[EXTERNAL] 22-00309-UT NMAG Direct Testimony of Andrea C. Crane, Dr. Sol Deleon, and John A. Rosenkranz

Joshua LaFayette <jlafayette@nmag.gov>

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Greetings,

Attached is the Direct Testimony of Andrea C. Crane, Dr. Sol Deleon, and John A. Rosenkranz on behalf of the New Mexico Attorney General in Case No. 22-00309-UT.

Very Respectfully,



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BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF NEW MEXICO GAS COMPANY, INC.'S APPLICATION FOR THE ISSUANCE OF A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO CONSTRUCT A LIQUEFIED NATURAL GAS FACILITY.

NEW MEXICO GAS COMPANY, INC.,

APPLICANT.

) Case No. 22-00309-UT

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DIRECT TESTIMONY OF

DR. SOL DELEON

ON BEHALF OF

THE NEW MEXICO OFFICE OF ATTORNEY GENERAL

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VI.	CONCLUSIONS AND RECOMMENDATIONS

1	1.	INTRODUCTION AND QUALIFICATIONS
2	Q	Please state your name, business address, and position.
3	A	My name is Sol Deleon. My business address is 485 Massachusetts Ave., Suite 3,
4		Cambridge, Massachusetts 02139. I am a Principal Associate at Synapse Energy
5		Economics, Inc.
6	Q	Please describe Synapse Energy Economics.
7	A	Synapse Energy Economics is a research and consulting firm specializing in
8		energy industry regulation, planning, and analysis. Synapse works for a variety of
9		clients, with an emphasis on consumer advocates, regulatory commissions, and
10		environmental advocates.
11	Q	Please describe your professional experience.
10	Α	Lhave over 25 years of experience in the energy industry primarily in U.S.
12		
12		natural gas distribution utilities and international merchant electricity generation. I
12 13 14		natural gas distribution utilities and international merchant electricity generation. I analyze gas utility applications and filings, for testimony or in support of
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12 13 14 15 16 17		natural gas distribution utilities and international merchant electricity generation. I analyze gas utility applications and filings, for testimony or in support of testimony before state public service commissions. I develop studies, reports, and other materials on decarbonization pathways, gas utility investments, and renewable portfolio standards. Prior to joining Synapse, I was a project manager
12 13 14 15 16 17 18		natural gas distribution utilities and international merchant electricity generation. I analyze gas utility applications and filings, for testimony or in support of testimony before state public service commissions. I develop studies, reports, and other materials on decarbonization pathways, gas utility investments, and renewable portfolio standards. Prior to joining Synapse, I was a project manager at Washington Gas & Light Company, working on initiatives for corporate
12 13 14 15 16 17 18 19		natural gas distribution utilities and international merchant electricity generation. I analyze gas utility applications and filings, for testimony or in support of testimony before state public service commissions. I develop studies, reports, and other materials on decarbonization pathways, gas utility investments, and renewable portfolio standards. Prior to joining Synapse, I was a project manager at Washington Gas & Light Company, working on initiatives for corporate governance, renewable natural gas, and greenhouse gas emissions reduction.
12 13 14 15 16 17 18 19 20		natural gas distribution utilities and international merchant electricity generation. I analyze gas utility applications and filings, for testimony or in support of testimony before state public service commissions. I develop studies, reports, and other materials on decarbonization pathways, gas utility investments, and renewable portfolio standards. Prior to joining Synapse, I was a project manager at Washington Gas & Light Company, working on initiatives for corporate governance, renewable natural gas, and greenhouse gas emissions reduction. Before that, I worked for AES Corporation where I conducted commodity and

1		generating assets in North America, South America, Europe, and Asia. I
2		completed my Masters in Business Administration and my Doctorate in Liberal
3		Studies at Georgetown University. My doctorate focused on energy transition and
4		energy justice. My complete CV is attached as Exhibit NMAG Exhibit SD-1.
5	Q	Have you previously provided evidence before the New Mexico Public
6		Regulation Commission (Commission)?
7	A	No.
8	Q	On whose behalf are you providing evidence in this case?
9	A	My evidence is sponsored by New Mexico Office of the Attorney General.
10	Q	What is the purpose of your testimony?
11	A	The purpose of this testimony is to critique the application of New Mexico Gas
12		Company (NMGC or Company) for the Issuance of a Certificate of Public
13		Convenience and Necessity (CCN) to Construct a Liquefied Natural Gas (LNG)
14		Facility (the Application) and place it within the context of climate and
15		decarbonization policies and developments. My testimony sets forth
16		recommendations to ensure the evaluation of the LNG Facility considers the
17		energy transition and decarbonization objectives.
18	Q	How is your testimony organized?
19	Α	My testimony is organized as follows:
20		This Section I provides an introduction and overview of my qualifications.

- 1 Section II presents a summary of my conclusions and recommendations.
- 2 Section III describes the application.
- 3 Section IV describes federal and state climate policy and market developments
- 4 that are driving energy transitions.
- 5 Section V discusses the impact of climate change regulation on gas utilities.
- 6 Section VI provides my conclusion and recommendations.

7 II. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

- 8 Q Please summarize your primary conclusions.
- 9 A (1) Federal and state climate policies and market developments are driving an
 10 energy transition that adds uncertainty in the gas utility's assumptions regarding
 11 customer growth and gas demand.
- 12
- (2) While the outcome is uncertain, the gas utility can prepare for a range of
 outcomes now. The utility can incorporate the uncertainty into the analysis of
 proposed projects and their alternatives by developing scenarios that incorporate
 impacts of climate policies on supply, customer demand, and customer growth
 assumptions.
 (3) Proposed gas capital investments, and their alternatives, should be evaluated
- against a range of possible futures.

