EPE's Transmission O&M cost benchmarks were lower (less expensive) than the peer group average in 2005.

Transmission O&M Benchmarks-2005

	EPE	Peer Group Average	Peer Group Top Quartile	Gap between EPE and Average (%)	Gap between EPE and Top Quartile (%)
Trans. Operation Cost/Line Mile	$5,049	$6,893	$3,349	None	34%
Trans. Maintenance Cost/Line Mile	$992	$1,990	$1,069	None	None
Total Trans. O&M Cost/ Line Mile	$6,041	$8,883	$4,418	None	27%

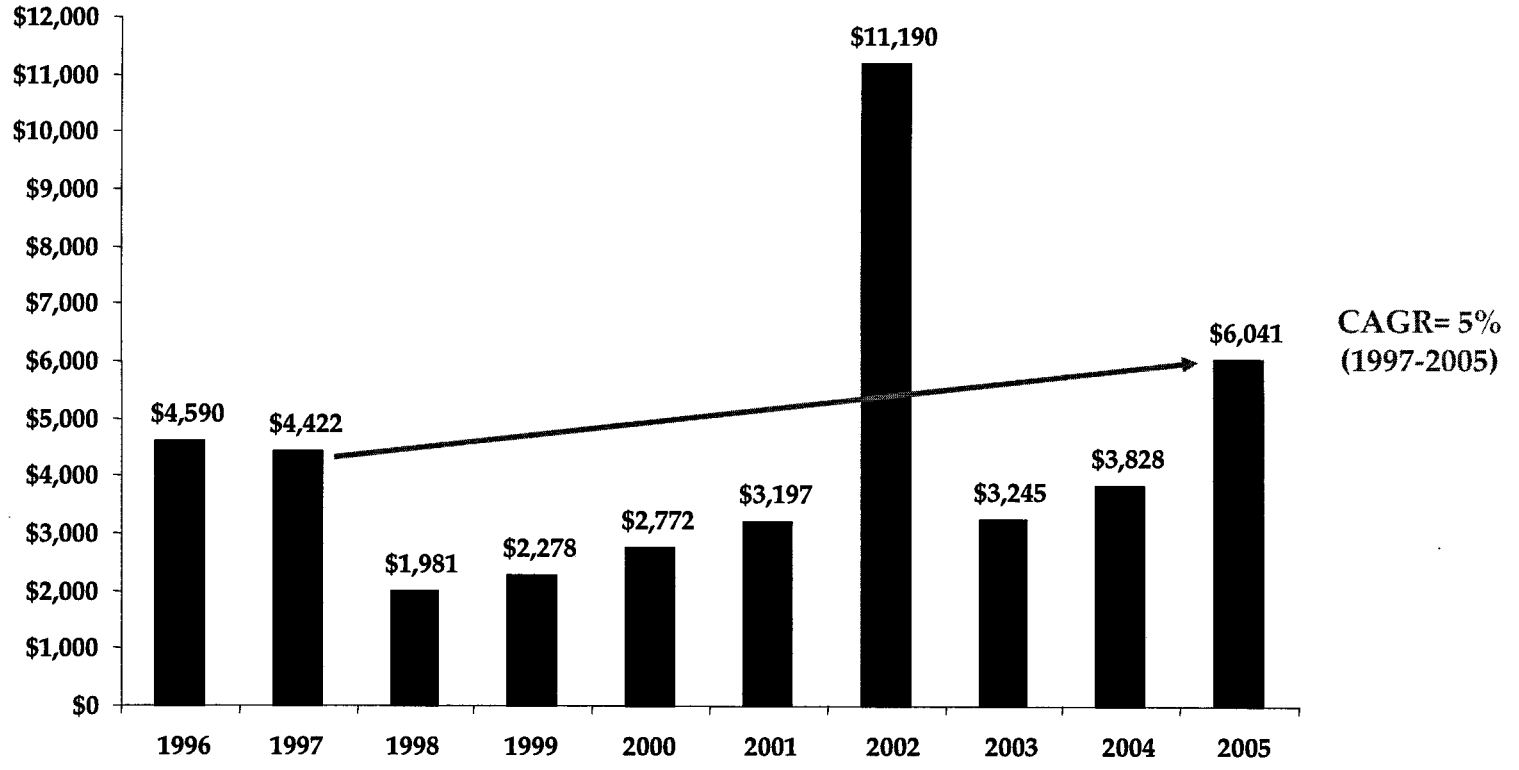
EPE benefits from having more moderate weather conditions than other peer group companies (limited ice, limited high winds, etc., but must maintain many miles of remote line

Source: FERC Form 1, NCI analysis

148 of 446

Transmission O&M costs have been "up and down" since 1997.

EPE Transmission O&M/ Line Mile



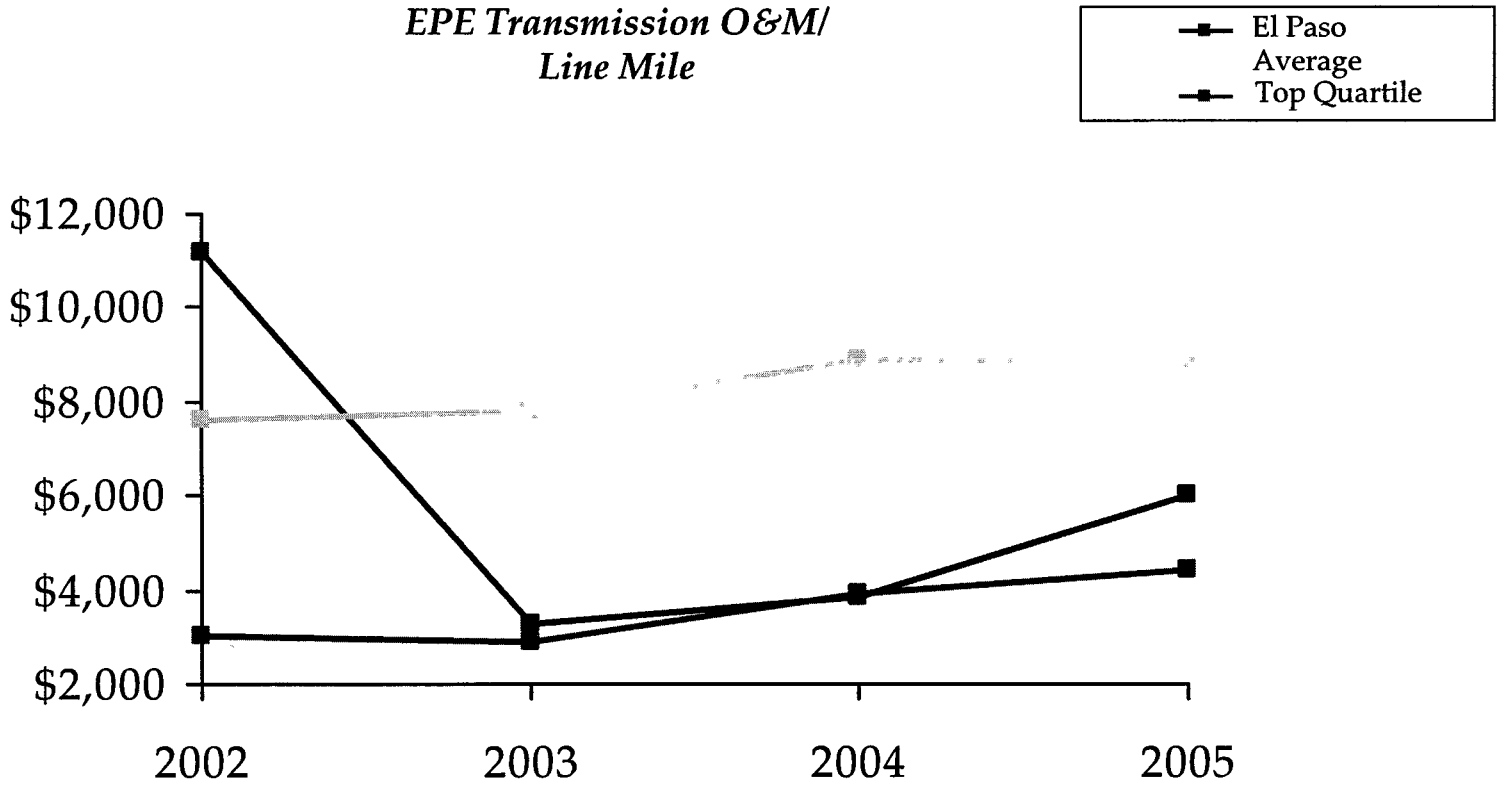
Source: FERC Form 1, NCI analysis

147

NAVIGANT CONSULTING

EPE's Transmission O&M costs per line mile—excluding the extraordinary costs in 2002– have been below (less expensive) than the peer group average.

