G. *Conclusions*

» EPE's O&M costs evaluated in this assessment were "reasonable" given the Company's current structure and operating environment.
  — Steam unit O&M costs were understandably higher because of the age and size of the units.
  — EPE's low T&D O&M costs had not harmed reliability figures.
  — Customer care spending was low, but customer satisfaction numbers (according to the one source EPE uses) were relatively good.
    - Customer expectations are growing…this is an area EPE will likely need to make enhancements to its existing programs to meet expectations.
  — Relatively high A&G expenses appeared to be more a function of accounting practices and accounting systems than actual "unreasonably" high spending.
    - Low distribution and customer care costs "balanced out" high A&G costs.
    - The new Oracle system is expected to address some of these issues.

VI. RECOMMENDATIONS:

» The City and EPE should identify a set of performance measures that EPE can employ to self-report annual benchmark performance to the City to effectively assess EPE's performance compared to an agreed upon Peer Group of companies. This annual activity would facilitate an annual dialogue between the City and EPE to assist the City to:
  — Effectively assess operating cost elements
  — Effectively assess performance and customer satisfaction indices
  — Track EPE performance trends to prepare the City to consider issues to be addressed at the end of the current term of the Rate Agreement

» EPE should take action to address the condition of the old gas-fired steam units being a major cost liability.
  — A logical option to reduce O&M costs is to replace them with new more efficient units (and would also greatly reduce fuel costs).
  — Benchmark generation performance (e.g., forced outage rates; net availability factors) using industry standard practices ("NERC").

» EPE should develop staffing replacement plans, particularly in the generation function, to address potential retirements.

» EPE should continue to seek opportunities to deploy new systems and technologies to displace manual processes and enhance operational proficiency:
  — GIS
  — Outage Management
  — Customer Information System

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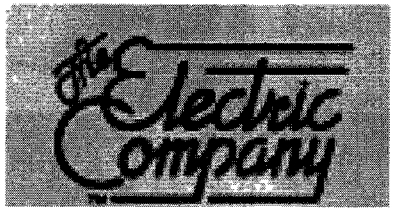
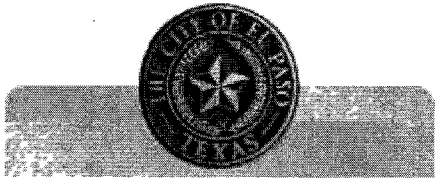
El Paso Electric Benchmarking





June 2, 2006

Information contained in the following Benchmarking Report, originally labeled as "Confidential", has been determined to no longer be "Confidential".

Table of Contents

1 Background and EPE Overview

2 Benchmarking Approach

3 Key Findings

4 Benchmarking Results

- Generation
- Transmission
- Distribution
- Customer Care
- A&G

5 Conclusions and Recommendations

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Project Background

- The City of El Paso, Texas (the "City") entered into a Rate Agreement (the "Agreement") with El Paso Electric Company (the "Company" or "EPE") effective July 1, 2005

- The Agreement requires the City to select an outside firm to determine whether the Company's operating expenses are within a reasonable range as compared to the utility industry. If the operating expenses are deemed unreasonable, then the Company and the City will agree upon a remedy, or the Agreement will expire at the end of the twelve-month period. If the operating expenses are deemed to be reasonable, the Agreement shall continue in full force and effect

- Navigant Consulting, Inc. ("NCI") was retained by the City to perform the review of the Company's operating expenses

- Work on the review was initiated in February 2006

- Navigant Consulting worked with City and Company officials to obtain data and review findings

The City directed NCI to answer the following questions:

- Are EPE's costs reasonable given its business structure?
- Are EPE's operating and maintenance expenses appropriate given its operating environment?
- Are there specific opportunities that emerge from the above analysis that EPE should pursue?

Scope of Work

- Navigant Consulting reviewed all operating costs of the Company's regulated utility business. The costs were separated into four main components:
  - Generation
  - Transmission and Distribution ("T&D")
  - Customer Care
  - Corporate/support functions ("A&G")

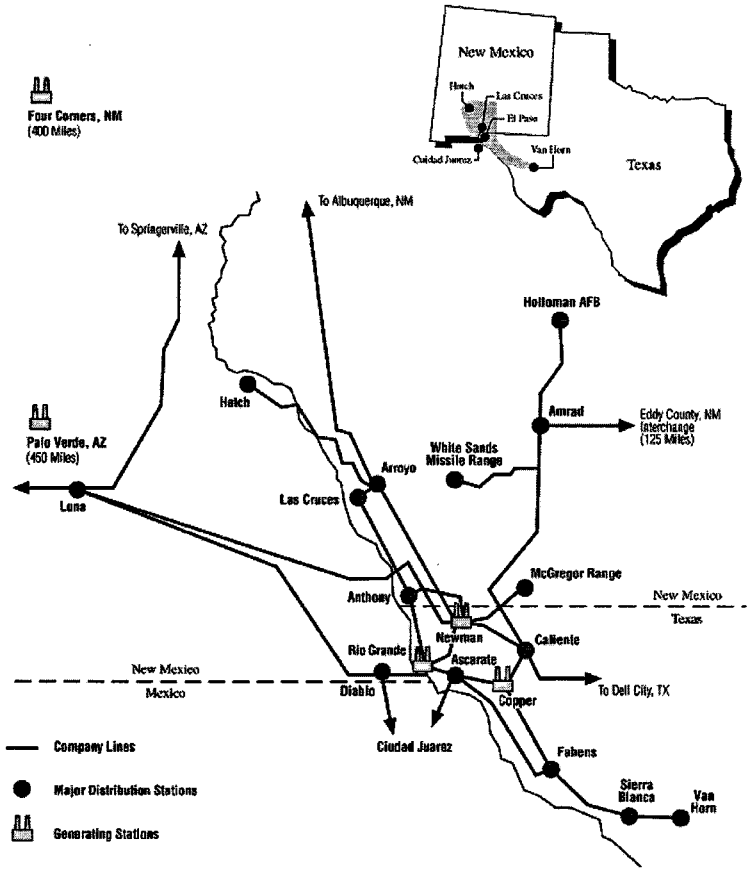
- The Company's fuel and purchased power expenses were excluded from the scope of the review

Specific issues addressed during the review included:

- Overall operations and maintenance ("O&M") expenses
- Capitalization versus expense policies
- Depreciation expenses
- Expenses related to service quality
- Existing workforce
- Projected changes to the workforce
- Routine maintenance programs
- Recent cost-cutting initiatives

The overall objective of the review was to determine the reasonableness of the Company's operating expenses as compared to those of similarly situated regulated utilities.

El Paso Electric (EPE) is an integrated investor-owned electric utility with operations in west Texas and southern New Mexico.



- Serves about 338,000 retail electric customers
- Distributes electricity to the cities of El Paso, Texas and Las Cruces, New Mexico, and surrounding areas
  - City of El Paso customers accounted for 60% of EPE's 2005 operating revenues
- ~90% of revenues come from regulated customer base; the rest from "off system" sales
- Owns 1500 MW of installed capacity
- Also purchases power for resale: 15% of 2005 energy sold came from purchased power
- ~1000 employees; 30% union
- Has franchise agreements with the cities of El Paso and Las Cruces

Sources: EPE 10-K, PUC of Texas, NCI analysis

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Key EPE Data For 2002-2005

	2002	2003	2004	2005	CAGR*
Retail Revenues ($M)	$580	$576	$617	$710	**7%**
Retail Customers	313,953	320,180	328,779	337,621	**3%**
Capital Expenditures ($M)	$71.3	$83.4	$76	$94.2	**10%**
Operating Expenses**	$208.7	$210.2	$211.1	$219.5	**3%**
Employees	993	977	990	998	**0%**
Miles of Transmission Lines	1,984	1,985	1,761	1,738	**-4%**

Non-fuel O&M has grown at about a 3% compound annual rate (CAGR) since 2002… approximately the rate of inflation.

*CAGR= compound annual growth rate
Total Non-Fuel and non-Power Purchase O&M. **Includes all A&G operating expenses, (i.e., includes accounts 926, 927, 928).
Source: FERC Form 1, NCI analysis

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107 105

Table of Contents

1 Background and EPE Overview

2 Benchmarking Approach

3 Key Findings

4 Benchmarking Results

- Generation
- Transmission
- Distribution
- Customer Care
- A&G

5 Conclusions and Recommendations

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NCI's Approach

- NCI relied upon publicly available data, as well as our internal databases, to assess the Company's operating costs. We reviewed the costs in aggregate, by FERC account, as well as on a unitized basis. Examples of unitized costs included:
  - Cost per customer
  - Cost per employee
  - Cost per line mile
  - Cost per meter
  - Cost per MWh

- NCI reviewed the Company's historical costs for the last four (4) years. A multi-year review allowed for the normalizing of expense levels
  - NCI calculates the "compound annual growth rate (CAGR)" for most historical cost categories. (CAGR is the compound annual rate)
- NCI relied upon annual data for the Company and a selected peer group of companies as reported in Form 1 Annual Reports to the Federal Energy Regulatory Commission.

For comparison purposes, the following FERC Form 1 items were excluded from the benchmarking analysis.

Accounts that the City and EPE originally agreed to exclude:

- Fuel Costs (Account 501)
- Purchased Power Costs (Account 555)
  - System Control and Dispatching (Accounts 556 and 557) are excluded as well, as they are part of the purchased power cost category in FERC Form 1

A&G accounts are unique to each utility and therefore not appropriate for quantitative benchmarking:

- Pensions and Benefits (Account 926)
- Franchise Requirements (Account 927)
- Regulatory Commission Expenses (Account 928)

These costs are excluded from all of the benchmarking analyses unless otherwise noted.

Peer group selection was based on five factors.

1. **Company Type**: Companies selected are electric operating utilities required by FERC to. file Form 1 (i.e., IOUs)
2. **Company Organization**: Holding companies with many operating utility subsidiaries were generally excluded
3. **Business Composition**: Companies selected are integrated utilities, with both generation and delivery operations
4. **Company Location**: Companies selected are primarily located in the Midwest or Southwest
5. **Company Size**: Companies selected have between 100,000 and 1,000,000 customers, annual retail revenues of $200 million to $2 billion, and under $10 billion in net plant

It is important to compare companies with similar size and organizational structure so as to provide a reasonable comparison.

Based on these five factors we chose a peer group of 20 operating utilities.

