BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF ZIA NATURAL)		
GAS COMPANY'S APPLICATION FOR)		
REVISION OF ITS RATES, RULES, AND)		
FORMS UNDER ADVICE NOTICE NO. 57,)		
)	CASE NO. 18	UT
ZIA NATURAL GAS COMPANY,)		
)		
APPLICANT.)		
)		

PREPARED DIRECT TESTIMONY

OF

LESLIE A. GRAHAM

On Behalf of Zia Natural Gas Company

Issues:

Overview and Background
Test Year Capital Additions
Operating Expense Adjustments
Home Office Expenses
Line Extension Policy
Acquisition Assets

January 26, 2018

1 WITNESS INTRODUCTION

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- 3 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.
- 4 A. My name is Leslie A. Graham and I am employed by Natural Gas Processing Co.
- 5 ("NGP"). I work at the Zia Natural Gas Company main office at 100 Short Drive, PO
- 6 Box 888, Ruidoso Downs, NM, 88346.

7 Q. WHAT ARE YOUR POSITION AND RESPONSIBILITIES WITH NGP?

A. I am the General Manager for the utility divisions, and I have been in this position since January 1, 2002. In 2014, my title was changed from Division Manager to General Manager, but my responsibilities remained the same. As General Manager, I am responsible for overseeing all day-to-day operations for Zia Natural Gas Company ("ZIA") and Wyoming Gas Company ("WGC"). I am responsible for supervising and preparing the operating budget, operation and maintenance, its customer service operations, accounts payable and receivable, its construction program, and regulatory compliance, under the New Mexico Public Regulation Commission ("Commission" or "NMPRC"), Wyoming Public Service Commission ("WYPSC"), and the Pipeline and Hazardous Materials Safety Administration ("PHMSA") rules and regulations. Prior to being promoted to General Manager, I was the District Manager for the ZIA's Hobbs District, beginning in September of 1998. There I was responsible for day-to-day operations of the Hobbs District. In addition, I was responsible for preparing the Hobbs District budget, engineering and executing construction plans, handling any customer issues, and ensuring regulatory compliance. Before coming to work for NGP, I worked for Aera Energy, LLC as a production engineer, from July 1, 1997 to May 15, 1998, and

	Mobil Exploration and Producing, U.S., as a production engineer from June 26, 1995 to
	June 30, 1997.
Q.	PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND
	PROFESSIONAL QUALIFICATIONS.
A.	I have a Bachelor of Science degree in Chemical Engineering and Petroleum Refining
	from the Colorado School of Mines. I also have taken training in Gas Distribution
	Engineering from the Institute of Gas Technology, Utility Rate Design sponsored by the
	American Gas Association, and Distribution Integrity Management Planning offered by
	the Gas Technology Institute. I am currently a member of the American Institute of
	Chemical Engineers, Society of Petroleum Engineers, New Mexico Gas Association, and
	the New Mexico Oil and Gas Association.
Q.	ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?
A.	I am testifying on behalf of the applicant, Zia Natural Gas Company.
Q.	HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?
A.	Yes, I have recently testified in Case No. 16-00021-UT, Approval for Energy Efficiency
	Application and Program Rate Rider. For a complete list, please refer to Exhibit LAG-1.
Q.	WHAT IS THE PURPOSE OF YOUR TESTIMONY?
A.	First, I will give a brief background statement and overview of ZIA's rate filing. Second,
	I will address the test year capital additions, direct operating expense adjustments, and
	the allocation of home office expenses and plant to each of the utility divisions. Finally, I
	will address ZIA's line extension policy and the method used to book the assets from the
	Rio Grande Natural Gas Association ("RGNGA") and Village of Hatch ("Hatch")
	acquisitions.
	Q. A. Q. A.

1	Q.	DO YOU SPONSOR ANY EXHIBITS WITH YOUR TESTIMONY?		
2	A.	Yes. In addition to Exhibit LAG-1 previously presented, I sponsor the following		
3		exhibits:		
4		Exhibit LAG-2 Workpaper Schedule J-1		
5		Exhibit LAG-3 Summary of Advertising Expenses		
6		Exhibit LAG-4 December 2016 – Project Report Summary		
7		Exhibit LAG-5 Allocation of RGNGA Infrastructure, City of Las Cruces		
8		Exhibit LAG-6 Continuous Property Records, RGNGA, Nov. 1, 2010		
9		Exhibit LAG-7 RGNGA Unaudited Financials, February 28, 2011		
10		Exhibit LAG-8 Summary of RGNGA and Hatch Assets by Functional		
11		Classification		
12		Exhibit LAG-9 Excerpts from Hatch Appraisal		
13	Q.	WERE EXHIBITS LAG-1 THROUGH LAG-9 PREPARED BY YOU OR UNDER		
14		YOUR DIRECT SUPERVISION AND CONTROL?		
15	A.	Yes.		
16	Q.	ARE EXHIBITS LAG-1 THROUGH LAG-9 TRUE AND CORRECT TO THE		
17		BEST OF YOUR KNOWLEDGE AND BELIEF?		
18	A.	Yes.		
19	Q.	DO YOU SPONSOR ANY SCHEDULES?		
20	A.	Yes, I sponsor the following schedules:		
21		Schedule B-9 – Construction Work In Progress		
22		Schedule D – Cost of Plant in Service (not applicable)		
23		Schedule F – Other Property and Investments (not applicable)		

1		Schedule H-1 – Operation and Maintenance Expenses
2		Schedule H-4 - Payroll Distribution, Associated Payroll Taxes, Employee Benefits and
3		Pensions, and Other Compensations
4		Schedule H-5 – Expenses Related to Advertising, Contributions, Donations, Lobbying,
5		and Political Activities
6		Schedule H-6 – Other Administrative and General Expenses
7		Schedule H-16 – Explanation of the Adjustments to Expenses of Operations
8		Schedule J-1 – Construction Program
9		Schedule J-2 – Sources of Construction Funds
10		Schedule K-2 – Revenues from sales of products extracted (not applicable)
11		Schedule Q-3 – Property retirements and property investments information
12		Schedule Q-7 – Scheduled maintenance information
13		Schedule Q-8 – Customer service interruption information
14 15	Q.	WHERE THESE SCHEDULES PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION AND CONTROL?
16	A.	Yes.
17 18	Q.	ARE THESE SCHEDULES TRUE AND CORRECT TO THE BEST OF YOUR KNOWLEDGE AND BELIEF?
19	A.	Yes.
20		II. OVERVIEW AND BACKGROUND
21	Q.	PLEASE PROVIDE A BRIEF BACKGROUND STATEMENT.
22	A.	Zia Natural Gas Company is a natural gas local distribution company operating
23		transmission and distribution systems in four distinct service areas - in Colfax County,
24		Dona Ana County, Lea County, and Lincoln County. Zia Natural Gas Company is an
25		operating division of Natural Gas Processing Co. ("NGP"), a Wyoming corporation

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based in Worland, Wyoming. A more complete company description is provided in Schedule R-3. ZIA's division office is located in Ruidoso Downs, New Mexico, but ZIA is not a separate corporate entity. NGP is the corporate entity which is actually considered a public utility for New Mexico jurisdictional purposes. ZIA's last general rate case, Case No. 08-00036-UT, was filed on January 30, 2008, and the Final Order setting new service rates was issued on November 25, 2008 with the new rates going into effect on January 1, 2009. ZIA's current cost of service rates have been in effect since 2009 with no further changes and are based on costs and expenses as experienced in 2007. In 2011, ZIA acquired the Rio Grande Natural Gas Association ("RGNGA") gas distribution assets and the Village of Hatch gas distribution asset which significantly increased ZIA's customer count and sales. Since the purchase of the system, ZIA has invested capital to upgrade and improve the RGNGA system and has continued to reinvest and replace pipe in the others areas of ZIA's system. Since 2007, ZIA has also experienced an increase in the costs to operate a business including but not limited to personnel and labor expense, equipment, insurance, utilities, supplies and materials, software maintenance, and service contracts. The changes in operating costs, reinvestment in the system, and changes in customer count and sales volumes, as well as the fact that ZIA is no longer achieving its allowed rate of return from the 2007 rate case, are the main rationales driving the decision to file this rate increase application.

20 Q. PLEASE PROVIDE AN OVERVIEW OF ZIA'S RATE APPLICATION.

A. Overall, ZIA is requesting a general rate increase of \$2,597,203 or 9.2% in base rates, an increase of \$246,954 in other tariff revenues, and a rate of return of 9.38%. ZIA's proposed new cost of service rates are derived from the base year data adjusted for

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known and measurable changes. In this filing, ZIA has chosen to use a historic test year. The base year and test year are the twelve-month period from September 1, 2016 to August 31, 2017. The adjustments to the test year are based on known and measurable changes to operating costs and plant improvements completed after the end of the test year but before the filing date. ZIA does adhere to a fairly strict operating budget and plant improvement schedule. In addition to our current rate classes, in this filing we propose to add two new rate classes: industrial and irrigation. The acquisition of the RGNGA system added a large number of customers that use natural gas to power irrigation pumps and equipment. We also now have several customers that use a large amount of natural gas for purposes other than space heating, water heating, or cooking. The rates proposed would apply to customers in each class regardless of location throughout the state of New Mexico. Finally, ZIA also requests approval to revise various rules and forms to update them and bring them into conformance with Commission rules. PLEASE DESCRIBE THE SUBJECTS COVERED IN ZIA'S **DIRECT TESTIMONIES.**

15 Q. 16

In addition to the testimony I am offering, ZIA is also submitting the testimony of Anne G. Wheatcroft, ZIA's Controller, who will describe the accounting practices used by the company, depreciation, and tax expense; K. Marit Coburn, ZIA's Customer Information Systems ("CIS") Manager who will address ZIA's proposed changes to Rate No. 4 Special Charges, and proposed changes to ZIA's approved Rules; Gregory E. Macias, Black and Veatch, who will present a depreciation rate analysis; and Thomas J. Sullivan,

Navillus Utility Consulting, who will discuss weather normalization, cost of capital, rate of return, revenues, cost of service study, and rate design.

III. TEST YEAR CAPITAL ADDITIONS

4 Q. PLEASE DECRIBE THE PROPOSED TEST YEAR ADJUSTMENTS TO PLANT

IN SERVICE.

- A. The proposed test year adjustments to plant total \$700,666 as shown on Schedule B-2, Column G and also shown on Schedule J-1, Column C. The adjustments represent plant investment completed after the end of the test year, but before the filing date for the application. I show the details for the test year adjustment on Workpaper Schedule J-1 attached as Exhibit LAG-2. The proposed test year adjustment includes three operations trucks that were ordered in July, but not received until November, a Polaris Ranger used for leak surveys, a used dump truck for hauling fill and removing excavated material, a scanner/plotter for the drafting department, two new ultrasonic flow meters, a new line locator, a new roof for the Jal building, and various mains and services. The mains and services represent normal yearly extensions, replacements, and upgrades. The additions in the Test Year Adjustment column should be allowed in Plant in Service as each addition is used and useful to the operation and function of the gas utility.
- 18 Q. HOW DO THE TEST YEAR ADJUSTMENTS TO PLANT IN SERVICE
 19 COMPARE TO CONSTRUCTION WORK IN PROGRESS?
- **A.** The Construction Work in Progress ("CWIP") amount of \$94,339 on Schedule B-9 is included in the Test Year Adjustment amount on Schedule J and, thus, is not included as a separate line in Rate Base. The CWIP amount is money spent on work started but not

1		completed by the end of August. The work was finalized and closed by November in
2		addition to other projects started and closed in September and later.
3		IV. <u>OPERATING EXPENSE ADJUSTMENTS</u>
4	Q.	WOULD YOU PLEASE EXPLAIN ZIA'S ADJUSTMENTS TO OPERATIONS
5		AND MAINTENANCE EXPENSES AS SHOWN ON SCHEDULE H-1?
6	A.	Yes. Please refer to Schedule H-1 for ZIA's Operation and Maintenance Expenses by
7		account. The adjustments are shown in Column P. Please refer to Schedule H-16 for a
8		summary explanation of each adjustment.
9		Labor and Benefits Expense, Schedule H-1, Line 1, \$345,982: The adjustment to labor
10		and benefits reflects a cost of living pay increase on February 12, 2017 and again on
11		January 14, 2018. The labor and benefit expense is annualized to project a full year at
12		current pay levels. More detail on the labor and benefit expense may be found on
13		Schedule H-4.
14		Energy Efficiency Labor Clearing Account, Schedule H-1, Line 3, (\$27,000):
15		The Energy Efficiency Labor Clearing Account reduces Labor and Benefits Expenses by
16		the amount collected through the Energy Efficiency Rate Rider approved in Case No. 16-
17		00021-UT. ZIA's Energy Efficiency Program started on January 1, 2017. The
18		adjustment of \$27,000 to the labor clearing account reflects an entire year of Energy
19		Efficiency Program labor expense.
20		Regulatory Commission Expense, Schedule H-1, Line 10, \$100,000:
21		The adjustment is the amortization expense of ZIA's expected rate case costs. ZIA
22		expects to spend approximately \$300,000 amortized over 3 years as was recommended in
23		the last rate case.

1	Legal Services, Schedule H-1, Line 12, \$16,125:
2	ZIA has contracted with the law firm Modrall Sperling for a base monthly retainer to
3	assist with regulatory compliance as well as other legal needs. I adjusted the legal
4	expense to reflect a full year of the contract.
5	Public Relations and Business Development, Schedule H-1, Line 15, (\$71,852):
6	The decrease of \$71,852 is the removal of scholarship and donation expenses from the
7	overall public relations and business development expense. More detail may be found on
8	Schedule H-5.
9	Property and Liability Insurance, Schedule H-1, Line 19, \$37,550:
10	The policy renewal date for the property and liability insurance was April 1, 2017;
11	therefore, the expense was adjusted to reflect a full year at the current rate.
12	Interest on Customer Deposits, Schedule H-1, Line 20, \$2,709: The interest expense on
13	customer security deposits was adjusted by \$2,709 based upon the customer deposit
14	balance as of 8/31/2017 multiplied by the current deposit interest rate as established by
15	the NMPRC.
16	The base year direct operation and maintenance expenses for ZIA are \$5,595,846.
17	Adding the known and measurable test year adjustments to the operation and
18	maintenance expenses of \$403,514, the total test year operation and maintenance
19	expenses are \$5,999,360.
20 Q.	PLEASE PROVIDE A COPY OF ALL ADVERTISEMENTS IN THE
21	ADVERTISING EXPENSE LISTED ON SCHEDULE H-5 LINE 2.