EPE Transmission O&M/ Line Mile



Source: FERC Form 1, NCI analysis

Key Transmission Findings

- Transmission O&M costs are "reasonable"
- EPE enjoys a good operating environment impacting both cost and performance of transmission
- Unlike other business functions, the transmission staff is made up of mainly young people
  - 65% of employees are 50 or younger, versus 56% of employees in generation

Source: El Paso internal materials, NCI analysis

Table of Contents

NAVIGANT CONSULTING

EPE's Distribution O&M cost benchmarks were below (less expensive) than the peer group average in 2005.

Distribution O&M Benchmarks-2005

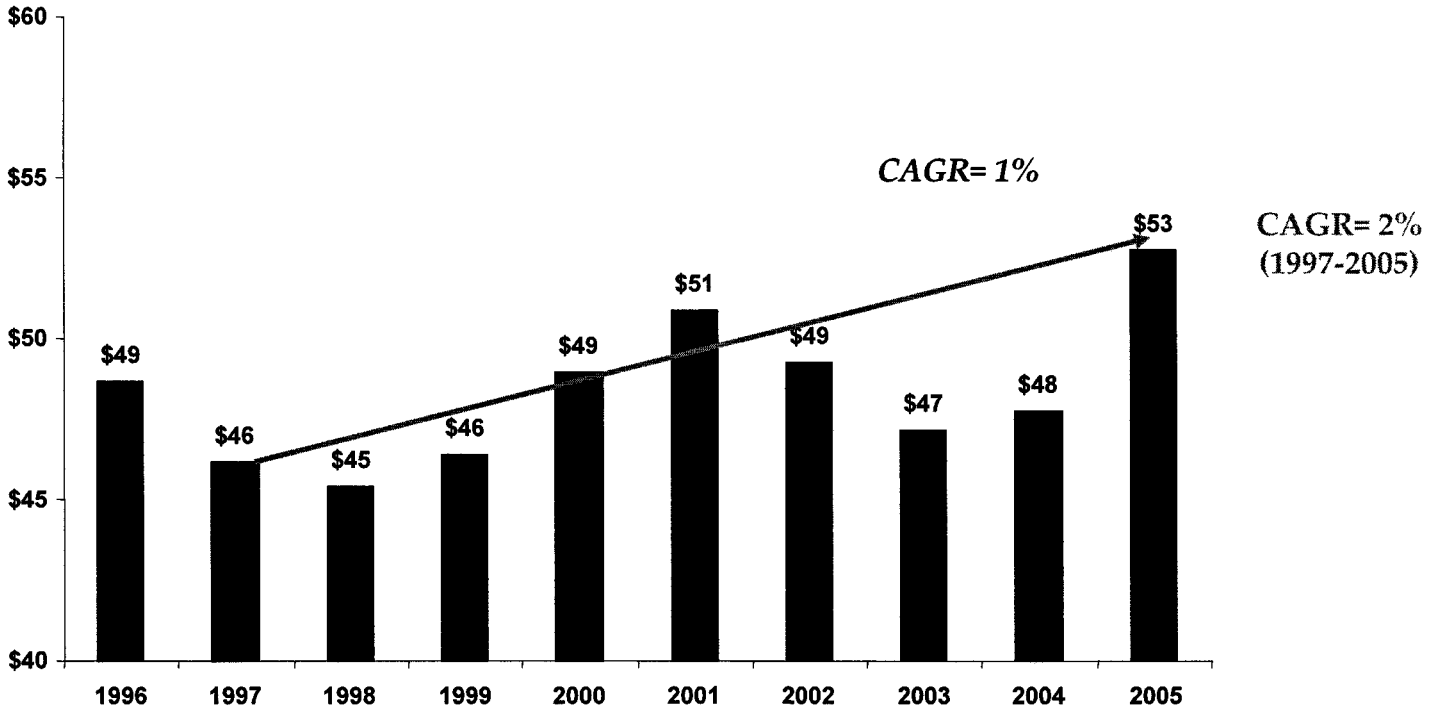
	EPE	Peer Group Average	Peer Group Top Quartile	Gap between EPE and Average (%)	Gap between EPE and Top Quartile (%)
Distribution Operation Cost/ Customer	$33.9	$34.8	$28.8	None	15%
Distribution Maintenance Cost/ Customer	$18.8	$40.3	$28.4	None	None
Total Distribution O&M Cost/Customer	$52.7	$75.1	$57.2	None	None

EPE benefits from having more moderate weather conditions than other peer group companies (limited ice, limited high winds, etc.)

Source: FERC Form 1, NCI analysis

Distribution O&M costs per customer have remained relatively flat.