1	(Q	Please summarize your primary recommendations.
2	1	A	1) The Commission should not approve the plan.
3			
4			2) The Commission should order NMGC to assess the LNG Facility and supply
5			alternatives against a range of demand and supply scenarios; this assessment
6			should properly evaluate these alternatives for stranded asset risk, greenhouse gas
7			emission impacts, and their flexibility and ability to be adjusted to account for
8			changes in customer growth and projected gas demand.
9	III.		THE NMGC PROPOSAL
10		Q	Please describe the NMGC proposal.
11	1	A	NMGC submitted an application for a CCN with the Commission. NMGC is
12			seeking authorization to construct and operate an LNG storage facility (LNG
13			Facility) to be located in Rio Rancho, New Mexico.
14		0	What is NMGC's rationale for the LNG Facility?
14		Y	what is have a rationale for the Live Fachity.
15	1	A	NMGC intends for the proposed LNG Facility to ultimately replace the Keystone
16			Storage Facility as the utility's primary resource for gas storage. According to the
17			Application, there will be a transition period of one to three years in which
18			NMGC will transition all storage operations to the LNG Facility. NMGC

1		identifies two benefits of the LNG Facility "improve[d] reliability and a greater
2		ability to moderate price volatility." ¹
3	Q	Why is NMGP proposing to replace Keystone Storage with the proposed
4		LNG Facility?
5	Α	NMGC is described as primarily a heating-load utility, where a majority of its
6		customers use gas to heat homes and businesses. Thus, gas demand is greater in
7		the wintertime. Keystone Storage was used as a seasonal peaking facility,
8		allowing NMGC to withdraw gas in the winter months to supply increased
9		demand.
10		
11		NMGC identified three issues with Keystone Storage. Two operational issues
12		NMGC presents are: NMGC cannot always withdraw its maximum amount per
13		day, and NMGC must plan in advance for its storage withdrawals. The third issue
14		is financial; NMGC notes that the cost of storing gas at Keystone storage is
15		increasing. ²
16	Q	What was the Winter Storm Uri event?
17	Α	Winter Storm Uri impacted New Mexico and parts of the southwest from
18		February 13–17, 2021. Natural gas supply was limited due to a freeze-off in gas
19		production fields in Texas and surrounding regions. At the same time, gas heating

¹ Application, page 3. ² Application, page 5.

1		loads and natural-gas-fired electricity generation increased, as customers sought
2		to heat homes and businesses. As a result, natural gas prices in the southwest
3		increased to record highs. NMGC was able to obtain gas to meet the needs of its
4		customers, but the Company paid over \$100 million over six days for gas
5		supplies. This is an amount almost equal to NMGC's combined spend for all other
6		months (minus February) of the 2020–2021 winter heating season. ³
7	Q	What was the Commission's response to Winter Storm Uri?
8	Α	As a consequence of the events surrounding Winter Storm Uri, the Commission
9		ordered NMGC to evaluate and assess "potential measures, and specifically,
10		increased access to stored gas, including possible NMGC owned or controlled
11		storage facilities, that may be adopted to prevent a reoccurrence of this event and
12		the potential for extraordinary gas expenses and curtailments to customers."4
13	Q	What was NMGC's response?
14	Α	On March 31, 2022, NMGC filed its compliance Filing and identified an NMGC-
15		owned LNG Facility to be "the best option for a long-term supply reliability
16		solution to address supply shortfalls and potential price volatility mitigation
17		protection." ⁵

³ Application, page 5-6.
⁴ Application, page 6.
⁵ Application, page 7.

1 IV. FEDERAL AND STATE CLIMATE POLICIES

2	Q	Please provide an overview of climate change policies in the United States.
3	Α	Federal, municipal, and state governments (including New Mexico) are defining
4		greenhouse gas emission reduction targets for their jurisdictions. Some targets
5		cover all greenhouse gas emissions, whereas others cover specific gases. Some
6		are sector-specific, whereas others are economy-wide. Some states have
7		established legally binding requirements, while others express reductions as
8		targets. All aim to reduce emissions by a specific percentage by a date certain.
9	Q	Are there any targets established at the federal level?
10	A	Yes. In 2021, the Biden administration established a new national economy-wide
11		emissions target reduction of 50–52 percent from the 2005 level by 2030 and net
12		zero emissions by 2050. The United States submitted this target to United
13		Nations-led processes as its formal statement of planned emission reductions.
14		Pathways to achieving this target are set forth in the report titled "The Long-Term
15		Strategy of the United States: Pathways to Net-Zero Greenhouse Gas Emissions
16		by 2050." ⁶ The report finds that the net-zero emissions goal can be achieved
17		through multiple pathways, but all these require five key transformation. One of
18		the key technological transformations identified in that strategy is to "electrify
19		most of the economy—from cars to buildings and industrial processes."7

⁶ U.S. Department of State & U.S. Exec. Office of the President, *The Long-Term Strategy of the United States: Pathways to Net-Zero Greenhouse Gas Emissions by 2050* (Nov. 2021), Available at https://www.whitehouse.gov/wp-content/uploads/2021/10/US-Long-Term-Strategy.pdf. ⁷ Id., at 18.

2		The plan further notes that "The key driver of reducing buildings emissions is
3		efficient use of electricity for end uses (such as heating, hot water, cooking, and
4		other."8 It also touches on the market share of electricity, "Within this overall
5		decrease in energy demand, the share of electricity in final energy demand grows
6		as end uses are electrified, from about 50% in 2020 to 90% or more by 2050
7		because the on-site combustion of gas, oil, and other fuels decreases substantially;
8		however, the growth is also limited through energy efficiency and efficient
9		electrification."9
10	Q	What are the vehicles/mechanisms/initiatives through which this goal can be
11		pursued?
12	А	
		Passed in 2021, the Infrastructure Investment and Jobs Act ¹⁰ ("IIJA") directs
13		Passed in 2021, the <i>Infrastructure Investment and Jobs Act</i> ¹⁰ ("IIJA") directs more than \$65 billion towards clean energy transmission to facilitate the
13 14		Passed in 2021, the <i>Infrastructure Investment and Jobs Act</i> ¹⁰ ("IIJA") directs more than \$65 billion towards clean energy transmission to facilitate the expansion of renewable energy. Passed in 2022, the <i>Inflation Reduction Act</i>
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 13 14 15 16 17 		Passed in 2021, the <i>Infrastructure Investment and Jobs Act</i> ¹⁰ ("IIJA") directs more than \$65 billion towards clean energy transmission to facilitate the expansion of renewable energy. Passed in 2022, the <i>Inflation Reduction Act</i> ("IRA") includes substantial investment in climate change mitigation actions. It includes tax code modifications to support private investment in renewable energy technology, energy efficiency and low-carbon materials and buildings, federal
 13 14 15 16 17 18 		Passed in 2021, the <i>Infrastructure Investment and Jobs Act</i> ¹⁰ ("IIJA") directs more than \$65 billion towards clean energy transmission to facilitate the expansion of renewable energy. Passed in 2022, the <i>Inflation Reduction Act</i> ("IRA") includes substantial investment in climate change mitigation actions. It includes tax code modifications to support private investment in renewable energy technology, energy efficiency and low-carbon materials and buildings, federal funding for rebate programs, and loan guarantees for greenhouse gas reduction