1	A.	Please see Exhibit LAG-3 for a Summary of the Advertising Expense. The Advertising
2		Copy is approximately 755 pages and is available in electronic format. The total
3		advertising expense is \$89,293.
4		V. <u>HOME OFFICE EXPENSES</u>
5	Q.	PLEASE DESCRIBE THE OTHER ADMINISTRATIVE AND GENERAL
6		EXPENSES, HOME OFFICE EXPENSES, AS PROVIDED ON SCHEDULE H-6.
7	Α.	The Home Office is responsible for general oversight, accounting, gas purchasing,
8		accounts payable processing, human resources, bill printing functions, operational
9		oversight, mapping, central payment processing, regulatory compliance, marketing, and
10		customer information systems management for both the ZIA and WGC divisions. All of
11		these functions, and the associated expenses, are essential for the operations of both
12		divisions, such that without the management support, each division would have to
13		employ their own qualified personnel to perform these functions. Instead, each division
14		is allocated a share of those expenses rather than the entire cost, which benefits all of the
15		division's customers. The total test year home office expense is \$2,963,613.
16	Q.	WOULD YOU PLEASE EXPLAIN THE TEST YEAR ADJUSTMENTS TO
17		HOME OFFICE EXPENSES AS SUMMARIZED ON WORKPAPER H-6?
18	Α.	Yes, please refer to Workpaper H-6 for a summary of adjustments.
19		Labor and Benefits, Workpaper H-6, Page 1, Line 1: The labor and benefits expense was
20		adjusted by \$168,994 to reflect two changes. First, the position Manager of Utility
21		Operations was vacant for the base year. I am actively trying to fill the position. The
22		labor expense for this position is just and reasonable for the continuity of safe and
23		reliable utility operations. The total labor and benefit expense for the position at the most

1		recent rate is \$116,353. The remaining amount of \$52,641 reflects a cost of living
2		increase in February of 2017.
3		Depreciation, Workpaper H-6, Page 1, Line 16: During the test year, NGP implemented
4		approximately \$52,000 worth of new office equipment and software. I adjusted
5		depreciation expense by \$3,579 to reflect a full year of depreciation for those specific
6		items.
7		The total test year adjustment for Home Office Expense is \$172,573.
8	Q.	HOW ARE THE HOME OFFICE EXPENSES ALLOCATED TO THE
9		DIVISIONS?
10	A.	To allocate the expenses, I first determine a Base Level Home Office Expense to be spli
11		equally between the two divisions and then I allocate the remaining expenses between
12		each division using the Massachusetts Method.
13	Q.	PLEASE EXPLAIN BASE LEVEL HOME OFFICE.
14	A.	Base level home office is a term I use to describe the minimum amount of additional
15		overhead that a small utility the size of one of the operating districts in New Mexico, or
16		the size of Wyoming Gas Company, would need to operate as a separate entity. Many of
17		the functions of home office must be done regardless of size, such as the payroll
18		preparation of financial reports, taxes, audits, utility commission annual reports, pipeline
19		safety annual reports, legal filings, and engineering design. Customers in New Mexico
20		and Wyoming benefit from the fact that NGP operates in more than one state and
21		therefore, may share the cost of home office expenses. However, because many of these

the base level home office equally between each division.

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functions are performed at a state or utility level regardless of size, I split the expense for

1 Q. WOULD YOU PLEASE DESCRIBE ITEMS INCLUDED IN THE BASE LEVEL

2 **HOME OFFICE EXPENSE?**

3 A. Yes. The Base Level Home Office Expense is the expense associated with the minimum level of utility administration including minimum number of administrative personnel 4 5 and their associated expenses. At a base level, a utility needs the following: accountant handling both business accounting, taxes, and regulatory reporting; an 6 7 engineer handling design, regulatory compliance, mapping, and operational questions; a 8 human resources clerk also assisting the accountant; an administrative assistant; and a 9 manager or president for overall business oversight. Associated expenses include 10 vehicles, office supplies, utilities, materials, and travel. The total Base Level Cost for the 11 adjusted test year is \$754,299. ZIA's portion of base level home office expense is 12 \$377,150.

13 Q. WHAT FUNCTIONS ARE INCLUDED IN THE REMAINING HOME OFFICE

14 **EXPENSES?**

15 **A.** The remaining home office expenses beyond the base level include a larger accounting
16 department, a separate human resources manager, an additional person in corporate
17 oversight handling gas purchasing, a CIS Manager, an Operations Manager, a General
18 Manager, a Regulatory Compliance Technician, a separate drafting department, a
19 separate payment processing facility located near a U.S. Postal Service hub, and public
20 information manager.

21 Q. HOW WERE THE REMAINING HOME OFFICE EXPENSES ALLOCATED?

22 **A.** I use the Massachusetts Method to allocate the remaining home office expenses. "The Massachusetts formula is based on the ratio of direct labor, capital investment and gross

1		revenue of each division to total direct labor, capital investment and gross revenue."1
2		The revenue, labor, and capital investment totals are from the December 31, 2016 audit
3		statement. Using the Massachusetts Method, ZIA should be allocated 80.97% of the
4		remaining home office expenses, or a test year adjusted amount of \$1,788,787.
5	Q.	PLEASE SUMMARIZE THE AMOUNT OF HOME OFFICE EXPENSE
6		ALLOCATED TO ZIA NATURAL GAS COMPANY.
7	A.	The total Home Office Expense for ZIA is \$2,165,937.
8		VI. <u>LINE EXTENSION POLICY</u>
9	Q.	DOES ZIA NATURAL GAS COMPANY HAVE A LINE EXTENSION POLICY?
10	A.	Yes. ZIA's Original Rule No. 29, Line Extension Policy, was approved by the NMPUC
11		on June 4, 1990, in Case No. 2324.
12	Q.	IN THE FINAL ORDER FOR ZIA'S LAST RATE CASE, CASE NO. 08-00036-
13		UT, WAS ZIA ORDERED TO REVIEW ITS LINE EXTENSION?
14	A.	Yes, specifically "[s]taff recommended that Zia be required to include an analysis in its
15		next rate case to determine whether its line extension policy conforms to Commission
16		Rule 17.10.650.10.G, to ensure that existing Zia customers are not paying for service to
17		new Zia customers." ²
18	Q.	WHAT IS RULE 17.10.650.10.G NMAC ?
19	A.	Rule 17.10.650.10.G NMAC reads as follows:
20		Extension plan. Each utility shall develop a plan acceptable to the
21		commission for the installation of extensions of mains and service lines
22		where such facilities are in excess of those included in the regular rates

Accounting for Public Utilities, Hahne-Aliff, Rel. 20 – 10/03 Pub.016, Page 19-14.

Recommended Decision of the Hearing Examiner, Case No 08-00036-UT, Page 64, Section IV Miscellaneous Issues, Subsection 1. Line Extension Policy

- for service and for which the customer shall be required to pay all or part

 of the cost. This plan must be related to the investment that can be made

 prudently for the probable revenue and expenses to be incurred.
- 4 Q. PLEASE BRIEFLY DESCRIBE ZIA'S LINE EXTENSION POLICY.
- 5 A. Certainly. ZIA's Rule No. 29, Line Extension Policy, describes the rules by which ZIA 6 may make system extensions to customers and locations not already served by ZIA. 7 System extensions may be installing a new service line to an existing or new building or 8 extending a distribution main and services to an area within ZIA's service area with no gas service. The line extension policy also provides a mechanism by which payment for 9 10 the extension may be required to be provided by the customer requesting the extension. 11 When and if a payment is requested from the applicant, the policy also specifies the 12 process for making an advance in aid of construction, reimbursement of the advance, and 13 the point in time when the advance becomes a contribution in aid of construction. The 14 policy does not automatically require the applicant to pay for an extension. In Section 15 A(3) of the policy, investments may be required to be paid in total by the applicant. Section A(6) of the policy describes the method by which an Advance in Aid of 16 17 Construction is refunded if and when one is involved. Section A(4) of the policy 18 prohibits the company from making an unprofitable extension that would cause undue 19 financial burden to existing customers.
- 20 Q. DOES ZIA'S LINE EXTENSION POLICY CONFORM TO COMMISSION RULE
- 21 **17.10.650.10.G NMAC?**
- Yes, it does. The policy allows for the installation of extensions of mains and service lines and outlines the process by which an applicant may pay for a portion of the cost.

- 1 Q. HOW DOES ZIA ENSURE THAT EXISTING ZIA CUSTOMERS ARE NOT
- 2 PAYING FOR SERVICE TO NEW ZIA CUSTOMERS?
- 3 **A.** ZIA personnel review each extension request and calculates the rate of return for the installation. Each district compares the potential revenue to the cost of the extension to ensure that the extension meets the target rate of return from the last rate case. If the extension request does not meet the allowed criteria, other considerations may be
- 7 evaluated or an estimate for the extension is prepared and provided to the customer.
- 8 Q. HOW DOES ZIA CALCULATE THE POTENTIAL REVENUE?
- 9 A. The potential revenue is the average annual usage for the type of customer multiplied by 10 the cost of service plus 12 months of base charge. A new point of delivery or customer 11 has almost no incremental overhead or direct operation and maintenance expense except 12 the gas purchased to supply the customer, odorant, and the paper for the bill itself. Our 13 largest expense, labor, does not change with a new service extension. I estimate that we 14 would hire another operation and maintenance technician for every 2,000 customers 15 added to an operating district. Other expenses such as billing system, operation and maintenance expenses, vehicle expenses, and outside operating expenses do not change 16 17 with the addition of a new customer and are more related to the number of personnel than 18 the number of customers. When we add an individual customer, we are adding additional 19 gas sales without increasing our expenses, which helps offset inflation and increases in 20 our operating costs.
- 21 Q. ARE THERE ANY OTHER CONSIDERATIONS WHEN REVIEWING A NEW
- 22 **EXTENSION REQUEST?**

There are several other considerations when evaluating a new extension request A. particularly when the new service requires a main extension. First, we review the area for potential additional customers. If the new service location is in an area with no 3 4 current gas service and a new main extension is needed, we review the number of 5 buildings currently in the area that may be interested in gas service. We also review the number of lots for future expansion. Second, if a main extension is required, we review 6 7 the potential to connect one section of main to another in the form of a "loop line." In a natural gas distribution system, looping or tying the system together increases system capacity and improves reliability during high flow conditions. Finally, we may take into 10 consideration future potential gas usage by the applicant which may affect the determination either way. In some cases, the applicant may have Year 3, Year 5, and 12 Year 10 projections which affect the sizing and rate of return economics. Another 13 applicant may have a very speculative business plan. Both of those types of applicants 14 are rare, and the district manager will include the Manager of Utility Operations and me 15 in the decision to expand.

Q. WHAT IS THE TARGET RATE OF RETURN? 16

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- 17 The rate of return from the last rate case, Case No. 08-00036-UT, is 8.29%. Because new A. 18 revenue from the customer will affect income tax and depreciation, we use a rate of return based upon earnings before interest, tax, depreciation, and amortization 19 ("EBITDA"). From the last case, the rate of return based upon EBITDA is 19.9%. 20
- WHAT ESTIMATED RATE OF RETURN DID ZIA ACHIEVE IN 2016? 21 Q.
- 22 In 2016 we estimated a rate of return of 18.2% for all new service and new main A. 23 installation projects. Exhibit LAG-4 is a sample monthly report from December 31, 2016

1		showing new main and service extensions completed and closed in the month of
2		December. The report does not reflect all capital work during the month. On the report
3		we track mains and services by job number which is related to a plant-in-service account.
4		The project report number links several different assets together as one project. For
5		example, we may extend main down a road, install 5 services, and install one hairpin
6		valve. The project groups all three together. We also track the quantity, how much was
7		spent, projected revenue, and the type of customer. Finally, we calculate the rate of
8		return by services asset group and by project group. The report compiles the rate of
9		return estimated for the month of December and compiles the rate of return for the year.
10	Q.	WHAT IS THE BALANCE OF THE CAPITAL IN AID OF CONSTRUCTION
11		ACCOUNT OR THE ADVANCE IN AID OF CONSTRUCTION ACCOUNT?
12	A.	The account balance is zero (\$0.00). We have not made use of the Advance in Aid of
13		Construction clause in our Line Extension Policy.
14		VII. <u>ACQUISITION ASSETS</u>
15	Q.	PLEASE STATE THE HEARING EXAMINER'S RECOMMENDATION
16		CONCERNING ASSET VALUE IN CASE NO. 10-00272-UT.
17	A.	In April of 2011, Zia closed on the purchase of the gas distribution system assets owned
18		by the Rio Grande Natural Gas Association ("RGNGA") and the Village of Hatch
19		("Hatch"). The purchase was approved in NMPRC Case No. 10-00272-UT. In the final
20		order adopting the recommended decision, the Commission ordered ZIA in its next rate
21		case to propose "valuations for the assets it is acquiring in this case and address the

reasonableness of a positive or negative acquisition adjustment to properly value the

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2 assets for Zia's rate base."³ WHAT WAS THE PURCHASE PRICE FOR EACH OF THE DISTRIBUTION 3 Q. 4 **SYSTEMS?** 5 ZIA purchased the natural gas distribution assets from Hatch for \$1,000,000. Hatch's A. 6 system was a municipally owned and operated system that was not regulated by the 7 NMPRC. ZIA purchased the natural gas distribution assets from RGNGA for 8 \$9,000,000. RGNGA was organized as a gas association jointly owned by Hatch and the 9 City of Las Cruces ("Las Cruces") and operated by Las Cruces through an operating 10 agreement with RGNGA. RGNGA was also not regulated by the NMPRC. 11 Q. WAS ZIA ABLE TO UTILIZE THE PLANT RECORDS FROM EACH SYSTEM 12 FOR ITS CONTINUOUS PROPERTY RECORDS? 13 No, plant records did not exist for either system in a form used under regulated utility A. 14 Municipalities follow a different set of accounting rules accounting standards. 15 particularly concerning plant records or utility continuous property records. Throughout the history of ZIA, we have acquired three municipal systems and two separate gas 16 17 associations, and we have found that continuous property records almost do not exist. 18 We received no plant records from Hatch. We received almost no construction or 19 maintenance records from Hatch. Hatch explained that most records were destroyed in a 2006 flood that severely damaged the Village Hall. The City of Las Cruces maintained a 20 21 limited summary level of asset records for the RGNGA operation. 22 Q. WAS ZIA ABLE TO USE INFORMATION FROM LAS CRUCES TO 23 DETERMINE THE VALUE OF THE ASSETS PURCHASED FROM RGNGA?

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³ NMPRC Case No. 10-00272-UT, Recommended Decision, Page 33, Section IV(6).

