessary, consistent with the Company's obligation to provide service to its customers.

12. Baseload, Storage, Day-ahead, and Intraday Gas costs, taken together, make up NMGC's WACOG. Exhibit 5 shows the WACOG paid by NMGC from all of its sources of gas for the period before, during, and after the 2021 Winter Event and reflects the rise in average price for the days of the 2021 Winter Event.

13. NMGC Swing Gas Prices: NMGC's WACOG is impacted by prices charged to the Company for Swing Gas including Day-ahead Gas and Intraday Gas.

a. Day-ahead prices: As noted previously, Day-ahead Gas is gas that the Company contracts for in June of each year that provides the Company with the right to call upon/schedule a pre-agreed-upon maximum amount of gas with as little as one-day's notice for delivery the next day, and which is priced based on the index price for gas on the day the gas is delivered. In this instance, as detailed in Exhibit 1, the Company purchased gas on Wednesday, February 10th for delivery on Thursday the 11th, and on Thursday for delivery on Friday. It is important to note here that, although the gas is purchased on Wednesday for Thursday, for example, the cost to be paid for that gas is not set until Thursday morning when the GDA price is reported by Platts. Usually this is not an issue. As discussed in Exhibit 1, because of the Presidents' Day Holiday weekend, NMGC scheduled on Friday February 12th for contracted Swing Gas to be delivered on Saturday the 13th, Sunday the 14th, Monday the 15th, and Tuesday the 16th, and the price for this gas was not known until Saturday, when we first were subject to extraordinary prices. This extraordinary price increase is reflected in Exhibit 5.

b. Intraday prices: The WACOG for the Company for the Event (Exhibit 5) is further affected by the price charged to the Company in the "intraday" market for gas. As described above, prices on the intraday market rose throughout the region, and as described here, they likewise rose for NMGC. Exhibit 6 attached, shows the Company's purchases in the intraday market and the prices charged to the Company in the intraday market for February 14, February 15, and February 17, 2021. As described in Exhibit 1, the 14th, 15th and 17th were the days the Company engaged in limited Intraday Gas purchases. NMGC resorted to the intraday market because of the rapidly evolving events during the 2021 Winter Event. Exhibit 6 reflects the average paid by the Company, which includes the highest prices paid by NMGC during the 2021 Winter Event.

14. Total Extraordinary Cost of Gas to NMGC Incurred during this Event: As a result of the extraordinary prices charged for gas on February 13th through February 18th, NMGC has determined that it paid $110,119,522 above what it would have paid during this period if prices had remained at a similar level to what NMGC saw through February 12, 2021. As already described, the rationale for the distinction between February 12th and February 13th, is that the prices observed for gas delivered through the 12th, were not extraordinarily high. Starting with pricing on the 13th, they became extraordinary from any reasonable perspective. The detail for the Company's calculation of "extraordinary" gas cost is contained in the attached Exhibit 7 and summarized here and in that Exhibit:

a. To begin with, during the entire month of February 2021, NMGC's total gas purchase costs were $138,393,000 and NMGC collected $23,608,668 from customers under the Company's PGAC. This results in a net cost of gas to the Company of $113,190,181 in February to be recovered under the Company's PGAC.

b. As detailed in Exhibit 7, NMGC estimates that $110,119,522 of the $113,190,181 is solely the result of the extraordinarily high costs and increased customer demand NMGC faced during the 2021 Winter Event. This number was calculated as follows:

i. First, as shown in Column B of Exhibit 7, NMGC determined the amount of Swing Gas the Company purchased on each day of the event. As described above, Swing Gas consists of Day-ahead and Intraday Gas and is the gas used by the Company that is most subject to the price volatility in the market during the 2021 Winter Event. As described above, base gas is contracted-for gas that was not subject to the price swings during the Event, and Storage Gas was previously purchased by the Company and placed in storage and not subject to price swings. Therefore, we only considered Swing Gas when determining the extraordinary cost.

ii. Second, as shown in Column C of Exhibit 7, NMGC determined the actual cost of the Swing Gas on each day of the Event. This totaled $113,190,181 for the days with extraordinary prices – the 13th through the 18th.