EPE Distribution O&M/ Customer



Source: FERC Form 1, NCI analysis

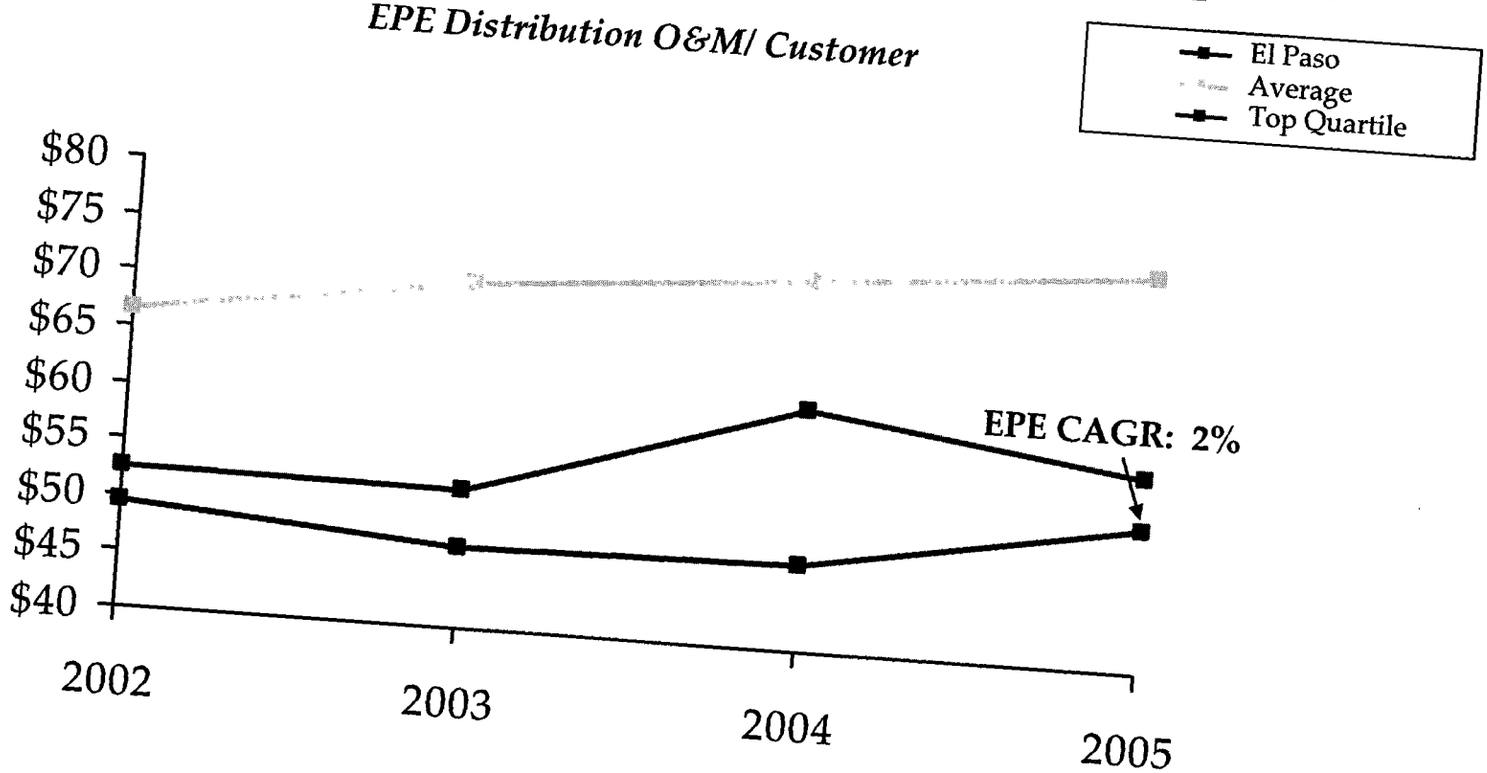
NAVIGANT CONSULTING

152
154

Distribution– O&M Costs

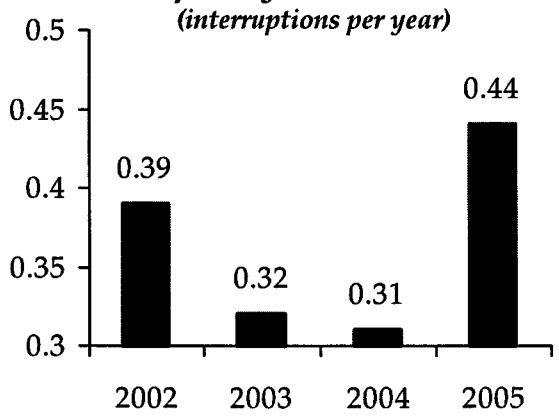
Since 2002, EPE's Distribution O&M costs per customer have risen only 2% and remain less expensive than the peer group average and top quartile.

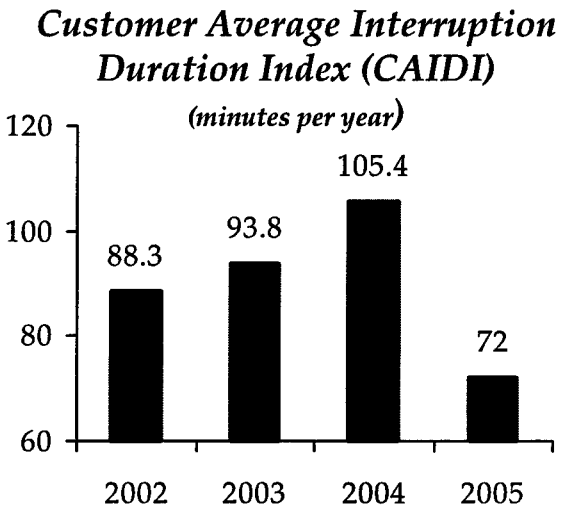
EPE Distribution O&M/ Customer

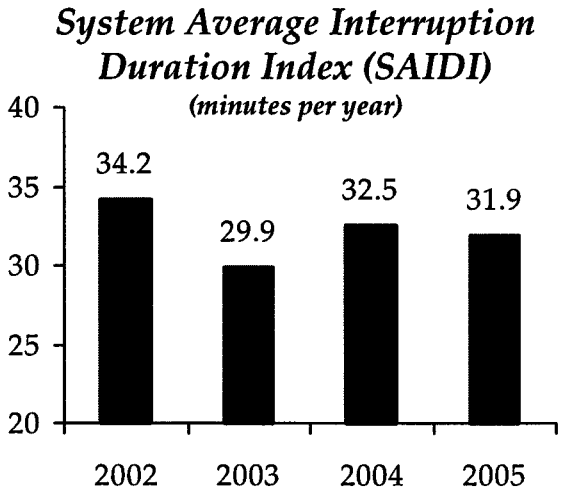


NAVIGANT CONSULTING

EPE's Texas System Reliability Indices (Forced Outage Data)*







- Outage frequency increased in 2005, but duration has generally declined
- Reduction in operating expenditures does not seem to have negatively impacted reliability

*Annual data
Source: El Paso, NCI analysis

NAVIGANT CONSULTING

In general, EPE has superior SAIDI and SAIFI metrics.

- EPE provided four differing SAIDI, SAIFI, CAIDI "categories." The "Forced Outage" data is the best one to use to compare performance with other companies.
- While most of the peer group companies have a SAIFI of around 1.0, EPE has a SAIFI of between 0.3 and 0.5.
- While most of the peer group companies have a SAIDI of around 50-60, EPE has a SAIDI of between 30-35.

Table of Contents

NAVIGANT CONSULTING

EPE's Customer Care O&M cost benchmarks in the top quartile of the peer group in 2005.

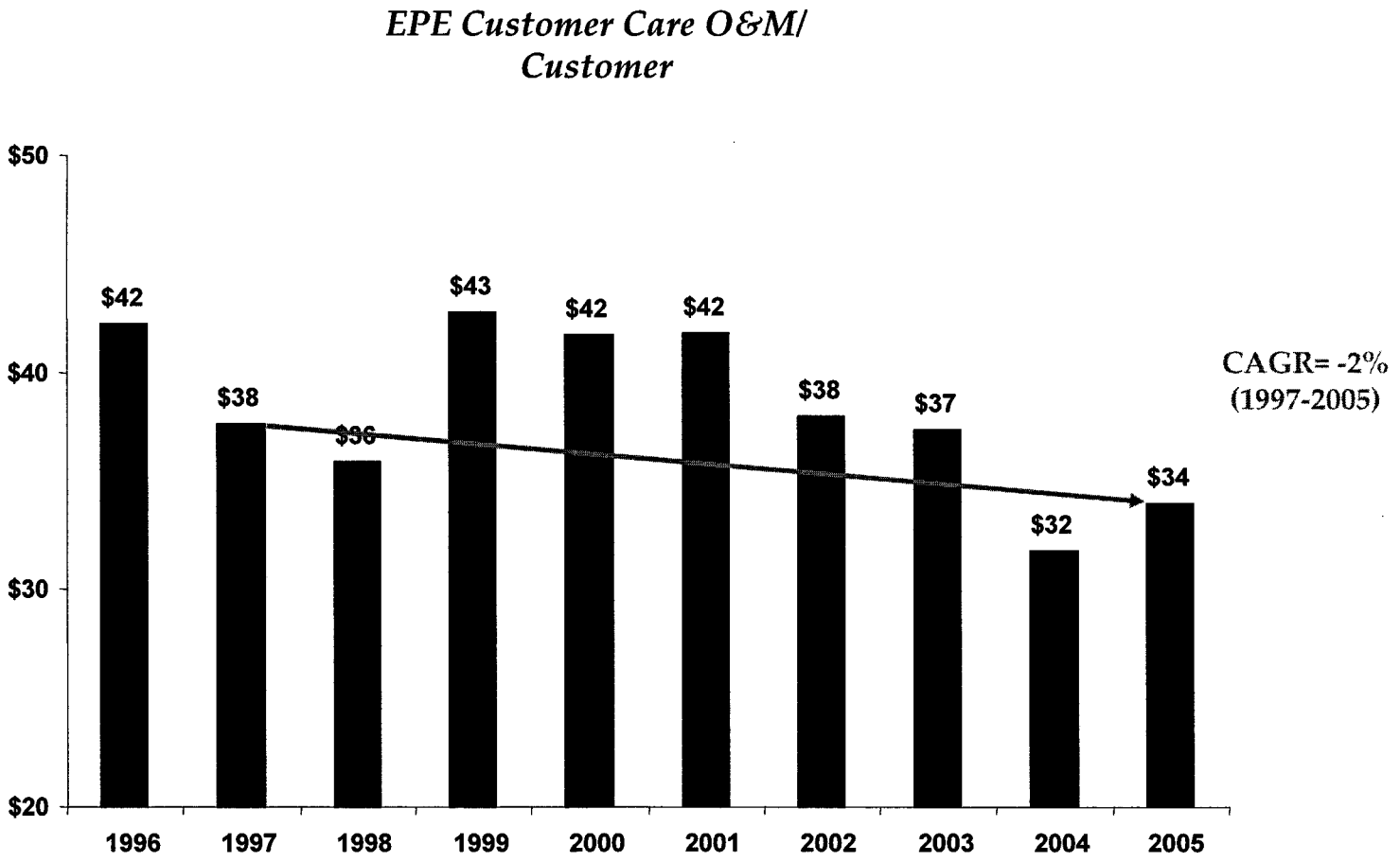
Customer Care O&M Benchmarks—2005

	EPE	Peer Group Average	Peer Group Top Quartile	Gap between EPE and Average (%)	Gap between EPE and Top Quartile (%)
Cust. Account Expenses/ Customer	$32.5	$41.8	$33.7	None	None
Cust. Svc and Info Expenses/ Customer	$1.4	$13.5	$2.1	None	None
Sales Expenses/ Customer	$0.1	$4.0	$0.1	None	None
Total Customer Care Expenses/ Customer	$34.0	$59.3	$35.9	None	None