1	A.	Yes. Las Cruces was able to provide plant value net of accumulated depreciation by
2		land, transmission, regulator systems, distribution, and meter, by year. The challenge for
3		Las Cruces was that prior to ZIA's purchase, Hatch and Las Cruces reorganized
4		RGNGA, and a portion of RGNGA's distribution system was transferred to the City of
5		Las Cruces. The remaining system was left in the gas association which was later sold to
6		ZIA. Las Cruces had to split the asset records and determine a value retained by Las
7		Cruces and a value remaining in RGNGA. Therefore, Las Cruces was able to provide
8		ZIA an estimate of the net plant value of the assets in RGNGA although there were no
9		detailed asset records. The net plant value of the assets in the reorganized RGNGA
10		system as of 11/1/2010, the effective date of the reorganization, was \$9,980,208. Exhibit
11		LAG-5 is a copy of the data provided by Las Cruces detailing the <u>Allocation of RGNGA</u>
12		infrastructure value transferred to City of Las Cruces. In addition to Exhibit LAG-5, Las
13		Cruces also tracked net plant and depreciation expense in the monthly RGNGA financial
14		report. At the time of the purchase five months later, the net plant value for RGNGA was
15		\$9,692,493.
16	Q.	HOW DID ZIA ESTIMATE THE DATA NEEDED TO COMPLETE ITS
17		CONTINUOUS PROPERTY RECORDS FOR THE RGNGA ASSETS?
18	A.	To create a full set of continuous property records ("CPR"), I needed the following
19		information by asset group: quantity, gross plant, accumulated depreciation, vintage
20		year, and for property tax purposes, property tax district. From the data on Exhibit
21		LAG-5, I calculated a value for Gross Plant and Accumulated Depreciation by major
22		functional group - Land, Regulator Systems, Transmission, Distribution, and Meters.
23		Exhibit LAG-6 shows the method used to calculate gross plant and accumulated

depreciation by group based upon November 1, 2010 values. Exhibit LAG-7 is the 2 February 2011 Unaudited Financial Statement for RGNGA from which we made a slight adjustment to gross plant and accumulated depreciation. In order to estimate the CPR in the detail needed for our asset records, I utilized several tools. First, I estimated quantity 5 and tax district from the system maps. Second, I reviewed the Annual Department of Transportation ("DOT") Reports to compare pipe type, pipe size, decade of installation, 6 and validate quantity. I then used the Handy Whitman Bulletin No. 169, Plateau Region, G-5 to estimate the cost per unit for each vintage year. I adjusted the quantity, year, and estimate of the unit value of a current asset until I was able to approximate an asset group 10 that met all of the necessary criteria. Exhibit LAG-8 shows a summary of assets booked by functional classification. Q. HOW DID ZIA ESTIMATE THE DATA NEEDED TO COMPLETE ITS CONTINUOUS PROPERTY RECORDS FOR THE HATCH ASSETS? A. ZIA did not receive an estimate of the asset value, gross plant value, or accumulated 15 depreciation for the Hatch assets. I made use of system maps, annual reports, and utilized the same Handy Whitman Bulletin to estimate value by vintage year. I also utilized an 16 independent third-party appraisal of the Hatch gas distribution system, which estimated 18 the net asset value of the Village of Hatch to be \$1,360,645. Because I did not have solid

21 Q. PLEASE SUMMARIZE THE VALUATIONS FOR THE ASSETS ACQUIRED IN

of \$1,000,000. Page 13 of the system appraisal is attached as Exhibit LAG-9.

asset records for the system, I chose to book a net asset value based on the purchase price

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1 A. In summary, ZIA valued the RGNGA assets at a gross book value of \$17,301,428, 2 accumulated depreciation of \$7,609,313, which equals a net book value of \$9,692,493. 3 ZIA valued the Hatch assets at a gross book value of \$1,391,133, accumulated 4 depreciation of \$391,133, which equals a net book value of \$1,000,000. The difference 5 in purchase price and net book value was recorded as an acquisition adjustment credit of 6 \$692,493. 7 VIII. CONCLUSION 8 Q. PLEASE SUMMARIZE YOUR TESTIMONY. 9 My testimony provides background on ZIA and an overview of the requested rate A. 10 increase, explains test year capital additions, direct operating expense adjustments, the 11 allocation of home office expenses and plant to each of the utility divisions, ZIA's line 12 extension policy, and the method used to book the assets from the RGNGA and Hatch 13 acquisitions. 14 IN YOUR OPINION, ARE ZIA'S REQUESTED APPROVALS IN THE PUBLIC Q. 15 **INTEREST?** Yes, ZIA's requested rate increase and other requested approvals are in the public interest 16 A. 17 and should be approved. 18 DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME? Q.

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A.

Yes, it does.

LISTING OF CASES IN WHICH I HAVE TESTIFIED BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

<u>CASE NO.</u>	<u>DESCRIPTION</u>
05-00004-UT	Changes to Rules Rates and Forms Advice Notice 41
05-00252-UT	Acquisition of Springer's Natural Gas System
05-00325-UT	Acquisition of Capitan Carrizozo Natural Gas
07-00137-PL	Pipeline Incident in Hobbs, NM
08-00036-UT	Zia Natural Gas Rate Case 2008
10-00272-UT	Acquisition of Two Gas Systems in Dona Ana County
11-00457-UT	Acquisition of Village of Wagon Mound Gas System
13-00235-UT	Approval of Voluntary Service Area Agreement, Dona Ana County
16-00021-UT	Approval for Energy Efficiency Application and Program Rate Rider

LISTING OF CASES IN WHICH I HAVE TESTIFIED BEFORE THE WYOMING PUBLIC SERVICE COMMISSION

DOCKET NO.	<u>DESCRIPTION</u>
30009-48-GR-08	Wyoming Gas Company General Rate Increase 2009
30009-60-GR-16	Wyoming Gas Company General Rate Increase 2016
50051-2-PR-16	Natural Gas Processing, NG Transmission Discontinue Utility Service

				Project Report		17-21-0097	17-21-0114	17-21-0128
			Test Year Adjustment		September	2 Locators and Plotter/ Scanner for GIS	Suerte Land Group - Main/ Commercial Service	September Services
Line No.	Internal Asset Code	FERC Account	TOTAL	Date Closed	TOTAL	September	September	September
1		INTANGIBLE PLANT						
2		301 Organization	-		-			
3		302 Franchise and Consents	-		-			
4		303 Miscellaneous Intangible Plant	-		-			
5		TOTAL Intangible Plant	-	-	-	-	-	-
6		TRANSMISSION PLANT						
7		365.1 Land and Land Rights	-		-			
8		365.2 Rights-of-Way	-		-			
9		366 Structures and Improvements	-		-			
10	5, 6	367 Mains	9,834		-			
11	7	368 Compressor Station Equipment	-		-			
12	10	369 Measuring and Regulating Station Equipment	-		-			
13		370 Communication Equipment	-		-			
14	19	371 Other Equipment	-		-			
15		TOTAL Transmission Plant	9,834	-	-	-	-	-
16		DISTRIBUTION PLANT						
17		374 Land and Land Rights	-		-			
18		375 Structures and Improvements	-		-			
19	23,24	376 Mains	249,690		169,624		46,494	1,389
20		377 Compressor Station Equipment	1		-			
21	25,26	378 Measuring and Regulating Station Equipment-General	9,905		9,905		2,484	
22		379 Measuring and Regulating Station Equipment-City Gate	-		-			
23	30	380 Services	131,381		53,711		1,989	4,208
24	35, 36, 37	381 Meters	41,300		41,300			
25		381 Meters - AMR	-		-			
26		382 Meter Installations	ı		-			
27	31	383 House Regulators	4,032		3,996			
28		384 House Regulator Installations	-		-			
29	36	385 Industrial Measuring and Regulating Station Equipment	19,998		11,061		755	
30		386 Other Property on Customer's Premises	-		_			
31		387 Other Equipment	-		-			
32		TOTAL Distribution Plant	456,307	-	289,597	-	51,722	5,597
33		GENERAL PLANT						
34		389 Land and Land Rights	-		-			
35	41, 49	390 Structures and Improvements	31,765		-			
36	42	391 Office Furniture and Equipment	-		-			
37	45	392 Transportation Equipment	157,617		11,992			
38		393 Stores Equipment	-		-			
39	50	394 Tools, Shop, and Garage Equipment	ī		-			
40	51	395 Laboratory Equipment	9,544		9,544	6,322		
41	46	396 Power Operated Equipment	25,291		25,291			
42	43	397 Communication Equipment	10,309		10,309	10,309		
43	59	398 Miscellaneous Equipment	-		-			
44		Subtotal	234,526	-	57,137	16,631	-	-
45		399 Other Tangible Property	-		-			
46		TOTAL General Plant	234,526	-	57,137	16,631	-	-
47		TOTAL	700,666	-	346,733	16,631	51,722	5,597
48		Gas Plant Purchased	-		-		, -	-,
49		(Less) Gas Plant Sold	-	ĺ	-			
				1		I		
50		Experimental Gas Plant Unclassified	-		-			

				1				
			17-21-0129	17-21-0130	17-21-0131	17-22-2104	17-22-2106	17-22-2107
			Commercial Service	Minor Replacement/ Repairs	New Services	New Services	New Commercial Services	New Services and Main
Line No.	Internal Asset Code	FERC Account	September	September	September	September	September	September
1		INTANGIBLE PLANT						
2		301 Organization						
3		302 Franchise and Consents						
4		303 Miscellaneous Intangible Plant						
5		TOTAL Intangible Plant	-	-	-	-	-	-
6		TRANSMISSION PLANT						
7		365.1 Land and Land Rights						
8		365.2 Rights-of-Way						
9		366 Structures and Improvements						
10	5, 6	367 Mains						
11	7	368 Compressor Station Equipment						
12	10	369 Measuring and Regulating Station Equipment						
13		370 Communication Equipment						
14	19	371 Other Equipment						
15	17	TOTAL Transmission Plant		_	_	_		_
16				_	-	-	-	_
17		DISTRIBUTION PLANT						
		374 Land and Land Rights						
18		375 Structures and Improvements						
19	23,24	376 Mains		144				5,291
20		377 Compressor Station Equipment						
21	25,26	378 Measuring and Regulating Station Equipment-General						
22		379 Measuring and Regulating Station Equipment-City Gate						
23	30	380 Services	843	1,003	4,214	6,139	1,304	5,353
24	35, 36, 37	381 Meters						
25		381 Meters - AMR						
26		382 Meter Installations						
27	31	383 House Regulators						
28		384 House Regulator Installations						
29	36	385 Industrial Measuring and Regulating Station Equipment		1,511				
30		386 Other Property on Customer's Premises						
31		387 Other Equipment						
32		TOTAL Distribution Plant	843	2,657	4,214	6,139	1,304	10,644
33		GENERAL PLANT						
34		389 Land and Land Rights						
35	41, 49	390 Structures and Improvements						
36	42	391 Office Furniture and Equipment						
37	45	392 Transportation Equipment						
38		393 Stores Equipment						
39	50	394 Tools, Shop, and Garage Equipment						
40	51	395 Laboratory Equipment						
41	46	396 Power Operated Equipment						
42	43	397 Communication Equipment						
43	59	398 Miscellaneous Equipment						
44	3,	Subtotal		_	-	-	-	_
45			-	-	-	-	-	-
		399 Other Tangible Property						
46		TOTAL General Plant	- 0.42		-		-	40.00
47		TOTAL	843	2,657	4,214	6,139	1,304	10,644
48		Gas Plant Purchased						
49		(Less) Gas Plant Sold						
50		Experimental Gas Plant Unclassified						
51		TOTAL Gas Plant In Service	843	2,657	4,214	6,139	1,304	10,644

			17-22-2109	17-23-9083	17-25-4133	17-25-4133	17-25-4133
			Minor Replacement/ Repairs	New Services and Main	Industrial Meter - SICK	Dump Truck	Locator
Line No.	Internal Asset Code	FERC Account	September	September	September	September	September
1		INTANGIBLE PLANT					
2		301 Organization					
3		302 Franchise and Consents					
4		303 Miscellaneous Intangible Plant					
5		TOTAL Intangible Plant	-	-	-	-	-
6		TRANSMISSION PLANT					
7		365.1 Land and Land Rights					
8		365.2 Rights-of-Way					
9		366 Structures and Improvements					
10	5, 6	367 Mains					-
11	7	368 Compressor Station Equipment					
12	10	369 Measuring and Regulating Station Equipment					
13		370 Communication Equipment					
14	19	371 Other Equipment					
15		TOTAL Transmission Plant	-	-	-	-	-
16		DISTRIBUTION PLANT					
17		374 Land and Land Rights					
18		375 Structures and Improvements					
19	23,24	376 Mains		627			
20		377 Compressor Station Equipment					
21	25,26	378 Measuring and Regulating Station Equipment-General					
22		379 Measuring and Regulating Station Equipment-City Gate					
23	30	380 Services	1,690	3,592			
24	35, 36, 37	381 Meters					
25		381 Meters - AMR					
26		382 Meter Installations					
27	31	383 House Regulators					
28		384 House Regulator Installations					
29	36	385 Industrial Measuring and Regulating Station Equipment			8,795		
30		386 Other Property on Customer's Premises					
31		387 Other Equipment					
32		TOTAL Distribution Plant	1,690	4,220	8,795	-	-
33		GENERAL PLANT					
34		389 Land and Land Rights					
35	41, 49	390 Structures and Improvements					
36	42	391 Office Furniture and Equipment					
37	45	392 Transportation Equipment					
38		393 Stores Equipment					
39	50	394 Tools, Shop, and Garage Equipment					
40	51	395 Laboratory Equipment					3,222
41	46	396 Power Operated Equipment				25,291	•
42	43	397 Communication Equipment				· ·	
43	59	398 Miscellaneous Equipment					
44		Subtotal	-	-	-	25,291	3,222
45		399 Other Tangible Property					-
46		TOTAL General Plant	-	-	-	25,291	3,222
47		TOTAL	1,690	4,220	8,795	25,291	3,222
48		Gas Plant Purchased	_,	-,==0	-, 3	,-32	-,
		(Less) Gas Plant Sold	1				
49							
49 50		Experimental Gas Plant Unclassified					