iii. Third, in Column D of Exhibit 7, is the cost of Swing Gas that the Company originally anticipated incurring on each day of the Event experiencing extraordinary prices. This anticipated cost is based on history and based on the Company's projections for gas costs in February as prepared and submitted to the Commission as part of the Company's PGAC filings in January for February 2021. This predictive data, predating the 2021 Winter Event, is good evidence of what the Company could have anticipated spending had the Event's extraordinary pricing not occurred. This projected cost of what the Company could have anticipated totaled $3.1 million.

iv. Fourth, as shown in Column E of Exhibit 7, NMGC derived the extraordinary costs incurred by the Company during the Event by subtracting column 4 from column 3. This is the $110,119,522 referred to above and reflects the Company's best determination of "extraordinary" gas costs for purposes of this Pleading.

15. It should be noted here that the full $113,190,181 of gas costs incurred during the Event are sought to be recovered under the Company's PGAC. The division of the $113,190,181 into the two buckets ($110.1 million of extraordinary costs, and $3.1 million of normally anticipated costs) is simply an effort by the Company to divide the Event's costs into "normal" gas costs for recovery within the current PGAC period and "extraordinary" gas costs for recovery as proposed in this Application. To be clear, as it relates to the gas costs incurred during the 2021 Winter Event, the Company intends to recover the normal costs incurred on February 11th, 12th, and 19th along with the $3.1 million of anticipated costs for gas on the 13th through 18th through the normal PGAC process before the end of August 2021. The Company is filing this pleading to recover the remaining $110 million of "extraordinary" costs incurred during the 2021 Winter Event by the end of 2023 through the relief sought in this Application. This division of recovery is consistent with the PGAC, the rules governing the PGAC, and is further described below, and in the testimony of NMGC Witness Ryan Shell, Exhibit 2,

16. <u>Reasonable and Prudent Conduct</u>: As detailed above and in Exhibits 1 – 7, at all times and in all respects, NMGC acted reasonably and prudently in responding to the 2021 Winter Event. The Public Utility Act ("PUA") provides that "public utilities are affected with the public interest in that . . . public utilities' business and activities involves the rendition of essential public services to a large number of the general public." NMSA 1978, Section 62-3-1(A). To this end,

there are no statutes, regulations, rules, or service standards that allow public utilities to curtail service to customers solely based on the cost of the underlying gas commodity, especially during a severe winter storm. Accordingly, NMGC's actions to ensure gas utility service to customers in the middle of a winter storm at prices similar to those of similarly situated utilities in New Mexico was prudent and reasonable.

17. For purposes of NMGC's request in this pleading, only the price increases on February 13th through the 18th are considered extraordinary, and in need of special treatment as requested herein. The slightly higher prices experienced on February 11th, 12th, and 19th are in line with what one would expect during a strong winter storm. Indeed, the prices on the 11th, 12th, and 19th are relatively consistent with the doubling of prices we experienced during the weather event in 2011. For this reason, we do not believe the prices on February 11th, 12th, and 19th are so extraordinary as to warrant special treatment, and instead NMGC plans to recover these costs through the normal PGAC balancing process during the period from through August 31, 2021. As set forth below, we are only seeking a variance in order to deal with the extraordinary increases in prices during the 13th through the 18th. As shown below, if NMGC attempted to collect these extraordinary costs through the normal PGAC collection process, an additional and unexpected financial burden would be placed on the Company's customers who are still recovering economically from the global COVID pandemic.

<u>How NMGC Normally Charges Customers for Gas Under its PGAC.</u>

18. NMGC, like the other investor-owned gas utilities in New Mexico, utilizes a PGAC mechanism to pass through to customers the actual costs incurred in procuring the gas commodity, without undertaking a general rate proceeding.

19. NMGC's PGAC mechanism is governed by 17.10.640 NMAC, Company Rule No. 25, and Company Rider No. 4.

20. Under normal circumstances, throughout the year, NMGC purchases gas and is authorized through its PGAC to collect from its sales service customers the prescribed costs of acquiring the gas. Such costs include the cost of buying the gas as well as other costs such as: transportation charges on third-party pipelines, gas hedging costs, gas storage costs, company used fuel, inspection and supervision fees, and balancing account carrying charges (collectively "PGAC Gas Costs").