Source: FERC Form 1, NCI analysis

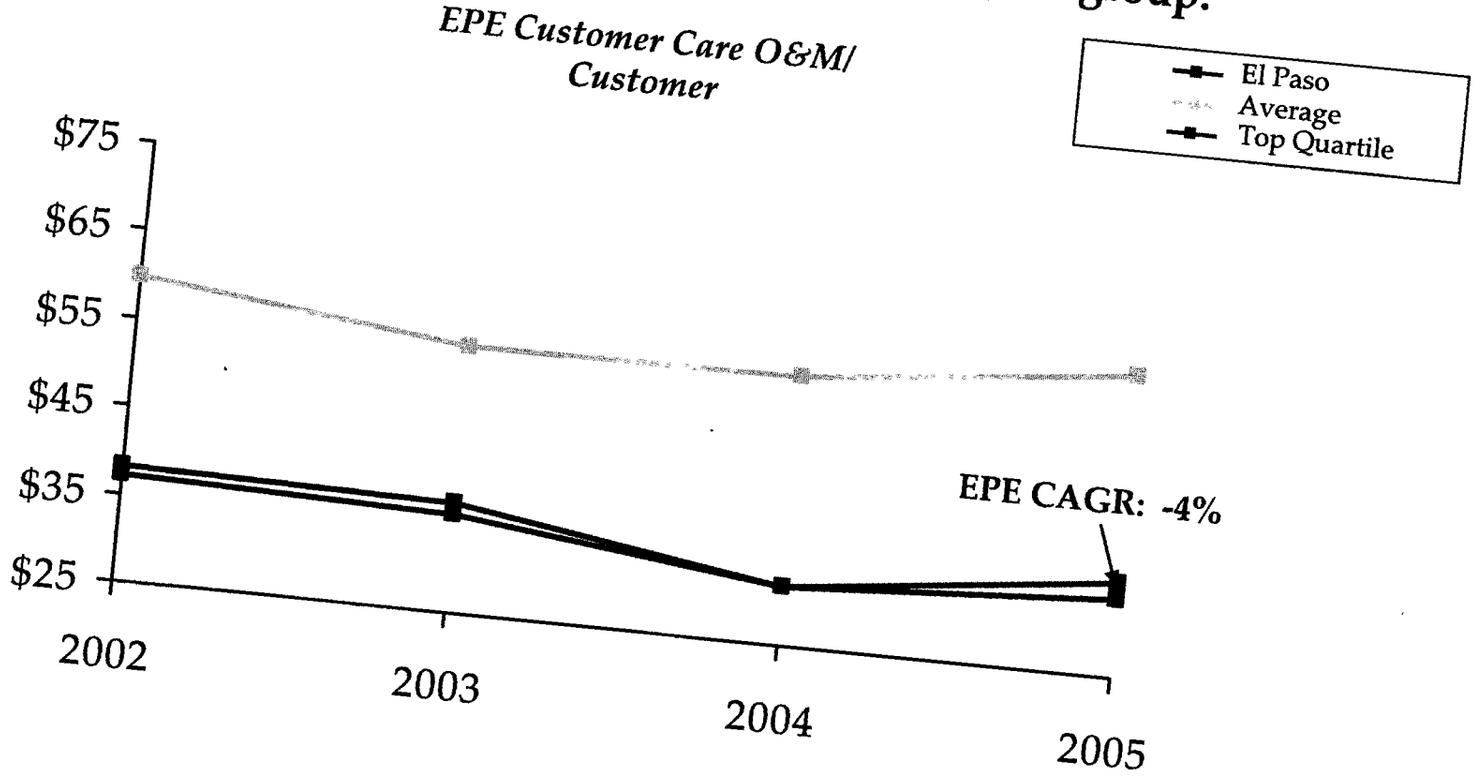
159 457

Customer Care O&M costs per customer have generally declined since 1997.



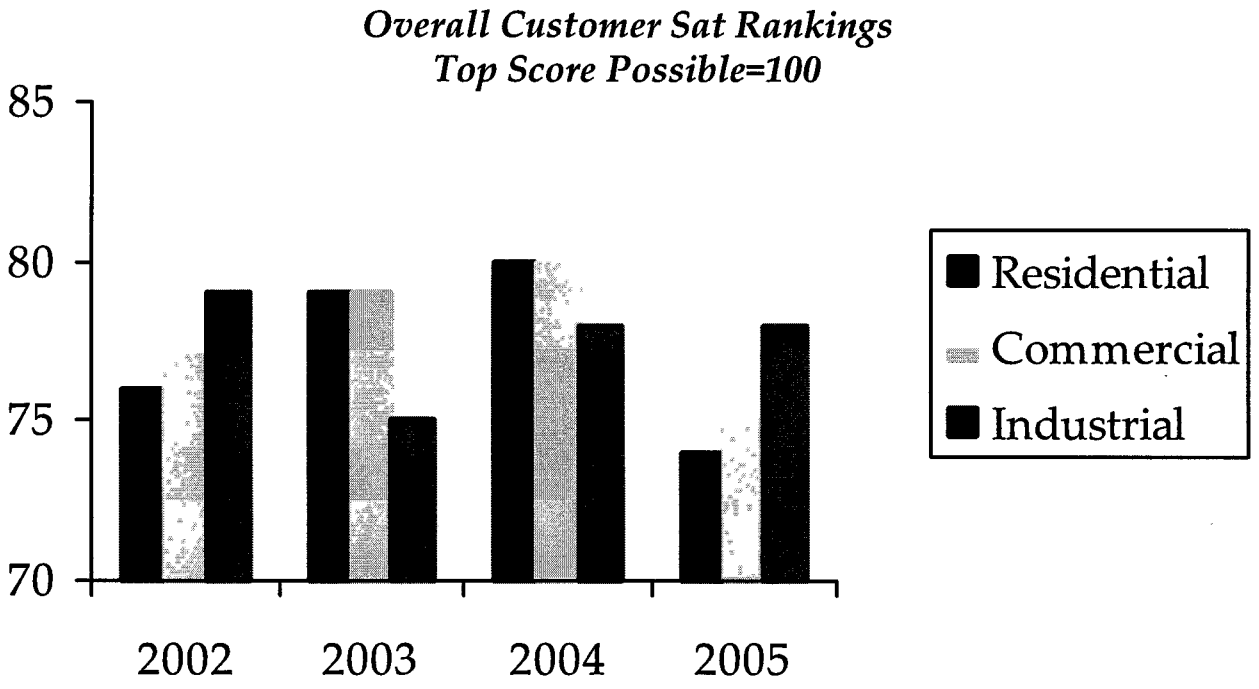
Source: FERC Form 1, NCI analysis

EPE's Customer Care O&M costs per customer since 2002 have been declining and are currently within top-quartile of the peer group.



NAVIGANT CONSULTING

Market Strategies Inc. (MSI) conducts EPE's customer satisfaction survey. The results of their survey are below.



MSI measures customer satisfaction for about 100 utilities. In 2005, EPE's residential customer satisfaction scores were ranked in the second quartile of this group.

Source: El Paso, NCI analysis

Key Customer Care and Customer Satisfaction Findings

- MSI provides an in-depth survey of customer opinions.
- In general, EPE rates highly on most metrics, and in fact is above average on every metric except for one.
- EPE ranks highest on such metrics as service quality, environmental protection, and being a good corporate citizen.
- The only metric upon which EPE rates below the MSI database average is "reasonableness of electric rates."
  - Only 16% of EPE's surveyed customers give the company a "very positive" rating to this question.
- Residential customer satisfaction declined significantly in 2005…according to the company-- due to the timing of the survey, which was conducted immediately after a rate increase.

Table of Contents

NAVIGANT CONSULTING

EPE's A&G O&M cost benchmarks were higher than the average of the peer group in 2005.