			17-25-4133	17-25-4166	17-25-4168	17-25-4169	17-25-4170	17-25-4171
						Distribution		
						Regulator		Upgrade/ Loop
			Polaris Ranger	_		Station	Mains and	System Dona
	T		for Leak Survey	Service	New Services	Upgrade	Services	Ana Rd
Line No.	Internal Asset Code	FERC Account	September	September	September	September	September	September
1		INTANGIBLE PLANT						
2		301 Organization						
3		302 Franchise and Consents						
4		303 Miscellaneous Intangible Plant						
5		TOTAL Intangible Plant	-	-	-	-	-	-
6		TRANSMISSION PLANT						
7		365.1 Land and Land Rights						
8		365.2 Rights-of-Way						
9		366 Structures and Improvements						
10	5, 6	367 Mains						
11	7	368 Compressor Station Equipment						
12	10	369 Measuring and Regulating Station Equipment						
13		370 Communication Equipment						
14	19	371 Other Equipment						
15		TOTAL Transmission Plant	-	-	-	-	-	-
16		DISTRIBUTION PLANT						
17		374 Land and Land Rights						
18		375 Structures and Improvements						
19	23,24	376 Mains					7,083	94,754
20		377 Compressor Station Equipment						
21	25,26	378 Measuring and Regulating Station Equipment-General				7,421		
22		379 Measuring and Regulating Station Equipment-City Gate						
23	30	380 Services		1,916	10,636		7,956	
24	35, 36, 37	381 Meters						
25		381 Meters - AMR						
26		382 Meter Installations						
27	31	383 House Regulators						
28		384 House Regulator Installations						
29	36	385 Industrial Measuring and Regulating Station Equipment						
30		386 Other Property on Customer's Premises						
31		387 Other Equipment						
32		TOTAL Distribution Plant	-	1,916	10,636	7,421	15,039	94,754
33	ļ	GENERAL PLANT						
34	L	389 Land and Land Rights						
35	41, 49	390 Structures and Improvements						
36	42	391 Office Furniture and Equipment	11.000					
37	45	392 Transportation Equipment	11,992					
38		393 Stores Equipment						
39	50	394 Tools, Shop, and Garage Equipment						
40	51	395 Laboratory Equipment						
41	46	396 Power Operated Equipment						
42	43	397 Communication Equipment						
43	59	398 Miscellaneous Equipment	11.003					
44		Subtotal	11,992	-	-	-	-	-
45	 	399 Other Tangible Property	11.003					
46		TOTAL General Plant	11,992	- 4 04 5	10.535	7.401	45.000	-
47	 	TOTAL	11,992	1,916	10,636	7,421	15,039	94,754
48	 	Gas Plant Purchased	ł					
49	 	(Less) Gas Plant Sold	ł					
50		Experimental Gas Plant Unclassified	14.000	1.016	10.030	7 424	15.000	04754
51		TOTAL Gas Plant In Service	11,992	1,916	10,636	7,421	15,039	94,754

			17-25-4172	17-25-4173	17-25-4174	17-25-4175		17-21-0125
			New Irrigation Service	New Irrigation Service	New Irrigation Service	Meters / Regs and Fittings		New Service and Main
Line No.	Internal Asset Code	FERC Account	September	September	September	September	October TOTAL	October
1	7 looct Code	INTANGIBLE PLANT		,				
2		301 Organization					-	
3		302 Franchise and Consents					-	
4		303 Miscellaneous Intangible Plant					-	
5		TOTAL Intangible Plant	-	-	-	-	-	-
6		TRANSMISSION PLANT						
7		365.1 Land and Land Rights					-	
8		365.2 Rights-of-Way					-	
9		366 Structures and Improvements					-	
10	5, 6	367 Mains					-	
11	7	368 Compressor Station Equipment					-	
12	10	369 Measuring and Regulating Station Equipment					-	
13		370 Communication Equipment					-	
14	19	371 Other Equipment					-	
15		TOTAL Transmission Plant	-	-	-	-	-	-
16		DISTRIBUTION PLANT						
17		374 Land and Land Rights					-	
18		375 Structures and Improvements					-	
19	23,24	376 Mains	6,056	7,786			19,399	177
20		377 Compressor Station Equipment		,			-	
21	25,26	378 Measuring and Regulating Station Equipment-General					-	
22		379 Measuring and Regulating Station Equipment-City Gate					-	
23	30	380 Services	939	939	989		50,588	5,095
24	35, 36, 37	381 Meters				41,300	-	-
25		381 Meters - AMR				,	-	
26		382 Meter Installations					_	
27	31	383 House Regulators				3,996	36	
28		384 House Regulator Installations				3,330	-	
29	36	385 Industrial Measuring and Regulating Station Equipment					8,937	
30		386 Other Property on Customer's Premises					-	
31		387 Other Equipment					_	
32		TOTAL Distribution Plant	6,995	8,725	989	45,296	78,960	5,273
33		GENERAL PLANT	5,555	5,: =5		10,200	1 5/5 5 5	0,=:0
34		389 Land and Land Rights			1		_	
35	41, 49	390 Structures and Improvements			1		_	
36	42	391 Office Furniture and Equipment			1		_	
37	45	392 Transportation Equipment					-	
38		393 Stores Equipment					-	
39	50	394 Tools, Shop, and Garage Equipment					_	
40	51	395 Laboratory Equipment					_	
41	46	396 Power Operated Equipment					_	
42	43	397 Communication Equipment					_	
43	59	398 Miscellaneous Equipment					_	
44		Subtotal	_	-	_	-	_	_
45		399 Other Tangible Property						
46		TOTAL General Plant	_	-	_	-	_	-
47			6,995	8,725	989	45,296	78,960	5,273
48		TOTAL Gos Plant Burshaged	0,335	0,725	369	43,290	70,900	5,2/3
48		Gas Plant Purchased					_	
		(Less) Gas Plant Sold					-	
50		Experimental Gas Plant Unclassified	C 005	0.725	000	4F 20C	70.000	F 272
51		TOTAL Gas Plant In Service	6,995	8,725	989	45,296	78,960	5,273

			17-21-0134	17-22-2110	17-22-2111	17-22-2112	17-23-9088	17-23-9089
			New Commercial Service	Relocate Steel Main for Hwy Project	New Services	New Service	New Services	Meter Sets
Line No.	Internal Asset Code	FERC Account	October	October	October	October	October	October
1		INTANGIBLE PLANT						
2		301 Organization						
3		302 Franchise and Consents						
4		303 Miscellaneous Intangible Plant						
5		TOTAL Intangible Plant	-	-	-	-	-	-
6		TRANSMISSION PLANT						
7		365.1 Land and Land Rights						
8		365.2 Rights-of-Way						
9		366 Structures and Improvements						
10	5, 6	367 Mains						
11	7	368 Compressor Station Equipment						
12	10	369 Measuring and Regulating Station Equipment						
13		370 Communication Equipment						
14	19	371 Other Equipment						
15		TOTAL Transmission Plant	_	-	-	-	-	-
16		DISTRIBUTION PLANT						
17		374 Land and Land Rights						
18		375 Structures and Improvements						
19	23,24	376 Mains		16,699				
20		377 Compressor Station Equipment						
21	25,26	378 Measuring and Regulating Station Equipment-General						
22		379 Measuring and Regulating Station Equipment-City Gate						
23	30	380 Services	1,454		15,602	837	3,677	
24	35, 36, 37	381 Meters					2,211	
25		381 Meters - AMR						
26		382 Meter Installations						
27	31	383 House Regulators						36
28		384 House Regulator Installations						- 30
29	36	385 Industrial Measuring and Regulating Station Equipment						
30		386 Other Property on Customer's Premises						
31		387 Other Equipment						
32		TOTAL Distribution Plant	1,454	16,699	15,602	837	3,677	36
33		GENERAL PLANT	2, .5 .	20,033	25,002	337	5,677	
34		389 Land and Land Rights						
35	41, 49	390 Structures and Improvements						
36	42	391 Office Furniture and Equipment						
37	45	392 Transportation Equipment						
38	10	393 Stores Equipment						
39	50	394 Tools, Shop, and Garage Equipment						
40	51	395 Laboratory Equipment						
41	46	396 Power Operated Equipment						
42	43	397 Communication Equipment						
43	59	398 Miscellaneous Equipment						
44	3,	Subtotal		-	-	-	-	-
45				-	-	-	-	-
		399 Other Tangible Property	_		-	_	-	-
46		TOTAL General Plant		10,000				
47		TOTAL	1,454	16,699	15,602	837	3,677	36
48	1	Gas Plant Purchased						
49		(Less) Gas Plant Sold						
50		Experimental Gas Plant Unclassified						
51	1	TOTAL Gas Plant In Service	1,454	16,699	15,602	837	3,677	36

				ı	ı			I
			17-25-4133	17-25-4176	17-25-4177		17-21-0097	17-21-0097
			Industrial Meter - SICK	New Main and Service	New Irrigation Service	November & Misc	Jal Roof Replacement	2017 Chevy Operations Truck
Line No.	Internal Asset Code	FERC Account	October	October	October	Nov Misc TOTAL	Snent - 15882 50	November
1	Asset Code	INTANGIBLE PLANT	001000	000000	000000		Spent 13002.30	
2		301 Organization				-		
3		302 Franchise and Consents				-		
4		303 Miscellaneous Intangible Plant				-		
5		TOTAL Intangible Plant	-	-	-	-	-	-
6		TRANSMISSION PLANT						
7		365.1 Land and Land Rights				-		
8		365.2 Rights-of-Way				-		
9		366 Structures and Improvements				-		
10	5, 6	367 Mains				9,834		
11	7	368 Compressor Station Equipment				´-		
12	10	369 Measuring and Regulating Station Equipment				-		
13		370 Communication Equipment				-		
14	19	371 Other Equipment				-		
15		TOTAL Transmission Plant	-	-	-	9,834	-	-
16		DISTRIBUTION PLANT				-,		
17		374 Land and Land Rights				_		
18		375 Structures and Improvements				_		
19	23,24	376 Mains		2,523		60.667		
20		377 Compressor Station Equipment				-		
21	25,26	378 Measuring and Regulating Station Equipment-General				_		
22		379 Measuring and Regulating Station Equipment-City Gate				_		
23	30	380 Services		22,940	983	27,083		
24	35, 36, 37	381 Meters		22,3 .0	300	-		
25		381 Meters - AMR				_		
26		382 Meter Installations				_		
27	31	383 House Regulators				_		
28		384 House Regulator Installations				_		
29	36	385 Industrial Measuring and Regulating Station Equipment	8,937			_		
30		386 Other Property on Customer's Premises	0,557			_		
31		387 Other Equipment				_		
32		TOTAL Distribution Plant	8,937	25,463	983	87,750	_	-
33		GENERAL PLANT	0,557	25,405	555	57,750		
34		389 Land and Land Rights				_		
35	41, 49	390 Structures and Improvements		1		31,765	31,765	
36	42	391 Office Furniture and Equipment		1		-	52,.55	
37	45	392 Transportation Equipment				145,624		48,541
38	· -	393 Stores Equipment						.5,5 11
39	50	394 Tools, Shop, and Garage Equipment				_		
40	51	395 Laboratory Equipment				_		
41	46	396 Power Operated Equipment				-		
42	43	397 Communication Equipment				-		
43	59	398 Miscellaneous Equipment				_		
44		Subtotal	_	-	-	177,389	31,765	48,541
45		399 Other Tangible Property				-	31,703	40,541
46		TOTAL General Plant		-	-	177,389	31,765	48,541
47		TOTAL General Flant	8,937	25,463	983	274,973	31,765	48,541
48		Gas Plant Purchased	0,337	23,403	303	- 2/4,3/3	31,703	40,541
49		(Less) Gas Plant Sold						
50		Experimental Gas Plant Unclassified				_		
		·	0 027	2E 162	002		21 765	48,541
51		TOTAL Gas Plant In Service	8,937	25,463	983	274,973	31,765	48,541

			17-21-0126	17-21-0132	17-22-2083	17-22-2114	17-25-4133
Line	Internal	FERC Account	Lincoln St Bare Steel Replacement	New Services and Main	4" Trans Lowering	2017 Chevy Operations Truck	2017 Chevy Operations Truck
No.	Asset Code		November	November	November	November	November
1		INTANGIBLE PLANT					
2		301 Organization					
3		302 Franchise and Consents					
4		303 Miscellaneous Intangible Plant					
5		TOTAL Intangible Plant	-	-	-	-	-
6		TRANSMISSION PLANT					
7		365.1 Land and Land Rights					
8		365.2 Rights-of-Way					
9		366 Structures and Improvements					
10	5, 6	367 Mains			9,834		
11	7	368 Compressor Station Equipment					
12	10	369 Measuring and Regulating Station Equipment					
13	10	370 Communication Equipment					
14	19	371 Other Equipment			0.024		
15		TOTAL Transmission Plant	-	-	9,834	-	-
16 17		DISTRIBUTION PLANT					
		374 Land and Land Rights					
18	23,24	375 Structures and Improvements	FO 072	10 505			
19 20	23,24	376 Mains	50,073	10,595			+
21	25,26	377 Compressor Station Equipment 378 Measuring and Regulating Station Equipment-General					
22	25,20						
23	30	379 Measuring and Regulating Station Equipment-City Gate 380 Services	14,183	12,900			
24	35, 36, 37	381 Meters	14,103	12,500			
25	33, 30, 37	381 Meters - AMR					
26		382 Meter Installations					
27	31	383 House Regulators					
28	0.	384 House Regulator Installations					
29	36	385 Industrial Measuring and Regulating Station Equipment					
30		386 Other Property on Customer's Premises					
31		387 Other Equipment					
32		TOTAL Distribution Plant	64,255	23,495	_	_	_
33		GENERAL PLANT	0.,200	==,:==			
34		389 Land and Land Rights				1	1
35	41, 49	390 Structures and Improvements					
36	42	391 Office Furniture and Equipment					
37	45	392 Transportation Equipment				48,541	48,541
38		393 Stores Equipment					·
39	50	394 Tools, Shop, and Garage Equipment					
40	51	395 Laboratory Equipment					
41	46	396 Power Operated Equipment					
42	43	397 Communication Equipment					
43	59	398 Miscellaneous Equipment					
44		Subtotal	-	-	-	48,541	48,541
45		399 Other Tangible Property					
46		TOTAL General Plant	_	-	-	48,541	48,541
47		TOTAL	64,255	23,495	9,834	48,541	48,541
48		Gas Plant Purchased					
49		(Less) Gas Plant Sold					
50		Experimental Gas Plant Unclassified					
51		TOTAL Gas Plant In Service	64,255	23,495	9,834	48,541	48,541

