

1 **O. Costs of Processing Refunds or Credits (PURA § 36.062(3))**

2 Q. HAS EPE INCLUDED IN ITS COST OF SERVICE ANY COST OF PROCESSING A
3 REFUND OR CREDIT ASSOCIATED WITH BONDED RATES?

4 A. No, it has not. No applicable circumstances occurred during the Test Year.
5

6 **P. Profit or Loss from the Sale or Lease of Merchandise (PURA § 36.063)**

7 Q. DOES EPE'S COST OF SERVICE INCLUDE ANY PROFIT OR LOSS FROM THE
8 SALE OR LEASE OF MERCHANDISE THAT IS NOT INTEGRAL TO PROVIDING
9 UTILITY SERVICE?

10 A. No, it does not. No applicable circumstances occurred during the Test Year.
11

12 **Q. Self-Insurance (PURA § 36.064)**

13 Q. DOES EPE SELF INSURE ANY PART OF ITS EXPOSURE TO POTENTIAL
14 CATASTROPHIC PROPERTY LOSS THROUGH A RESERVE ACCOUNT FOR
15 SELF-INSURANCE?

16 A. No. EPE has obtained third-party insurance covering all of its property. These insurance
17 policies do include significant minimum deductible or self-insurance amounts, but EPE
18 does not maintain self-insurance reserves under PURA § 36.064.
19

20 **R. Pensions and Other Postemployment Benefits (PURA § 36.065)**

21 Q. HAS THE COMPANY CALCULATED ITS PENSION AND OTHER
22 POST-EMPLOYMENT BENEFITS EXPENSES IN ACCORDANCE WITH PURA
23 § 36.065?

24 A. Yes, EPE has reflected pensions and other post-employment benefits in revenue
25 requirements based upon actuarial studies in accordance with generally accepted
26 accounting principles. The Company has established a reserve account for pension and
27 other post-employment benefit expenses in accordance with PURA § 36.065(b). EPE
28 witness Prieto describes the calculation of Test Year costs for EPE's pension and other
29 postretirement benefit plans and discusses the pro forma adjustment for pension and other
30 post-employment benefits in her testimony.
31

VII. Proposed New Rate Offerings

Q. WHAT NEW RATE OFFERINGS IS EPE PROPOSING IN THIS PROCEEDING?

A. As I noted previously, EPE is limiting rate structure changes or new program offerings in advance of the expected start of advanced meter installations in 2022. However, as I mentioned, EPE is planning to implement in the near future a new program to support the deployment of Electric Vehicle charging stations, consistent with a program proposed in New Mexico.

Q. PLEASE DESCRIBE THE ELECTRIC VEHICLE CHARGING PROGRAM.

A. As described in much greater detail by EPE witness Hawkins, EPE's Transportation Electrification Plan ("TEP") will be a portfolio of pilot programs to support expansion of transportation electrification in EPE's service territory. The portfolio includes rebate programs for residential and commercial customers intended to incentivize purchase and installation of smart charging infrastructure. The TEP will also focus on customer education and awareness of electric vehicles and assist customers with the transition to electrification.

It is has become quite evident that electric vehicles will be standard in the near future. The top four automobile brands, as measured by sales of automobiles, including SUVs and pickups, in 2020 were Ford, Toyota, Chevrolet, and Honda, each selling more than a million vehicles in 2020.⁹ Ford has made significant commitments toward the electrification of its vehicles, including an investment of \$11.5 billion through 2022 and a "commitment to electrifying its most popular nameplates."¹⁰ "By 2025, Toyota's goal is to have 40% of new vehicle sales be electrified models, and by 2030 expects that to increase to nearly 70%."¹¹ GM committed to offering 30 electric vehicles by 2025 toward a future in which everyone will drive an electric vehicle.¹² It will benefit our customers as this transition is made to have the charging stations in place to provide for the transition. As the city's original name reflects, El Paso del Norte ("The Pass of the North" in English) has historically been a critical link in a major traffic corridor between

⁹ <https://www.forbes.com/wheels/news/2020-truck-suv-car-sales-winners-and-losers/>

¹⁰ <https://corporate.ford.com/articles/sustainability/ford-expands-climate-change-goals.html>

¹¹ <https://pressroom.toyota.com/toyota-to-debut-three-new-electrified-vehicles-for-u-s-market/>

¹² <https://www.gm.com/commitments/electrification.html>: "We're committed to putting every driver in an electric vehicle on a scale previously unseen and bringing the world to an all-electric future."

1 the east and west of the United States, so having an adequate charging infrastructure will
2 ensure that will be true in the future. This is true for both residential and commercial
3 customers. In the short run, admittedly, a proliferation of charging stations will most
4 directly benefit those customers who currently have electric vehicles, but EPE is planning
5 for the long game so that the Company and all of its customers fully reap the benefits of a
6 coordinated introduction of EV into the system.

7
8 Q. IS EPE REQUESTING ANY COST RECOVERY RELATED TO THE TEP?

9 A. Not at this time.

10
11 Q. DOES EPE PROPOSE TO REOPEN ITS INTERRUPTIBLE TARIFF?

12 A. Yes, it does. EPE's Noticed Interruptible Power Service rate is currently closed to new
13 customers and provides approximately 43 MW of capacity for use by EPE in emergency
14 system conditions. EPE proposes to reopen the rate schedule for participation by new
15 customers in order to increase total available interruptible load to 75 MW.