Example A&G O&M Metrics- 2005*

	EPE	Peer Group Average	Peer Group Top Quartile	Gap between EPE and Average (%)	Gap between EPE and Top Quartile (%)
A&G Salaries/ Customer (920)	$57.7	$49.0	$28.9	15%	50%
A&G Outside Services/ Customer (923)	$28.9	$19.7	$11.2	32%	61%
Total A&G Expenses/ Customer**	$172.6	$121.6	$85.3	36%	51%

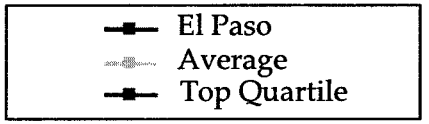
The high A&G costs are largely balanced out by EPE's low Customer Care and Distribution costs.

*Not all A&G accounts are listed here…the third row (Total A&G costs) is therefore not the sum of the first two rows

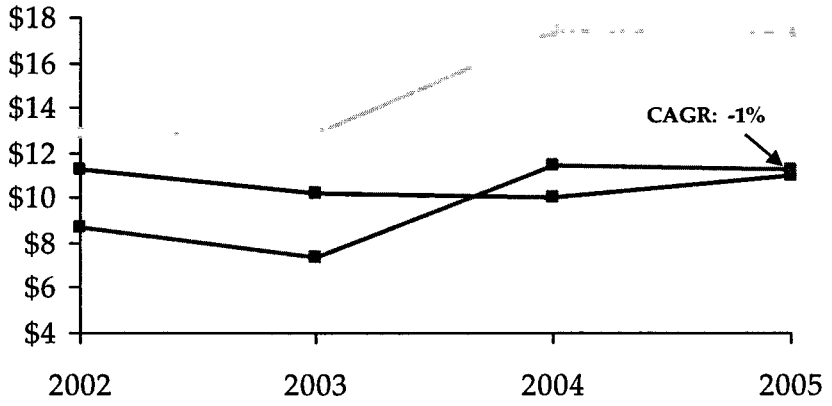
**Total A&G excludes accounts 926 (Pensions and Benefits); 927 (Franchise Requirements); 928 (Regulatory Commission Expenses)

Source: FERC Form 1, NCI analysis

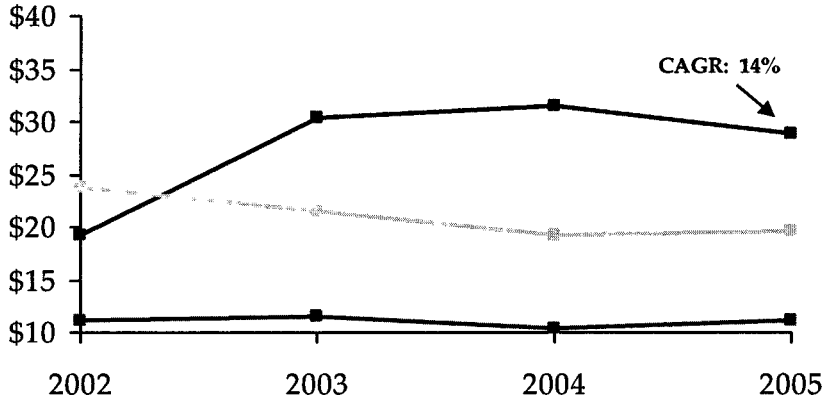
EPE's A&G O&M costs/ per customer for most accounts in most cases are higher than the peer group average.



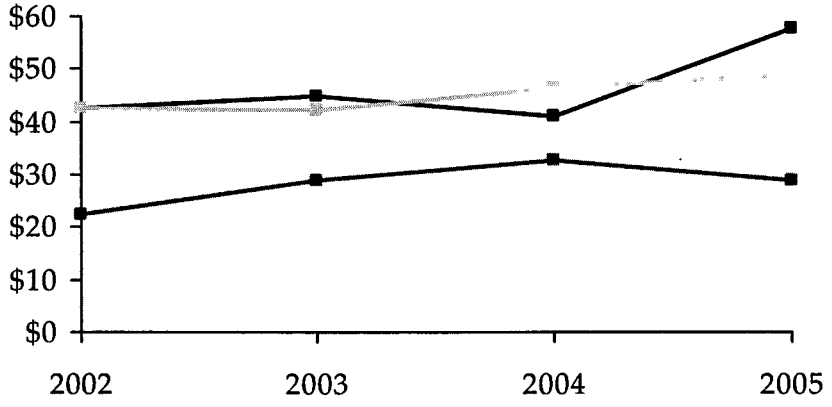
Office Supplies and Expense/ Customer



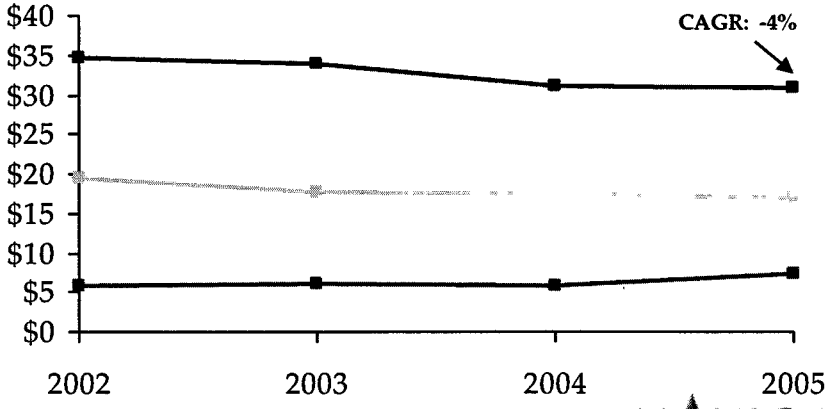
Outside Services/ Customer



A&G Salaries/ Customer



Misc. General Expense/ Customer



Source: FERC Form 1, NCI analysis

NAVIGANT CONSULTING

164 169

A&G costs have been driven both by increases in consulting and legal fees, as well as by historical accounting practices.

Some examples:

- Outside Services Employed (Account 923) has been driven by:
  - Legal fees, e.g., in 2003, EPE booked nearly $2 million due to class action lawsuits
  - Consultant fees, e.g., $1.4 million in 2003 for an analysis of options for constructing new generating plants in its service territory
  - Sarbannes-Oxley related fees
- Administrative and General Salaries and Miscellaneous General Expenses (Accounts 920 and 930.2) have been driven by:
  - Non-productive time allocated to this account rather than functional accounts (e.g., T&D)
  - Paid Time Off for functional employees (charged in A&G versus to the appropriate function)

The new Oracle System will be addressing the allocation of costs by more appropriately tracking the source of each cost item.

Table of Contents

NAVIGANT CONSULTING

Conclusion

EPE's measured* O&M costs are "reasonable" given the company's current structure and operating environment.

- Overall, EPE's costs are reasonable given the company's current business structure and operating environment
- Steam unit O&M costs is understandably high because of the age and size most of the units
- EPE's low T&D O&M costs have not harmed reliability figures
- Customer care spending is low, but customer satisfaction numbers (according to the one source EPE uses) are 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 appear to be more of a function of accounting practices and tools than actual "unreasonably" high spending
  - Low distribution and customer care costs "balance out" high A&G costs
  - The new Oracle system should address some of these issues

*all costs on this page are the "measured" costs, which exclude the six FERC account items noted on page 10
Sources: FERC Form 1, EPE 10-K, EPE internal information, NCI analysis

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

EPE will supplement this filing with GRH-5

EPE will supplement this filing with GRH-5

SOAH DOCKET NO. 473-98-1766
PUC DOCKET NO. 19545

APPLICATION OF EL PASO ELECTRIC COMPANY FOR APPROVAL OF PRELIMINARY INTEGRATED RESOURCE PLAN	§ § § §	BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS

ORDER

The Public Utility Commission of Texas finds that this Application for Approval of Preliminary Integrated Resource Plan brought by the Applicant, El Paso Electric Company has been processed in accordance with applicable statutes and Commission rules. The parties filed a "Stipulation and Unopposed Motion for Approval Thereof," which resolves all issues in this proceeding. The Application, as amended and modified by the Stipulation, is approved.

The Commission adopts the following findings of fact and conclusions of law:

I. Findings of Fact

Procedural History

1. On June 29, 1998, El Paso Electric Company ("EPE") filed with the Public Utility Commission of Texas ("Commission") its Application for Approval of Preliminary Integrated Resource Plan ("Application") pursuant to Chapter 34 of the Public Utility Regulatory Act ("PURA") and P.U.C. SUBST. R. §§ 25.161 - 25.171. The Commission assigned Docket No. 19545 to the Application.