		S	ept 2016			Oct 2016
	Total	\$	8,658.87		Total	\$ 7,797.54
	PO#		Amount		PO#	Amount
Jal Chamber of Commerce	21-6741	\$	25.00	Hobbs High Yearbook	21-6733	\$ 300.00
Jal-a rama	22-35498	\$	500.00	Lea Co Commission for the Arts	21-0315	\$ 400.00
Carrizozo Women's Club	22-35499	\$	75.00	Family Concepts	21-6898	\$ 453.25
Lincoln Co Young Guns Wrestling	22-35577	\$	500.00	Habitat for Humanity of Hobbs	21-7026	\$ 500.00
Lincoln Co Cowboy Symposium	22-35591	\$	500.00	Serg	22-35706	\$ 250.00
Century Link	AP10-CB	\$	7.07	Century Link	AP10-CB	\$ 7.21
Maxwell Schools	22-35595	\$	100.00	Maxwell Schools	22-35711	\$ 120.00
Community Action Agency	22-35576	\$	500.00	Mastercard	25-6369	\$ 150.00
La Casa, Inc	22-35500	\$	250.00	Las Cruces High Booster Club	25-6506	\$ 250.00
Apple of Joy	22-35587	\$	100.00	Real Estate Guide	22-35719	\$ 216.63
Real Estate Guide	22-35701	\$	216.63	Realview Publishing	22-35716	\$ 327.70
Realview Publishing	22-35600	\$	327.70	Hobbs Daily News Sun	21-7038	\$ 8.04
Ruidoso News	22-35705	\$	540.97	Las Cruces Bulletin	22-35722	\$ 952.08
Town & Country	22-35590	\$	71.00	Noalmark Broadcasting	21-7031	\$ 1,281.76
Las Cruces Bulletin	22-35708	\$	1,190.10	MTD Radio	22-35715	\$ 271.09
Noalmark Broadcasting	21-6893	\$	1,014.72	KBUY	22-35714	\$ 325.32
MTD Radio	22-35599	\$	270.11	KRTN	22-35718	\$ 378.00
KBUY	22-35597	\$	325.32	Bravo Mic	22-35717	\$ 1,556.46
KRTN	22-35598	\$	396.00	Ruidoso Gymnastics	22-35667	\$ 50.00
Bravo Mic	22-35596	\$	1,546.45			
Mastercard	22-35393	\$	199.00			
Mastercard	22-35665	\$	3.80			

		ı	Nov 2016			ı	Dec 2016
	Total	\$	5,852.29		Total	\$	1,959.85
	PO#		Amount		PO #		Amount
Hobbs Daily News Sun	21-7108	\$	270.56	Century Link	AP10-CB	\$	7.18
Century Link	AP10-CB	\$	7.14	Real Estate Guide	22-35842	\$	216.63
Century Link	AP10-CB	\$	7.14	Noalmark Broadcasting	21-7190	\$	1,014.72
Real Estate Guide	22-35842	\$	216.63	KBUY	22-35948	\$	325.32
Realview Publishing	22-35927	\$	327.70	KRTN	22-35946	\$	396.00
Ruidoso News	22-35932	\$	409.89				
Ruidoso News	22-35789	\$	363.69				
Las Cruces Bulletin	22-35931	\$	675.94				
Noalmark Broadcasting	21-7109	\$	1,014.72				
MTD Radio	22-35844	\$	271.09				
KBUY	22-35843	\$	325.32				
KRTN	22-35845	\$	396.00				
Bravo Mic	22-35928	\$	1,566.47				

			Jan 2017				Feb 2017
	Total	\$	9,908.15		Total	\$	6,977.91
	PO#		Amount		PO#		Amount
Century Link	AP10-CB	\$	7.18	Mountain Living	22-36078	\$	450.00
Realview Publishing	22-35978	\$	327.70	Smokey Bear Hometown Assoc	22-35990	\$	100.00
Real Estate Guide	22-36009	\$	216.63	Realview Publishing	22-36022	\$	327.70
Ruidoso News	22-36105	\$	343.10	Big Brothers Big Sisters	22-36116	\$	1,000.00
Ruidoso News	22-36106	\$	354.86	NMSU Rodeo	22-36055	\$	600.00
Las Cruces Bulletin	22-36002	\$	1,190.10	Real Estate Guide	22-36114	\$	216.63
Las Cruces Bulletin	22-36017	\$	2,028.55	Las Cruces Bulletin	22-36121	\$	952.08
Noalmark Broadcasting	21-7222	\$	1,014.72	Noalmark Broadcasting	21-7257	\$	1,014.72
MTD Radio	22-36024	\$	271.09	KBUY	22-36112	\$	325.32
KBUY	22-36015	\$	325.32	KRTN	22-36115	\$	360.00
KRTN	22-36016	\$	396.00	Bravo Mic	22-36118	\$	1,556.46
Bravo Mic	22-36001	\$	1,556.46	Ruidoso High School Baseball	22-34764	\$	75.00
Bravo Mic	22-36018	\$	1,556.46				
Five Star Sports Calendar	22-35977	\$	319.98				
		-				_	

		ı	Mar 2017			Apr 2017	
	Total	\$	7,408.71		Total	\$	6,655.03
	PO#	Amount			PO#		Amount
Lincoln Pageant & Festival Corp	22-36122	\$	175.00	Carrizozo Works Inc	22-36222	\$	500.00
Lincoln Co Prayer Breakfast	22-36211	\$	200.00	Century Link	AP10-CB	\$	7.18
Center of Protective Environment	22-36209	\$	300.00	Colfax Co Fair Assoc	22-36383	\$	750.00
Ruidoso Little League Baseball	22-36212	\$	75.00	Maxwell Schools	22-36223	\$	100.00
Century Link	AP10-CB	\$	7.18	Realview Publishing	22-36093	\$	327.70
Realview Publishing	22-36117	\$	327.70	Real Estate Guide	22-36090	\$	216.63
Hobbs News Sun	21-7385	\$	215.23	Hobbs News Sun	21-7435	\$	78.44
Lincoln Co News	22-36210	\$	65.00	Las Cruces Bulletin	22-36069	\$	952.08
Las Cruces Sun News	22-36094	\$	1,305.32	Noalmark Broadcasting	21-7432	\$	1,014.72
Las Cruces Bulletin	22-36091	\$	1,190.10	KBUY	22-36067	\$	325.32
Noalmark Broadcasting	21-7382	\$	1,014.72	KRTN	22-36071	\$	360.00
KBUY	22-36286	\$	325.32	Bravo Mic	22-36070	\$	1,543.46
KRTN	22-36285	\$	414.00	Mastercard	22-36059	\$	408.50
Bravo Mic	22-36092	\$	1,543.46	Town & Country	22-36311	\$	71.00
Mastercard	25-6863	\$	250.68				
		_					
		-					
		-				-	
		_				-	

		May 2017			June 2017
	Total	\$ 10,083.46		Total	\$ 7,830.76
	PO#	Amount		PO#	Amount
Five Star Sports Calendar	22-36403	\$ 959.94	Lincoln Pageant & Festival Corp	22-36122	\$ (175.00)
Community Players of Hobbs	21-7446	\$ 300.00	Ruidoso High School Cheerleading	22-36399	\$ 200.00
Carrizozo Music in the Parks	22-36387	\$ 1,500.00	Town & Country	22-36491	\$ 71.00
Carrizozo Women's Club	22-36073	\$ 105.00	Ruidoso News	22-36495	\$ 293.06
Century Link	AP10-CB	\$ 7.18	Century Link	AP10-CB	\$ 7.18
Realview Publishing	22-36068	\$ 327.70	Real Estate Guide	25-7158	\$ 216.63
Real Estate Guide	22-36072	\$ 216.63	Mesilla Valley Metals	25-7453	\$ 45.27
Realview Publishing	22-36482	\$ 327.70	Mesilla Valley Metals	25-7455	\$ 838.34
Real Estate Guide	22-36484	\$ 216.63	Sams Club	25-7170	\$ 365.79
Big Brothers Big Sisters Volleyball	25-7129	\$ 1,000.00	Mastercard	25-7130	\$ 493.69
Hobbs News Sun	21-7531	\$ 424.81	Big Star Hardware	25-7457	\$ 14.67
Ruidoso News	22-36477	\$ 553.30	Big Star Hardware	25-7103	\$ 103.62
Mastercard	25-6672	\$ 7.00	Johnston's True Value Hardware	25-7088	\$ 266.04
Mastercard	25-7153	\$ 7.00	Sams Club	25-7097	\$ 284.58
Las Cruces Bulletin	22-36481	\$ 833.07	Johnston's True Value Hardware	25-7459	\$ 155.94
Noalmark Broadcasting	21-7529	\$ 1,014.72	Able Sign Company	25-7163	\$ 617.38
KBUY	22-36483	\$ 325.32	Johnston's True Value Hardware	25-7460	\$ 45.12
KRTN	22-36478	\$ 414.00	Realview Publishing	22-36492	\$ 327.70
Bravo Mic	22-36485	\$ 1,543.46	Hobbs News Sun	22-36676	\$ 650.89
			Las Cruces Bulletin	22-36497	\$ 833.07
			MTD Radio	22-36681	\$ 59.15
			MTD Radio	22-36680	\$ 51.09
			Noalmark Broadcasting	21-7543	\$ 1,014.72
			KBUY	22-36493	\$ 325.32
			MTD Radio	22-36679	\$ 69.01
			MTD Radio	22-36678	\$ 13.55
			KRTN	22-36500	\$ 396.00
			Bravo Mic	22-36498	\$ 246.95

		١ ٠	luly 2017			Aug 2017
	Total	\$	7,273.11		Total	\$ 8,887.44
					Test Year Total	\$ 89,293.12
	PO#		Amount		PO#	Amount
Southwest Symphony	21-7548	\$	125.00	Hobbs Daily News-Sun	21-7692	\$ 1,192.63
Fuquasports.com	22-36494	\$	200.91	Noalmark Broadcasting	21-7681	\$ 1,014.72
Warrior Pride Boosters Cheerleading	22-36499	\$	100.00	MTD Radio	22-36793	\$ 70.29
Warrior Pride Boosters Football	22-36683	\$	100.00	MTD Radio	22-36792	\$ 94.30
Century Link	AP10-CB	\$	21.38	Warrior Pride Boosters	22-36696	\$ 100.00
Colfax Co Fair Assoc	22-36677	\$	500.00	Ruidoso High School Cheerleaders	22-36625	\$ 200.00
Batteries Plus Bulbs	25-7096	\$	135.22	Town & Country Advertising	22-36700	\$ 72.00
Batteries Plus Bulbs	25-7095	\$	194.53	Carrizozo Youth Sports	22-36781	\$ 150.00
Mastercard	25-7258	\$	46.31	Warrior Pride Boosters	22-36782	\$ 50.00
Mastercard	25-7080	\$	88.11	Warrior Pride Boosters	22-36780	\$ 75.00
Mastercard	25-7089	\$	142.83	Ruidoso News	22-36786	\$ 439.13
Mastercard	25-7173	\$	152.76	KBUY	22-36787	\$ 325.32
Mastercard	25-7144	\$	510.51	MTD Radio	22-36791	\$ 103.73
Mastercard	25-7100	\$	61.43	MTD Radio	22-36790	\$ 20.33
Mastercard	25-7147	\$	384.32	Century Link	AP10-CB	\$ 20.33
Mastercard	25-7079	\$	212.94	KRTN	22-36794	\$ 225.00
Realview Publishing	22-36694	\$	327.70	LC High School Boosters	25-6717	\$ 600.00
Las Cruces Bulletin	22-36695	\$	714.06	Realview Publishing	22-36951	\$ 327.70
Noalmark Broadcasting	21-7618	\$	1,014.72	Las Cruces Bulletin	22-36788	\$ 595.05
MTD Radio	22-36779	\$	103.28	Bravo Communications	22-36789	\$ 555.65
MTD Radio	22-36778	\$	94.89	Borderland Specialties	22-36649	\$ 2,656.26
KBUY	22-36692	\$	108.44			
KBUY	22-36692	\$	216.88			
MTD Radio	22-36777	\$	103.28			
MTD Radio	22-36776	\$	27.11			
KRTN	22-36698	\$	378.00			
Bravo Mic	22-36691	\$	622.84			
Ruidoso News	22-36699	\$	585.66			

	Project			Total Actual		Customer	New Main	New Service	-	jected inual	Rep.	Rep Service	M	eters &			
Job Number	Report	Description	Quantity	Cost	Unit Cost	Туре	(ft)	Count	Rev	enue/	main (ft)	(ft)		gs Total	Job Tot	al Payout	ROR
Zia Natural Gas (Company - Dis	trict 210											\$	162			
21-30-100-0094	16-21-0094	December Services	14	\$ 12,224	\$ 873.16	Residential	-	13	\$	3,744	-	1	\$	2,106	\$ 13,4	57 3.5	9 28%
District 210 TOTA	AL - DECEMBE	R						13	\$	3,744					\$ 13,4	57 3.5	9 28%
Zia Natural Gas (Company - Dis	trict 220															
		MAIN IN RUIDOSO AREA															
22-24-200-2077	16-22-2077	12/16	500	\$ 3,087	\$ 6.17	Residential	500	-	\$	-	-	-	\$	-	\$ 3,0	87	
		SERVICES IN RUIDOSO															
22-30-100-2077	16-22-2077	12/16	13	\$ 15,331	\$1,179.29	Residential	-	13	\$	4,300	-	-	\$	2,106	\$ 17,4	37 4.0	6 25%
	46.00.00==	MAIN AND SERVICES		4 40 44=										0.400	4 00-		
District 220 TOTA	16-22-2077	RUIDOSO 12/16		\$ 18,417		Residential	500	13 13		4,300 4,300	-	-	\$	2,106	\$ 20,5 \$ 20,5		
								13	٠,	4,300					ÿ 20,3	23 4.7	7 21/6
Zia Natural Gas (Company - Dis	trict 230															
		SERVICES IN MAXWELL															
23-30-100-9065		12/16	2	\$ 1,503	\$ 751.48	Residential	-		\$	576	-	-	\$	324			
District 230 TOTA	AL - DECEMBE	К						2	\$	576					\$ 1,8	27 3.1	7 32%
Zia Natural Gas (Company - Dis	trict 250															
		1110 W SAVANNAH															
25-24-200-4128	16-25-4128	PUMP 12/2016	3,600	\$ 21,126	\$ 5.87	Irrigation	3,600	-	\$	-	-	-	\$	-	\$ 21,1	26	
		1110 W SAVANNAH															
25-30-100-4128	16-25-4128	PUMP 12/2016	1	\$ 975	\$ 975.33	Irrigation	-	1	\$	1,600	-	-	\$	162	\$ 1,1	37 0.7	1 141%
		1110 W SAVANNAH															
	16-25-4128	PUMP 12/2016		\$ 22,101		Irrigation	3,600	1	\$	1,600	-	-	\$	162	\$ 22,2	63 13.9	1 7%
		1500 S FAIRACRES PUMP															
25-30-100-4129	16-25-4129	12/2016	1	\$ 1,175	\$1,175.33	Irrigation	1	-	\$	1,600	-	-	\$	162	\$ 1,3	37 0.8	4 120%
		NEW MAIN & SERVICES															
25-24-200-4130	16-25-4130	12/2016	2,900	\$ 16,907	\$ 5.83	Residential	2,900	-	\$	-	-	-	\$	-	\$ 16,9	07	
		NEW MAIN & SERVICES	•				•										
25-30-100-4130	16-25-4130	12/2016	24	\$ 20,128	\$ 838.67	Residential	-	24	\$	6,672	-	-	\$	3,888	\$ 24,0	16 3.6	0 28%
		NEW MAIN & SERVICES															
	16-25-4130	12/2016		\$ 37,035		Residential	2,900	24	\$	6,672	-	-	\$	3,888	\$ 40,9	23 6.1	3 16%
		3527 RAILROAD DR															
25-24-200-4131	16-25-4131	ONION FACTORY	600	\$ 3,447	\$ 5.75	Large Comm	e 600	-	\$	-	-	-	\$	-	\$ 3,4	47	
		3527 RAILROAD DR															
25-30-200-4131	16-25-4131	ONION FACTORY	1	\$ 969	\$ 969.00	Large Comm	e -	1	\$	1,869	-	-	\$	162	\$ 1,1	31 0.6	1 165%
		3527 RAILROAD DR															
District 250 TOT	16-25-4131	ONION FACTORY		\$ 4,416		Large Comm	€ 600			1,869	-	-	\$	162	\$ 4,5		
District 250 TOTA	AL - DECEMBE	К						26	\$ 1	1,741					\$ 69,1	02 5.8	9 17%