16
17 Q. WHY IS EPE MAKING THIS PROPOSAL AT THIS TIME?

18 A. Interruptible load provides an operational option for supplying capacity under certain
19 conditions. Over the next several years, EPE will be retiring older generation and adding
20 new generation assets, including utility-scale renewable facilities. In addition, EPE
21 recently experienced significant year-over-year growth in customer load, related to the
22 weather and pandemic conditions in 2020. Evaluating these factors, EPE determined that
23 an increase in capacity available through the interruptible program is justified in the
24 near-term.

25
26 **VIII. Distribution of Proposed Revenue Requirement**

27 Q. PLEASE DISCUSS THE BACKGROUND FOR THIS SECTION OF YOUR
28 TESTIMONY.

29 A. The bulk of EPE's application consists of the development of a total Company revenue
30 requirement for the adjusted Test Year, and a related revenue requirement for EPE's
31 Texas jurisdiction. EPE witness Hernandez describes the modeling and development of

1 the Texas jurisdictional revenue requirement, based on total Company Test Year rate
2 base and expenses adjusted for known and measurable changes. Comparison of this
3 jurisdictional cost of service with annualized and adjusted Texas revenues provided by
4 EPE witness Carrasco in his testimony demonstrates the revenue requirement deficiency
5 that is the basis for EPE's request in this rate case. EPE witness Hernandez then allocates
6 this jurisdictional revenue requirement (after accounting for revenues produced by
7 miscellaneous charges) to EPE's retail rate classes on cost of service basis. This
8 distribution of the requested revenue requirement provides full recovery of the system
9 average rate of return ("ROR") equalized from each rate class. In this section of my
10 testimony, I discuss considerations for distributing class revenue requirements in a
11 manner different than the cost-based distribution, which EPE witness Hernandez
12 calculates and that EPE witness Carrasco uses to develop final retail rates in his
13 testimony.
14

15 Q. CAN YOU DISCUSS THE COST-BASED DISTRIBUTION OF THE PROPOSED
16 REVENUE REQUIREMENT BETWEEN RATE CLASSES?

17 A. Yes. Based on EPE's cost-based distribution of the requested revenue requirement, rate
18 classes would experience increases and decreases in moving to full cost of service,
19 relative to revenues produced under current rates. Rate class base (non-fuel) revenues
20 and revenue deficiencies are developed by EPE witness Hernandez and included in
21 Schedule P-1.1. The class average base revenue and total revenue impacts produced by
22 EPE's full cost of service revenue distribution are summarized by witness Hernandez.

23 Based on the class cost of service analysis, twelve of EPE's 17 rate groups would
24 see base revenue increases and five groups would see rate reductions in moving fully to
25 cost of service. The cost-based revenue requirement for each class is calculated to move
26 all rate classes to full cost recovery, completing the gradual movement pursued by EPE in
27 past cases and eliminating all inter-class subsidies. Under that revenue distribution, all
28 rate groups would pay the full cost to EPE of providing service and contribute an equal
29 rate of return component. EPE's cost-based allocation in this regard is consistent with
30 Bonbright's "fairness to ratepayers" criterion of a sound rate structure I discussed above

1 when describing just and reasonable rates. "Subsidy free" describes rates designed to
2 recover no more or less than the cost of service from each rate group.

3
4 Q. HAS EPE MODERATED THE MOVEMENT OF RATE CLASSES TOWARD UNITY
5 IN ITS PREVIOUS RATE CASES?

6 A. Yes. In Docket No. 37690, EPE proposed to move classes towards cost, but limited the
7 maximum increase for any rate class to twice the system average increase. The primary
8 reason for this limitation was that it had been 15 years since EPE's previous rate case, and
9 the Company desired to move rate classes toward the system average ROR on a gradual
10 basis. However, in that rate filing, EPE did assign the Governmental Street Lighting and
11 Signal Service and the Municipal Pumping Service rate classes the maximum percentage
12 increase, 27.29%, and assigned the composite City and County Service rate class a larger-
13 than-average percentage increase, 17.47%.

14 In Docket No. 40094¹³, EPE proposed to continue the process of gradual
15 movement towards cost-based rates. Rate changes by rate classes were proposed such
16 that any class that required a base rate increase to achieve the proposed system average
17 ROR was assigned an increase; and any rate class that required a base rate decrease to
18 achieve proposed system average ROR was assigned a decrease. For most firm-service
19 rate classes, in consideration of rate impacts, the increases or decreases were limited to
20 eight percent. However, the increases and decreases assigned to the governmental rate
21 classes and to the Water Heating Service class were not limited to eight percent but were
22 instead proposed to move much closer to system average ROR.

23 EPE proposed gradual increases for several classes in Docket No. 44941,¹⁴
24 notably the Residential Service rate class and lighting service rate classes, as well as the
25 elimination of the City and County Service rate group. EPE proposed maximum base
26 rate increases of two-times the system average increase in that case for several rate
27 groups. That case was ultimately resolved by settlement, which adopted a modified
28 revenue distribution with increases for those classes with rates most below cost of
29 service. The settlement also retained the City and County Service rate group. The net

¹³ *Application of El Paso Electric Company to Change Rates and to Reconcile Fuel Costs*, Docket No. 40094, Order (May 23, 2012).