Peer Group Utilities (Ticker or Abbreviation)	
Arizona Public Service Co. (APS)	Madison Gas & Electric Co. (MGE)
CLECO (CNL)	MidAmerican Energy Co. (MA)
Dayton Power & Light (DPL)	Northern Indiana PSC (NI)
Duquesne Light Co. (DQE)	Oklahoma Gas & Electric Co. (OGE)
The Empire District Electric Co. (EDE)	Otter Tail Power Co. (OTTR)
Indianapolis Power & Light (IPL)	Public Service Co. of New Mexico (PNM)
Kansas City Power & Light (KCPL)	Tampa Electric Co. (TECO)
Kansas Gas & Electric Co. (KGE)	Tucson Electric Power Co. (UNS)
Kentucky Utilities (KU)	Westar Energy (WR)
Louisville Gas & Electric (LGE)	Wisconsin Public Service Corp. (WPS)

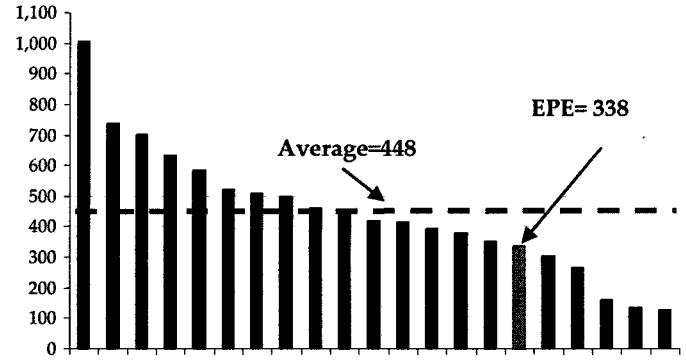
Characteristics of the Peer Group Companies

We compared our peer group companies using the following measures:

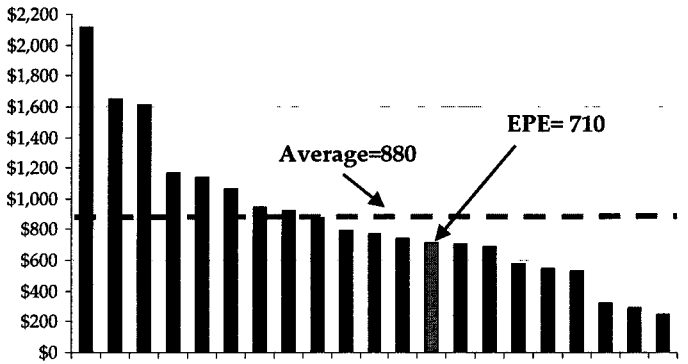
- Size indicators
  - Customers
  - Revenues
  - Net plant in service
  - Employees
- Asset metrics
  - Net plant/ MWh
  - Net plant/employee
- Financial metrics
  - Revenues/customer
  - Revenues/employee

Size Indicators: EPE is slightly smaller than the peer group average.

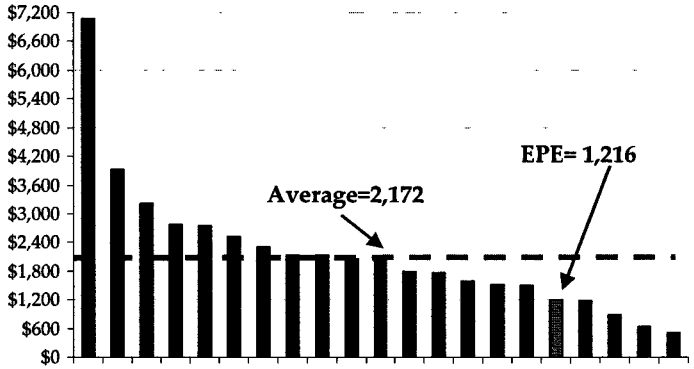
Retail Customers ('000)



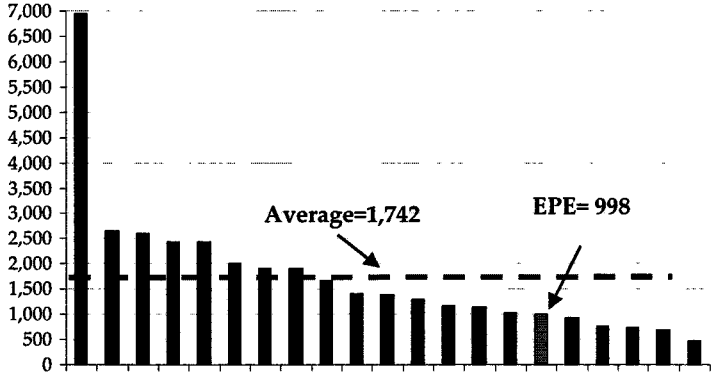
Retail Revenues ($M)



Net Plant in Service ($M)



Number of Utility Employees



Source: FERC Form 1, NCI analysis

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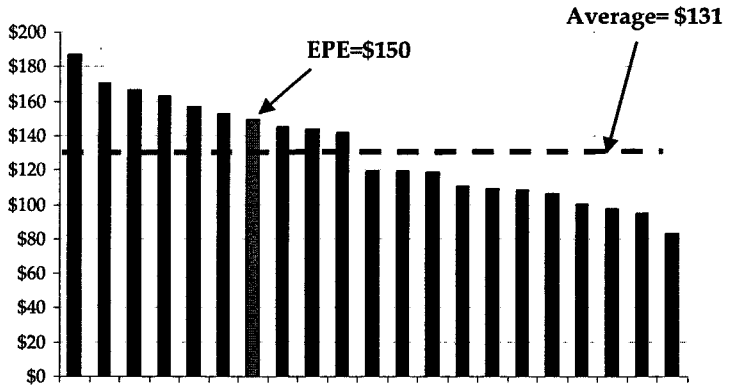
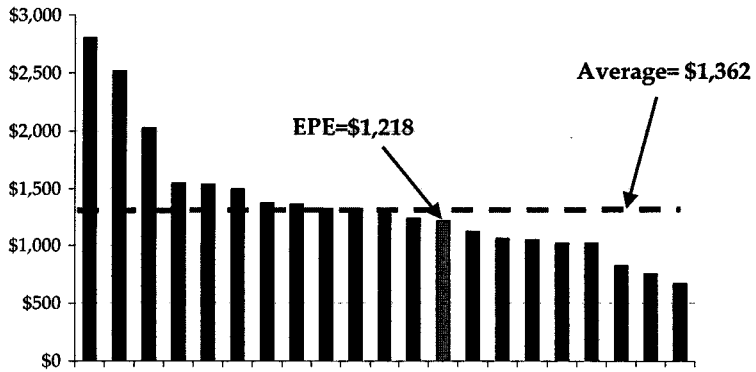
Asset and Financial Metrics: EPE is closer to average across the peer group when measured using key asset and financial metrics.

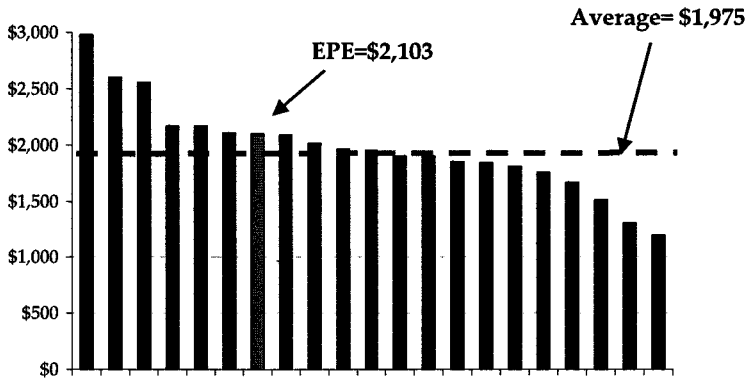
Net Plant/MWh



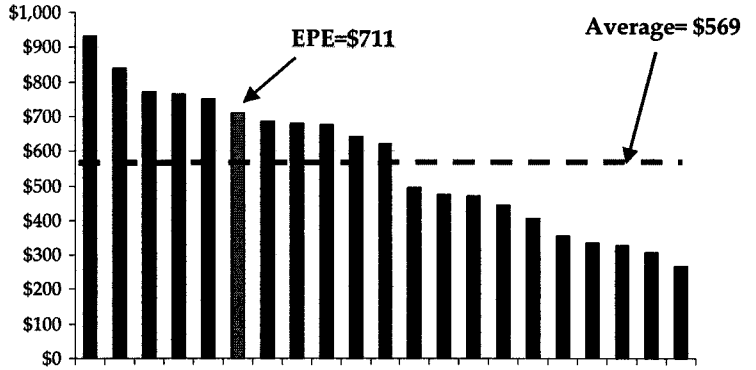
Net Plant/Employee($000)



Retail Revenues/Retail Customer



Retail Revenues/Employee



Source: FERC Form 1, NCI analysis

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Table of Contents

1 Background and EPE Overview

2 Benchmarking Approach

3 Key Findings

4 Benchmarking Results

- Generation
- Transmission
- Distribution
- Customer Care
- A&G

5 Conclusions and Recommendations

NAVIGANT CONSULTING

Overall, EPE's O&M costs are reasonable.

- EPE's total O&M costs per customer were slightly lower (i.e., less money is spent per customer) than the Peer Group average.
- EPE's gas and coal steam generation O&M costs per MWh generated were higher (i.e., more money was spent per MWh generated) than the Peer Group average.
  - EPE's steam generation portfolio included a number of old units which require a greater level of maintenance.
- Transmission O&M costs per line mile were lower than average; but not as low as the Peer Group top quartile.
- Distribution O&M per customer were lower than average and within the Peer Group top quartile.
  - Reliability indicators (e.g., SAIFI, SAIDI were low (i.e., good) compared to the Peer Group.
- Customer Care O&M per customer were lower than average and within the Peer Group top quartile.
  - Customer satisfaction scores were relatively high (i.e., good) along most indicators...although in 2005 they dropped.
  - EPE was in the 2nd quartile (out of about 100 utilities) in customer satisfaction.
- EPE's administrative and general ("A&G") O&M costs were higher than the Peer Group average but this appeared to be attributable to past allocation problems between A&G accounts and distribution and customer care accounts.
  - Too much was allocated to A&G and too little was allocated to customer care and distribution.
  - One of the purposes of the new Oracle accounting system, installed and operating as of mid-2005, was to address this problem.

Sources: FERC Form 1, EPE 10-K, EPE internal information, NCI analysis

We made other discoveries when assessing EPE's O&M performance.