2. EPE is an investor-owned, electric utility company providing retail electric service in El Paso, Hudspeth and Culberson Counties in the State of Texas.

63
~~171~~
175

3 Pursuant to the Agreed Order and non-opposed Stipulation and Settlement Agreement in EPE's last base rate case, Commission Docket No. 12700, *Application of El Paso Electric Company for Authority to Change Rates,* EPE is currently under a ten-year base rate freeze that commenced on August 2, 1995, for most of its Texas customers.

4 On September 29, 1998, the Commission referred this docket to the State Office of Administrative Hearings ("SOAH") for the assignment of an Administrative Law Judge ("ALJ") to conduct a hearing and issue a proposal for decision ("PFD") if necessary. SOAH assigned SOAH Docket No. 473-98-1766 to the Application.

5. On October 22, 1998, the Commission issued its Preliminary Order identifying issues to be addressed in the proceeding.

6. The following motions to intervene were granted: Office of Public Utility Counsel ("OPC"), the City of El Paso, the Environmental Defense Fund ("EDF"), the Low-Income Intervenors ("LII"), Texas Industrial Energy Consumers ("TIEC"), and Phelps-Dodge Refining Corporation ("Phelps-Dodge").

7 By letter dated November 13, 1998, the parties notified the SOAH ALJ that the parties of record had agreed to a settlement of all issues related to the Application.

8. On November 13, 1998, the parties filed a Stipulation and Unopposed Motion for Approval Thereof ("Stipulation"). The Stipulation sets forth terms of the parties' settlement agreement and refers to the testimony that supports the stipulation.

9. The settling parties to this proceeding are: General Counsel, OPC, the City of El Paso, EDF, and LII. TIEC and Phelps-Dodge do not oppose adoption of the Stipulation.

Notice

10. EPE published notice one time in newspapers having general circulation in each county in Texas in which EPE serves and provided individual notice to the governing bodies of all Texas incorporated municipalities they serve that have retained original jurisdiction. EPE also sent notices to those entities placed on the Commission's lists set forth under *Integrated Resource Planning List of Interested Parties Pursuant to P.U.C. SUBST. R. 25 162(i),* Project No. 16441, notifying them of EPE's filing. On August 11, 1998, EPE filed affidavits reflecting completion of this notice.

11. EPE also provided notice of the proceeding with an executive summary of its filing to all parties in its last base rate case, Docket No. 12700, and to all participants in its Southwest Town Meeting.

Reasonableness of Data and Assumptions

12. EPE provided information on existing power plants that indicated the following: EPE's Rio Grande, Newman, and Copper generating stations are all owned by EPE and are located within EPE's service territory. EPE's Four Corners generating station is located in northwest New Mexico, near the City of Farmington. EPE owns 7 percent of Four Corners Units 4 and 5, which represents a 52 MW allocation from each unit. The Palo Verde Nuclear Generating Station ("Palo Verde") is located in west-central Arizona, near the City of Phoenix. EPE owns a 15.8 percent share of each Palo Verde unit, which represents a 196 MW allocation from Units 1 and 2, and 197 MW from Unit 3.

13. EPE provided information on transmission facilities indicating that EPE has ownership in three 500 kV transmission lines at Palo Verde as part of its ownership in that plant. In addition, EPE owns or has partial ownership in three 345 kV transmission lines interconnecting the Western Systems Coordinating Council ("WSCC") with the EPE service area and has partial

ownership in a 345 kV interconnection with the Southwest Power Pool. These 345 kV interconnections are used to import EPE's remote generation resources and purchases into the EPE service area. EPE also owns and operates a 345 kV, 115 kV, and 69 kV transmission network in the EPE service area for the purposes of delivering the remote power and power from EPE's local generating resources to EPE's customers.

14. Since 1979, EPE has relied on econometric modeling for forecasting the majority of its retail sales. Information from large industrial customers and off-system customers has been the basis for the remainder of the forecast.

15. EPE used the Service Area Macroeconomic Model ("SAMM") output of the economic forecasts to support the econometric models for the 1998-2007 demand and energy (sales) forecast.

16. EPE's load forecast reflects ten-year native peak demand and energy growth rates of 2.3 and 1.9 percent, respectively. Projected total (native and wholesale) peak demand and energy growth rates are -0.4 and -1.0 percent, respectively.

17. EPE's capacity forecast contains a forecast of the load requirements for only those existing wholesale customers under contract as of June 29, 1998. For those existing customers whose contracts expire during the ten-year planning period, the peak-load forecasts are removed from the forecast at the appropriate dates.

18. The City of Las Cruces, New Mexico has formed a municipal electric utility and is attempting to replace EPE as the provider of electric service within Las Cruces. EPE considered the potential loss of the City of Las Cruces' load and reasonably concluded that, for the near future, the City of Las Cruces will remain on EPE's system.

19. The major underlying assumptions for EPE's energy forecast are the projections for population, income and employment that are used in EPE's sales models. In addition, the following service area-specific assumptions were made in developing EPE's load forecast:

(a) The net effects of the North American Free Trade Agreement ("NAFTA") over the next four to six years will be positive;

(b) The City of Las Cruces will remain on the system and its franchise will be renewed;

(c) The White Sands Missile Range contract will be renewed;

(d) The Rio Grande Electric Cooperative, Inc. wholesale contract, which expires in 1998, will be renewed;

(e) The wholesale contract with Texas-New Mexico Power Company will expire as scheduled in December 2002;

(f) The wholesale contract with the Imperial Irrigation District in California will expire as scheduled in April 2002;

(g) The wholesale contract with Mexico's Comisión Federal de Electricidad will expire in December 1998 and will not be renewed;

(h) Chevron USA, Inc. will install sufficient cogeneration in 2007 to allow it to leave EPE's system;

(i) All of the local military bases have already experienced the bulk of the reduction in force expected from the 25 percent reduction in the Department of Defense military budget;

(j) A total of approximately 11 MW of cogeneration is expected to come on-line through 2006;

(k) Interruptible demand will remain stable over the period of the forecast at 79 MW; and

(l) Estimates of the future price of electricity reflect no increase in Texas base rates during the freeze period, consistent with the terms of the Agreed Order and Stipulation and Settlement Agreement in Docket No. 12700.

20. EPE made no modifications to its forecast methodology in anticipation of a future competitive market.

21. The main load uncertainty addressed by EPE in its planning is associated with overall growth in the service area. EPE's load forecast takes into account both high and low growth scenarios and includes scenarios for the loss of Las Cruces.

22. EPE provided estimates of DSM program impacts embedded in the peak load forecasts.

23. For EPE, the adjustment to the capacity forecast for DSM program impacts is 2 megawatts ("MW") in 1999. DSM impacts are assumed to increase each year of the ten-year forecast for a peak reduction of approximately 14 MW by 2007.

24. Based on the information included in EPE's Preliminary Integrated Resource Plan ("Preliminary IRP"), EPE projects that its total resource needs are as follows:

1998 - 60 MW	1999 - 95 MW	2000 - 114 MW
2001 - 145 MW	2002 - 74 MW	2003 - 81 MW
2004 - 85 MW	2005 - 80 MW	2006 - 112 MW
2007 - 100 MW		

25. EPE's Preliminary IRP is based on substantially accurate data, reasonable planning assumptions, and a reasonable method of forecasting.

Transmission

26. EPE is a member of the WSCC and engages in interconnected system transactions with other utilities in the region through its participation in the Western Systems Power Pool ("WSPP").

27. EPE operates a vertically-integrated system of generation, transmission, and distribution facilities for the purpose of providing electric service at wholesale and retail primarily to the City of El Paso, Texas, and the City of Las Cruces, New Mexico, and adjacent areas of west Texas and southern New Mexico.

28. EPE's transmission system is a "constrained system," characterized by limitations of the transmission system in transferring all of the power desired from one point on the system to another point on the system.

29. EPE's transfer capability constraint is in the ability to transfer power from the WSCC interconnected transmission grid into EPE's service area over EPE's 345 kV transmission interconnections. EPE is subject to such constraint due to its dependence on its long-distance 345 kV transmission network to import base load power from its remote generation sources in Arizona and northwest New Mexico.

30. As a result of the disturbances that occurred on the EPE transmission system in late 1995 and early 1996, EPE instituted a wide-sweeping series of enhancements to its transmission system and system operation.

