ZIA NATURAL GAS COMPANY
A DIVISION OF
NATURAL GAS PROCESSING CO.

RATE NO. 5 PURCHASED GAS ADJUSTMENT CLAUSE (PGAC)
EFFECTIVE DATE: May 1, 2019

I. APPLICABILITY: All Direct Sales and Sales for Resale customers, and if applicable, Transportation Customers. The PGAC is the commodity cost component charged to customers on a monthly basis. It includes the actual costs paid for the gas supply delivered to Zia for distribution to its customers, as well as actual costs paid for transportation of the gas supply over upstream pipelines and applicable taxes and fees.

II. TERRITORY: Separate PGAC's are applicable to the Company's Lincoln County/Hobbs/Jal systems, the Maxwell System, and the Dona Ana System.

III. PGAC METHODOLOGY: The Company's PGAC components are developed using projected annualized purchase and sale volumes and purchased gas costs derived from historic data, adjusted for known and measurable changes, for a twelve month period. The PGAC also includes transportation costs derived from historic data, adjusted for known and measurable changes. The PGAC components are:

1. Purchased Gas Cost Factor. The Purchased Gas Cost Factor on a unit basis (CSCF) is the projected cost for system gas supply, including any and all direct and indirect costs for procuring said supply, including the purchase of storage gas, as applicable, divided by the projected sales volumes for the ensuing twelve month period.

2. Purchased Gas Commodity Balancing Account Factor. The Purchased Gas Commodity Balancing Account Factor on a unit basis (CSCF) is the current balance of the Purchased Gas Commodity Balancing Account divided by the projected sales volumes for the ensuing twelve month period. The Purchased Gas Commodity Balancing Account contains the cumulative monthly differences between actual costs for system gas supply as they are recorded on the books and records of the Company and the gas cost revenues resulting from sales to Direct Sales and Sales for Resale Customers including statutory interest, less taxes and fees, recovered for the system. The resulting amount is applied as a refund or surcharge for Direct Sales and Sales for Resale Customers for that system.

3. Transportation Cost Factor. The Transportation Cost Factor on a unit basis (CSCF) is the projected cost for transportation by Upstream Third-party Transporters for system supply and transportation customer supply, and the costs for injecting and withdrawing storage gas, as applicable, divided by the projected sales volumes and transportation customer volumes for the ensuing twelve month period. Transportation costs include all charges, surcharges and fees from Upstream Third-party Transporters.

4. Transportation Commodity Balancing Account Factor. The Transportation Commodity Balancing Account Factor on a unit basis (CSCF) is the current balance of the Transportation Commodity Balancing Account divided by the projected sales volumes for the ensuing twelve month period. The Transportation Commodity Balancing Account contains the cumulative monthly differences between actual costs for system gas transportation costs including all charges, surcharges and fees from Upstream Third-party Transporters as they are recorded on the books and records of the Company and the transportation cost revenues resulting from sales to Direct Sales and Sales for Resale Customers including statutory interest, less taxes and fees, recovered for the system. The resulting amount is applied as a refund or surcharge for Direct Sales and Sales for Resale Customers for that system.

IV. BILLING METHOD

A. The Purchased Gas Cost Factor, Purchased Gas Commodity Balancing Account Factor, Transportation Cost Factor, and Transportation Commodity Balancing Account Factor are added and the total applied as the Commodity Cost component of the customer's bill for the ensuing twelve month period; provided however, the Company may file a new PGAC Statement due to changes in the gas markets or substantial over or under collections to the commodity balancing accounts. The PGAC will be effective at a minimum three days after filing by the Company.

V. GAS SUPPLY PLANNING

The Company's Gas Supply Planning period shall be the twelve month-period beginning October 1. The Company's Gas Supply Planning Report shall be filed with the Commission on an annual basis on or before November 1.

VI. ANNUAL RECONCILIATION REPORT

An Annual Certified Reconciliation Report shall be filed with the Commission as soon after the completion of the July accounting month as permitted by record availability, but in no case later than the November 1 filing of the Company's Gas Supply Planning Report. The Annual Reconciliation Period shall be the twelve month period from August 1 to July 31. The report shall consist of the following sections:

(1) a summary of gas purchases and volumes, including gas purchased from affiliates;
(2) a summary of costs, carrying charges, and collections which were recorded in the applicable balancing accounts;
(3) a summary of reconciling items including items adjusting the applicable balancing account
(4) any additional reporting requirements as specified by the Commission.

The Balancing Account mechanism is continuous and therefore, the Balancing Accounts are also continuous. Any under or over-collection of gas costs that resulted in the prior reconciliation period will immediately carry over into the subsequent reconciliation period. All adjustments resulting from the Annual Reconciliation will be recorded into the appropriate balancing account as they become certified in the Annual Reconciliation process.

VI. ADDITIONAL TERMS

A. Statutory interest is as provided in NMSA 1978, Section 62-13-13 or any successor statute.

B. All costs used in developing the Purchased Gas Cost Factors and Transportation Gas Cost Factor shall be the actual costs paid by the Company, with no mark-up or rate base return included.

C. Projected sales volumes are determined using the most recent twelve months of actual data, adjusted for known and measurable changes for the upcoming twelve months, and will usually be based upon purchase meter volumes, taking into consideration lost and unaccounted for volumes on the Company's system(s). Lost and unaccounted for volumes are determined by subtracting the sales volumes from the purchased volumes delivered into the Company's system, dividing that sum by the purchased volumes and multiplying the result by 100 to arrive at a percentage number.

D. Transportation customer volumes are those volumes of gas transported by the Company under a transportation contract pursuant to the Company's Rate No. 6.

E. Upstream Third-party Transporters are the upstream transportation systems who deliver volumes of gas to the Company's system pursuant to transportation contracts held by or for the Company.

F. Direct Sales and Sale for Resale Customers who leave the Company's systems to become Transportation customers shall be subject to both the Purchased Gas Commodity Balancing Account Factor and the Transportation Commodity Balancing Account Factor until the end of the twelve month period in which the reconciliation factors are to be applied.

H. Direct Sales and Sale for Resale Customers who leave the Company's systems shall also be charged their portion of contracted gas supply volumes and their portion of transportation costs associated with capacity demand on Upstream Third party Transporters for the remainder of the contract period or until such time as the contract volumes and capacity demand can be reduced or additional sales or transportation volumes meet the supply and capacity demand.