- EPE's plant was highly depreciated (compared to Peer Group companies) due to the acceleration of the amortization of nuclear production plant and nuclear plant write-offs.
- EPE's capitalization and expense policies (as written) were standard, and no concerns were identified regarding these policies.
- EPE did not have an explicit, targeted cost-cutting program.
  - EPE reported that it had not targeted specific cost cutting initiatives aimed at reducing operating expenses but instead managed and controlled expenses through its budgeting process.
  - In certain key areas (T&D and customer care), EPE's costs were already low, reducing the potential need for any major cost cutting initiatives.
- EPE's employee-to-customer ratio was among the lowest in the Peer Group.
  - Like most utilities, EPE faces an aging workforce…but does not currently have in place explicit succession planning programs to address this issue. The Company reported that it has plans to launch a Workforce Risk Assessment to evaluate these challenges.
- EPE is considering many new systems which have been in place at other utilities for years which could lower costs in the longer term, including:
  - GIS
  - Outage Management System
  - Customer Accounting/Information System
  - Outsourcing of payroll

*quoted from EPE's written answer to our question regarding cost cutting
Source: FERC, EPE 10-K, EPE internal information, NCI analysis

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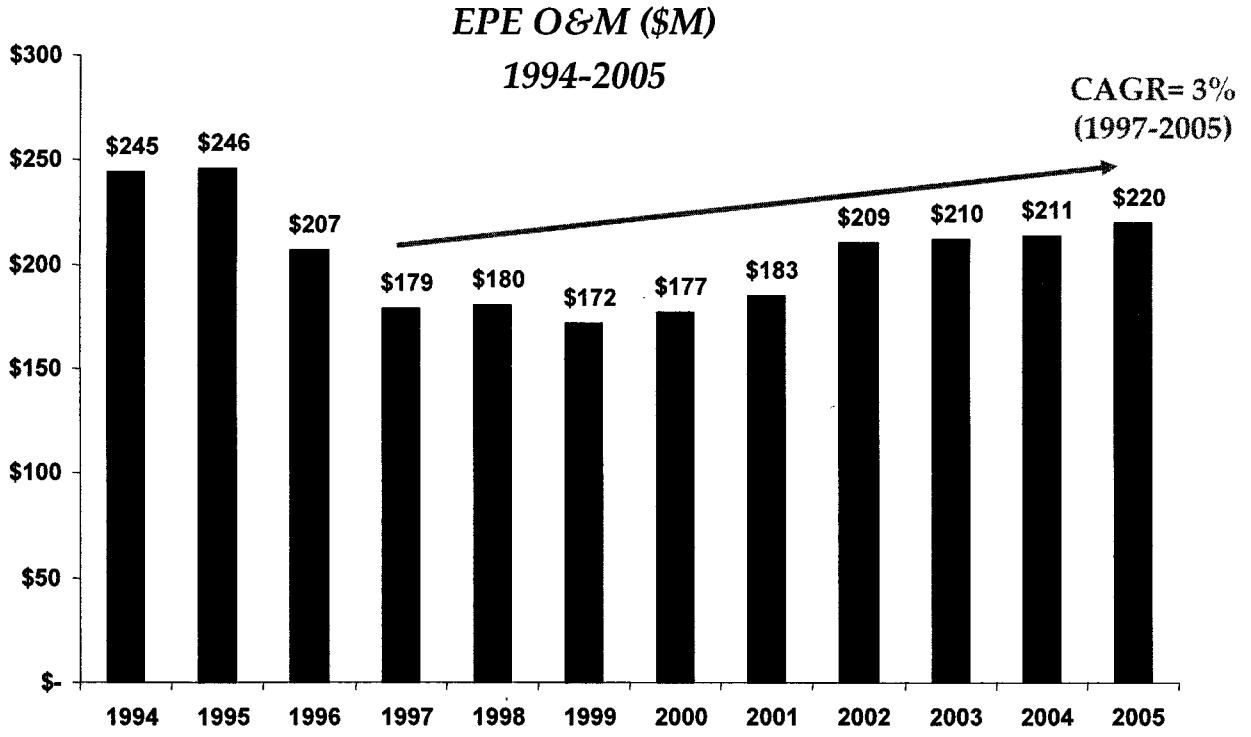
EPE's annual Operating Expenses* have increased at about the rate of inflation since 1997.



EPE's Operating Expenses have increased at a compound annual rate of about 3% since 1997.

*Total Non-Fuel and non-Power Purchase O&M. **Includes all A&G Operating Expenses, i.e., includes accounts 926, 927, 928**
Source: FERC Form 1, NCI analysis

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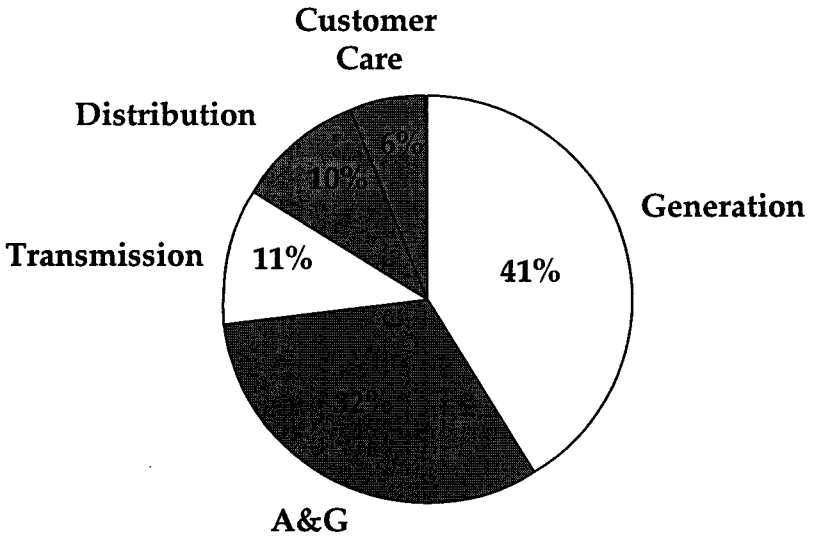
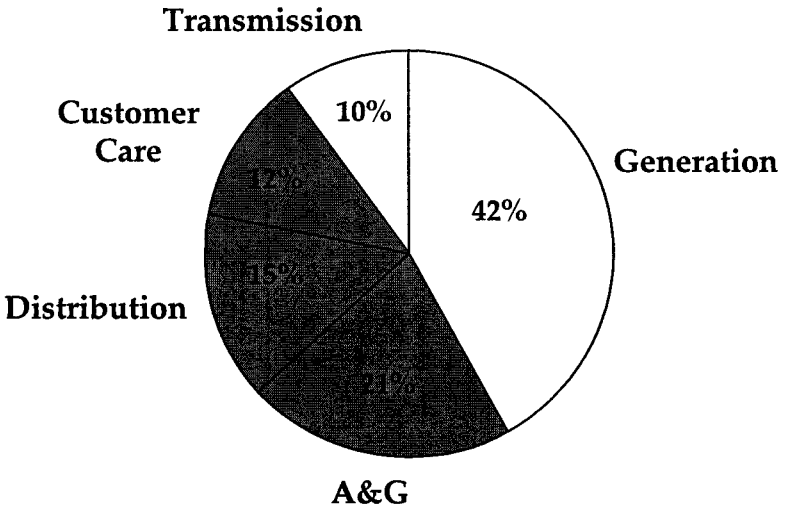
Key Findings– Operating Cost Trends: A&G

A&G represents a relatively high proportion of EPE's total O&M costs…but when compared against EPE's relatively low distribution and customer care costs…they balance out.

EPE: 2005 Measured O&M Costs
100%= $182 M



Peer Group Average: 2005 Measured O&M Costs
100%= $226 M



A&G plus Customer Care plus Distribution equals 48% of total O&M for EPE and 48% of total O&M for the peer group average.

Source: FERC Form 1, NCI analysis

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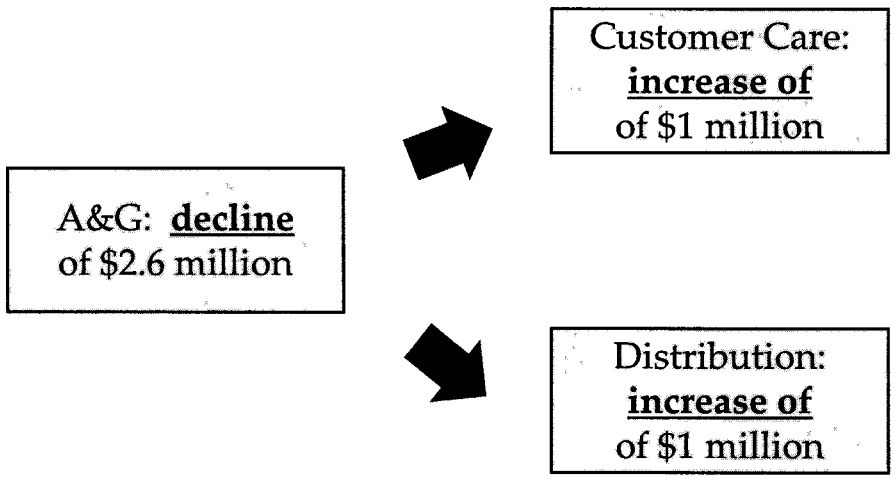
EPE's new Oracle-based accounting system, installed in mid-2005, appears to be allocating costs more appropriately.

Example Changes in O&M costs Between 2004 and 2005



Decline in A&G and increase in customer care and distribution suggest a trend towards more appropriate accounting…but system installed too recently to make full assessment.

Source: FERC Form 1, NCI analysis

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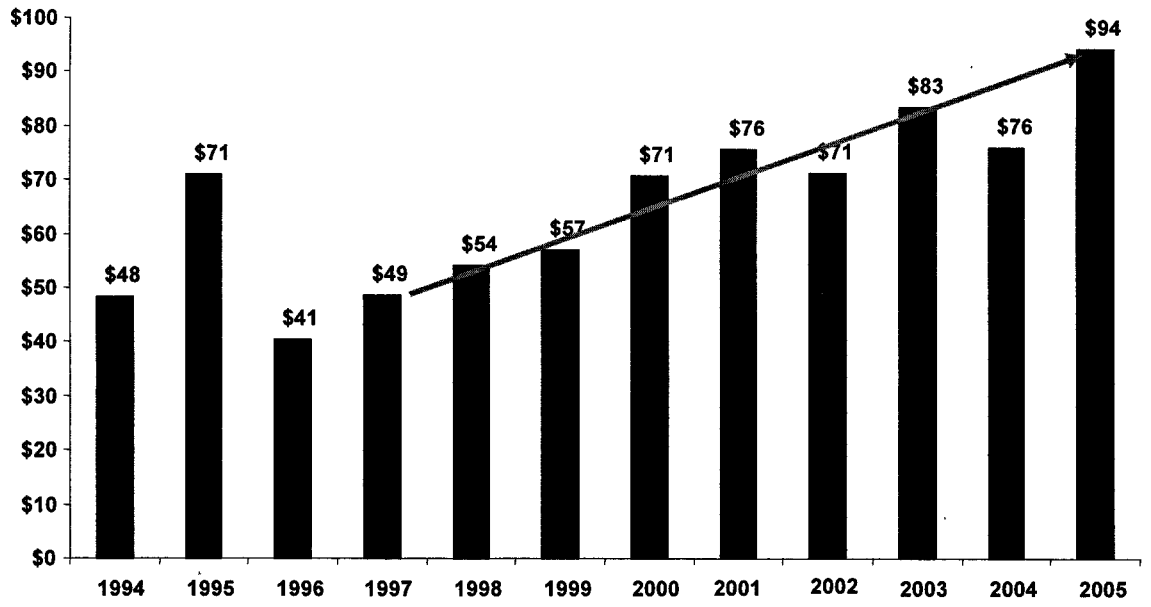
EPE's annual Capital Expenditures* have increased substantially since 1997, driven by equipment replacements at Palo Verde and growth of distribution system.