2016 Annual Project Report Summary - New Extensions

For Year-to-Date December 31, 2016

	Total Project	Projected Annual		
District	Cost	Revenue	Payout	ROR
210	\$ 101,090	\$ 22,400	4.51	22.2%
220	\$ 237,410	\$ 42,824	5.54	18.0%
230	\$ 27,460	\$ 5,184	5.30	18.9%
250	\$ 743,647	\$ 131,027	5.68	17.6%
Zia	\$1,109,608	\$ 201,435	5.51	18.2%

Utility Division Summary - December 2016

		Total	A	nnual			No. of	C	ost per
	District	Cost	Re	evenue	Payout	ROR	Services	S	ervice
-	210	\$ 13,457	\$	3,744	3.6	28%	13	\$	1,035
	220	\$ 20,523	\$	4,300	4.8	21%	13	\$	1,579
	230	\$ 1,827	\$	576	3.2	32%	2	\$	913
_	250	\$ 69,102	\$	11,741	5.9	17%	26	\$	2,658
	Zia Total	\$104,909	\$	20,361	5.2	19%	54	\$	1,943

structure in City Limits or identifiable as transferring

Full RGNGA System		Infrastructure transferring to CLC	% of CLC to Full System		Full System dollar value net of accumulated depreciation ¹		Infrastructure transferring to CLC net of accumulated depreciation		Dollar Value staying with RGNGA		
Land and Intangible Assets			0		0	\$	72,764.03	\$	-	\$	72,764.03
Regulator Systems	95		27		28.4%	\$	147,595.82	\$	67,905.65	\$	79,690.18
Transmission	563,147	feet	106.687	feet	18.9%	\$	1,068,827.81	\$	202,487.49	\$	866,340.32
Distribution	2,667,895		706,635	feet	26.5%	\$	10,082,398.97	\$	2,670,485.16	\$	7,411,913.81
Meters - approx	16.670		6,965		41.8%	\$	2,661,530.44	\$	1,112,031.16	\$	1,549,499.28
mororo opprox	,0,0					\$	14,033,117.07	\$	4,052,909.46	\$	9,980,207.61

No. Cust

in	No. Cust			% to
RGNGA	to CLC	Total Cust		CLC
9705	6965		16670	41.78%

Account	Object	Description	Fund	Amount
9800-00-0	-171001	GAS TRANSMISION	9800	3,337,685.69
9800-00-0	-181001	A/D GAS TRANSMISION	9800	(2,121,262.06)
9800-00-0	-171002	GAS DISTRIBUTION	9800	16,082,305.35
9800-00-0	-181002	A/D GAS DISTRIBUTION	9800	(5,999,906.38)
9800-00-0	-171003	GAS SMALL METERS/SE	9800	4,585,926.73
9800-00-0	-181003	A/D GAS SMALL METERS	9800	(2,079,711.17)
9800-00-0	-171004	GAS IND METERS/SERV	9800	253,380.57
9800-00-0	-181004	A/D GAS INDUSTR METE	9800	(98,065.69)

741,919	7,023,517
(471,525)	(2,970,608)
4,259,657	
(1,589,171)	
1,916,076	
(868,938)	
105,867	
(40,973)	
4,052,909	4,052,909

Summary total of net capital assets as of November 1, 2010

Land and Intangible Assets	72,764.03
GAS TRANSMISSION	\$ 1,216,423.63
GAS DISTRIBUTION	\$ 10,082,398.97
GAS SMALL METERS/SERVICES	\$ 2,506,215.56
GAS INDUSTRIAL METERS/SERVICES	\$ 155,314.88
Total net utility infrastructure system value	\$ 14,033,117.07

		Accumulated	
	Asset	Depreciation	Total
Before Tsfr	25,077,555	(11,044,438)	14,033,117
Tsfr Amts	(7,023,517)	2,970,608	(4,052,909)
After Tsfr	18,054,038	(8,073,830)	9,980,208

Total RGNGA Assets As of November 1, 2010

UNION ISSUE	w words	AS OF NOVERHOEF 1, AU	10	
ACCOUNT	bject	ACCOUNT NAME	ORG	END BALANCE
9800-00-00	-170100	LAND & LAND RIGH	ITS9800	16,577.53←
9800-00-00	-170950	GAS PLANT ACQUI	SITIC9800	752,449.33**
9800-00-00	-180950	ACCUM AMORT RG	ACQ9800	(723,968.63)
9800-00-00	-170955	INTANGIBLE PLANT	Γ-RG9800	49,230.19 🖈
9800-00-00	-180955	ACCUM AMORT RG	INTA9800	(21,524.39)
9800-00-00	-171001	GAS TRANSMISION	9800	3,337,685.69
9800-00-00	-181001	A/D GAS TRANSMIS	SION9800	(2,121,262.06)
9800-00-00	-171002	GAS DISTRIBUTION	19800	16,082,305.35
9800-00-00	-181002	A/D GAS DISTRIBU	TION9800	(5,999,906.38)
9800-00-00	-171003	GAS SMALL METER	RS/SE9800	4,585,926.73
9800-00-00	-181003	A/D GAS SMALL ME	ETER:9800	(2,079,711.17)
9800-00-00	-171004	GAS IND METERS/S	SERV9800	253,380.57
9800-00-00	-181004	A/D GAS INDUSTR	METE9800	(98,065.69)
				14,033,117.07

y Fraish fact by

~ .	 ***	 Station	 1 6 7

- The number of District Regulator Stations being transferred from RGNGA to the City is 25, RGNGA keeps 20 1)
- 2) The number of Farm Taps being transferred from RGNGA to the City is 2, RGNGA keeps 48.
- The current estimated cost of a District Regulator Station is 10K (This does not include labor). 3)

The current estimated cost of a Farm Tap is 2K (This also does not include labor).

Above information is from Vincent Sanchez, Gas Administrator

Gas Transmission Infrastructure,	which includes regulator stations, is:			Acc. De	pr 121,262.06 /	Asset value 3,337,685.69	% Depreciated 63.6%
Estimated historical cost of regul	ator stations			Total		Transfer to CLC	AD Tsfr to CLC
District	Ave Historical Cost Each	\$	7,333	\$	329,981	183,323	116,511
Farm Tap	Ave Historical Cost Each	\$	1,500	\$	75,000	3,000	1,907
				\$	404,981	186,323	118,417
Total Historical Value by Asset vi	alue and Accumulated Depreciation						
	Asset Value	Acc	Depr	Net As	set Value		그는 마시아 나는 그리고 보고 있었다. 그리고 그를

not relating directly to customers being transferred

209,719 120,262 District 329,981 \$ \$ Farm Tap 75,000 47,666 27,334 404,981 \$ 257,385 147,596 Zia Natural Gas Company Continuous Property Records - RGNGA/Hatch Acquisition

Data from RGNGA (as of 11/1/10)

Old RGNGA

Description	Accum Depr	Org Plant	Net Plant	<u>% Depr</u>	<u>Notes</u>
Land and Intangible Assets	-	72,764.03	72,764.03	NA	***
Gas Transmission	(2,121,262.06)	3,337,685.69	1,216,423.63	63.6%	
Gas Distribution	(5,999,906.38)	16,082,305.35	10,082,398.97	37.3%	
Gas Small Meters	(2,079,711.17)	4,585,926.73	2,506,215.56	45.3%	
Gas Industrial Meters	(98,065.69)	253,380.57	155,314.88	38.7%	
Total	(10,298,945.30)	24,332,062.37	14,033,117.07		

According to report prepared on 12/8/2010 for reorganization of RGNGA and transfer of asset to CLC:

	Est. AD	Est. Org Plant	Est Net Plant
Regulator Stations	(257,385.00)	404,981.00	147,595.82
Transmission	(1,863,877.06)	2,932,704.69	1,068,827.81
Total Gas Transmission	(2,121,262.06)	3,337,685.69	1,216,423.63

Dollar Value of RGNGA as of 11/1/2010

	Accum Depr	Org Plant	Net Plant	<u>Notes</u>
Land and Intangible Assets	-	-	72,764.03	***
Regulator Stations	(138,967.83)	218,658.01	79,690.18	
Transmission	(1,510,768.79)	2,377,109.11	866,340.32	
Distribution	(4,410,734.89)	11,822,648.70	7,411,913.81	
Small Meters	(1,210,773.71)	2,669,851.27	1,459,077.56	
Industrial Meters	(57,091.67)	147,512.55	90,420.88	
Total	(7,328,336.89)	17,235,779.64	9,980,206.78	

Purchase Price RGNGA	9,000,000.00
Purchase Price Hatch	1,000,000.00

Notes:

^{*** -} Final Number in RGNGA book as of 6/30/2011 - \$16,577.53



CITY OF LAS CRUCES

FINANCE DIVISION MEMO

Date:

3/16/2011

To:

Rio Grande Natural Gas Association Board of Directors

From:

Audrey Evins, CPA, Interim Comptroller

Through: Pat Degman, CGFM, Interim Finance Director

Fut Degman

Subject: RGNGA Variance Report – Unaudited February 28, 2011

Attached are the unaudited financial reports of RGNGA operations for the period ended February 28, 2011. Some observations regarding the attached reports for your consideration:

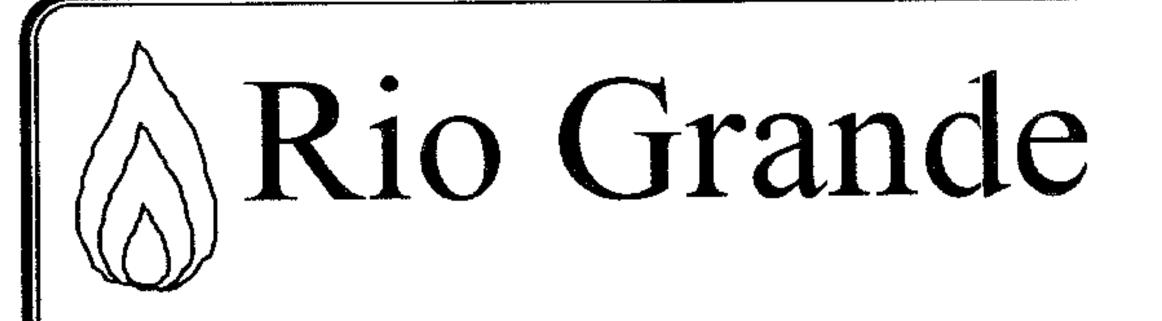
- The total cash available at the end of February, including the Board Contingency and Capital Projects, is \$1,086,539. Cash net of payables is \$94,201 excluding payables for deposits.
- The overall cash balance increased by \$270,214 this month. Cash provided by operating activities was \$280,540. Cash balances of \$10,326 have been used for system construction.
- Accounts Receivable are \$2,060,811 and the allowance for doubtful accounts is (\$956,494) at February 28 leaving net receivables of \$1,104,317.
- The combined Accounts Payable balance of \$926,106 is made up of \$633,168 estimated liability to Shell and EPNG for gas purchased in February (bills not yet received), \$275,288 due to the City, and \$17,650 various payables.
- Year-to-date net operating revenues are \$5,938,631 which is 46.9% of the annual budget.
- Cost of Gas purchased year-to-date is 43.7% of the annual budget, amounting to \$3,348,405.
- Year-to-date total operating expenses of \$5,566,269 reflect 46.3% of the annual budget. The monthly invoices from Joint Utilities for January and February were not available. Therefore, the year-to-date operating expenses include an estimate of \$269,296. This is the estimated amount to be billed through the month of February 2011.
- Investment income is (93.3%) of budget, reflecting a large loss in fair market value through February.
- The total net loss of \$3,725,940 is mostly due to the transfer of assets to the City of Las Cruces per the reorganization agreement. Year-to-date total net income is \$326,969 excluding the transfer.
- The Association's Operations Fund has a current ratio (current assets divided by current liabilities) of 1.8, acid test ratio (operating cash divided by current liabilities) of .9 and working capital (current assets less current liabilities) of \$969,870.



Balance Sheet February 28, 2011 (Unaudited)

Fund 9800 SETS: Operations		C	Fund 9810 Capital Projects		Total
Current Assets:					
Cash on Deposit & Investments	\$ 222,521	\$	31,301	\$	253,822
Cash Reserved for Development	24,597		-		24,597
Cash Reserved for Board Contingency	808,120	<u></u>			808,120
Total Cash	1,055,238		31,301		1,086,539
Accounts Receivable	2,060,811		_		2,060,811
Less: Allow for Doubtful Acct.	(956,494)		-		(956,494)
Net Accounts Receivable	1,104,317				1,104,317
Prepaid Insurance	40,211		_		40,211
Total Current Assets	2,199,766		31,301		2,231,067
Capital Assets:					
Utility Plant, at cost *	17,301,589		-		17,301,589
Gas Plant Acquisition, net of Amort.	27,560		-		27,560
Less: Accumulated Depr. & Amort.	(7,557,052)			 	(7,557,052)
Net Utility Plant	9,772,097		 -		9,772,097
TOTAL ASSETS	\$ 11,971,863	\$	31,301	\$	12,003,164

^{*} Capital expenditures will be shown as an increase to capital assets during the annual closing process.