¹⁴ *Application of El Paso Electric Company to Change Rates*, Docket No. 44941, Order (Aug. 25, 2016).

1 result of gradual increases over time at a rate exceeding the system average increase has
2 been to move rate groups continuously toward full cost.

3 In EPE's last proceeding, EPE also proposed moving classes closer to cost of
4 service; however, given the magnitude of the requested increase, EPE proposed to
5 moderate the increase for the Recreational Lighting Service and Residential classes.
6 While the final resolution of that proceeding by settlement did not result in classes
7 moving completely to cost of service, EPE believes that reasonable progress was made.
8

9 Q. WHY WAS IT APPROPRIATE TO MODERATE THE DISTRIBUTION OF
10 REVENUES TO SOME CLASSES IN THE PAST RATHER THAN MOVING ALL
11 CLASSES TO EQUALIZED RATES OF RETURN?

12 A. Movement toward equalizing rates of return by customer class reduces inter-class
13 subsidies. However, promoting cost-based rates is only one of a number of frequently
14 recognized goals of rate design. Consideration of the impact of the rate increase upon
15 customers is another important concern of EPE in the design of the proposed rates. The
16 class cost of service study is employed as the basis to determine whether rates are above
17 or below cost for each class of customers. Cost-based rates are achieved when the
18 revenues from each class fully recover all associated costs and produce the requested
19 system average ROR on rate base. The class revenue requirement at this "equalized"
20 ROR represents the revenue level that supports the costs of providing electric service to
21 that class.

22 The other consideration when moderating increases to some rate classes, which
23 limits rate recovery below the actual cost of providing service, is that other rate classes
24 must necessarily subsidize them. Gradualism limits increases and rate shock for some
25 classes at the expense of others, which is another important consideration when
26 considering moderation in revenue distribution at some level other than full cost.
27

28 Q. HOW IS EPE PROPOSING TO MODERATE THE DISTRIBUTION OF REVENUES
29 TO CLASSES IN THIS CASE, RELATIVE TO COST-BASED RATES?

30 A. EPE is proposing to modify the cost-based revenue requirements for the Residential,
31 Water Heating, Small General Service, General Service, and City/County rate groups.

1 EPE initially caps the allocated revenue requirement increase to the Residential and
2 Water Heating classes at 1.5 times the system average increase of 7.79% and limits the
3 revenue requirement reductions for the other three classes at 50% of the cost-based
4 reduction. The resulting revenue deficiency is then redistributed to all rate groups,
5 including the moderated groups. EPE witness Carrasco develops these revised class
6 revenue requirements, which serve as the basis for EPE's proposed rate design, in his
7 direct testimony.

8
9 Q. WHAT IS THE RATIONALE FOR MODERATING THE RATE CHANGE FOR
10 ONLY THESE CLASSES WHILE MOVING ALL OTHERS TO COST PLUS A
11 PORTION OF REDISTRIBUTED REVENUES?

12 A. While EPE's preferred revenue allocation in this case is full cost of service, the rate
13 moderation proposed here reflects primarily the class sales uncertainty created by the
14 COVID 19 pandemic in 2020. The "moderated" classes in EPE's proposal are those
15 which show the most variation in 2020 as a direct result of the pandemic and are likewise
16 the most likely to see changes in 2022 as conditions return to some degree of
17 pre-pandemic levels. EPE witness Novela discusses the observed sales impacts in his
18 testimony. These changes during 2020 impact the allocation factors employed by EPE
19 witness Hernandez in the class cost of service analysis and, as he notes, result in some
20 significant reallocation of costs between rate classes unlike studies from previous rate
21 cases.

22 23 IX. Conclusion

24 Q. PLEASE SUMMARIZE EPE'S REQUEST IN THIS CASE.

25 A. EPE requests that the Commission grant the relief I summarize in Section IV of my
26 testimony. EPE's filed case supports an increase to EPE's Texas jurisdictional base rate
27 revenue requirement of \$69.689 million to be recovered through proposed changes to
28 base rates and miscellaneous service charges. Revised rates designed to recover EPE's
29 authorized Texas base revenue would reflect the inclusion in rate base of EPE's prudent
30 and necessary capital additions made since the Test Year in the 2017 base rate case, and
31 EPE's operating expenses reasonable and necessary to serve Texas customers. EPE is

1 also requesting that the Commission approve baseline revenue requirements for
2 transmission, distribution, and generation in order to enable future TCRF, DCRF, and
3 GCRR applications should they be warranted.

4 EPE requests that the Commission approve EPE's proposed tariffs and rates, as
5 reflected in Schedule Q-8.8, as just and reasonable, not unreasonably preferential or
6 discriminatory, and sufficient, equitable, and consistent. The Company requests these
7 rates to be effective within 35 days of the date of EPE's statement of intent filing in this
8 case, unless suspended by the Commission or local regulatory authority, subject to notice
9 and appropriate hearing, for a period not longer than permitted under Texas law. If rates
10 are suspended for a period beyond 155 days after the date that EPE's rate-filing package
11 was filed in this proceeding, EPE requests that its authorized revenue requirement be
12 made effective for consumption on or after the 155th day from filing.