1

⁸ Id., at 32.
⁹ Id.
¹⁰ H.R.3684 -- 117th Congress (2021-2022).

1		heat pumps and heat pump water heaters. ¹¹ The act also includes a home energy
2		rebate program to support electrification. The High-Efficiency Electric Home
3		Rebate Act (HEEHRA) program provides point-of-sale consumer rebates to help
4		consumers electrify their homes. These rebates are for low- or moderate-income
5		homeowners. ¹² Governmental or commercial entities owning a multifamily
6		building where the majority of the are low- or moderate-income households can
7		also apply for rebates for electrification projects in their building. ¹³
8 9	Q	Are these federal policies and programs reflective of changes in the market for heating systems?
8 9 10	Q A	Are these federal policies and programs reflective of changes in the marketfor heating systems?Yes. For example, federal support for electrification and heat pumps is made
8 9 10 11	Q A	Are these federal policies and programs reflective of changes in the market for heating systems? Yes. For example, federal support for electrification and heat pumps is made possible by the growing range and performance of heat pump equipment to meet
 8 9 10 11 12 	Q	Are these federal policies and programs reflective of changes in the market for heating systems? Yes. For example, federal support for electrification and heat pumps is made possible by the growing range and performance of heat pump equipment to meet customer needs. This expanding range is reflected in increasing sales. In the
 8 9 10 11 12 13 	Q	Are these federal policies and programs reflective of changes in the market for heating systems? Yes. For example, federal support for electrification and heat pumps is made possible by the growing range and performance of heat pump equipment to meet customer needs. This expanding range is reflected in increasing sales. In the United States, sales of air-source heat pumps have been steadily increasing since
 8 9 10 11 12 13 14 	Q	Are these federal policies and programs reflective of changes in the market for heating systems? Yes. For example, federal support for electrification and heat pumps is made possible by the growing range and performance of heat pump equipment to meet customer needs. This expanding range is reflected in increasing sales. In the United States, sales of air-source heat pumps have been steadily increasing since 2015, with 2022 sales in excess of 4 million units ¹⁴ and exceeding gas furnace

¹¹ H.R.5376 -- 117th Congress (2021-2022) Sec 13301.

¹² H.R.5376 -- 117th Congress (2021-2022) Sec 50122 and 42 U.S.C.A. § 18795a.

¹³ Id. § 18795a(c)(4)(C).

¹⁴ Air-Conditioning, Heating, and Refrigeration Institute (AHRI). Central Air Conditioners and Air-Source Heat Pumps. Available at <u>https://www.ahrinet.org/analytics/statistics/historical-data/central-air-conditioners-and-air-source-heat-pumps.</u>

¹⁵ AHRI. Furnaces Historical Data. Available at <u>https://www.ahrinet.org/analytics/statistics/historical-data/furnaces-historical-data.</u>

1	Q	Please discuss the climate goals and policies of the state of New Mexico.
2	Α	In January of 2019, Governor Lujan Grisham joined the U.S. Climate Alliance, a
3		collection of states committed to achieving the Paris Agreement's goal of keeping
4		global temperature increases below 1.5 degrees Celsius. ¹⁶ New Mexico has
5		committed to achieving this goal by reducing collective greenhouse gas emissions
6		by at least 45 percent by 2030 as compared to 2005 levels. ¹⁷
7		
8		In March of 2019, Governor Lujan Grisham furthered New Mexico's
9		commitment by signing the Energy Transition Act into law, which established
10		new renewable energy standards requiring renewable energy comprise no less
11		than 40 percent of each public utility's total retail sales of electricity to New
12		Mexico customers by 2025. The requirement increases to 50 percent by Jan 1,
13		2030, 80 percent by 2040, and 100 percent by 2045. ¹⁸ The new standards are one
14		of the more aggressive renewable energy standards in the United States and would
15		result in less demand for natural gas in New Mexico.
16		In 2021, New Mexico amended the Sustainable Buildings Tax Credit to provide
17		additional tax credits for a fully electric building or for a building that is certified
18		as zero-carbon, zero-energy, or zero-waste. ¹⁹ Tax credits are also available for

¹⁸ SB 489 54th Legislature First Session (New Mexico, 2019). Sec 29. Available at <u>https://www.nmlegis.gov/Sessions/19%20Regular/bills/senate/SB0489.pdf.</u>

¹⁶ Exec. Order on Addressing Climate Change and Energy Waste Prevention, No. 2019-003 (Jan. 29,

^{2019), &}lt;u>https://www.governor.state.nm.us/wp-content/uploads/2019/01/EO_2019-003.pdf.</u>

¹⁷ Id.

¹⁹ HB 15 Regular Session (New Mexico, 2021) Sec 2. Available at https://www.nmlegis.gov/Sessions/21%20Regular/final/HB0015.pdf.