EPE's Capital Expenditures ($M)
1994-2005



CAGR= 8%
(1997-2005)

EPE's Capital Expenditures have increased at a compound annual rate of about 8% since 1997.

*Capital expenditures: Investment to replace, expand, or improve utility assets
Source: FERC Form 1, NCI analysis

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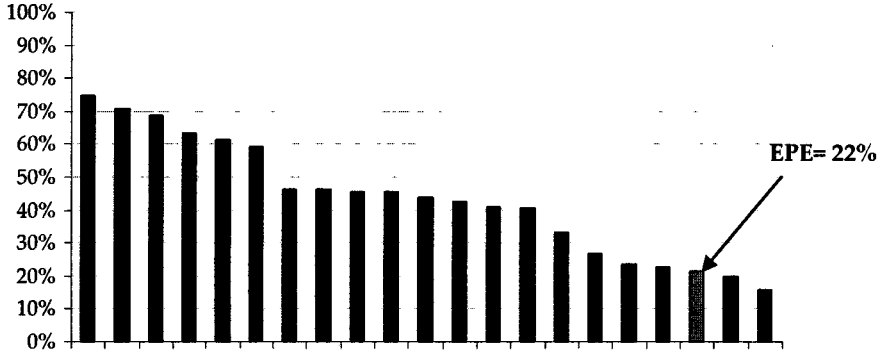
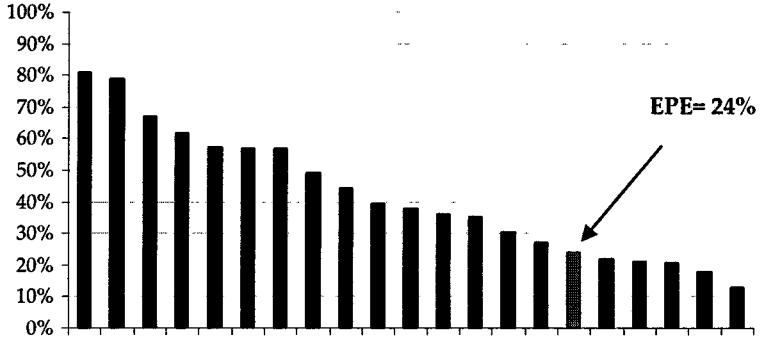
EPE's Capital Expenditures (CAPEX) as a portion of total expenditures has generally been lower than the peer group average for the years 2002-2005.

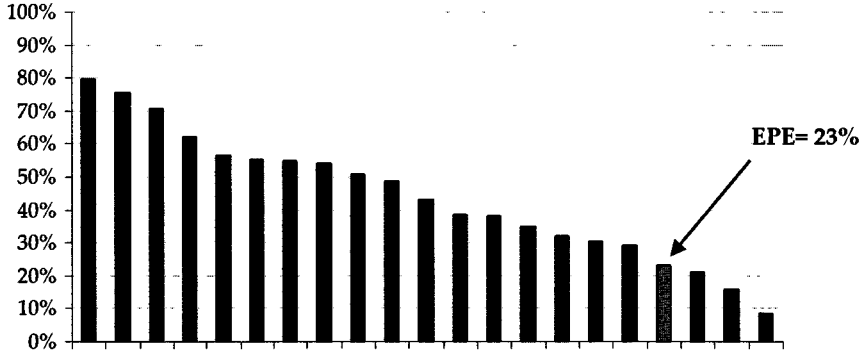
2002 CAPEX as Percent of Total Expenditures



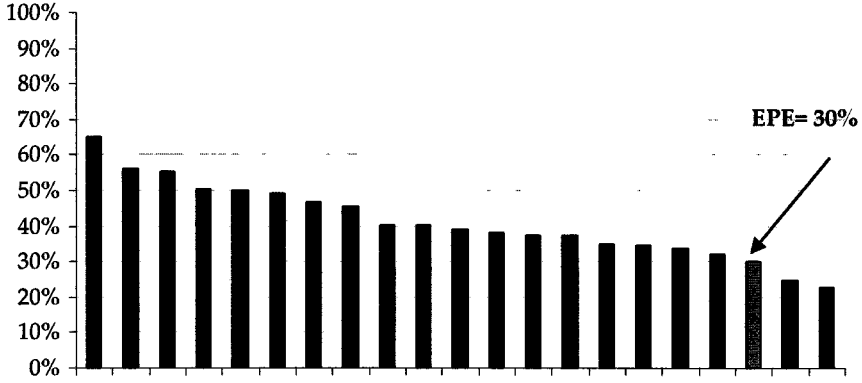
2003 CAPEX as Percent of Total Expenditures



2004 CAPEX as Percent of Total Expenditures



2005 CAPEX as Percent of Total Expenditures



Source: FERC Form 1, NCI analysis

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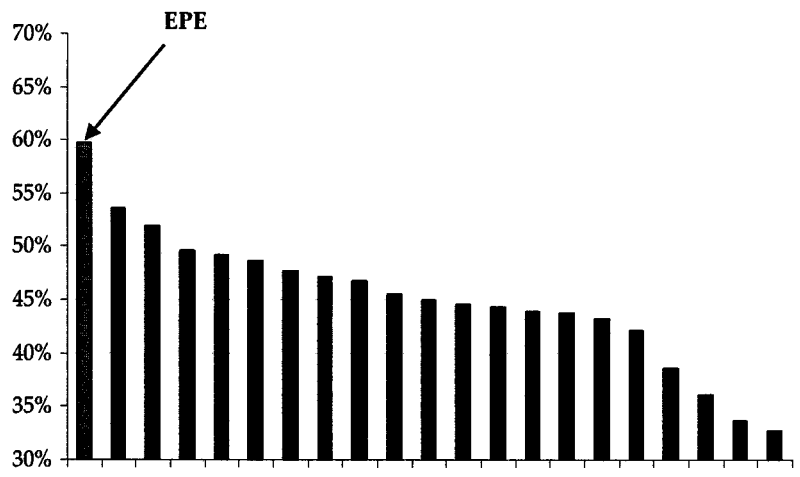
123

EPE's plant in service consists of highest proportion of depreciated assets in the peer group.

Depreciation as a Proportion of Total Plant in Service– 2005



- About 60 percent of EPE's total plant was depreciated, higher than all companies in the Peer Group.
- Over the last ten years, EPE accelerated the amortization of nuclear production plant and wrote off nuclear plant costs
- As a result, EPE's nuclear plant was approximately 70 percent depreciated even though it is less than 50 percent through its expected service life
- The last major new non-nuclear generating plant construction was nearly 30 years ago

Source: FERC Form 1, NCI analysis

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EPE's capitalization vs expense policies are standard.

- All new construction expenditures and plant additions are capitalized regardless of dollar amount
- Improvement or replacement of generating assets are capitalized if they meet the following criteria:
  - The useful life of the asset is increased
  - The quantity of production from the asset is increased
  - The quality of production is enhanced
- Repairs are capitalized if the life and/or productivity of the asset is increased
- For software, if the cost is below $1000, the purchase is expensed, if above, it is capitalized
- For a typical software project, the preliminary studies involved (e.g., feasibility studies) are expensed, but the rest—design and implementation, is capitalized
- The Company could be more aggressive in capitalizing costs if inclined to do so.

The policies are standard...but we do not have enough information to state whether EPE follows these guidelines in all/most cases.

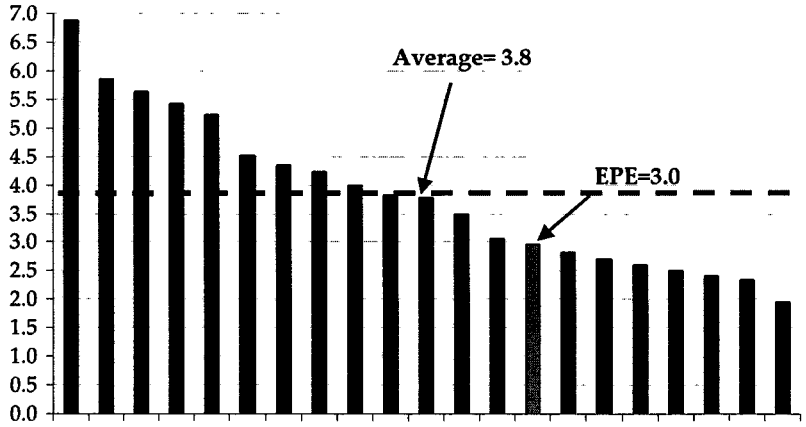
EPE has not specifically launched any cost-cutting initiatives.

- EPE manages and controls its expenses through its budgeting process
- EPE divides its expenses into two categories: corporate expenses and departmental expenses
  - — Departmental expenses are expenditures directly influenced by decisions and actions of department management
  - — Corporate expenses are costs primarily influenced by company-wide decisions and/or external factors (e.g., Palo Verde operations)
- EPE has had significant increases in corporate expenses since 2002 and limited its departmental expenses to counter this trend
  - — Palo Verde and Four Corners cost increases are examples of corporate expenses
  - — Departmental expenses were reduced by about 3% between 2004 and 2005

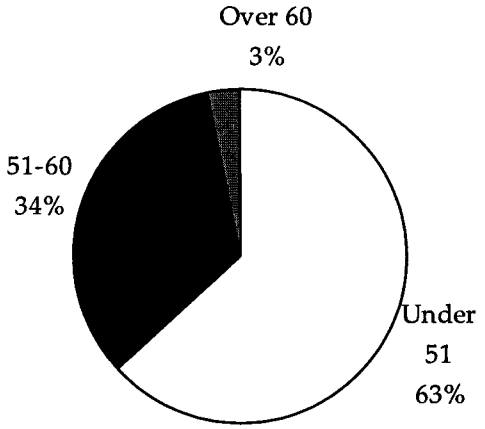
EPE's costs are low across most functional categories (except steam generation) so the Company appears to have been effective in managing its operating costs.