13 Finally, EPE requests the Commission approve recovery over a four-year period
14 of EPE's rate case expenses.

15
16 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

17 A. Yes, it does.

SCHEDULES SPONSORED BY J. SCHICHTL

Schedule	Description	Sponsorship
G-5.1	ANALYSIS OF LEGISLATIVE ADVOCACY	Co-Sponsor
G-5.1a	PAYMENTS TO REGISTERED LOBBYISTS	Co-Sponsor
G-5.1b	PAYMENTS FOR MONITORING LEGISLATION	Co-Sponsor
G-14.1	RATE CASE EXPENSES	Sponsor
H-12.5a	LINE LOSSES & SYSTEM'S OWN USE	Co-Sponsor
I-14	FUEL AUDITS	Sponsor
J-2	CONSOLIDATED FINANCIAL STATEMENTS	Sponsor
T	NOTICE	Sponsor
U	COMPLIANCE WITH PUC ORDERS	Sponsor
V	REQUEST FOR WAIVER OF RFP REQUIREMENTS	Sponsor
W	CONFIDENTIALITY DISCLOSURE AGREEMENT	Sponsor

Relevant Compliance Requirements Adopted in Docket No. 46831

Requirement:	Compliance:
<p>Federal Tax: In the event of a future change to corporate Federal income tax expense that reduces Federal income taxes, EPE shall record a regulatory liability to accrue the reduced tax expense and file for refund to customers. The regulatory treatment of any excess deferred taxes resulting from a reduction in the federal-income-tax rate will be addressed in EPE's next base-rate case.</p>	<p>Following implementation of the Tax Cuts and Jobs Act of 2017, EPE complied with this requirement by making the appropriate filings as addressed in Dockets Nos. 48124, 49251, 50575, and 51826. EPE is proposing regulatory treatment for the resulting excess deferred taxes, which is addressed in the testimony of EPE witness Prieto.</p>
<p>Financial Matters: Approved Weighted Average Cost of Capital (WACC), Cost of Debt, ROE, and capital structure will apply, in accordance with PURA and Commission rules, in all Commission proceedings or Commission filings requiring application of EPE's Cost of Debt, WACC, ROE, or capital structure.</p>	<p>EPE has complied with this requirement, including EPE's accrual of AFUDC and its filings for Transmission Cost Recovery Factor and Distribution Cost Recovery Factors.</p>
<p>Allocation of Solar Facilities: The 50 MW Macho Springs solar power purchase agreement (PPA) (for solar power from the Macho Springs Solar Facility in Luna County, New Mexico) and the 10 MW Newman solar PPA (for solar power from the PSEG El Paso Solar Energy Center in El Paso County, Texas) will be system resources for jurisdictional allocation purposes.</p>	<p>EPE has complied with this requirement in recording fuel cost, with the recognition that the Commission approved in Docket No. 48181 the use of the unallocated portion of the 10 MW Newman Solar Facility to support the expansion of EPE's Community Solar Program.</p>
<p>Imputed Capacity: For the 50 MW Macho Springs solar PPA and the 10 MW Newman solar PPA, the imputed capacity charge for the 50 MW Macho Springs solar PPA shall be \$2.35/kW per month, and the imputed capacity charge for the 10 MW Newman solar PPA shall be \$2.33/kW per month. All remaining costs incurred under these two PPAs shall be classified as fuel expenses.</p>	<p>EPE has complied with this requirement in recording fuel cost expense, as most recently reconciled in Docket No. 50058.</p>
<p>Four Corners Decommissioning: EPE will recover \$5,532,395 on a Texas jurisdictional basis, with this cost to be recovered over a seven-year period beginning August 1, 2017. The unamortized balance of the Four Corners' decommissioning costs will not be included in rate base or accrue any carrying costs.</p>	<p>EPE has been amortizing the decommissioning expense consistent with this provision and has not included the unamortized balance in rate base in this application.</p>

Relevant Compliance Requirements Adopted in Docket No. 46831

Requirement:	Compliance:
Depreciation Rates: EPE will use the depreciation rates as proposed in the direct testimony of Staff witness Reginald J. Tuvilla (filed June 30, 2017).	EPE has complied with this requirement by accumulating plant depreciation at the agreed rates since the effective date of Docket No. 46831. EPE is proposing updated depreciation rates for Commission approval in this application.
Nuclear Decommissioning: Beginning July 18, 2017, EPE will recover annually \$2,132,186 (Texas jurisdiction) for nuclear decommissioning funding.	EPE has made contributions for nuclear decommissioning in at least this amount annually since 2017.
Forbearance of DCRF and TCRF Filings: EPE will not file a DCRF or TCRF rate change application prior to January 1, 2019.	EPE complied with this requirement by not filing its first TCRF and DCRF until after January 1, 2019.
Continuation of Certain Docket No. 44941 Rate Treatments: The following provisions in Docket No. 44941 Agreement continue to be in effect: Article I.C.1. (exclusion of the Copper gas generation turbine from rate base or from depreciation expense), Article I.E.2. (record gains or losses for the retirement of transportation equipment to accumulated depreciation and amortization) Article I.F. (normalizing state income tax expense), and Article I.H. (inclusion the costs of environmental consumables as a fuel cost).	EPE continues to comply with these provisions.
DG Rate Structure: The Order approved a rate structure for DG customers that kept customers with DG in their legacy rate class, that is they were not separated into separate classes. In addition to the rates and optional rates, the rate structure addressed metering costs, application fees, and net metering. Non-grandfathered DG customers were subject to a minimum bill as provided by their respective rate class tariff.	EPE has complied with this requirement by observing the approved rate structure and implementing the minimum bill for non-grandfathered customers.
Grandfathering of DG Customers: Residential and Small General Service customers who had received an email confirmation from EPE that their application had been received prior to December 18, 2017 are not subject to the Minimum Bill provision at their current residence or place of business for a grandfathering term of 20 years from the date of interconnection of their DG installation.	EPE has complied with this requirement by grandfathering eligible DG customers for purposes of rate changes adopted in Docket No. 46831.