1		buildings that install Energy Star air-source heat pumps, ground-source heat
2		pumps, and heat pump water heaters.
3		
4		A 2021 report from the New Mexico Climate Change Task Force ²⁰ finds that with
5		all of New Mexico's existing policies and newly proposed policies, as of the
6		publication of the report, New Mexico will reduce emissions by 31 million metric
7		tons and 17.3 million metrics tons, respectively. This is still 16.4 million metrics
8		tons short of meeting the 2030 goal of 45 percent lower emissions, from a 2005
9		baseline.
10	Q	How is the state planning to achieve its decarbonization goals?
11	А	The New Mexico Climate Change Task Force will lay out action plans to achieve
12		the state's decarbonization goals in a forthcoming report. While this report has not
13		been released, the Technical Advisory Group ²¹ provided recommendations in
14		Input on New Mexico's Climate Goals and Implementing Actions. ²²
15		
16		The task force included proposals to support the decarbonization of the buildings
17		sector. These proposals include the following:

²⁰ New Mexico Interagency Climate Change Task Force. 2021. Progress and Recommendations. Page 5. Available at <u>https://www.climateaction.nm.gov/wp-</u> content/uploads/sites/39/2023/07/NMClimateChange 2021 final.pdf

²¹ The Technical Advisory Group was convened by the New Mexico Climate Change Task Force in the Spring of 2022. It was tasked to assess the climate goals and implementing actions, offer ideas to strengthen and fill in any gaps the implementing actions.

²² Technical Advisory Group. Input on New Mexico's Climate Goals and Implementing Actions. June 2022. Available at https://www.climateaction.nm.gov/wp-content/uploads/sites/39/2023/09/2022_06_30-FINAL-CCTF-TechnicalAdvisoryGroupReport.pdf.

1	1.	Establish legislation requiring 100 percent fuel-switching of gas space and
2		water heating systems at end-of-life by 2023.
3	2.	Electrify one-third of the space and water heating in buildings by 2030 by
4		providing financing and incentives.
5	3.	Establish a building performance standard that drives a 33 percent reduction
6		in commercial gas consumption by 2030.
7	4.	Develop and incentivize the adoption of an all-electric, net-zero carbon stretch
8		code that is adopted by municipalities representing 50 percent of New
9		Mexico's population by 2025.
10	5.	To reduce energy demand, improve building efficiency and ensure New
11		Mexico implements the most up-to-date building/energy codes.
12	6.	Set appliance and fixture efficiency standards that exceed basic federal
13		efficiency standards.
14	7.	Use legislation to redesign utility rates by 2023 so that electrification is cost-
15		effective on a lifecycle basis for 90 percent of residential customers.
16	8.	Capture electrification opportunities in new buildings through building codes
17		and standards, those requiring new buildings to be all-electric or "ready to
18		electrify," prioritizing access to resources and support for marginalized
19		communities.

1 2 Establish new and enhanced utility incentives for energy efficiency and electrification.²³

3 V. IMPACT OF CLIMATE CHANGE REGULATION AND MARKET 4 CHANGES ON GAS UTILITIES

5 Q Please explain how climate policies can impact gas utility operations and 6 decisions?

A Policies that drive energy efficiency and building decarbonization can result in
gas consumption that is lower than historical averages and can affect customer
growth or retention. Gas utilities will need to assess the implications of and
manage the impact of policies that incentivize the reduction of gas consumption,
as well as any market changes that result in changes in consumer appetite for gas
equipment. Thus, utilities should revisit the assumptions regarding long-term
customer growth or retention.

The impact of policies on long-term demand has implications for capital
investment decisions. Natural gas assets, such as the LNG facility proposed in this

16 application, have useful lives that span decades. Evaluation of natural gas

17 investments should consider the potential impact of climate and decarbonization

18 goals.

²³ Id., pages 16-22.

1	Q	Are these risks recognized by NMGC and its parent corporation?
2	A	Emera, the parent company of NMGC, established the following climate goals: 55
3		percent reduction in carbon dioxide emissions by 2025 (2005 baseline), 80
4		percent reduction in carbon dioxide emissions (2005 baseline) and the last coal
5		unit retired no later than 2040, and net-zero by 2050. ²⁴ In addition to its climate
6		targets, Emera also recognizes climate-related risks. In the 2022 Sustainability
7		Report, under policy and legal risks, Emera identifies "restrictions on new natural
8		gas hookups," further noting that a potential impact will be "reduced growth in
9		natural gas utilities." ²⁵ In the same table, under chronic physical risk, Emera
10		identifies "change in customer demand patterns impacting related revenue." ²⁶
11	Q	Has NMGC factored in the impact of climate policies on customer growth for
12		this application?
13	A	No. An intervenor delivered a set of interrogatories on the topic of Emera's goal
14		of net-zero greenhouse gas emissions by 2050 and the targets outlined by New
14 15		of net-zero greenhouse gas emissions by 2050 and the targets outlined by New Mexico's Climate Action Task Force (including the establishment of legislation
14 15 16		of net-zero greenhouse gas emissions by 2050 and the targets outlined by New Mexico's Climate Action Task Force (including the establishment of legislation requiring 100 percent fuel-switching of gas space and water heating systems at
14 15 16 17		of net-zero greenhouse gas emissions by 2050 and the targets outlined by New Mexico's Climate Action Task Force (including the establishment of legislation requiring 100 percent fuel-switching of gas space and water heating systems at end of life). The intervenor posed the following question: "Do NMGC's annual
14 15 16 17 18		of net-zero greenhouse gas emissions by 2050 and the targets outlined by New Mexico's Climate Action Task Force (including the establishment of legislation requiring 100 percent fuel-switching of gas space and water heating systems at end of life). The intervenor posed the following question: "Do NMGC's annual gas customer growth forecast and peak gas demand forecast consider the impact

²⁴ Emera Inc., 2022 Sustainability Report, page 19.
²⁵ Id., page 30.
²⁶ Id.