31. A complete description of disturbances that have occurred on EPE's transmission system and the corrective actions EPE has taken in response to them have been filed with the Commission in Project No. 14941, *Investigation into El Paso Electric Company's Quality of Service.*

32. EPE performed an analysis of its Texas and New Mexico service area transmission system for the years 1998 through 2007 during the second half of 1997. The analysis resulted in a planning document that became the *El Paso Electric Company System Expansion Plan 1998-2007* ("Plan"). The projects described in the Plan, which was included in EPE's Preliminary IRP

filing package, comprise the transmission capital projects that EPE anticipates constructing during the Plan time frame.

33. As part of its transmission system analysis, EPE identified the following needs for major transmission construction in the EPE service area: (a) re-build and upgrade the conductors on several of EPE's internal 115 kV and 69 kV transmission lines over the next ten years; (b) accomplish significant new construction for EPE's east El Paso area for the years 1999 through 2004; and (c) increase EPE's transmission transfer capability on its interconnections with WSCC by the year 2002.

34. EPE's plan for meeting its transmission needs is adequate.

Energy Service and Pricing Options

35. EPE's rate structure offers its customers a variety of choices and service options and is responsive to its customers' needs.

Role of DSM in the Preliminary Plan

36. PURA § 34.003(b) requires that, in determining the lowest reasonable system cost, the Commission consider, in addition to a number of other factors, the effect of the Preliminary IRP on customers' rates and bills.

37. EPE currently offers the following DSM programs: Commercial & Industrial Energy Services ("CIES") program; Thermal Energy Storage ("TES") program; Customized Efficiency Option ("CEO") program; Residential Energy Audit program; and Energy Education program.

38. DSM cost-effectiveness can be examined from various perspectives. EPE analyzed DSM cost-effectiveness through the rate impact measure test, the utility cost test, and the total resource cost test.

39. In determining the resource composition of its Preliminary IRP, EPE did not take into account all cost-effective DSM measures. Based on the Commission's expressed opinion in prior proceedings that utility in-house DSM programs be phased out and replaced by contract programs, EPE analyzed a Standard Offer program for commercial and residential customers as the primary DSM resource acquisition program.

40. As a result of its analysis, EPE has implemented a Standard Offer program for commercial, industrial, and governmental customers as its primary DSM resource acquisition program. EPE plans to expand the Standard Offer program to all customers, including residential customers, in 1999.

41. The Standard Offer program allows EPE to provide incentive payments to energy efficiency service providers for verified energy and demand savings.

42. The terms and conditions of EPE's Standard Offer program should encourage participation by energy efficiency service providers.

43. The net impact of EPE's Standard Offer program from commercial customers is projected to be 15 MW of non-coincident demand over a five-year implementation period.

44. EPE is not seeking Commission approval of its Standard Offer program but is implementing it pursuant to the exception for DSM resources in P.U.C. SUBST. R. § 25.163, relating to *Acquisition of Resources Outside the Solicitation Process.*

45. EPE's Preliminary IRP sets forth the process by which the DSM options were evaluated and integrated with supply-side resource options.

46. EPE's Preliminary IRP identifies and takes into account present and projected reductions in the demand for energy that may result from cost-effective measures to improve conservation and energy efficiency in the customer classes that EPE serves.

DSM Equity Among Customer Classes

47. Under the Stipulation, EPE will negotiate with the Texas Department of Housing and Community Affairs ("TDHCA") to develop and participate in "piggy-back" programs in order to leverage off of state-funded weatherization assistance programs. EPE will contract with TDHCA to administer and monitor subcontracts with local agencies in the amount of $240,000 in 1999 and $385,000 per year in 2000 and 2001 to: (a) conduct energy efficiency audits; (b) provide weatherization services to low-income customers in owner-occupied and renter-occupied homes and apartments, (c) replace old and energy inefficient refrigerators, (d) install compact fluorescent lights ("CFLs"), and (e) install water-saving devices and other energy efficiency measures that may be furnished under the program.

48. Under the Stipulation, EPE's contract with the TDHCA will provide for the appropriate training of all individuals involved in performing TDHCA Modified Energy Audits and in installing weatherization measures, CFLs and other energy efficiency measures that may be furnished under the program.

49. The annual expenditure amount of $385,000 represents 0.12% of EPE's 1997 Texas base revenues. This funding level is consistent with agreements reached by and approval of Commission final orders for the following investor-owned utilities: Central Power and Light Company; West Texas Utilities; Southwestern Electric Power Company; Entergy Gulf States, Inc.; and Texas-New Mexico Power Company.

50. EPE's proposal to achieve equity among customer classes and provide demand-side programs to each customer class, including tenants and low-income ratepayers, is adequate.

Supply-Side Resources to Meet Future Demand

51. EPE provided information in the Preliminary IRP filing package that relates to repowering, refurbishment, retirement, and life extension of existing generating units. This information is adequate for the Commission's purposes in reviewing EPE's Preliminary IRP.

52. EPE currently has no plans to reactivate any shutdown units.

53. EPE provided adequate information regarding the reliability and availability, heat rates, fuel costs, and operations and maintenance expense of existing generating units and purchased power contracts.

54. EPE provided the required information on its existing generation units and purchased power contracts in the Preliminary IRP filing package.

55. EPE provided adequate information on the projected annual capital investments in existing generating units.

56. EPE evaluated several alternatives for inclusion in its Recommended Resource Expansion Plan ("RREP"). The supply-side alternatives included conventional technologies such as coal plants and gas-fired plants, renewable resources such as wind and solar photovoltaic, and emerging technologies such as integrated coal gasification combined cycle.

57. Pursuant to its RREP, EPE plans to meet its future resource needs outside the solicitation process through short-term power purchases, pursuant to § 34.151(b) of PURA and P.U.C.

SUBST. R. § 25.163(3). For this reason, EPE's Preliminary IRP did not include an all-source solicitation for resources.

58. As a result of the minimal resource needs projected by EPE, EPE's decisions not to include an all-source solicitation for resources in its Preliminary IRP and to meet future resource needs outside the solicitation process are reasonable.

Customer Input in Resource Plan

59. On August 15-16, 1997, EPE hosted a meeting in El Paso, Texas in which a scientifically-selected sample of its customers participated in discussions and debates on electricity issues dealing primarily with resource planning matters.

60. The Deliberative Poll™ process used by EPE in its Southwest Town Meeting satisfies the Commission's requirement for soliciting public input for the IRP process.

61. EPE provided information to Deliberative Poll™ participants after the process was completed. The information addressed the results of the Deliberative Poll™, EPE's evaluation of the Deliberative Poll™ results, and EPE's incorporation of the Deliberative Poll™ results into the Preliminary IRP.

62. EPE considered customer input in developing its Standard Offer program and the Renewable Resources Request for Proposals ("RFP").

63. Implementation of EPE's Standard Offer program and approval of the Renewable Resources RFP will result in the acquisition of renewable energy and DSM resources.

64. EPE's Preliminary IRP adequately reflects customer values and preferences with regard to renewable energy, DSM, and energy efficiency, as expressed in EPE's Deliberative Poll™ process.

65. A renewable energy tariff is currently being developed by EPE that will provide customers with additional ways to utilize renewable energy resources on a voluntary basis.

66. EPE appropriately considered the views and preferences of its customers in the preparation of its Preliminary IRP.

67. Through EPE's Southwest Town meeting, there were reasonable opportunities for customers to participate in the development of EPE's Preliminary IRP.

68. EPE facilitated the presentation of information to its customers from a broad range of perspectives.

69. EPE provided adequate information to its customers as required by P.U.C. SUBST. R. § 25.162(f)(3), relating to *Public Participation*.

Risk Management in Resource Planning

70. EPE has identified and taken into account several types of risk factors in its RREP. These risk factors are: load forecast variance; high natural gas prices; high gas prices plus carbon tax on all fossil fuels; transmission import limitations; and purchased power.

71. Given the base rate freeze consistent with the terms of the Agreed Order and Stipulation and Settlement Agreement in Docket No. 12700 and the uncertainty regarding the possibility of

retail wheeling in Texas, EPE did not conduct a sensitivity analysis for future retail competition in its Preliminary IRP.

72. EPE's RREP identifies appropriate scenarios and takes into account the incidence and allocation of various factors of risk.