Relevant Compliance Requirements Adopted in Docket No. 46831

Requirement:	Compliance:
Rate Schedule DG Acknowledgement: EPE shall require a separate acknowledgement from customers upon application for interconnection of distributed generation that recognizes EPE's rates are subject to change and could affect the economics of the customer's DG facilities.	EPE has complied with this requirement for separate acknowledgement by prospective DG customers.
Cooperation Regarding Education Program: EPE agrees to work with the local DG community, the City of El Paso and other municipalities in EPE's Texas service territory, Commission Staff, and the OPUC on a commercially reasonable education program regarding DG service for existing and potential customers.	EPE has not to date began working with parties in developing a commercially reasonable education program regarding DG service for existing and potential customers.
Collaboration Regarding DG Benefits: Prior to proposing modifications to the rate structure and conditions applicable to DG customers as described in this Attachment #5 of the Agreement, EPE will collaborate with interested stakeholders in good faith to determine the cost and benefits of DG to EPE and EPE customers.	At this time EPE is not proposing modifications to the rate structure or conditions applicable to DG customers and adopted in 46831.

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SOAH DOCKET NO. 473-17-2686

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APPLICATION OF EL PASO
ELECTRIC COMPANY TO CHANGE
RATES

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PUBLIC UTILITY COMMISSION
OF TEXAS

ORDER

This Order addresses the application of El Paso Electric Company for authority to change rates. An uncontested agreement was executed that resolves all of the issues between the parties to this proceeding. Consistent with the agreement and this Order, the application is approved.

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

I. Findings of Fact

Introduction and Procedural History

1. El Paso Electric Company (EPE) is an electric utility, a public utility, and a utility.
2. On February 13, 2017, EPE filed an application for approval of a \$42.547 million Texas-jurisdiction-retail increase in base rates and other miscellaneous revenues and changes to the structure and terms of its tariff.
3. Concurrent with the filing of the application with the Commission, EPE filed a similar petition and statement of intent with each incorporated municipality in its Texas service area that has original jurisdiction over its rates.
4. EPE proposed an effective date of March 20, 2017.
5. EPE also requested that, if the new rates were suspended for a period beyond March 20, 2017, then final rates would relate back and be made effective for consumption on and after July 18, 2017.
6. EPE used a test year of October 1, 2015 through September 30, 2016.
7. Notice of EPE's application was published once each week for four consecutive weeks in a newspaper having general circulation in each county in EPE's Texas service territory. In addition, EPE provided individual notice to EPE's Texas retail customers, each

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- municipality within EPE's service area with original jurisdiction over EPE's retail rates, and each party to EPE's last general rate case.¹
8. EPE timely appealed to the Commission the actions of the following municipalities exercising original jurisdiction within their service territory: the City of El Paso, the town of Anthony, the Town of Horizon City, the Town of Clint, the Village of Vinton, the Town of Van Horn, the City of San Elizario, and the City of Socorro. All such appeals were consolidated for determination in this docket.
 9. The following parties were granted intervenor status in this docket:
the City of El Paso; the Office of Public Utility Counsel (OPUC); Texas Industrial Energy Consumers (TIEC); Freeport-McMoran Copper & Gold, Inc. (FMI); Wal-Mart Stores Texas, LLC and Sam's East, Inc. (collectively, Walmart); W. Silver, Inc. (W. Silver); the U.S. Department of Defense and all other Federal Executive Agencies (DoD-FEA); ECO ELP, Inc. (ECO ELP); El Paso County (EPCO); a coalition of cities served by EPE (consisting of the municipalities of the City of San Elizario, the Town of Clint, and the Town of Horizon City) (Coalition); Ysleta Independent School District (ISD), El Paso ISD, Socorro ISD, Clint ISD, San Elizario ISD, Fabens ISD, Anthony ISD, Canutillo ISD, Tornillo ISD, the Housing Authority of the City of El Paso, the Region 19 Education Service Center, and the El Paso County Community College District (collectively, the Rate 41 Group); the Energy Freedom Coalition of America (EFCA); the Solar Energy Industries Association (SEIA); the City of Socorro (Socorro); Vinton Steel, LLC (Vinton Steel); the Environmental Defense Fund (EDF); the University of Texas at El Paso (UTEP); and pro se intervenors Vincent M. Perez, Richard Schecter, and Dr. Marjaneh M. Fooladi. Commission Staff also participated in this docket.
 10. On February 14, 2017, the Commission referred this case to the State Office of Administrative Hearings (SOAH) to conduct an evidentiary hearing and prepare a proposal for decision, if necessary.

¹ *Application of El Paso Electric Company to Change Rates*, Docket No. 44941, Order (Aug. 25, 2015).