1		demand growth rates change if NMGC did incorporate these policies? How would
2		this impact the projected customer rate and bill impact of the LNG project over
3		the lifetime of the facility?" ²⁷ The Company responds that "NMGC's annual gas
4		customer growth forecast and peak gas demand forecast are based on forecasting
5		forward from current known impacts on demand. The policies referenced do not
6		supersede NMGC's statutory obligation to serve customers, and therefore do not
7		influence NMGC's current customer growth forecast."28
8	Q	Can climate policies affect utilities and the appropriate regulation thereof?
9	Α	Decarbonization of buildings and industrial sectors will transform gas utilities and
10		require changes in regulation and business models. This transition is in its early
11		stages, and there are numerous competing visions for how to resolve the
12		challenges. The form of the resolution will vary among states and utilities, driven
13		by history, climate, technology development and market acceptance, economic
14		structure of the states, the state of the gas system, and public policy choices.
15	Q	Are there states that have initiated proceedings that address gas capital
16		investment decisions in light of the decarbonization transition?
17	Α	Yes, below I describe a sample of regulatory proceedings opened across the
18		United States that address the impact of climate policy on gas utilities. The
19		examples below are meant to provide a description of some of the issues being

²⁷ Response to CCAE 1-1.
²⁸ Response to CCAE 1-1.

1 discussed in other jurisdictions.

2 Colorado

3	In June 2021, the Colorado Governor signed into law SB21-264, which, among
4	other requirements, mandates that gas distribution utilities file a "clean heat plan"
5	with the Colorado Public Utilities Commission ("Colorado PUC") demonstrating
6	how the utilities will use clean heat resources to meet specific greenhouse gas
7	reduction targets by 2030. ²⁹ As part of that process, the Colorado PUC initiated a
8	rulemaking proceeding to address gas utility planning. Specifically, in Decision
9	C22-0760, the Colorado PUC directed gas utilities to file Clean Heat Plans
10	starting in 2023. These plans are to include a mix of supply-side and demand-side
11	resources such as energy efficiency programs, recovered methane, green
12	hydrogen, and beneficial electrification. In addition, noting that SB21-264 and the
13	clean heat plan rules "will not address all of the issues that gas utilities and its
14	customers will face through the transitions required to meet Colorado's goals,"
15	the Colorado PUC also proposed new Gas Infrastructure Planning Rules "to
16	improve the Commission's visibility into a gas utility's future projects and
17	expenditures." ³⁰
18	Massachusetts
19	In Docket 20-80, the Massachusetts Department of Public Utilities directed the

20

²⁹ Decision No. C22-0760, Colorado PUC Proceeding No. 21R-0449G (Nov. 2022), https://www.dora.state.co.us/pls/efi/EFI_Search_UI.Show_Decision?p_session_id=&p_dec=29605.

state's gas utilities to hire consultants to analyze strategies to achieve net-zero

³⁰ Id.

1	emissions, adding greater detail and alternative approaches to those captured in
2	the state's 2050 Roadmap study. The consultants' analysis built upon the state's
3	2050 Roadmap, and the pathways analysis included the following outputs: Rate
4	base and revenue requirements over time, customer costs and qualitative
5	discussion of impacts on choices; and quantification of the impacts of targeted
6	electrification to allow asset retirement.
7	The follow-on regulatory analysis identified options and approaches available to
8	address the issues raised in the pathways analysis, including minimizing or
9	avoiding gas infrastructure projects to reduce costs that need to be recovered from
10	gas system customers through methods such as geographically targeted
11	electrification, non-pipeline alternatives to pipeline replacement, and networked
12	geothermal systems. The consultants also suggested formal review and pre-
13	approval for capital investments, the coordination of electric and gas system
14	planning to support reliability and resilience of the electric grid during the
15	transition, and a review of line extension policies and practices to reduce the risk
16	of ratepayer support for uneconomic pipeline expansions.
17	
18	New York
19	The New York Public Service Commission initiated Case 20-G-0131 pertaining

19 The New York Public Service Commission initiated Case 20-G-0131 pertaining 20 to a modernized gas planning process that links gas planning to the state's climate 21 legislation. In a May 2022 order, the Public Service Commission ordered gas 22 utilities to file long-term gas plans, proposals for non-pipe alternative screening 23 criteria and non-pipe alternative suitability criteria, non-pipe cost recovery

1		procedures and incentive mechanisms, and depreciation studies. ³¹ Analyses
2		underlying each long-term plan must consider energy efficiency and non-pipeline
3		alternatives, and the utility must include a non-pipeline-alternatives-only scenario
4		unless it presents sufficient evidence that a non-pipeline-alternatives-only
5		scenario is not feasible. As required by this order, utilities must compare
6		alternatives based on benefit-cost analysis, bill impact analysis, and emissions
7		impacts.
8	Q	Why are other proceedings in other states relevant to New Mexico?
9	Α	These proceedings matter because they illustrate the fact that regulators, utilities,
9 10	Α	These proceedings matter because they illustrate the fact that regulators, utilities, and other stakeholders in multiple jurisdictions are thinking about the impact of
9 10 11	Α	These proceedings matter because they illustrate the fact that regulators, utilities, and other stakeholders in multiple jurisdictions are thinking about the impact of decarbonization goals and market developments on gas utilities. It is important to
9 10 11 12	Α	These proceedings matter because they illustrate the fact that regulators, utilities, and other stakeholders in multiple jurisdictions are thinking about the impact of decarbonization goals and market developments on gas utilities. It is important to be aware of the questions being asked, the analysis being conducted, and the
9 10 11 12 13	Α	These proceedings matter because they illustrate the fact that regulators, utilities, and other stakeholders in multiple jurisdictions are thinking about the impact of decarbonization goals and market developments on gas utilities. It is important to be aware of the questions being asked, the analysis being conducted, and the decision-making process being modeled elsewhere. The regulators, utilities, and
9 10 11 12 13 14	Α	These proceedings matter because they illustrate the fact that regulators, utilities, and other stakeholders in multiple jurisdictions are thinking about the impact of decarbonization goals and market developments on gas utilities. It is important to be aware of the questions being asked, the analysis being conducted, and the decision-making process being modeled elsewhere. The regulators, utilities, and ratepayers of New Mexico can reflect on the process and the analyses and
 9 10 11 12 13 14 15 	Α	These proceedings matter because they illustrate the fact that regulators, utilities, and other stakeholders in multiple jurisdictions are thinking about the impact of decarbonization goals and market developments on gas utilities. It is important to be aware of the questions being asked, the analysis being conducted, and the decision-making process being modeled elsewhere. The regulators, utilities, and ratepayers of New Mexico can reflect on the process and the analyses and determine what parts of these other jurisdictions' initiatives, policies, and

³¹ Order Adopting Gas System Planning Process, NY PSC Docket No. 20-G-0131, 64-67 (May 12, 2022), <u>https://documents.dps.ny.gov/public/MatterManagement/CaseMaster.aspx?MatterCaseNo=20-G-0131&CaseSearch=Search</u>.