EPE's Renewable RFP

73. As a result of the public support expressed by EPE's customers for renewable resources, EPE included in its Application a request for a good cause exception to P.U.C. SUBST. R. § 25.161(g)(1), relating to *All-source bidding*, to issue a targeted renewable resource solicitation

74. EPE is requesting approval to issue a targeted solicitation for renewable resources.

75. In addition to funds generated from a voluntary renewable energy tariff, EPE proposes to fund its renewable resource program with certain reward amounts that may have accrued under the performance standards for the Palo Verde Nuclear Generating Station ("Palo Verde Performance Reward") accumulated since EPE's last fuel reconciliation.

76. EPE and its shareholders are the sole beneficiaries of any Palo Verde Performance Reward that may be granted by the Commission.

77. As part of its fuel reconciliation proceeding to be filed in 1998, EPE anticipates that it will seek to collect approximately $3.5 million associated with the Palo Verde Performance Reward.

78. In addition to funding the acquisition of renewable resources, EPE shall commit at least 10% of the Palo Verde Performance Reward to conduct a customer education program and marketing associated with the renewable energy tariff. Remaining funds may be used to fund other renewable resource efforts such as acquiring additional renewable resources, developing

distributed renewable resource offerings, distributing customer education on renewable resources, and/or conducting research and development efforts in EPE's service territory.

79. EPE's proposal for funding its renewable resource activities, including acquisition of renewable resources, is reasonable.

80. The Renewable Resources RFP, response package, and model purchase-power agreement, included in EPE's Preliminary IRP filing package, are reasonable and should be approved.

81. The eligibility requirements, threshold criteria, and evaluation criteria in the Renewable Resources RFP should encourage bids from a wide variety of bidders and resource options.

82. The specific selection criteria and weights EPE will use to evaluate and select renewable resources meet the requirements of P.U.C. SUBST. R. § 25.167(c)(10).

83. EPE's plan for renewable energy technology projects and distributed resources is adequate.

84. EPE's request for a good cause exception to P.U.C. SUBST. R. § 25.161(g)(1) is reasonable and should be granted.

Cost Allocation

85. Consistent with EPE's on-going base rate freeze in Texas under the terms of the Agreed Order and Stipulation and Settlement Agreement in Docket No. 12700, EPE is not proposing to increase base rates to recover any additional non-fuel costs it may incur as a result of procuring

additional supply-side and demand-side resources through its Preliminary IRP filing. Therefore, cost-allocation issues are not addressed as a part of EPE's Preliminary IRP.

Cost Recovery and Utility Incentives

86. EPE is not proposing any incentive or current cost recovery mechanisms allowed by the IRP rules to recover the costs associated with its Preliminary IRP.

Lowest Reasonable System Cost

87. EPE's Preliminary IRP is adequately designed to achieve the lowest reasonable system cost.

II. Conclusions of Law

1. EPE is an investor-owned, electric utility company providing retail electric service in Texas as defined in PURA § 31.002(1).

2. The Commission has jurisdiction and authority over this proceeding pursuant to §§ 14.001, 14.002, 36.001 and Chapter 34 of PURA.

3. SOAH has jurisdiction over all matters relating to the conduct of the hearing in this proceeding, including the preparation of the PFD with findings of fact and conclusions of law, pursuant to TEX. GOV'T CODE ANN. §§ 2001.058 and 2001.062 (Vernon 1998).

4. EPE provided notice in compliance with P.U.C. SUBST. R. § 25.165(b).

5. The Deliberative Poll™ process carried out for this proceeding by EPE complies with the IRP requirements regarding public participation.

6. EPE's proposal for renewable energy and its Standard Offer program are supported by the record evidence for purposes of the approved targeted solicitation and this proceeding.

7. The Stipulation represents a reasonable resolution of all issues related to EPE's Application for Approval of its Preliminary IRP, is supported by the record evidence, and is in the public interest.

8. EPE's proposal to achieve equity among customer classes and provide DSM programs to each customer class, including tenants and low-income ratepayers, is adequate.

9. The amount of funds for low-income and tenant equity DSM programs, to be administered by the TDHCA, is adequate.

10. EPE's Preliminary IRP is reasonable, meets the standards set out in P.U.C. SUBST. R. § 25.167, is supported by the record evidence, and is in the public interest.

III. Ordering Paragraphs

The Commission issues the following Orders:

1. EPE's Preliminary IRP is approved, pursuant to PURA § 34.051.

2. EPE shall spend the following annual amounts on low-income programs acquired pursuant to P.U.C. SUBST. R. § 25.163(7): $240,000 in 1999, $385,000 in 2000, and $385,000 in 2001.

3. The good-cause exception requested by EPE to P.U.C. SUBST. R. § 25.161(g)(1), relating to *All-source bidding*, is granted.

187
190

4. EPE is authorized to conduct a targeted renewable resource solicitation to meet the needs of its customers.

5. Not later than 45 days after completion of the targeted solicitation for renewable resources, EPE shall file a renewable energy tariff with the Commission. This tariff shall comply with the standards set forth in P.U.C. SUBST. R. § 25.251.

6. All motions, applications, and requests for entry of specific findings of fact and conclusions of law, and other requests for relief, general and specific, if not expressly granted herein are denied for want of merit.

SIGNED AT AUSTIN, TEXAS the 21st day of January, 1999.

PUBLIC UTILITY COMMISSION OF TEXAS

PAT WOOD, III, CHAIRMAN

JUDY WALSH, COMMISSIONER

GRAPH 1

LOW-INCOME SERVICES AGREEMENT

This Low-Income Services Agreement ("Agreement") is entered into this 22nd day of August 2001 between El Paso Electric Company ("EPE"), an electric utility providing service in Texas, Texas Legal Services Center ("TLSC"), representing low-income ratepayers, and Texas Ratepayers' Organization to Save Energy ("Texas ROSE"), a statewide membership organization dedicated to reducing electricity costs and environmental damage through energy conservation.

Under the terms of this Agreement, the parties agree as follows:

Project Care

1. EPE agrees to help publicize El Paso County's Project Care by including a bill insert in customers' bills quarterly (four times a year) until the expiration of EPE's rate freeze. Additionally, EPE agrees to inform customers of Project Care when they apply for initial service or change service locations

Low-Income Rider

2. EPE agrees to provide Texas ROSE and TLSC with information on levels of participation in EPE's Low-Income Rider ("LIR") program. For the first year, such information will be provided monthly. After the first year and until the expiration of EPE's rate freeze, such information will be provided on a quarterly basis.

3. Texas ROSE and TLSC agree to support an amendment of the LIR revising the enrollment provisions to be consistent with the automatic enrollment of low-income electric customers as agreed by EPE and the Texas Department of Human Services ("TDHS"). Such tariff amendment will be filed after twenty days from the issuance of a Final Order in Docket No. 23530.

Low-Income Demand-Side Management

4. EPE agrees to fund the low-income demand-side management ("DSM") programs described in the Stipulation and Order in Docket No. 19545 at a funding level of $450,000 per year in 2002, $455,000 in 2003, $460,000 in 2004, and $268,300 for the period from January 1, 2005 through July 31, 2005. Should retail competition be delayed in EPE's service area for any period of time after July 31, 2005, EPE agrees to work with Texas ROSE and TLSC to fund EPE's low-income DSM programs until retail competition begins and funding becomes available through the System Benefit Fund.

5. EPE agrees to negotiate new contracts with the Texas Department of Housing and Community Affairs ("TDHCA") for the continued administration and monitoring of the subcontracts necessary to continue the low-income DSM programs described in the Stipulation and Order in Docket No. 19545.

Palo Verde Performance Rewards

6. EPE agrees to work with the City of El Paso, along with Texas ROSE and TLSC, in establishing energy efficiency programs from Docket No. 20450 Palo Verde Performance Rewards that will benefit moderate income households whose incomes are below 200 percent of federal poverty guidelines. While performance reward funds will primarily benefit small commercial customers, EPE agrees to work with the City of El Paso, Texas ROSE, and TLSC to seek dedicated funding of 40 percent of performance reward funds for energy efficiency for Project Bravo to provide access to energy efficiency programs for those moderate income households.

EPE's Fuel Factor Filing

7. TLSC and Texas ROSE agree to make a filing in support of the Stipulation filed in Docket No. 23530.

IN WITNESS THEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives, all effective as of the day and year first written above.

Thomas L. Newsom, Assistant Vice President,
Regulatory Affairs, El Paso Electric Company

Carol Biedrzycki, Executive Director
Texas Ratepayers' Organization to Save
Energy

Randall Chapman
Texas Legal Services Center