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11. On February 17, 2017, SOAH issued Order No. 1 suspending the effective date of the proposed tariff changes for 150 days from EPE's originally-proposed effective date, or until August 17, 2017, among other things.
12. On March 9, 2017, the Commission issued a preliminary order determining the issues to be addressed in this proceeding.
13. On June 5, 2017, SOAH issued Order No. 5 granting EPE's motion to sever the rate case expense issues and establishing *Review of Rate Case Expenses Incurred by El Paso Electric Company and Municipalities in Docket No. 46831*, SOAH Docket No. 473-17-4239, Docket No. 47228 (Docket No. 47228).
14. At the August 18, 2017 prehearing conference, EPE agreed to extend the jurisdictional deadline—which EPE had previously agreed to extend to November 30, 2017—to January 15, 2018.
15. On August 21, 2017, the hearing on the merits convened.
16. On August 24, 2017, SOAH issued Order No. 9 cancelling further hearings to facilitate settlement discussions.
17. On November 2, 2017, EPE and other parties filed in this proceeding and in Docket No. 47228 the agreement which settles and resolves all of the issues in this proceeding.
18. Along with the agreement, EPE and other parties also filed a joint motion to implement the agreement.
19. The following parties are signatories to the agreement: EPE, Commission Staff, the city of El Paso, TIEC, FMI, W. Silver, DoD-FEA, Coalition, Socorro, Rate 41 Group, Walmart, SEIA, OPUC, Vinton Steel, UTEP, and Vincent M. Perez, (collectively, the signatories). ECO ELP, EDF, Richard Schecter, and Dr. Marjaneh M. Fooladi do not oppose the Commission entering a final order consistent with the agreement, but do not join in the agreement.
20. On November 6, 2017, SOAH issued Order No. 10 in Docket No. 46831 and Order No. 3 in Docket No. 47228 consolidating the proceedings; admitting the various identified exhibits into evidence, including the agreement and testimony from EPE and Commission

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Staff in support of the agreement; dismissing the consolidated proceeding from the SOAH docket; and returning the matter to the Commission for further processing.

Description of the Agreement

21. The signatories agree that the agreement results in just and reasonable rates and that the public interest will be served by resolution of the issues in the manner prescribed by the agreement.

Overall Revenues

22. The agreement provides that EPE should receive an overall increase of \$14.5 million in Texas-base-rate and other revenues, effective for electricity consumed on and after July 18, 2017. (Agreement art. I.A.)

Future Change to Corporate Federal Income Tax Expense

23. The agreement provides a mechanism to capture a reduction in the federal income-tax rates for corporations. (Agreement art. I.B.)
24. If the federal income-tax rate for corporations is decreased before EPE files its next base-rate case, then EPE will record, as a regulatory liability, taking into account changes in billing determinants, the difference between (a) the amount of federal income-tax expense that EPE collects through the revenue requirement approved in this proceeding and reflected in its rates and (b) the amount of federal income-tax expense calculated using the new federal income-tax rate, taking into account any other federal corporate-tax changes, such as the deductibility of interest costs. This regulatory liability will accumulate from (a) the later of (i) the date that the new base rates established in this case for EPE became effective or (ii) the date on which the tax-rate reduction became effective until (b) the refund tariff described below becomes effective.
25. EPE will file a refund tariff with the Commission and municipal regulatory authorities within 120 days after the enactment of the law making the tax-rate change reflecting (a) the reduction in federal-income-tax rates and (b) a credit for the regulatory liability referenced above over a twelve-month period. The tariff will calculate the difference in tax expense as the difference in: (i) federal-income-tax expense collected in rates (i.e., reflecting the federal-income-tax rate embedded in the tax factor indicated on Attachment

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1 to the agreement) and (ii) the federal-income taxes that would have been collected in rates had the changes in the federal-income-tax rates, and other associated changes in the federal-income-tax calculation, been in effect at the time settlement rates were established. The proposed refund amount will be allocated to rate classes based upon the allocation of rate base as shown in Attachment 2 to the agreement.

26. In each subsequent year, EPE will file to update the refund factor to reflect any over- or under-recovery of federal-income-tax expense and to reflect any subsequent changes in federal-income-tax rates or calculations that would affect the settlement income-tax calculation reflected on Attachment 1 to the agreement. The refund factors in each subsequent year will be filed within 90 days after the end of the fiscal year, with a final reconciliation determined at the time of the final order in the base-rate case.
27. The refund factor will be discontinued upon the effective date of rates in EPE's next base rate case.
28. The amount and timing of the reduction in rates to reflect a tax-rate decrease will be subject to any new federal rules or state laws or regulations that address how a utility's rates should be adjusted to account for the reduction of federal-income-tax rates.
29. The regulatory treatment of any excess deferred taxes resulting from a reduction in the federal-income-tax rate will be addressed in EPE's next base-rate case.

Financial Matters

30. The agreement provides that effective beginning August 1, 2017, EPE's weighted average cost of capital (WACC) shall be 7.725% based upon a 5.922% cost of debt, an authorized return on equity (ROE) of 9.65%, and an authorized regulatory capital structure of 51.652% long-term debt and 48.348% equity. The foregoing WACC, cost of debt, ROE, and capital structure will apply, in accordance with PURA² and the Commission's rules, in all Commission proceedings or Commission filings requiring application of EPE's cost of debt, WACC, ROE, or capital structure to the same extent as if these factors had been determined in a final order in a fully-litigated proceeding. (Agreement art. I.C.)

² Public Utility Regulatory Act, Tex. Util. Code Ann. §§ 11.001-58.302 (West 2016 & Supp. 2017), §§ 59.001-66.016 (West 2007 & Supp. 2017) (PURA).