21. Normally, NMGC's PGAC Gas Costs vary month to month and year to year due to the cost of the gas commodity and the amount of demand by NMGC's customers. For a number of reasons, over the last decade, these gas costs have declined significantly. For example, in 2010, NMGC incurred approximately $300 million in commodity costs. In 2015, NMGC incurred approximately $200 million in commodity costs. In 2020, NMGC incurred approximately $100 million in commodity costs.

22. Normally, each month, NMGC attempts to predict prices and usage for the upcoming month in order to set its gas cost factor for the following month. For example, if NMGC expects to incur $10 million worth of PGAC Gas Costs during a giving month, NMGC will establish a billing factor (which is filed with the Commission) to charge $10 million in gas costs during a given month, and then charges the factor to all sales service customers on a per-therm basis. Through this process, NMGC sets its gas cost factors every month, and normally, each month all of NMGC's sales service customers are charged the same gas cost factor recovery rate. In the event NMGC's forecasted pricing or usage vary from the actual results, NMGC utilizes a

balancing account to carry forward under collections or over collections to the next month for recovery.

23. Normally, pursuant to the provisions of Rule 25, NMGC's goal is to have a balancing account balance of plus or minus 5% at the end of each PGAC year, which runs from September 1 to August 31 of each year. Rule 25 provides that it is the Company's "intent to manage the Balancing Account to a cumulative balance of plus or minus five percent (5%) of the PGA Year's total gas purchase costs for the Reconciliation Period ending August 31st of each year." Rule 25.3.A.(2)(a).

24. Consistent with normal PGAC practices, NMGC intends to recover its normal and expected gas costs for 2021 – including the $3.1 million in "anticipated" gas costs for the period from February 13-18, as detailed above and in Exhibit 7, as it normally would subject to the normal balancing rules under the Company's PGAC. NMGC is on schedule to do so, and as to these normally incurred annual gas costs, the Company anticipates being able to balance within the constraints of the PGAC and the Company Rules and does not need to seek extraordinary relief.

Extraordinary Relief Being Sought in this Filing.

25. As to the remaining $110 million of extraordinary gas costs incurred between February 13 and February 18, 2021, trying to recover $110 million from customers by August 31, 2021, as would normally occur under Rule 25, would cause significant increases to customer bills. If NMGC were to have started collecting this amount in April 2021, with the intention of recovering the full amount in the PGAC year ending August 2021, the charge would have been $1.3431 per therm, and the bill impact to an NMGC residential customer with average usage would have been approximately $56.00/month in April and down to $19.00/month in August. NMGC

understands that such a dramatic increase in customer bills, especially during the current pandemic-caused economic slowdown, could prove to be very difficult for customers. Therefore. the Company, for the reasons set forth below, is respectfully requesting the Commission approve NMGC's plan of extending the period for recovery of these extraordinary costs to 30 months, rather than within a matter of months as provided for under Rule 25.

26. In seeking this relief, the Company is proceeding under 17.10.640.14 NMAC and 17.10.640.15 NMAC.

27. First, 17.10.640.15 NMAC provides in pertinent part that "a utility may file a written application for an exemption or variance from this rule or its approved PGAC which shall be verified by an officer of the utility" and further details the requirements for requesting a variance or exemption. In Compliance with 17.10.640.15 NMAC, NMGC is describing below the variance sought and its compliance with the requirements of the Commission's regulations, and is providing the verification of NMGC's President in Exhibit 2.

28. Second, 17.10.640.14 NMAC provides in pertinent part:

> Notwithstanding the provisions of this rule and specifically Subsection C of 17.10.640.12 NMAC, the commission may direct the utility to alter its collections through the PGAC as provided herein.
>
> A. *Under-collection or over-collection situation.* The utility may apply to the commission or the commission may order a hearing on its own motion whenever the utility or the commission has good reason to believe, on the basis of information available to it at the time, that the presently effective gas cost factor or the gas cost factor adjustment proposed in any gas cost factor statement filed pursuant to Subsection D of 17.10.640.12 NMAC *would result in a substantial under-collection or over-collection of revenue.*
>
> B. *Substantial gas cost factor adjustments.* The utility may apply to the commission or the commission may order a hearing on its own motion whenever the utility or the commission becomes aware of an