Balance Sheet February 28, 2011 (Unaudited)

		and 9800 perations	Fund 9810 Capital Projects		Total	
LIABILITIES AND EQUITY:						
Current Liabilities:						
Accounts Payable	\$	910,988	\$	15,118	\$	926,106
Accrued Wages Payable		10,162		_		10,162
Customer Deposits		252,676		-		252,676
Accrued Taxes	<u></u>	56,070	<u> </u>	 -	·	56,070
Total Current Liabilities		1,229,896		15,118		1,245,014
Net Assets:						
Reserve for Development		24,597		-		24,597
Reserve for Capital Projects				16,183		16,183
Reserve for Board Contingency		808,120		_		808,120
Invested in Capital Assets, net of related debt		9,772,097		=		9,772,097
Retained Earnings, unreserved		137,153	· 			137,153
Total Equity		10,741,967		16,183	 -	10,758,150
TOTAL LIABILITIES AND EQUITY	\$	11,971,863	\$	31,301	\$	12,003,164



Schedule of Revenues, Expenses and Expenditures - Combined Actual Year-To-Date Ended February 28, 2011 (Unaudited)

	<u> </u>	Operations Actual		Capital Projects Actual		Total
Natural Gas Sales, net of Sales Tax	\$	5,783,859	\$	_	\$	5,783,859
Less Provision for Uncollectible accounts		(81,646)				(81,646)
Net operating sales		5,702,213				5,702,213
Gas Service Charges		128,257				128,257
Gas Line Extensions		55,536				55,536
Other		52,625				52,625
Net Operating Revenues		5,938,631				5,938,631
Operating Expenses						
Cost of Natural Gas Sold		3,348,405				3,348,405
Personnel		121,263				121,263
Shared Services / Customer Service		536,810				536,810
Adminstrative Charges		41,217				41,217
Purchased Services-Contractor		724,293				724,293
Other Services		130,197				130,197
Permits/Fees		132,036				132,036
Supplies		2,799				2,799
Insurance		36,151				36,151
Other Expenses		16,877				16,877
Depreciation & Amortization		476,221				476,221
Total Operating Expenses		5,566,269		-		5,566,269
Net Operating Income (Loss)	<u></u>	372,362		······································		372,362
Investment Income		(13,992)		(715)		(14,707)
Interest expense		(31,401)		,		(31,401)
Loss on Disposal of Assets	 	(4,052,909)		· · · · · · · · · · · · · · · · · · ·		(4,052,909)
Net Income(Loss) Before Transfers and Capital Projects		(3,725,940)	<u></u>	(715)	**************************************	(3,726,655)
Transfer to Capital Projects						_
Capital Expenditures - System Construction			<u></u>	(125,810)	, - .	(125,810)
Net Income Less Transfers and Capital Expenditures	\$	(3,725,940)		(126,525)		(3,852,465)

	FY10	FY11
Decatherms purchased for February	164,064	118,738
Decatherms purchased for January	239,470	147,062



Schedule of Revenues and Expenses - Budget and Actual Year-To-Date Ended February 28, 2011 (Unaudited)

	F	FISCAL YEAR 2011			FISCAL YEAR 2010		
	Budget	Operations Actual	% of Annual Budget	Operations Actual	% of Annual Budget		
	<u> </u>						
Natural Gas Sales	\$ 12,246,912	\$ 5,783,859	47.2%	8,442,019	85.5%		
Less Provision for Uncollectible Accounts	(122,469)	(81,646)	66.7%	69,535	66.7%		
Net Operating Sales	12,124,443	5,702,213	47.0%	8,372,484	85.7%		
Gas Service Charges	253,053	128,257	50.7%	131,582	52.4%		
Gas Line Extensions	276,210	55,536	20.1%	128,754	52.5%		
Net Operating Sales	12,653,706	5,886,006	46.5%	8,632,820	84.1%		
Other	15,000	52,625	350.8%	(74)	-0.5%		
Net Operating Revenues	12,668,706	5,938,631	46.9%	8,632,746	84.0%		
Operating Expenses							
Cost of Natural Gas Sold	7,662,299	3,348,405	43.7%	5,459,390	99.8%		
Personnel	201,729	121,263	60.1%	115,734	57.9%		
Shared Services / Customer Service	800,000	536,810	67.1%	501,432	52.8%		
Adminstrative Charges	82,433	41,217	50.0%	54,954	66.7%		
Purchased Services-Contractor	1,800,000	724,293	40.2%	1,118,800	57.4%		
Other Services	259,506	130,197	50.2%	122,741	52.0%		
	287,712	132,036	45.9%	197,516	68.0%		
Permits/Fees	6,000	2,799	46.7%	2,805	20.0%		
Supplies	60,000	36,151	60.3%	38,496	64.2%		
Insurance	25,450	16,877	66.3%	15,833	57.5%		
Other Expenses	836,939	476,221	56.9%	531,704	65.4%		
Depreciation & Amortization		5,566,269	46.3%	8,159,405	80.8%		
Total Operating Expenses	12,022,068	5,500,209	40.570		00.070		
Net Operating Income	646,638	372,362	57.6%	473,341	100.6%		
Other Income (Expense)							
Investment income	15,000	(13,992)	-93.3%	5,560	6.7%		
Interest expense	(103,250)	(31,401)	30.4%	(93,719)	64.3%		
Loss on Disposal of Assets		(4,052,909)	N/A		0.0%		
Net Income(Loss) Before Transfers	558,388	(3,725,940)	- 667.3%	385,182	80.5%		
Transfer to Capital Projects	(700,000)		0.0%	(150,000)	16.7%		
Net Income Less Transfers	\$ (141,612)	\$ (3,725,940)	2631.1%	235,182	6.6%		
Decatherms purchased for February Decatherms purchased for January		FY10 164,064 239,470	FY11 118,738 147,062				



Statement of Revenues, Expenses and Expenditures For the Month and Fiscal Year-To-Date Ended February 28, 2011 (Unaudited)

	9800/9810 APPROVED BUDGET	9800/9810 MONTHLY Rev/Exp	9800/9810 YTD Rev/Exp	BUDGET BALANCE
Natural Gas Sales	\$ 12,246,912	1,025,972	\$ 5,783,859	6,463,053
Less Provision for Uncollectible Accounts	(122,469)	(10,206)	(81,646)	(40,823)
Net operating sales	12,124,443	1,015,766	5,702,213	6,422,230
Gas Service Charges	253,053	20,629	128,257	124,796
Gas Line Extensions	276,210	2,177	55,536	220,674
Other	15,000	271	52,625	(37,625)
Net Operating Revenues	12,668,706	1,038,843	5,938,631	6,730,075
Operating Expenses				
Cost of Gas Purchased	7,662,299	637,869	3,348,405	4,313,894
Personnel	201,729	14,943	121,263	80,466
Shared Services / Customer Service	800,000	75,357	536,810	263,190
Administrative Charges	82,433	3,435	41,217	41,216
Purchased Services-Contractor	1,800,000	46,055	724,293	1,075,707
Other Services	259,506	24,847	130,197	129,309
Permits/Fees	287,712	13,539	132,036	155,676
Supplies	6,000	609	2,799	3,201
Insurance	60,000	3,723	36,151	23,849
Other Expenses	25,450	2,350	16,877	8,573
Depreciation & Amortization	836,939	52,261	476,221	360,718
Total Operating Expenses	12,022,068	874,988	5,566,269	6,455,799
Net Operating Income (Loss)	646,638	163,855	372,362	274,276
Invoctment Income	15,000	(4,254)	(14,707)	29,707
Investment Income	(103,250)	(273)	(31,401)	(71,849)
Interest expense Loss on Disposal of Assets			(4,052,909)	4,052,909
Net Income(Loss) Before Transfers & Capital Projects	558,388	159,328	(3,726,655)	4,285,043
Transfer to Capital Projects Fund	(700,000)	_		(700,000)
Transfer from Operations Fund	700,000		-	700,000
Capital Expenditures - System Construction	(700,000)	(10,326)	(125,810)	(574,190)
Net Income Less Transfers & Capital Expenditures	\$ (141,612)	\$ 149,002	\$ (3,852,465)	\$ 3,710,853



Statement of Cash Flow For the Month and Fiscal Year-To-Date Ended February 28, 2011 (Unaudited)

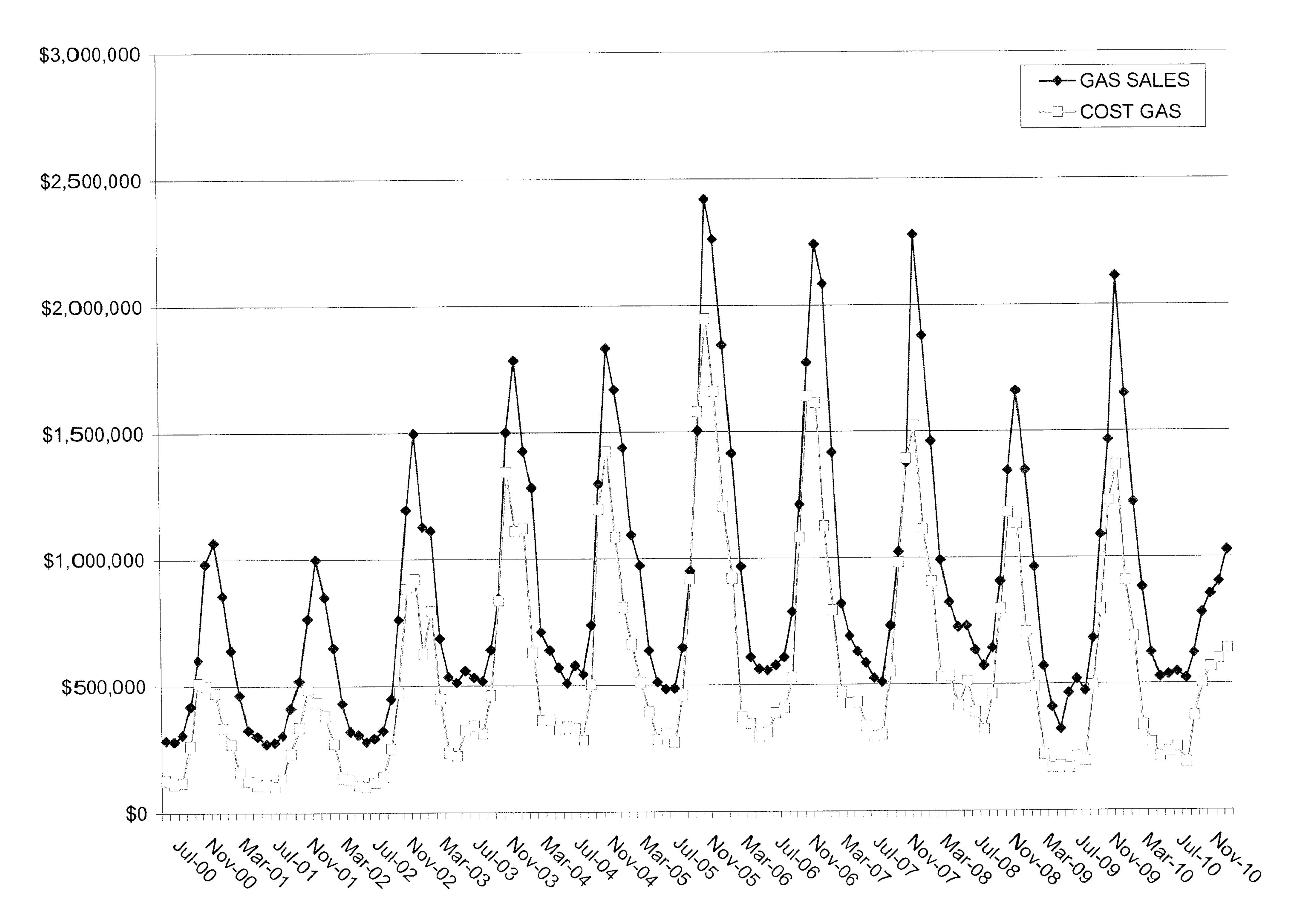
		ebruary	YTD		
Net Income (Loss) for Month / YTD	\$	159,328	\$	(3,726,655)	
Adjustments to reconcile net income					
to net cash provided by operating activities:		50.00 4		470.004	
Depreciation & Amortization		52,261		476,221	
Disposal of Assets		-		-	
Change in assets and liabilities:		22.22		(050.446)	
(Increase) Decrease in Accounts Receivable		20,629		(358,146)	
(Increase) Decrease in Prepaid Expenses		3,723		(7,783)	
Increase (Decrease) in Accounts Payable		38,473		461,509	
Increase (Decrease) in Accrued Wages		(2.42)		(1,721)	
Increase (Decrease) in Customer Deposits		(242)		(166,086)	
Increase (Decrease) in Accrued Expenses	······································	6,353		22,383	
Net cash used for operating activities		280,540		752,631	
Cash Flows from Investing Activities					
Purchase of Property Plant & Equipment		(10,326)		(125,810)	
Net cash (used for) provided by investing activities		(10,326)		(125,810)	
Cash Flows from Financing Activities		_		(801,067)	
Prin Payment to Trustee				(801,067)	
Net cash (used for) provided by financing activities		<u></u>		(001,00./	
Net Increase (Decrease) in Cash		270,214		(174,246)	
Cash Beginning of Period		816,325		1,260,785	
Cash End of Period		1,086,539	_\$_	1,086,539	



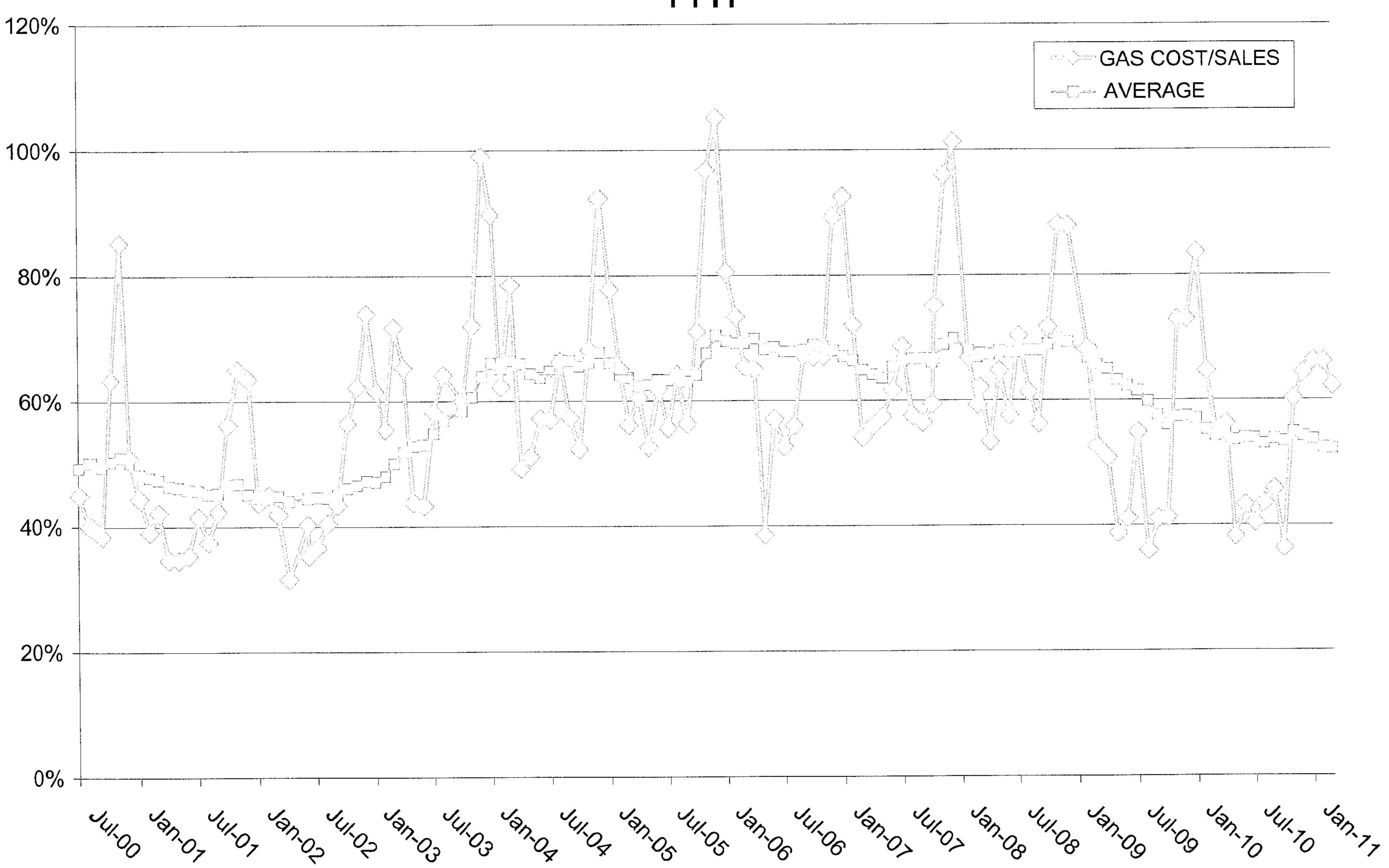
Status of Individual Capital Projects For the Period Ended February 28, 2011 (Unaudited)