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Prudence Finding Regarding Investment

31. Under the agreement, the signatories agree that all EPE investment through the end of the test year (September 30, 2016), as presented in EPE's rate filing package, is used and useful and prudent and included in rate base. (Agreement art. I.D.)

Jurisdictional Allocation of Certain Solar Facilities

32. The agreement specifies that the 50-megawatt (MW) Macho Springs solar-power purchase agreement (PPA) and the 10-MW Newman solar PPA will be system resources for purposes of jurisdictional allocation. (Agreement art. I.E.)

Imputed Capacity

33. Under the agreement, the classification of costs incurred by EPE as either base-rate capacity charges or fuel charges for the 50-MW Macho Springs solar PPA and the 10-MW Newman solar PPA shall be as follows for the term of these contracts: Effective beginning August 1, 2017, the imputed capacity charge for the 50-MW Macho Springs solar PPA shall be \$2.35 per kilowatt (kW) per month, and the imputed capacity charge for the 10-MW Newman solar PPA shall be \$2.33 per kW per month. All remaining costs incurred under these two PPAs shall be classified as fuel expenses. (Agreement art. I.F.)

Four Corners Decommissioning

34. The agreement provides for the rate treatment of EPE's share to decommission units 4 and 5 at the Four Corners Power Plant. (Agreement art. I.G.)
35. The agreement specifies that, consistent with EPE's request in this proceeding and the settlement agreement in Docket No. 44805,³ the Commission's Order in the instant docket should authorize EPE's recovery of the costs of decommissioning units 4 and 5 at the Four Corners Power Plant in the amount of \$6,992,622 on a total company basis, or \$5,532,395 on a Texas jurisdictional basis, with this cost to be recovered over a seven-year period beginning August 1, 2017. This equates to an annual amortization in the amount of \$998,946 on a total company basis, or \$790,342 on a Texas jurisdictional basis, which represents one-seventh of the requested authorized recovery.

³ Application of El Paso Electric Company for Reasonableness and Public Interest Findings on the Disposition of Coal-Fired Generating Facilities in New Mexico and Mine Closing Costs Adjustments, Docket No. 44805, Order (Mar. 30, 2017).

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36. The unamortized balance of the Four Corners decommissioning costs will not be included in rate base or accrue any carrying costs.
37. This amount for Four Corners decommissioning is subsumed in, and is not separate from, the overall \$14.5 million revenue requirement increase.

Depreciation

38. The agreement provides that beginning August 1, 2017, EPE will use the depreciation rates as proposed in the direct testimony of Commission Staff witness Reginald J. Tuvilla (filed June 30, 2017) and reflected in his Attachment RJT-4, which is Attachment 3 to the agreement. (Agreement art. I.H.)

Nuclear Decommissioning

39. Under the agreement, beginning July 18, 2017, EPE will recover annually \$2,132,186 (Texas jurisdiction) for nuclear-decommissioning funding. (Agreement art. I.I.)

Baseline Values for Distribution-Cost-Recovery Factor (DCRF) Filing

40. Under the agreement, if EPE files an application for approval of a distribution-cost recovery factor under PURA § 36.210 and 16 Texas Administrative Code (TAC) § 25.243 after July 18, 2017, then the baseline values to be used in that application are as shown in Attachment 4 to the agreement. (Agreement art. I.J.)

Baseline Values for Transmission-Cost-Recovery Factor (TCRF) Filing

41. The agreement specifies that if EPE files an application for approval of a transmission-cost recovery factor under PURA § 36.209 and 16 TAC § 25.239 after July 18, 2017, then the baseline values to be used in that application are as shown in attachment 5 to the agreement. (Agreement art. I.K.)

Forbearance of DCRF and TCRF Filings

42. EPE agrees that it will not file a DCRF or TCRF rate-change application prior to January 1, 2019. (Agreement art. I.L.)

Continuation of Certain Docket No. 44941 Rate Treatments

43. The agreement provides that EPE will continue to abide by four rate treatments contained in the amended and restated settlement agreement in Docket No. 44941 as follows: (a) those concerning the Copper gas generation turbine; (b) gains or losses for the retirement

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of transportation equipment; (c) normalizing state income-tax expense; and (d) the costs of environmental consumables. (Agreement art. I.M.)

Allocation of the \$14.5 Million Revenue Increase

44. The agreement specifies how the \$14.5 million revenue increase is distributed among the rate classes in attachment 6 to the agreement. (Agreement art. I.N.)

Distributed Generation

45. The agreement contains provisions addressing residential and small-general-service customers with distributed generation (DG) and DG-related subjects. (Agreement art. I.O.)
46. The DG provisions are contained in attachment 7 to the agreement, which is provided as attachment A to this Order.
47. For convenience, attachment A to this Order is also referred to as the *DG Agreement*, which is summarized in this Order.
48. EPE, Commission Staff, EFCA, SEIA, and EPCO support the DG Agreement; the City of El Paso and OPUC, who are signatories, and ECO ELP and the EDF, do not oppose the DG Agreement.
49. For specified purposes, DG residential and small-general-service customers shall remain constituents of the residential-service or small-general-service rate classes, as applicable, as further explained in section 1 of the DG Agreement.
50. The DG Agreement addresses grandfathering provisions for residential customers and small-general-service customers who submit an application for interconnection and receive an email from EPE that states the application has been received and is under review prior to the day the Commission issues an order implementing the agreement. Such customers will not be subject to the minimum-bill provision. This subject is more fully explained in section 2 of the DG Agreement.
51. The DG Agreement addresses customer billing for DG customers (residential-service and small-general-service) who are not grandfathered. This subject is more fully explained in section 3 of the DG Agreement.