> *extraordinary circumstance* under which the gas cost factor adjustment calculated in accordance with this rule will result in a substantial change in the level of the PGAC in the following billing period and excessive fluctuations in the gas cost factor adjustments for future billing periods.
>
> C. Mitigation of concerns. *After notice and hearing, the commission may order the utility to place in effect, for such period of time as the commission may direct, a specified increase or decrease in the amount of the gas cost factor or take any other action appropriate to the public interest to mitigate the concerns identified in Subsections A and B of this section.*

Emphasis Added.

29. Consistent with the provisions of 17.10.640.14 NMAC, NMGC is hereby requesting approval of its proposed plan for recovery of the extraordinary gas costs incurred during the 2021 Winter Event through December 31, 2023 as described in the next section of this filing.

<u>NMGC's Plan For Recovery Of The Extraordinary Gas Costs Incurred During The 2021 Winter Event</u>

30. NMGC's proposed plan for the recovery of the extraordinary gas costs incurred by the Company during the 2021 Winter Event ("Cost Recovery Plan" or "Plan") is as follows and includes the following requests for variances to enact this Plan:

a. <u>Recovery Period:</u> NMGC proposes to recover the extraordinary PGAC Gas Costs incurred during the Event by the end of 2023 ("Recovery Period"). This would amount to a 30-month Recovery Period if recovery commences on July 1, 2021. The use of an extended period for recovery is intended to minimize the impact of these costs on customers' monthly bills.

b. <u>Carrying Charge:</u> Given the significant and emergent nature of the gas costs incurred by the Company, the Company entered into a short-term financing arrangement to avoid exceeding the capacity of its revolving credit facility as it paid these costs. The new short-term financing arrangement in the amount of $100 million provided funding to pay the gas invoices owed by the Company on March 25, 2021. This short-term borrowing runs from March 25 to September 23, 2022 and was set at the floating LIBOR "London Inter Bank Offering Rate" rate plus 65 basis points. The loan is prepayable at any time without penalty and this facility will need to be renegotiated or replaced prior to the expiration of the 18-month term. NMGC has not determined how this will be done or under what terms. However, the Company will address its overall long-term capitalization prior to the maturity of this facility. At the time of this short-term financing the total of the Company's total long-term debt was $385 million, so this additional debt reflects a significant increase in the Company's debt.

In order to facilitate the financing of the extraordinary PGAC Gas Costs through the Recovery Period ending in December 2023, NMGC is seeking a variance to the carrying charge it will apply to the extraordinary PGAC Gas Costs related to the 2021 Winter Event. NMGC is proposing a carrying charge of 3.7%, which is the Company's average cost of debt as determined in the Company's last rate case. The Company is proposing to begin applying the carrying charge beginning on March 25, 2021, the day that NMGC paid the invoices gas acquired during the time period included in the 2021 Winter Event. NMGC is seeking this carrying charge for the following reasons:

i. As noted previously, there is still an outstanding balance from customers for February gas costs totaling approximately $113 million dollars, of which $110 million of extraordinary costs will be collected during the Recovery Period under NMGC's proposed Cost Recovery Plan.

ii. The gas costs incurred by the Company during the 2021 Winter Event were reasonably and prudently incurred by the Company and were necessary in order to ensure customers did not lose natural gas service during the worst winter storm event in a decade. Reasonably incurred PGAC Gas Costs, even in extraordinary circumstances, are recoverable through the PGAC.

iii. NMGC's PGAC smooths customer gas costs during each PGAC year by using a balancing account, and therefore allows for a carrying charge for any under-collections or over-collections that NMGC experiences under its PGAC. NMGC reduces the impact of short-term price increases to customers by paying gas bills and recovering those costs from customers over a longer period. The reason for allowing a carrying charge within the PGAC is that the Company is carrying the cost of under-collections for the express purpose of minimizing the immediate impact of gas cost spikes on customers, especially during key winter heating months when customers may be more vulnerable to significant market price volatility.

