New Mexico GAS COMPANY

Dear New Mexico Gas Company Customer:

As a New Mexico Gas Company sales customer considering the purchase of your natural gas from a marketer and transferring from New Mexico Gas Company as a sales service customer to transportation service, we would like to provide an explanation of potential exit fees or credits that may be assessed on your final bill from New Mexico Gas Company at the time of the actual transfer.

The exit fees can result in a charge or a credit specific to the designated accounts depending on the PGAC (Purchased Gas Adjustment Clause) account balances at the time that you officially transfer from sales service to transportation service. The volumes for the New Mexico Gas Company account numbers selected for estimation provide the basis for the estimated fees or credits. An estimated exit fee or credit rate per therm is amended periodically based on updated deferral balances. The rates will be amended at least once a month, about mid-month and possible again toward the end of the month. Depending on the planned date of transfer, it would be in your best interest to monitor the rates and run the estimation process again so that you have the most current volumes as well as the latest rates in your estimate for your business planning and analysis.

The estimates assume that you terminate sales service (purchasing gas from New Mexico Gas Company) at the end of the specific months contained in the estimate. These are the months that have been selected in the estimate calculation. Additional dates can be entered to compare the total cost for the exit fee as of various dates for transferring to transportation service. Exit fees tend to be higher when service is transferred during the winter months. Generally, switching service during later months (July/August) has the potential to result in the lowest possible charge or largest credit. Please note that these estimates do not include any applicable gross receipts taxes or franchise fees.

New Mexico Gas Company purchases natural gas for resale to sales service customers using a New Mexico Public Regulation Commission (NMPRC) approved pass-through fuel cost adjustment mechanism called the Purchased Gas Adjustment Clause (PGAC). Exit fees are meant to cash-out a specific position in under or over collected gas costs in the PGAC as of a specific sales service termination date. Under or over collected gas costs result from estimating a monthly gas cost billing factor, estimating monthly gas purchases, the volatility of the gas market, weather, and customer consumption. Exit fees are calculated

based on each customer's specific consumption at the premise level for the previous twelve consecutive months prior to termination of sales service. Exit Fees are required by the NMPRC pursuant to New Mexico Gas Company's Rate No. 70. The NMPRC requires New Mexico Gas Company to calculate a charge or refund for all customers switching from sales service to transportation service with an annual consumption in excess of 10,000 therms per year. If the usage for the past twelve months is less than 10,000 therms, the specified premise would not incur exit fees nor receive credits unless the usage increases to more than 10,000 as of the actual transfer date. Each premise is evaluated separately for this assessment.

The estimated calculations are specific to the months indicated and will materially differ from estimates for any other months. The estimated calculations represent NMGC best prediction of costs in the future. This is an estimate, and **DOES NOT BIND NEW MEXICO COMPANY TO A SPECIFIC AMOUNT**. A customer's position in under or over collected gas costs as of the actual sales service termination date is then determined based on actual amounts as opposed to estimated amounts. The actual amount may vary significantly from the estimate. The estimated amount will differ from the actual billed amount due to the variations in gas costs and each premise's actual usage for the previous twelve consecutive months prior to termination of sales services. This difference between the estimated amount of the charge or credit and the billed amount can be more widespread for winter months than for summer months. The time period between the date of the calculated estimate and the date of sales service termination can also have a material effect on this estimate. Finally, natural gas price volatility may also cause the actual cost to vary from the estimate. Actual bills can be expected with the final sales service bill as this allows the latest gas costs and gas bills to be included in the calculation.

If you have any questions regarding any of this information, please contact us at 1-888-664-2726 or by email at customerservice@nmgco.com.