EPE has relatively fewer employees (per customer) than average peer group...and faces the challenges of an aging workforce.

Peer Group: Employees per Thousand Customers



EPE Age of Employees 100%=998



EPE does not currently have a comprehensive plan to address challenges related to its aging workforce.

Table of Contents

1 Background and EPE Overview

2 Benchmarking Approach

3 Key Findings

4 Benchmarking Results

- Generation
- Transmission
- Distribution
- Customer Care
- A&G

5 Conclusions and Recommendations

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Summary Utility Benchmarks

O&M Costs and Efficiency Metrics--2005

	EPE	Peer Group Average	Peer Group Top Quartile	Gap between EPE and Average (%)*	Gap between EPE and Top Quartile* (%)
O&M/Customer	$512	$526	$451	None	12%
O&M/Employee ($000)	$173	$150	$104	13%	40%
O&M/MWh	$26	$19	$14	26%	47%
Employees/ Thousand Customers	3.0	3.8	2.7	None	9%
O&M/ Utility Revenue	22%	23%	18%	None	19%

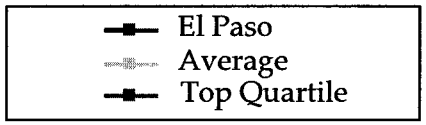
*** Gaps are calculated as the percentage cost reduction needed by EPE to make it to the average or top quartile. Thus, EPE would have to reduce total O&M costs/customer by 12% to make it from the current $512 per customer to $451 per customer.**

Source: FERC Form 1, NCI analysis

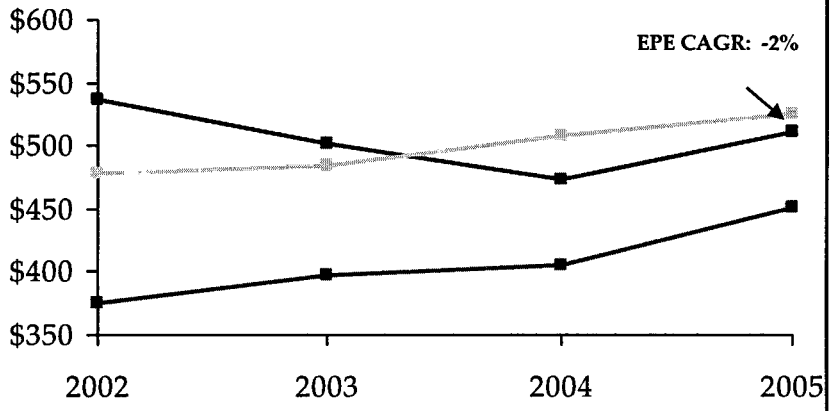
Exh 187

Benchmarking Results– Overall Peer Group (2002-2005 Trends)

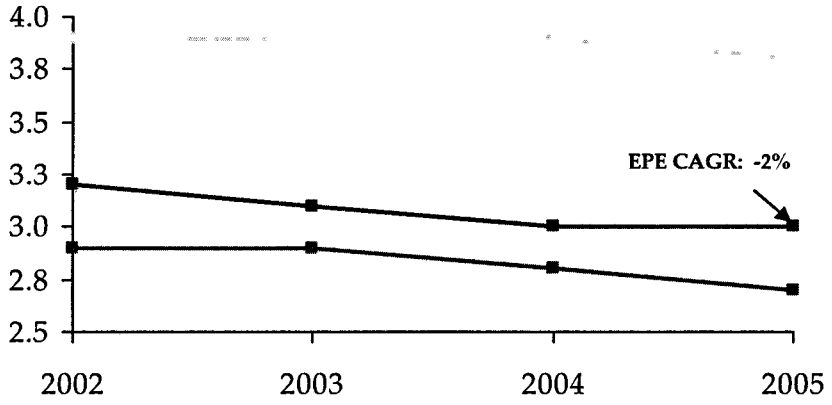
Overall EPE's O&M costs have declined since '02 and are less expensive per customer than the peer group average.



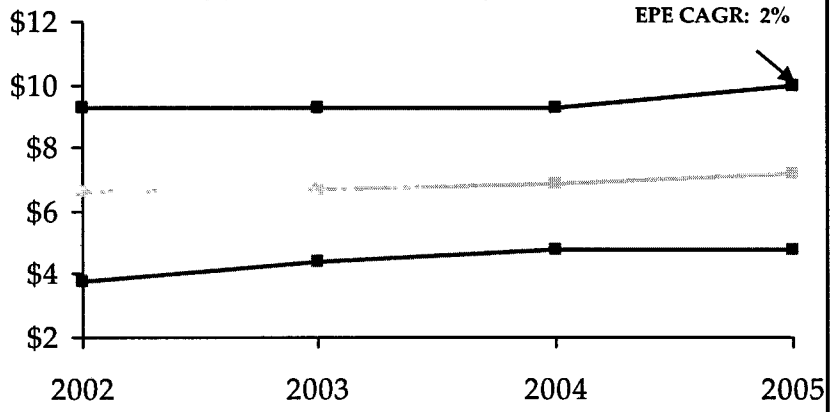
Total O&M Costs/Customer



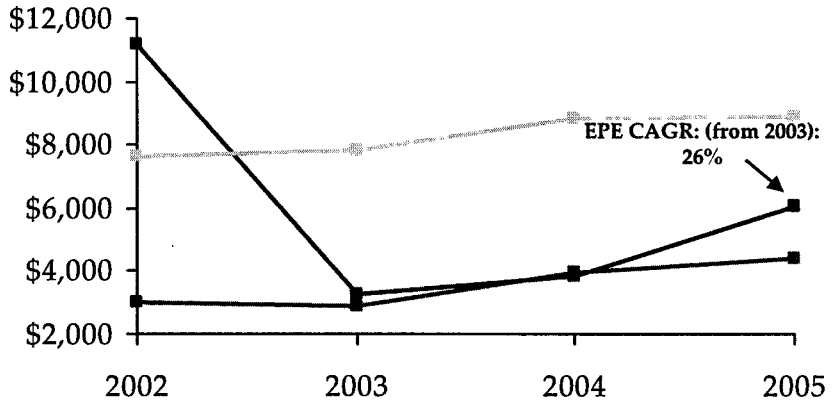
Employees/'000 Customers



Generation O&M/ MWh



Transmission O&M/Line Mile



Source: FERC Form 1, NCI analysis

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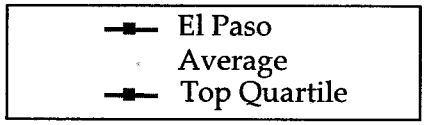
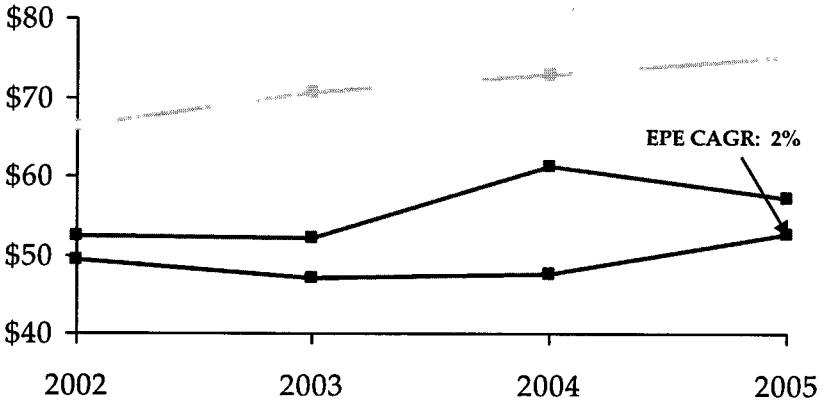
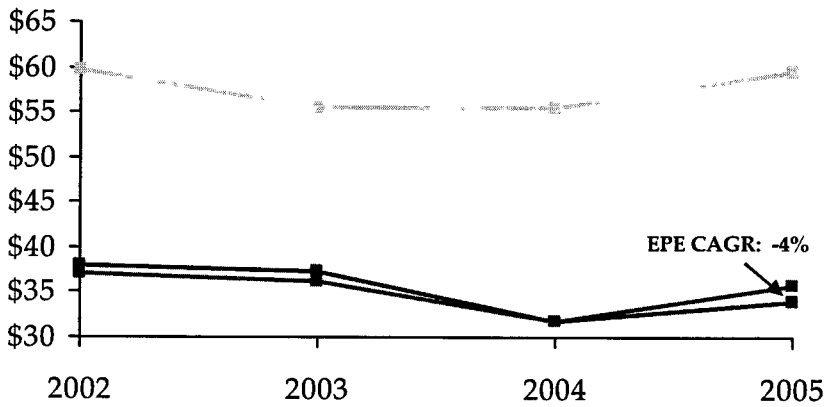
EPE's Distribution and Customer Care O&M costs are less expensive per customer than top quartile.