1	Q	Have other utilities taken steps to address the potential impact of climate
2		policies?
3	A	Yes. Below are a few examples of the range of programs and initiatives that gas
4		utilities are exploring.
5		
6		Consolidated Edison Company of New York, Inc. (ConEd)
7		ConEd proposed a program called Smart Solutions for Natural Gas Customers to
8		address increased demand and limited pipeline capacity for natural gas in its
9		service territory. This proposal aims to decrease gas usage and procure alternative
10		resources to meet customer heating and other thermal needs. Included in this
11		program is a Gas Demand Response Pilot aimed at reducing net customer demand
12		during the entirety of a peak gas demand day. ³²
13		
14		National Grid
15		National Grid in New York committed to providing an emissions analysis and
16		analysis of non-pipeline alternatives as part of its next rate case. ³³
17		
18		NSTAR Gas Company (Eversource Energy)
19		Eversource is piloting a geothermal project to demonstrate the potential for

³² Gas Demand Response Report on Pilot Performance, NY PSC Docket No. 17-G-0606 (July 15, 2022), https://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId=%7bAD51AA7B-5BD2-4A9B-AE57-720C636ED6C0%7d.

³³ Joint Proposal, NY PSC Docket No. 19-G-0309 (May 14, 2021),

https://documents.dps.ny.gov/public/Common/ViewDoc.aspx?DocRefId=%7b049A7777-4BE8-41FC-B958-6D9EE1C13DD3%7d.

	networked geothermal in a mixed-use urban neighborhood, serving customers
	with diverse heating and cooling profiles. The Massachusetts Department of
	Public Utilities found the proposal to be in line with the Commonwealth's climate
	goals and directed the company to study the scalability of networked geothermal
	to serve existing gas customers. ³⁴
Q	What does NMGC say about the application's consistency with climate
	policy?
A	This was addressed by NMGC Witness Reed, who notes that "while there is no
	definitive path that gas demand will take as a result of climate change policies, I
	believe that most existing natural gas load will continue to need to be served for
	the next 20 years or more. Therefore, it is likely that the LNG Facility will
	continue to provide reliability and price benefits to customers for multiple
	decades and will not likely result in stranded costs."35
Q	Do you have any concerns about Witness Reed's assertions?
Α	Yes. The fact that there is no definitive path for gas demand means it is all the
	more important to prepare for a range of potential outcomes and to begin planning
	now. Capital investment proposals should be assessed against a range of future
	states and not solely on a forecast based on the extension of past trends. This kind
	of analysis will provide transparency into the tradeoffs embedded in the
	Q A Q A

³⁴ Order, MA DPU Docket No. 19-120 (Oct. 30, 2020), https://fileservice.eea.comacloud.net/
 FileService.Api/file/FileRoom/12834214.
 ³⁵ Testimony of John J. Reed, page 25.

1		proposals. Such analysis will be able to answer questions such as: Will one
2		alternative be more cost-effective while another alternative would provide more
3		flexibility in the future, but at an additional cost?
4	Q	What other supporting evidence did Witness Reed provide?
5	A	Witness Reed provided examples of recently constructed or recently approved
6		LNG facilities. These include recently built LNG facilities in Washington state,
7		North Carolina, Arizona, and Pennsylvania, plus proposed facilities in Utah,
8		Georgia, Wisconsin, Rhode Island, and Minnesota. ³⁶
9	Q	What is your response to this?
10	A	The LNG facilities referenced were recently constructed or approved. These
11		facilities were approved in the context of a specific state, location, and utility.
12		These references, therefore, cannot replace appropriate evaluation considering the
13		specific concerns of the New Mexico ratepayers and NMGC. They are relevant
14		because New Mexico can learn from or review the analytical requirements and the
15		process that they went through to get the approval to construct.
16		
17		Looking at the Wisconsin LNG project as an example: the utility provided an
18		evaluation of two system alternatives. ³⁷ Extensive analysis was also conducted:
19		"The applicants performed three analyses to evaluate the overall economic

 ³⁶ Id., pages 29-37.
 ³⁷ Final Decision. Public Service Commission of Wisconsin Docket No. 5-CG-106 (Dec 22, 2021), page 15.

1		benefit of the project: a scenario analysis that considered alternative planning
2		assumptions under different load growth scenarios, including low, base, and high
3		growth rates; a sensitivity analysis that determined how different values of an
4		independent variable such as planning assumptions affected the economic value
5		that the project would provide; and a risk analysis that was an extension of the
6		sensitivity analysis but incorporated a complete enumeration of all changes in the
7		independent variables and quantifies the potential cost to customers across
8		almost 4,000 different unique scenarios." ³⁸
9	Q	Witness Reed argues that the LNG Facility will not likely result in stranded
10		costs. What are stranded costs?
11	A	Stranded costs are investments made that become unneeded, uneconomic, or
11 12	A	Stranded costs are investments made that become unneeded, uneconomic, or unviable due to changing circumstances. Such circumstances can include new
11 12 13	A	Stranded costs are investments made that become unneeded, uneconomic, or unviable due to changing circumstances. Such circumstances can include new government regulations, changes in interpretation or application of existing law,
11 12 13 14	A	Stranded costs are investments made that become unneeded, uneconomic, or unviable due to changing circumstances. Such circumstances can include new government regulations, changes in interpretation or application of existing law, technological breakthroughs, changes in consumer choice, or environmental
11 12 13 14 15	Α	Stranded costs are investments made that become unneeded, uneconomic, or unviable due to changing circumstances. Such circumstances can include new government regulations, changes in interpretation or application of existing law, technological breakthroughs, changes in consumer choice, or environmental changes. ³⁹ Assets resulting from these investments can be at risk of early write-
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11 12 13 14 15 16 17	Α	Stranded costs are investments made that become unneeded, uneconomic, or unviable due to changing circumstances. Such circumstances can include new government regulations, changes in interpretation or application of existing law, technological breakthroughs, changes in consumer choice, or environmental changes. ³⁹ Assets resulting from these investments can be at risk of early write- offs, revaluation, or conversion from asset to liabilities. ⁴⁰ It can be appropriate for regulators to allow for the utility to recover the remaining costs of prudent
 11 12 13 14 15 16 17 18 	Α	Stranded costs are investments made that become unneeded, uneconomic, or unviable due to changing circumstances. Such circumstances can include new government regulations, changes in interpretation or application of existing law, technological breakthroughs, changes in consumer choice, or environmental changes. ³⁹ Assets resulting from these investments can be at risk of early write- offs, revaluation, or conversion from asset to liabilities. ⁴⁰ It can be appropriate for regulators to allow for the utility to recover the remaining costs of prudent investments even in the event that changes result in the assets being stranded.