iv. Customers benefit by having their bills smoothed over time rather than incurring large variable spikes in their bills from one month to the next that are difficult for customers to plan and budget for. This benefit is present in the normal PGAC situation and will be even more true with NMGC's proposal to address the recovery of the extraordinary costs arising out of the 2021 Winter Event. This benefit, however, requires NMGC to incur costs to finance the amounts owed by customers through the Recovery Period ending at the end of 2023. While NMGC believes this is the right thing to do for customers, the amounts owed by customers will become part of the Company's overall assets and will be folded into the Company's long-term financing plan, which will include a mix of short-term borrowings, long-term borrowings, and equity infusions, all of which have a cost to NMGC.

v. Given that there is no guaranty that another occurrence such as the 2021 Winter Event will not occur again during the Recovery Period, the risk facing the Company in such an event is unknown, and risks such as these could impact the Company's ability to borrow for a future event, or for all the other needs of the Company, and could impact the Company's credit ratings. Given this uncertainty, it is important that the Company work to position itself in a financially secure way so that it is able to address its ongoing business operations as well as unusual events and circumstances, such as the 2021 Winter Event, when they occur. This is why the amount owed by customers for the 2021 Winter Event will be rolled into the Company's long-term financing plan. The Company's long-term financing plan ensures the Company maintains its credit rating and is well positioned financially so it can weather unanticipated future events.

vi. Finally, it would be extraordinarily difficult for the Company to attract sufficient capital to cover more than $110 million dollars of expense over a 30-month period without a belief by lenders and the shareholder that the Company will be able to recover the full expense, including the cost of financing the 2021 Winter Event costs, in a way that is designed to decrease the impact on customer bills. It is critical for the State of New Mexico that it maintain financially viable utilities, and the best way to do this is to provide a reasonable carrying charge for obligations of this magnitude. Recovery of the Company's average cost of debt is the best, most reasonable, approach to providing enough certainty to allow the Company to handle this extraordinary obligation in a reasonable manner and preserve its ability to finance its operations into the future.

c. Gas Cost Recovery Factor/Rate[1]: NMGC proposes to recover the PGAC Gas Costs related to the 2021 Winter Event from all sales customers, both residential and non-residential by the end of 2023, and as discussed in the testimony of NMGC Witness Daniel P. Yardley attached here to as Exhibit 8, NMGC proposes to tailor the recovery from each of these classes of customers to the unique usage of those customers.

i. Residential Customers: For residential customers, the gas costs related to the 2021 Winter Event will be recovered through a seasonally adjusted per-therm charge applicable to all sales customers. Recovery on a per-therm basis is consistent with the recovery of gas costs through the Company's PGAC and avoids shifting cost responsibility among NMGC's customer classes. Applying a seasonal adjustment is unique and is described here:

1. NMGC's residential customers' usage is generally weather sensitive. During the winter months, and especially during periods of extreme cold, residential customers' gas consumption increases significantly compared to consumption during warm summer months. In order to mitigate the impact of collecting the extraordinary PGAC Gas Costs incurred during the 2021 Winter Event on residential customers during the peak usage winter months, NMGC is proposing a seasonally adjusted factor applicable only to these extraordinary costs. Under NMGC's Plan, NMGC would apply a lower recovery factor for the extraordinary gas costs to residential customers for the months of October through April when gas usage is high; and a slightly higher factor during the low-usage months of May through September.

[1] For the purposes of this Pleading, NMGC uses the terms "factor" and "rate" interchangeably to describe the charge NMGC proposes to use to recover the extraordinary costs discussed in this Pleading.

2. The seasonal volumetric rates for residential customers are $0.0711 per therm for the billing months of October through April and $0.2904 per therm for the months of May through September. If calculated on a non-seasonal basis the volumetric rate would be $0.1037 per therm. The proposed rates and projected residential monthly revenues under the proposed rates are provided in NMGC Exhibit DPY-2.

3. On an annual basis, the seasonal rates for residential customers provide the same level of recovery as would a per-therm rate, but as discussed by Mr. Yardley, this rate design would level out the monthly bill impact on residential customers so the customer would experience a more consistent charge regardless of the season.