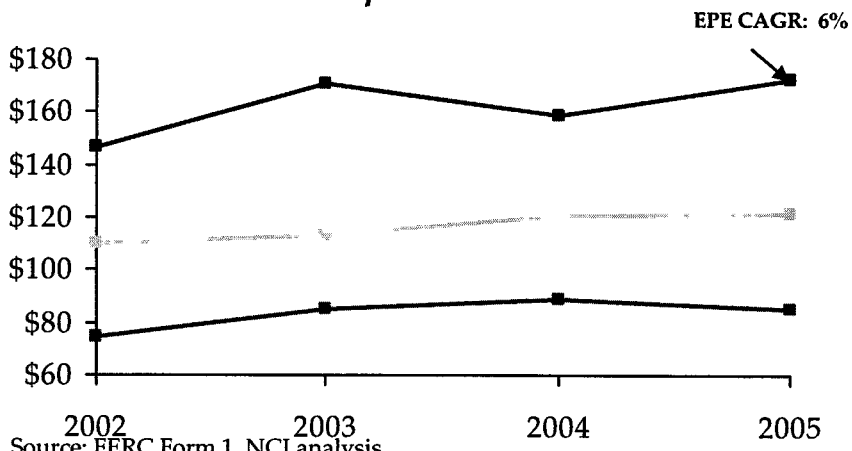
Distribution O&M/Customer



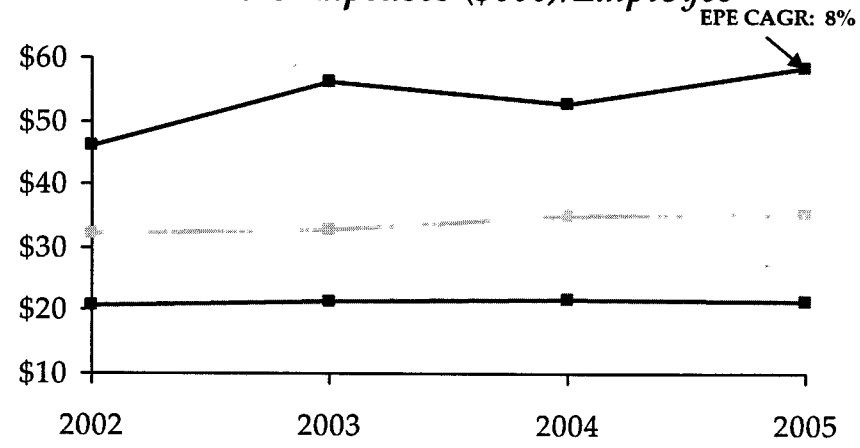
Customer Care Expenses/Customer



A&G Expenses/Customer



A&G Expenses ($000)/Employee



Source: FERC Form 1, NCI analysis

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Table of Contents

1 Background and EPE Overview

2 Benchmarking Approach

3 Key Findings

4 Benchmarking Results

- Generation
- Transmission
- Distribution
- Customer Care
- A&G

5 Conclusions and Recommendations

EPE's Generation O&M costs were higher per MWh than the peer group average in 2005.

O&M Generation Benchmarks-2005

	EPE	Peer Group Average	Peer Group Top Quartile	Gap between EPE and Average (%)	Gap between EPE and Top Quartile (%)
Steam O&M/ Steam MWh	$8.4	$6.4	$4.7	24%	44%
Nuclear O&M/ Nuclear MWh	$11.2	$27	$12.9	None	None
Total O&M/ Total MWh	$10	$7.2	$4.8	28%	52%

Gas and coal steam generation costs per MWh are higher than average; whereas nuclear generating costs per MWh are lower than average.

Source: FERC Form 1, NCI analysis

EPE owns 1,500 MW of generating capacity.

	Fuel Type	Nameplate Capacity (MW)
Palo Verde--3 units (owns 15.8%)	Nuclear	600
Newman-- 3 steam units; 1 CCGT (owns 100%)	Gas/Oil	482
Rio Grande– 3 steam units (owns 100%)	Gas/Oil	246
Four Corners—2 steam units (owns 7%)	Coal	104
Copper Power Station—1 CT (owns 100%)	Gas/Oil	68
Hueco Mountain Wind Ranch (owns 100%)	Wind	1

Five out of the six steam units at Rio Grande and Newman are between 40 and 49 years old. Only 69 MW (Copper Power Station and Hueco Wind) are not steam or nuclear.

Source: EPE 10-K

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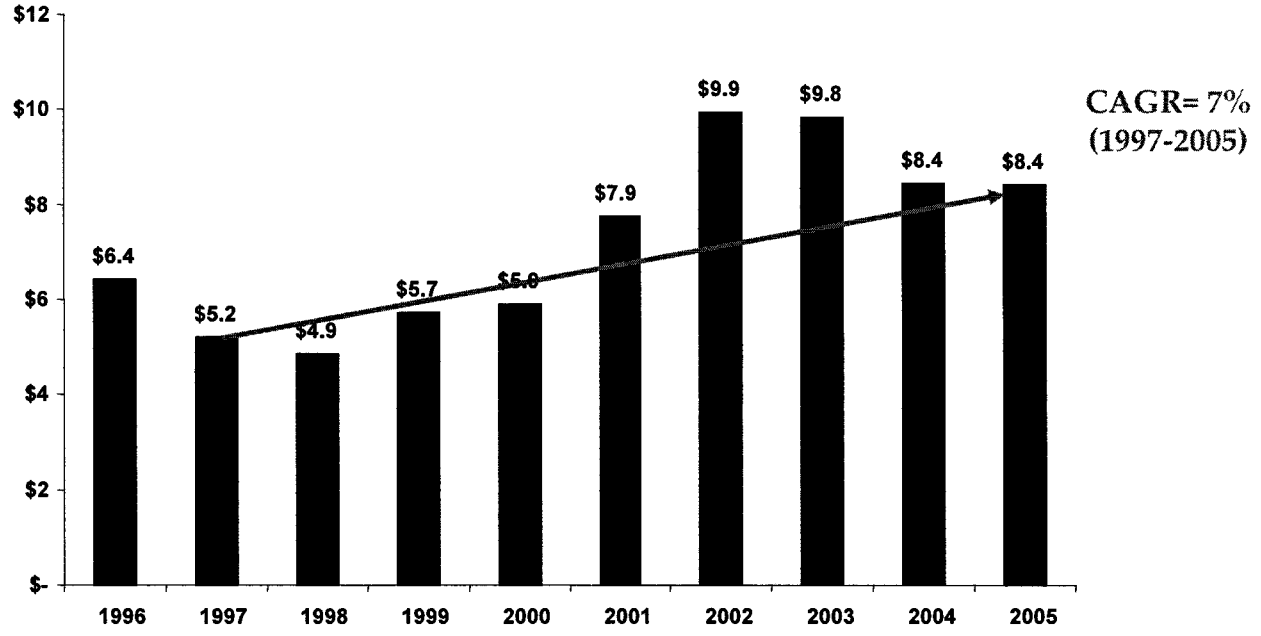
Steam generating O&M costs per MWh have increased at about 7% compounded annually since 1997.

EPE Steam O&M/
Steam Generated MWh



EPE steam generation O&M costs have been heavily impacted by maintaining the old Rio Grande and Newman gas fired units.

Source: FERC Form 1, NCI analysis

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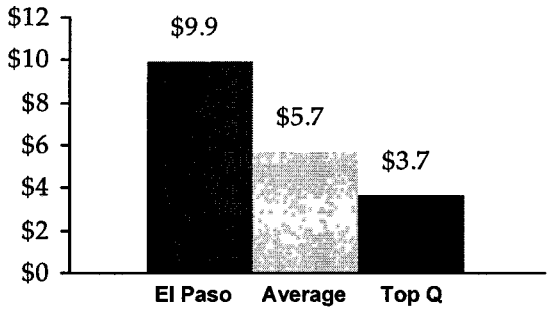
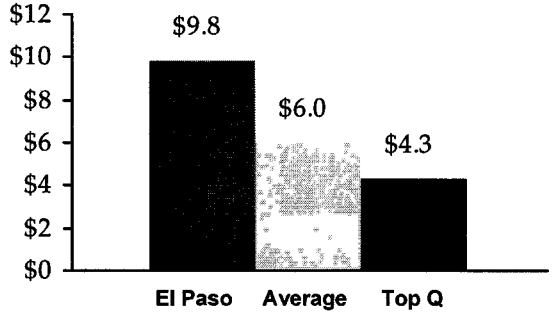
Steam generation O&M costs per MWh were about 40% more expensive than the peer group average in 2002 and 2003.

2002 Steam O&M/ Steam Generated MWh



2003 Steam O&M/ Steam Generated MWh



Key Cost Drivers at EPE

- Scheduled overhaul of Newman Unit 3 (Unit 3 had an EFOR of 12.7%)
- Scheduled overhaul of Four Corners
- Cooling tower and boiler repairs at Rio Grande Unit 8 (Unit 8 had an EFOR of 10.5%)
- Remediation costs accrued at Rio Grande for underground spill and asbestos removal

- Major overhaul and Distributed Control System upgrade at Newman Unit 4
- Boiler repairs at Rio Grande Unit 7 (Unit 7 had an EFOR of 19.2%)
- Generator bearing repairs at Rio Grande Unit 8

Source: FERC Form 1, EPE internal company information, NCI analysis

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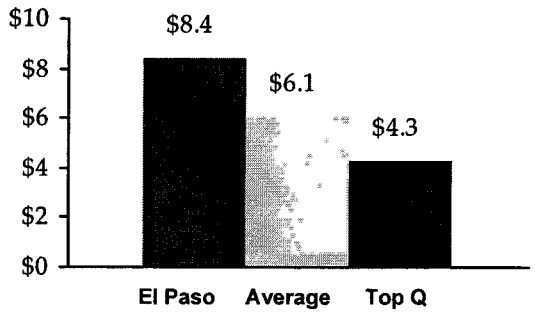
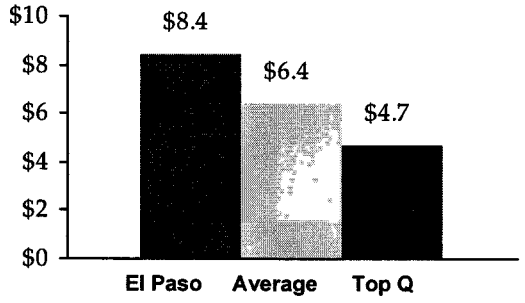
Steam generation O&M costs per MWh were about 25% more expensive than the peer group average in 2004 and 2005.