³⁹ Roberts, Tracey, Stranded Assets and Efficient Pricing for Regulated Utilities: A Federal Tax Solution (August 27, 2019). 11 Columbia Journal of Tax Law 1 (2019), Available at SSRN: https://ssrn.com/abstract=3443927.

⁴⁰ Id.

³⁸ Id., page 16.

1		associated with investments that were made imprudently because the utility failed
2		to consider all information known at the time it made the investment decision
3		(including information about alternatives).
4	Q	Is stranded asset risk relevant to the LNG facility?
5	А	Yes, stranded asset risk is relevant to the proposed LNG facility. As discussed
6		earlier in this testimony, changes in regulation or changes in the market and
7		consumer preference or technological improvements, can lead to a reduction in
8		gas throughput or a reduction of natural gas residential and commercial
9		consumers. NMGC should analyze these risks and quantify their likelihood and
10		impact. As part of the application, NMGC provided the monthly bill impact of the
11		LNG facility assuming 20-, 30-, and 40-year depreciation periods. This is
12		important analysis but is incomplete. The proposed facility should be assessed in
13		context of other alternatives considered.
14	Q	Has the Company evaluated the impact of the LNG facility on greenhouse
15		gas emissions?
16	А	No. In response to interrogatories, NMGC responded that it has not "conducted
17		any kind of cumulative impact analysis of direct or indirect greenhouse gas
18		emissions that will result in the fugitive release or combustion of LNG."41 In
19		addition, when asked if NMGC employed consistent and comprehensive
20		internationally-accepted methodologies to estimate greenhouse gas emissions

⁴¹Response to NEE 1-11.

1		from the proposed LNG Facility, NMGC responded that it "is not in a position to
2		[reasonably] estimate the [greenhouse gas] emissions from this specific plant
3		since the plant is in its design phase prior to construction."42
4	Q	Is this a concern?
5	Α	Yes. Greenhouse gas emissions from the LNG facility could have a detrimental
6		impact on New Mexico's objective to achieve a statewide reduction in greenhouse
7		gas emissions of at least 45 percent by 2030.
8	Q	What does NMGC say about low-carbon alternatives?
9	A	Witness Reed writes that "low or no-carbon alternatives, such as energy
10		efficiency are currently not available at the scale necessary to replace the service
11		that will be provided by the proposed LNG Facility."43
12	Q	Is this a sufficient response?
13	Α	No. This answer implies that only one alternative at a time has been evaluated.
14		However, this analysis is incomplete. NMGC should consider if a combination of
15		alternatives can replace the proposed LNG facility or cause it to be designed
16		differently.

⁴² Response to NEE 1-15.
⁴³ John J. Reed Testimony, page 24.

1		Q	Are there any concerns about the level of analysis NMGC undertook to
2			prepare for the application?
3		A	Witness Rosenkranz in his testimony raised concerns about the analysis
4			conducted. He finds that, "NMGC has not shown that the LNG Facility proposal
5			is the most cost-effective option for meeting the defined need. NMGC decided to
6			replace Keystone Storage service with a large LNG storage and peaking facility
7			without examining a full range of available gas resource alternatives or
8			considering that the best option may involve a mix of resources."44
9		Q	What are the implications of these concerns?
10		A	The implications are that there are multiple analyses missing from the application:
11			an analysis of alternatives, including an evaluation of the stranded asset risk, and
12			an analysis of the greenhouse gas emission impact of the facility and the
13			alternatives.
14	VI.		CONCLUSIONS AND RECOMMENDATIONS
15		Q	What are your conclusions?

- 16 A (1) Federal and state climate policies and market developments are driving an
- 17 energy transition that adds uncertainty in the gas utility's assumptions regarding
- 18 customer growth and gas demand.

⁴⁴ John Rosenkranz Testimony, page 2.

1		
2		(2) While the outcome is uncertain, the utility can prepare for a range of outcomes
3		now. The utility can incorporate the uncertainty into the analysis of proposed
4		projects and their alternatives by developing scenarios that incorporate impacts of
5		climate policies on supply, customer demand, and customer growth assumptions.
6		
7		(3) Proposed gas capital investments and the alternatives to this should be
8		evaluated against a range of possible futures.
9	Q	What are your recommendations?
10	A	1) The Commission should not approve the plan.
11		
12		2) The Commission should order NMGC to assess the LNG Facility and supply
13		alternatives against a range of demand and supply scenarios; this assessment
14		should properly evaluate these alternatives for stranded asset risk, greenhouse gas
15		emission impacts, and their flexibility and ability to be adjusted to account for
16		changes in customer growth and projected gas demand
17	Q	Does this conclude your testimony?
18	Α	Yes, it does.
19		

Dr. Maria Soledad (Sol) deLeon, D.L.S., Principal Associate

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PROFESSIONAL EXPERIENCE

Synapse Energy Economics, Inc., Cambridge, MA. Principal Associate, January 2023 – Present

- □ Analyzes gas utility applications, as well as studies, reports and other evidence regarding gas utility investments, business models, ratemaking, depreciation, revenue requirements, and business risk.
- □ Sponsors testimony and performs analysis related to impact of climate regulation on utilities.
- □ Researches policies and practices regarding rulemaking related to renewable portfolio standards.