4. The proposed seasonal rate is 100% volumetric, with no fixed component. The amount a customer pays will vary directly with usage: the more gas a customer uses the higher the customer's bill will be. This design provides customers with the option of reducing their usage in order to reduce their bills.

5. The anticipated bill impacts on the residential customers are reflected in NMGC Exhibit DPY-4, which is attached to and part of Mr. Yardley's testimony. As demonstrated in NMGC Exhibit DPY-4, the variations in monthly residential customer bill impacts is significantly reduced with the use of seasonally adjusted rates compared to an unadjusted rate. For an average residential customer with an annual usage of 659 therms, the range of bill impacts if there was no seasonal adjustment would range from a high of $12.89 in January to a low of $1.50 in July. However, with the seasonal adjustment, those impacts are $8.84 in January when customers are using more gas and $4.20 in July when customers are using significantly less gas.

6. NMGC Exhibit DPY-2 to Mr. Yardley's testimony shows the costs NMGC will collect on a month-by-month basis from residential customers over 30 months.

ii. Non-Residential Customers: NMGC is proposing a rate of $0.1037 per therm for non-residential sales customers. The proposed rates and projected non-residential monthly revenues under the proposed rates are provided in NMGC Exhibit DPY-2

1. The rate would be set on a fixed per therm charge based on usage. This rate, unlike the proposed rates for residential customers, will not vary by season since the majority of non-residential customers are not weather sensitive and do not need special seasonal changes in order to levelize their bill impacts. Rather, a seasonal rate would likely do the opposite of bill levelization for non-residential customers. For example, a consistent per-therm charge year-round avoids imposing a high seasonal summer rate on high load-factor non-residential customers and those with significant summer use. Imposing a seasonal rate with a higher charge during summer loads on non-residential customers would result in significant cost impacts to these customers and would result in them paying more than their share.

2. NMGC Exhibit DPY-2 to Mr. Yardley's testimony shows the costs NMGC will collect on a month-by-month basis from residential customers over 30 months.

d. Amortization Schedule: The proposed rate structure, with a seasonal rate for residential customers and a non-seasonal rate for non-residential customers, is designed to collect the total amount of costs associated with the Event by the end of 2023. NMGC Exhibit DPY-3 of Mr. Yardley's testimony shows the amortization of the extraordinary gas costs over 30 months. NMGC Exhibit DPY-3 provides the amortization of the extraordinary gas costs reflecting the projected revenues and carrying costs over the recovery term. The projected balance at the end of the 30-month term approaches zero. Additionally, NMGC Exhibit DPY-5 shows the calculation of the rate to recover the required Inspection and Supervision fees.

e. Monthly PGAC Filings: NMGC requests a variance to recognize that each month during the Recovery Period, NGMC will supplement its normal PGAC filing to the Commission with a filing detailing the separate residential and non-residential gas cost factors the Company will be charging for recovery of the 2021 Winter Weather Event gas costs. The residential gas cost factor will be either of the two seasonal rates, depending on the time of year, and the non-residential gas cost factor will be as established in the proceeding. Each month these factors will then be passed on to customers as set forth in the next paragraph.

f. Customers' Bills: Because of limitations in the Company's billing program, NMGC proposes to include the applicable recovery of extraordinary gas costs incurred during the 2021 Winter Weather Event in the current cost of gas line item on each sales customers' bill. To accommodate this billing limitation, NMGC proposes to provide notice in/on for both residential and non-residential cost of gas factors during the Recovery Period (through December 2023). "The [insert month] cost of gas is estimated to be $x.xxx/therm (residential) and $x.xxxx/therm (non-residential). For updated prices call 888-664-2726. This month's bill includes an additional amount in the cost of gas portion of the bill to reflect the cost of gas incurred by the Company during the February 2021 Winter Weather Event."

31. The Company will revisit the status of the gas cost recovery under this Plan and report to the Commission in October 2022 the status of the Recovery Plan, including whether the full recovery is on schedule, and if not, any necessary adjustments in the rate of recovery to allow

the cost recovery plan to come in on balance as of December 31, 2023 and proposes to roll any remaining balance over to the PGAC consistent with the testimony of Dan Yardley.