2004 Steam O&M/ Steam Generated MWh



2005 Steam O&M/ Steam Generated MWh



Key Cost Drivers at EPE

- Boiler repairs on Newman Unit 3
- Boiler repairs on Four Corners
- Newman Unit 2 had major turbine generator overhaul

Source: FERC Form 1, EPE internal company information, NCI analysis

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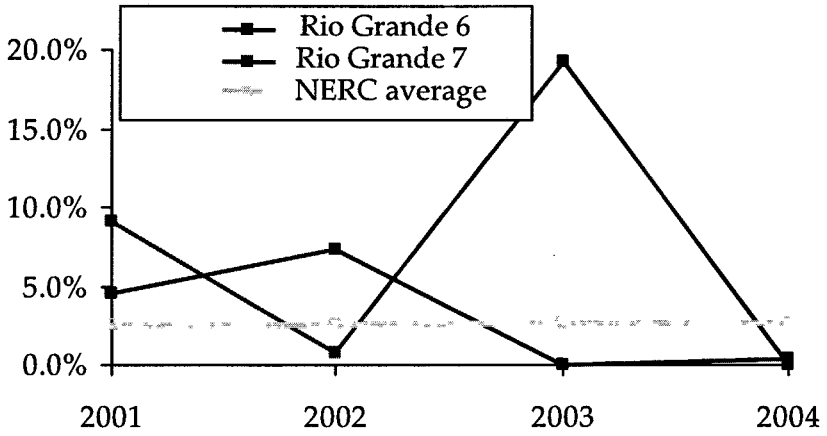
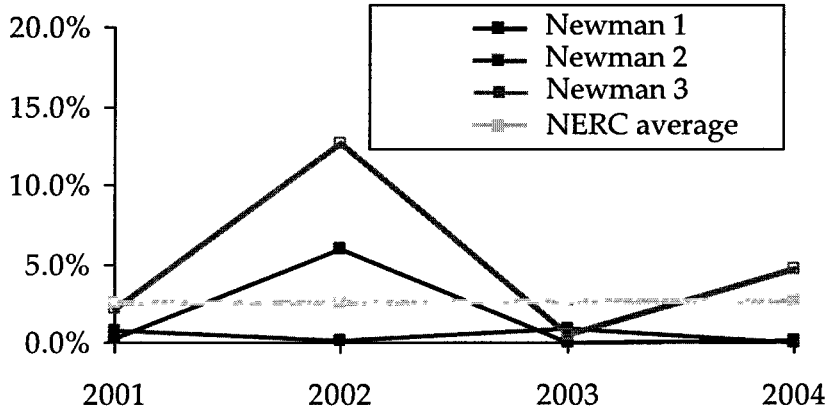
131

Equivalent Forced Outage Rates (EFOR) have been high since 2001...however, there was improvement in 2004, the last year data was available.

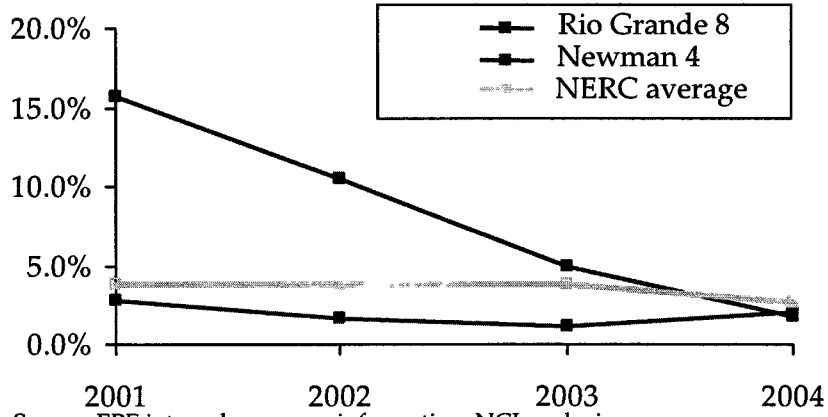
*Rio Grande 6,7 versus NERC Avg. EFOR**



*Newman 1, 2, 3 versus NERC Avg. EFOR**



*Rio Grande 8; Newman 4 versus NERC Avg. EFOR***



* Units are under 100 MW each and compared to NERC average benchmarks for units of 1-99 MW

** Units are above 100 MW each and compared to NERC average benchmarks for units of above 100 MW

Notes: EFOR is calculated as Forced Outage Hours divided by Available Hours. **NCI used data (unadjusted) because this is most comparable to benchmarks.** We did not include Four Corners, because El Paso has little control over this plant's operations.

Source: EPE internal company information, NCI analysis

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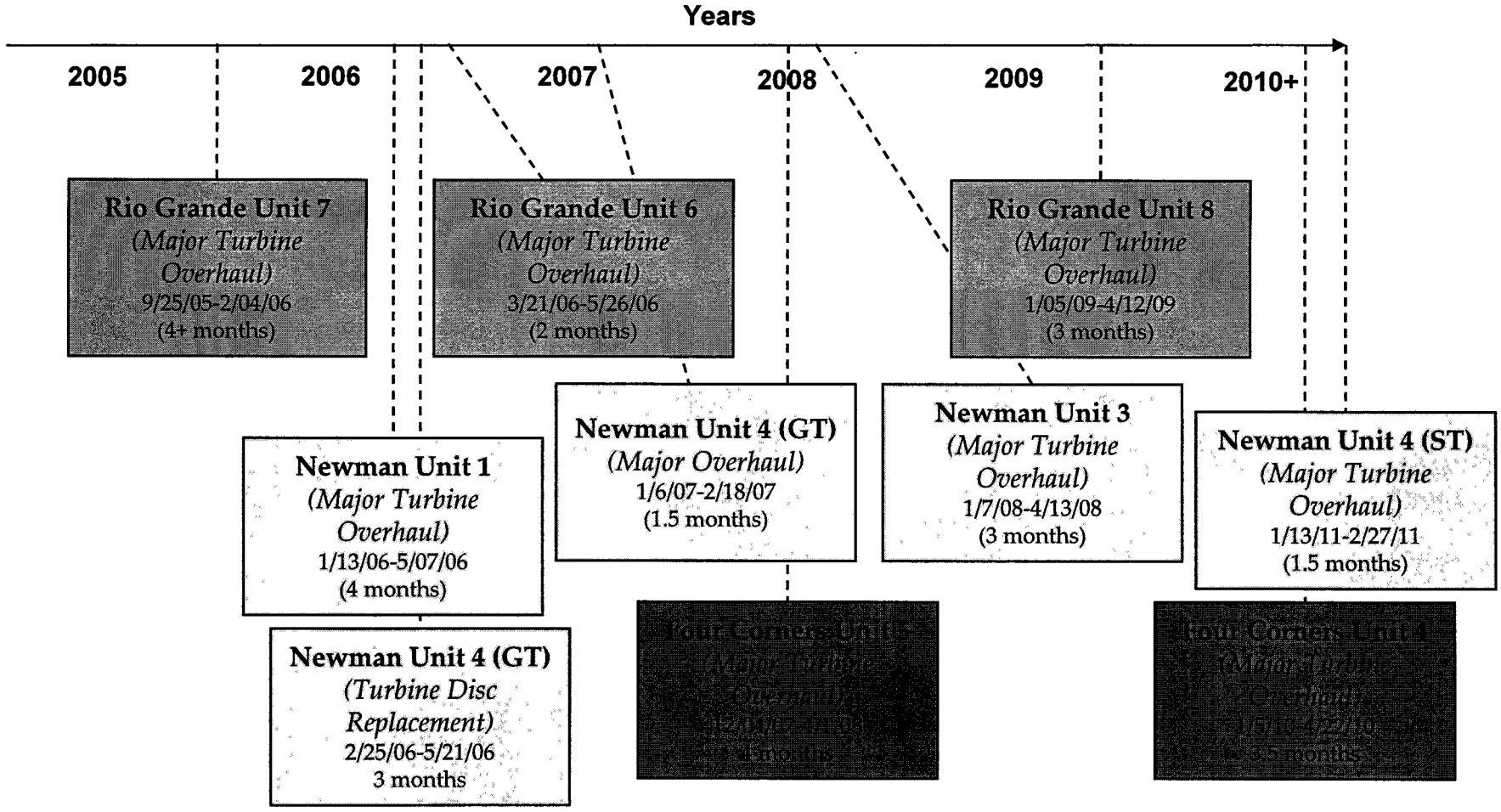
138
136

Upcoming major planned outages at steam units may temporarily increase operating and capital costs at those units.



Source: EPE internal company information, NCI analysis

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EPE's steam generating units are old and expensive to operate.

- Staffing levels may be high at several of the gas powered steam units, but benchmarking staffing is not possible using public data
- EPE has recently (within the last year) hired a new VP of Fossil Generation who has goals/expectations to review staffing and operational performance at the plants within the next five years
- Recent trends show improvement…but more data points (i.e., years) are needed before any conclusions can be drawn
- Several major planned outages at EPE's steam plants will likely lead to higher EFORs in the years directly following (this is a common trend at most utilities)
- The Four Corners Units have performed poorly (with EFORs of 11.5% and 6.7% in 2004) but EPE has very limited control over these performance levels

Source: EPE internal company information, NCI analysis

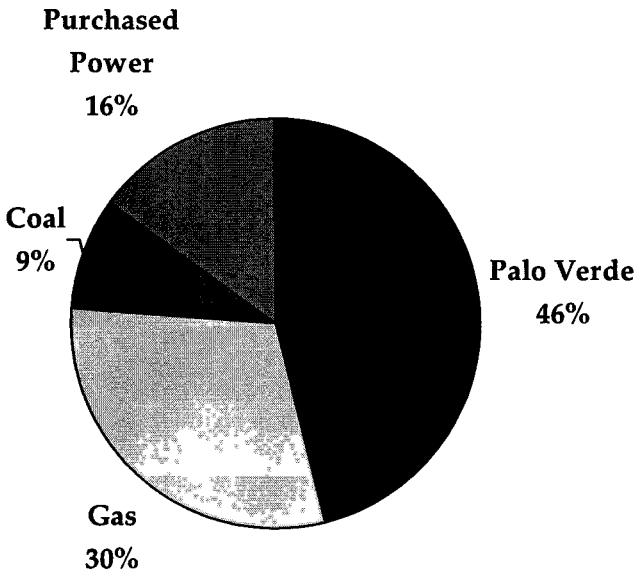
EPE compares its generating performance metrics (e.g., EFOR) using different assumptions than those used by NERC.

- EPE benchmarks their own steam units against unit data provided by the North American Reliability Council (NERC)
- However, EPE adjusts its own data "by omitting events that are considered atypical and thus, not expected to repeat in the future"
  - A meeting is held with each plant's manager to determine what events should be considered non-routine or unanticipated for their particular plant
  - Thus, EPE excludes such events as boiler repairs, condenser tube leak repairs, etc.
  - NERC data includes such events, however
- In this analysis, we have therefore used EPE's unadjusted data, which offers a closer comparison to the benchmarks used by NERC (and what is generally accepted in the industry

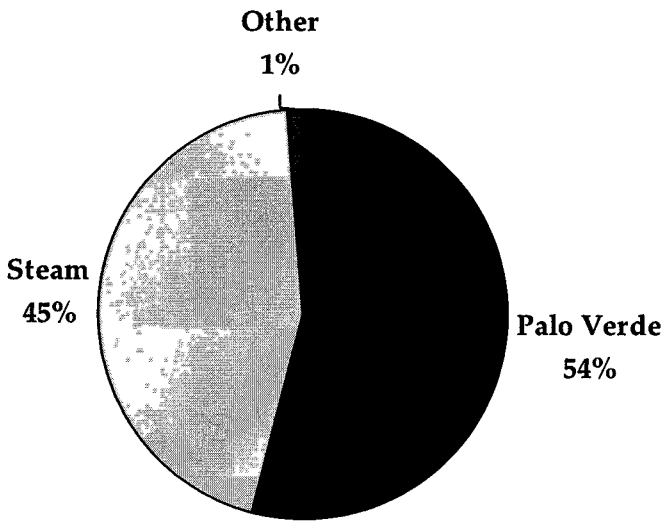
Source: EPE internal company information, NCI analysis

EPE's 15.8 percent ownership in Palo Verde represents about 46% of EPE's available resources and 54% of energy generated in 2005.