WGL Holdings (Washington Gas) Washington D.C. *Manager, Strategy & Innovation,* December 2019 – December 2022, *Manager, Strategy & Business Development,* March 2017 – December 2019

- Defined and successfully proposed GHG emission reduction targets. Project managed development and completion of regulator-required climate strategy reports, involving external consultants and internal subject matter experts.
- Established and implemented a governance process for strategic initiatives. Created templates for business plans, project charters, and status updates for proposed strategic projects.
- □ Established information capture process for regulatory and executive reporting of emission reduction initiatives, including status of budget, scope, schedule, and projected benefits.

AES Corporation, Arlington, VA. *Risk Manager,* January 2009 – January 2016, *Project Manager, Wind Development,* April 2008 – December 2008, *Risk Analyst,* March 2006 – March 2008

- Managed global Hydrology Risk Committee quantifying risks and reporting to executive leaders on hydrology and climate mitigation strategy to reduce impact on initiatives and earnings projections.
- Streamlined process for derivatives valuation and audit support, reducing quarterly reporting preparation by 400% and saving 10,000+ labor hours. Managed derivative approval process for projects in Latin America, and Asia.
- Supported business development and negotiations for greenfield wind farms and project pipelines by building and maintaining financial models.
- Mapped South American and Asian subsidiaries' structures and cash flows to identify material risks and develop interest rate and foreign exchange hedging strategies protecting enterprise value.
- Developed valuation models for futures, forwards and options for power, commodity, FX, and interest rate; identified and evaluated transaction risks, and performed ad hoc market risk analysis.

Energy and Environment Analysis, Inc., Arlington, VA. Energy Analysis, August 2002- March 2006

□ Built first-ever demand forecasting model of U.S. propane industry, fundamentally changing strategic decision-making across the propane industry.

PG&E National Energy Group, Bethesda, MD. Intern, Asset Management, June 2001– December 2001

□ Fixed financial models for power plant valuations and financial models for 5,000-megawatt contract portfolio; corrected errors in 5 critical models which were reinstituted for internal forecasting and reporting.

Trans Asia Power, Manila, Philippines, Senior Project Analyst, Business Development, March 1997 – August 2000

Employee #4 of energy start-up. Identified projects for development. Company representative in nationwide launch of electricity spot market, implemented in company and trained other users.

EDUCATION

Georgetown University, Washington, D.C.

Doctorate in Liberal Studies, Energy Transition and Energy Justice

Master of Business Administration, McDonough School of Business

Ateneo de Manila University, Quezon City, Philippines

Bachelor of Science, Management Engineering, AB Economics

TESTIMONY

Illinois Commerce Commission (Docket No. 23-069): Direct testimony and rebuttal testimony of Sol Deleon in The People's Gas Light and Coke Company's Proposed General Increase in Rates for Gas Delivery Service. On behalf of the City of Chicago. May 9, 2023.

TESTIMONY ASSISTANCE

Maryland Public Service Commission (Case No. 9692): Direct testimony of Asa Hopkins regarding the application of Baltimore Gas and Electric Company for an Electric and Gas Multi-Year Plan. On behalf of the Maryland Office of People's counsel, August 25, 2023.

Maryland Public Service Commission (Case No. 9692): Direct testimony of Courtney Lane regarding the application of Baltimore Gas and Electric Company for an Electric and Gas Multi-Year Plan. On behalf of the Maryland Office of People's counsel, August 25, 2023.

Nova Scotia Utility and Review Board (Matter No. N10960): Direct testimony of Eric Borden regarding Eastward Energy Incorporated's schedule of rates, tolls, and charges pursuant to Section 21 of the Gas Distribution Act. On behalf of the Counsel to the Nova Scotia Utility and Review Board. April 12, 2023.

New York Public Service Commission (Case 22-G-0610): Initial comments of the Natural Resources Defense Council regarding the Long-Term Gas System Plan of National Fuel Gas Distribution Corporation. March 13, 2023.

Resume updated October 2023

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

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IN THE MATTER OF NEW MEXICO GAS COMPANY, INC.'S APPLICATION FOR THE ISSUANCE OF A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO CONSTRUCT A LIQUEFIED NATURAL GAS FACILITY.

NEW MEXICO GAS COMPANY, INC.,

APPLICANT.

Case No. 22-00309-UT

AFFIRMATION (IN LIEU OF AFFIDAVIT)

OF DR. SOL DELEON

In compliance with the *Temporary NMPRC Electronic Filing Policy of March 20, 2020*, and under Rule 1-011(B) NMRA of the New Mexico Rules of Procedures for the District Courts, I, Sol Deleon, hereby file this Direct Testimony on behalf of the New Mexico Office of Attorney General and state as follows:

I hereby affirm in writing under penalty of perjury under the laws of the State of New Mexico that the statements contained in the foregoing *Direct Testimony of Dr. Sol Deleon on Behalf of the Office of Attorney General* are true and correct to the best of my knowledge, information, and belief.

I further declare under penalty of perjury that the foregoing is true and correct.

Executed on October 27, 2023.

/s/ Sol Deleon

Sol Deleon (electronically signed) Expert Witness on Behalf of the New Mexico Attorney General 485 Massachusetts Ave., Suite 3, Cambridge, Massachusetts 02139

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF NEW MEXICO GAS)	
COMPANY INC.'S APPLICATION FOR THE)	
ISSUANCE OF A CERTIFICATE OF PUBLIC)	
CONVENIENCE AND NECESSITY TO)	
CONSTRUCT A LIQUIFIED NATURAL GAS)	
FACILITY.)	Case No. 22-00309-UT
)	
NEW MEXICO GAS COMPANY, INC.,)	
)	
APPLICANT.)	
)	

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this date I served upon the parties and individuals listed below, via email, a true and correct copy of the **Direct Testimony of Dr. Sol Deleon**.

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DATED this 27th day of October 2023.

Respectfully submitted, NEW MEXICO ATTORNEY GENERAL'S OFFICE

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