Project Number	Description	Project Budget	Project Actual	roject nbrances	% of Annual Budget	
	RGNGA Projects	\$ 600,000	\$ 123,810	\$ -	21%	
8R030	General Low Pressure Rehab	50,000	-		0%	
8R040	General High Pressure Rehab	50,000		_	0%	
8R080	Low Pressure Mainline Extn	50,000	_	-	0%	
8R0D0	Jefferson / Davis	33,000	-	-	0%	
8R000	Line Extension Reimbursement	117,000	2,000	-	2%	
OITOOO	Elifo EXCOLOGOLI COLLIDATOONOLIC	\$ 900,000	\$ 125,810	\$ 	=	

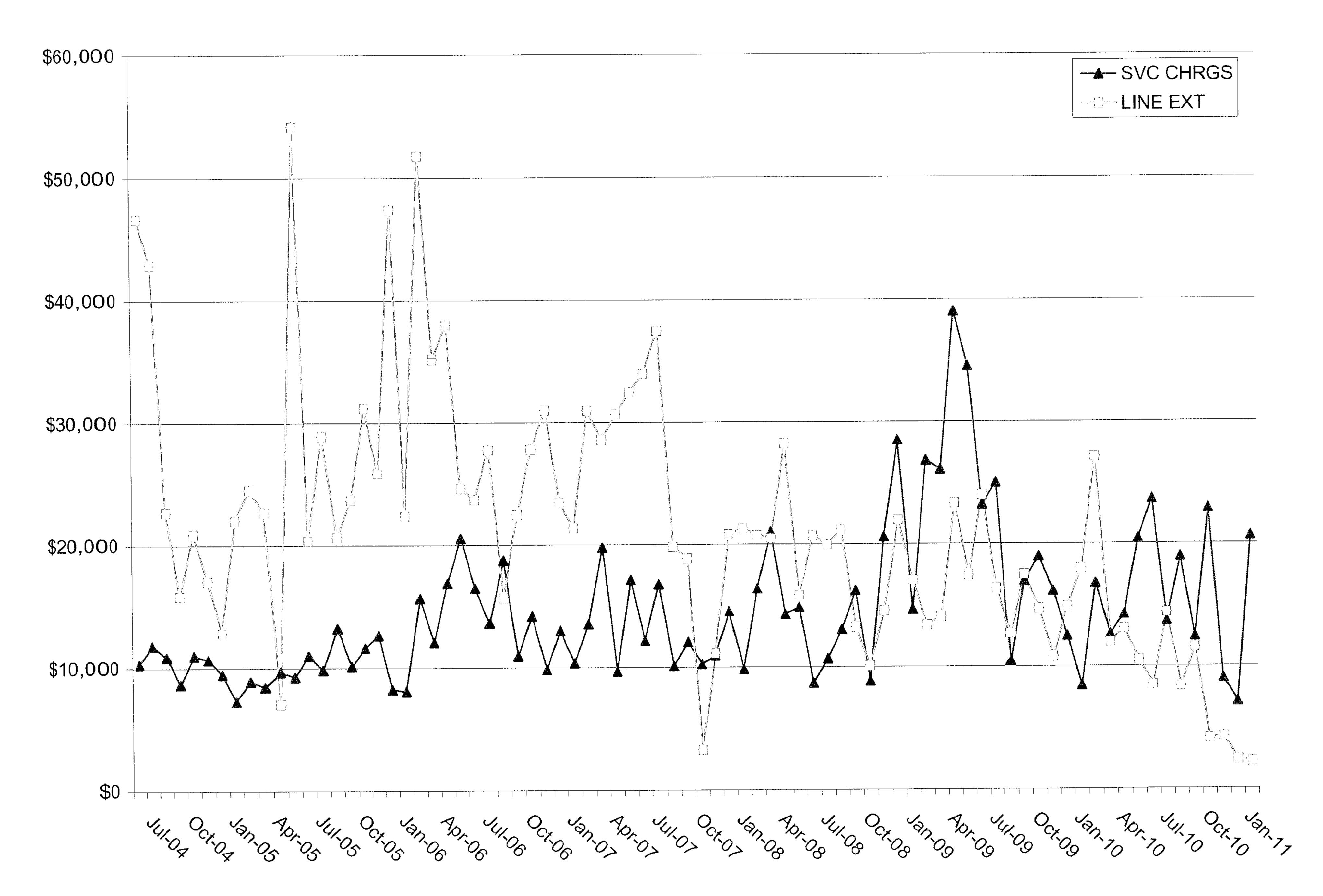
RIO GRANDE NATURAL GAS ASSOCIATION FY11

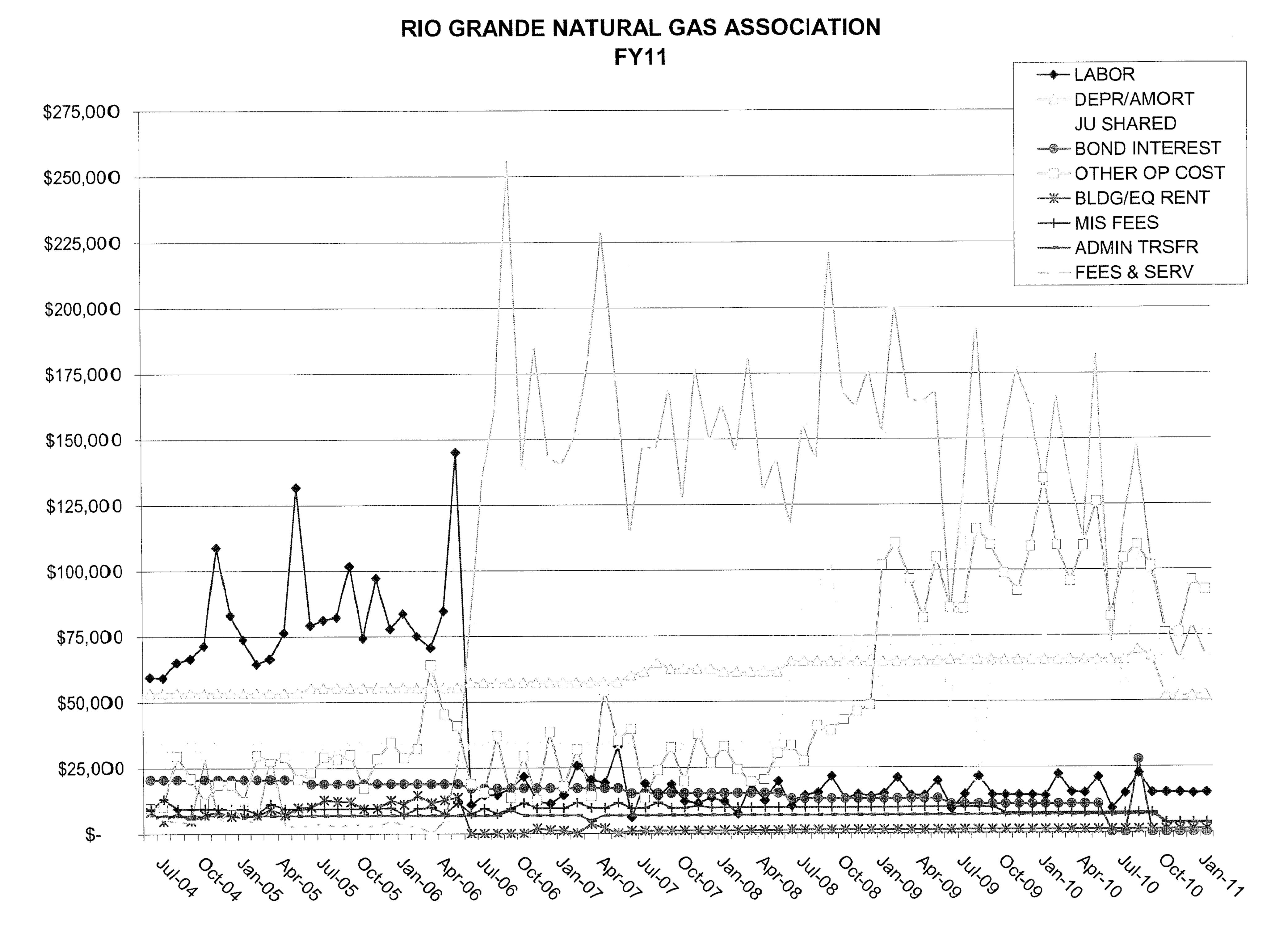


RIO GRANDE NATURAL GAS ASSOCIATION GAS COST/SALES FY11



RIO GRANDE NATURAL GAS ASSOCIATION FY11





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Zia Natural Gas Company Continuous Property Records - RGNGA Purchase January 2012

Proposed Summary

Description	Quan	Org Cost	Accum Depr	Net Plant	
Meters	10,564	746,270	(243,153)	503,001	
Services	10,564	2,153,196	(1,154,746)	998,450	
Subtotal Mtr/Serv		2,899,466	(1,397,899)	1,501,451	
Regulators	65	218,660	(138,969)	79,691	
Transmission	344,201	2,377,550	(1,515,830)	861,719	
Subtotal Reg/Trans		2,596,209	(1,654,799)	941,410	
Distribution Mains	1,931,694	11,806,217	(4,556,585)	7,249,632	
TOTAL		17,301,893	(7,609,284)	9,692,493	
Adjusted Target***		17,301,589	(7,609,313)	9,692,276	
***February 28 2011 plus 52,261 of monthly depreciation per their P&L					
Diff between Targets	- Accepted	304.09	29.15	217.33	

Continuous Property Records - Hatch Purchase January 2012

Proposed Summary

Description	Quan	Org Cost	Accum Depr	Net Plant
Meters	815	132,605	(42,396)	90,209
Services	815	568,555	(109,060)	459,495
Regulators	12	26,982	(18,476)	8,506
Transmission	0	0	0	0
Distribution Mains	132,526	662,992	(221,202)	441,790
TOTAL		1,391,134	(391,134)	1,000,000
Adjusted Target				1,000,000
Diff between Targets				0.00

Business Valuation of Village of Hatch natural gas system As of 9/1/2010

Prepared for:

Village of Hatch

Prepared by:

Robert Winfield TransMesa LLC 13212 Hidden Valley NE Albuquerque, NM 87111

The information contained herein is of a confidential nature and is intended for the exclusive use of the persons or firm for whom it was prepared. Reproduction, publication or dissemination of all or portions hereof may not be made without prior approval from TransMesa LLC.

Net Asset Value

The Net Asset Value of the Village of Hatch natural gas system is estimated to be \$1,360,645. The Net Asset Value method assumes that the value of a business will be realized by the hypothetical sale of its net assets as part of a going concern. In this analysis, assets and liabilities from the most recent historic, unadjusted balance sheet and information from Bohannan Huston, the Village of Hatch's consultant were identified. The majority of the natural gas system has been replaced or is in the process of being replaced over the last several years. These replacements have been financed through grants and as a result there is not presently any debt associated with the natural gas system. The Net Asset Value, while indicative of the actual asset value will not necessarily yield an accurate Fair Market Value.

Discount & Capitalization Rate Estimates

For purposes of this analysis, various risk rates applicable to historic and projected earnings have been estimated. Generally stated, these risk-adjusted rates reflect the expected rate of return attainable on alternative investment opportunities with comparable risk.

First, a Discount Rate applicable to the Discounted Future Earnings valuation method has been calculated. This Discount Rate is then converted into a Capitalization Rate for use in the Capitalization of Earnings valuation method. These calculations are summarized in the table below.

Build-Up Model, Risk Factors:

Risk-Free Rate	15.00%
Size Premium	5.00%
Discount Rate	20.00%
Earnings base conversion adjustment	1.00%
Adjusted discount rate	21.00%
Less: Long-term growth in Net Income	2.00%
Capitalization Rate	19.00%
Divided by: 1 + Long-term growth in Net Income	102.00%
Historic Earnings Capitalization Rate	18.63%

In developing the Discount and Capitalization Rates to apply to the benefit stream of the Village of Hatch natural gas system, the Build-Up Model was used. The Build-Up Model is based on a combination of risk factors including a Risk-Free Rate, a Market Equity Risk Premium, a Size Premium and other identifiable risk factors specific to the subject company. When added together, these risk factors provide an indication of the Discount Rate for the subject company. This Discount Rate represents the total return, in terms of cash flows and appreciation in value, which an investor would require in order to make an equity investment in the subject company.

Capitalization of Earnings

The Capitalization of Earnings method arrives at an estimate of value by dividing current normalized operations, which are weighted and averaged to approximate future earnings expectations, by a capitalization rate. As shown below, The Total Entity Value of Village of Hatch natural gas system based on the Capitalization of Earnings method is estimated to be \$(185,754). In the Capitalization of Earnings method, weighted average, normalized

VERIFICATION

STATE OF New Mexico) ss. COUNTY OF Lincoln				
I am the witness identified in the preceding testimony. I have read the testimony and accompanying attachments and am familiar with their contents. Based upon my personal knowledge, the facts stated in the testimony are true and correct. In addition, in my judgment and based upon my professional experience, the opinions and conclusions stated in the testimony are true, valid, and accurate.				
Leslie A. Graham				
Subscribed, sworn to, and acknowledged before me on this day of January, 2018 by Leslie A. Graham. And Andrew Public				
OFFICIAL SEAL CAMILLE BACA NOTARY PUBLIC - STATE OF NEW MEXICO My commission expires: _//-/0/9				