32. NMGC understands that for all sales customer classes there is a risk of an "intergenerational" impact. This occurs when new customers join the system who did not contribute to the cost incurred in February 2021 or customers that were here in February 2021 leave the system. Here, NMGC's billing system is simply not technologically able to charge different rates to customers based on when they became customers and cannot verify that new customers are in fact new to the system. NMGC's proposed 30-month recovery period attempts to balance the need to try and decrease the impact of the 2021 Winter Event on current customers on one hand, while being fair to new customers on the other.

33. As noted above, NMGC proposes to recover its normal and expected gas costs for 2021 (except those costs extraordinarily incurred during the 2021 Winter Event) as it normally would subject to the normal balancing rules under the Company's PGAC. It is on schedule to do so and as to these normally incurred annual gas costs, the Company anticipates being able to balance within the constraints of the PGAC and the Company Rules and does not need extraordinary relief. As described above, this Motion is only addressed to extending the recovery period for the extraordinary costs incurred in the 2021 Winter Event.

34. As of the filing of this Application, NMGC understands that there are several investigations into the 2021 Winter Event including investigations initiated at the Federal and State levels. NMGC is and will continue to cooperate fully in all these investigations. To the extent any of these investigations find culpability by any third-party including producers, storage facility operators, suppliers, marketing entities, or other third parties of any form or nature, and result in

remuneration to NMGC, NMGC will promptly communicate this result to the Commission, and the recovery will be used to reduce the amount not yet collected from customers. Should the third-party recovery occur after December 31, 2023, NMGC would work with the Commission to provide a credit to customers.

35. Additionally, NMGC is itself investigating and evaluating possible claims it may have against third parties, while also considering best options to continue or enhance supplies of gas and gas supply reliability to the Company and its customers. Among the concerns the Company is considering as it evaluates any third-party claims it might have or might seek to assert is consideration of reasonable continuity of business, supply, storage and other relations necessary to maintain reliable and affordable supply to the Company's customers.

36. Given the disruption to the Company's anticipated access to gas stored for it in the Texas storage facility, as described above and in Exhibit 1, the Company is actively considering or reconsidering its storage relationships and considering alternative facilities including revisiting the issue of constructing liquified natural gas storage near the Company's load centers. To the extent NMGC determines that NMGC-controlled storage, free of third-party control, is the most appropriate option to ensure future reliability at fair, just and reasonable rates, NMGC will seek prior Commission-approval for any such project.

37. In order to implement the Company's Plan for recovery of the Extraordinary Gas Costs from customers over 30 months, ending by December 31, 2023, the Company requests expedited consideration of this Application, and requests an Order from the Commission on or before the Commission's June 16, 2021 Meeting. NMGC has reviewed the Commission's rules, and while NMGC does not believe that a proposed form of notice is required for applications for

variance requests; in an effort to expedite all matters related to NMGC's Application, a proposed form of notice is included with this Application to the extent the Commission believes one would be helpful.

CONCLUSION

WHEREFORE, for the reasons stated, NMGC requests expedited approval by June 16, 2021, of a variance approving its Plan for Recovery of its 2021 Winter Event Gas Costs under the Extraordinary Circumstances Provision of 17.10.640.14 NMAC, so that NMGC will have sufficient time to include these costs in customers' bills beginning on July 1.

Such an Order is appropriate because it minimizes the monthly bill impact to customers and NMGC acted reasonably and prudently in responding to the events of the 2021 Winter Event. During this extraordinary event, the Company avoided any curtailments of customers. It also purchased gas on recognized markets and from available sources. However, even while acting reasonably and prudently, NMGC, like most other utilities in the state and region, incurred extraordinary costs for natural gas. NMGC will not be able to proceed under its normal PGAC to recover these extraordinary gas costs without significantly impacting customer bills. In extraordinary circumstances, such as these, when the Company is unable to balance its PGAC, it is entitled to seek extraordinary relief under 17.10.640.14 NMAC. The Company is seeking such relief here by asking for approval by June 16, 2021, of its plan for recovery from customers of the reasonable and prudent costs it incurred during the 2021 Winter Event over an extended period ending December 31, 2023.

Respectfully submitted this 16th day of April 2021.

NEW MEXICO GAS COMPANY, INC.

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