2005 Supply by Source (MW)
100%- 1500 MW



2005 Production by Source (GWh)
100%- 7.5 GWh



Note: excludes energy purchased

Source: EPE 2005 10-K, NCI analysis

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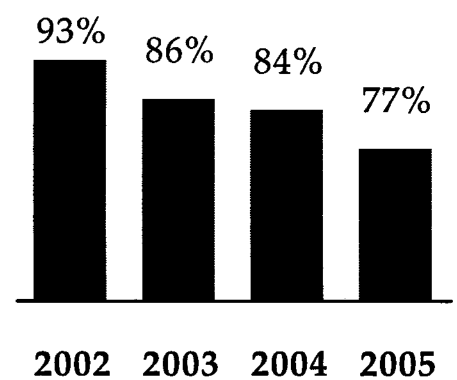
Palo Verde's capacity factor has declined since 2002.

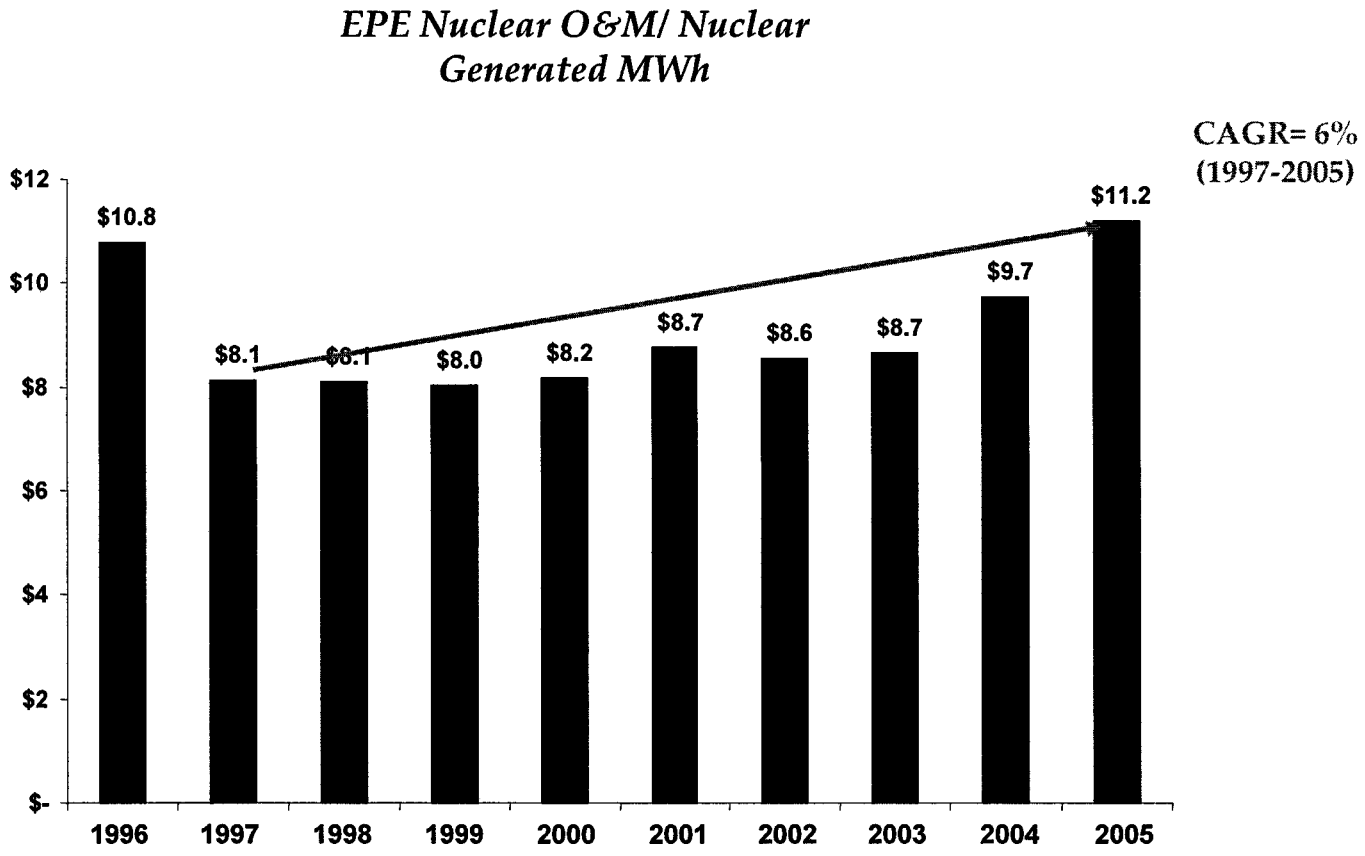
- Palo Verde's output was 40% less in 2005 than in 2004 due to equipment problems
- Palo Verde experienced 78 more unplanned outage days in 2005 than it did in 2004 and had 11 more planned outage days.
- Continued problems at Palo Verde—currently experiencing "harmonic vibration" in one of the piping systems
- Estimated $2 million- $3 million per month (over first Q 06) reduction of off-system sales due to reduced operating capacity
  - Results in a comparable increase in necessary power purchases

Palo Verde Capacity Factor



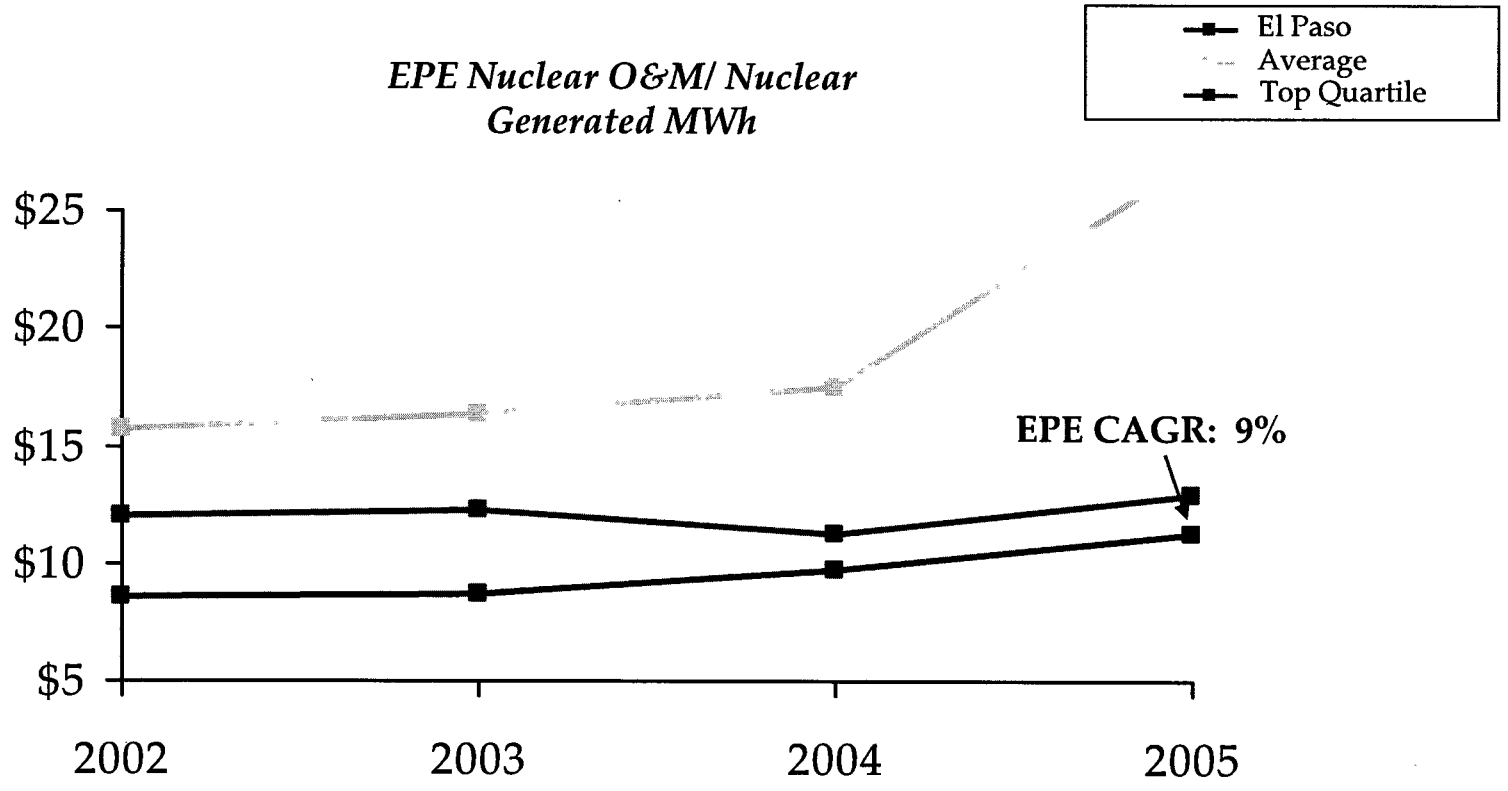
Source: EPE 2005 10-K; EPE internal company information, NCI analysis

O&M costs per MWh have increased from 1997



Source: FERC Form 1, NCI analysis

Despite this cost increase, EPE's nuclear O&M costs per MWh are lower than the peer group average and within the top quartile.



Source: FERC Form 1, NCI analysis

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Palo Verde's O&M costs have a significant impact on EPE's overall O&M costs.

- EPE has experienced increasing costs from the nuclear units since 1997
- The reduced nuclear unit availability has resulted in reduced revenues (i.e., from off-system sales)
- There is limited opportunity for EPE to influence this trend, as it is a cost-taker vis-à-vis Palo Verde
- Even though EPE's nuclear costs are increasing, Palo Verde is still a relatively low cost nuclear plant

Table of Contents

1 Background and EPE Overview

2 Benchmarking Approach

3 Key Findings

4 Benchmarking Results

- Generation
- Transmission
- Distribution
- Customer Care
- A&G

5 Conclusions and Recommendations

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