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52. Under section 4 of the DG Agreement, EPE agrees to work with the local DG community, the city of El Paso and other municipalities in EPE's Texas service territory, Commission Staff, and OPUC on a commercially reasonable education program regarding DG service for existing and potential customers.
53. The DG Agreement addresses DG metering costs in section 5.
54. The DG Agreement addresses net energy metering in section 6.
55. The DG Agreement addresses interconnection-application fees in section 7.
56. In section 8 of the DG Agreement, EPE agrees to reset the demand ratchet for customers installing DG, installing storage, or both, following interconnection, of the DG or storage, effectively restarting the historical demand used for purposes of applying the tariffed demand ratchet.
57. The DG Agreement addresses the collaborative process EPE and interested stakeholders will undertake prior to EPE proposing modifications to the rate structure and conditions applicable to DG customers in the DG Agreement. This subject is addressed in section 9 of the DG Agreement.
58. Section 10 of the DG Agreement addresses certain restrictions on EPE proposing certain changes to DG rate and rate structures.

Rate Design and Tariff Approval

59. The agreement addresses tariff and rate-design issues (Agreement art. I.P.) as follows:
 - (A) Design of Rates: The tariff sheets in attachment 8 to the agreement reflect the signatories' agreements concerning the design of rates.
 - (B) Residential Customer Charge: The customer charge applicable to the Residential Service Rate, Schedule No. 01, shall be \$8.25 per month.
 - (C) Small General Service Customer Charge: The customer charge applicable to Small General Service, Schedule No. 02, shall be \$10.75 per month.
 - (D) Rate 24--General Service: New customers with an expected load greater than 400 kW shall take service under the time-of-use (TOU) alternative but have a one-time opportunity to opt out of the TOU alternative at the end of 12 months of service

under that rate and take service thereafter under the standard service rate. For any new customer choosing to opt out of the TOU alternative, the customer will be held harmless for the period of time they took service under the TOU alternative and be required to pay no greater than the lesser of bills calculated under the standard service or the TOU alternative.

- (E) Rate 41—City and County Service Rate: EPE's proposal to apply a power factor penalty is not adopted. EPE's proposal for a rate design that is based on an hours-of-use rate structure, similar to rate 24, is not adopted. Instead, the existing declining block structure is maintained. However, the current differential between the blocks is reduced and the demand charge increased, as presented in attachment 8 to the agreement. In addition, EPE agrees that, with the exception of accounts that take non-metered service, EPE will install demand meters (at no cost to the customer) on all rate-41 accounts. EPE will activate the demand function (at no cost to the customer) for those rate-41 accounts with demand meters but that do not have the demand reading capability functioning. Accounts that are currently unmetered shall remain unmetered unless there is a mutual agreement to convert the account to a metered account.
- (F) Rate 38—Noticed Interruptible Power Service: The minimum level of firm demand to be required from qualifying customers by rate 38 shall be reduced from 1,500 kW to 600 kW. In addition, EPE's proposed 10% charge for failure to interrupt should be modified consistent with the agreement as follows:

1st Non-Compliance—Rebill the bill month at the applicable firm service rate.

2nd Non-Compliance—Rebill the year-to-date at the applicable firm-service rate plus 5% (of rebilled interruptible amount, not including fuel).

3rd Non-Compliance—Rebill the year (unbilled interruptible portion) at applicable firm-service rate plus 5% (of rebilled interruptible amount, not including fuel), and the customer thereafter is not eligible to take interruptible service, but may reapply after twelve months.

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- (G) Rate Schedule DG: The following text, which has been modified from what EPE had proposed be added to the end-use-customer-affirmation-schedule portion of the agreement for interconnection and parallel operation of distributed generation, shall not be added to the end-use-customer-affirmation schedule but shall be a separate customer acknowledgement that EPE requires upon application for interconnection of distributed generation:

I acknowledge (i) that El Paso Electric Company's customer classifications, rates, charges, and fee structures are subject to change at any time upon approval of the authorities or entities that govern and/or regulate El Paso Electric Company, and (ii) such changes could affect the economics (i.e., costs and benefits) of my distributed generation, including the magnitude and existence of any net savings on my bill.

The signatories' agreement to this provision of the agreement should in no way be interpreted as an agreement to any future change proposed by EPE or a party participating in a future proceeding or to the lawfulness of any particular proposal including specifically any proposal to place residential customers who have interconnected DG into a separate class, and the parties reserve all rights to contest any such proposal.

- (H) EPE's proposed tariff-text changes with rates for the various classes consistent with the agreement, Attachment 8, should be approved upon final resolution of this case.
- 59A. The language of the separate customer acknowledgement that EPE requires upon application for interconnection of distributed generation described in finding of fact 59(G) is ambiguous.
- 59B. The following language provides better notice to customers and it is appropriate that the acknowledgement that EPE requires for the end-use-customer-affirmation schedule contain this language:

I acknowledge (i) that El Paso Electric Company's customer classifications, rates, charges, and fee structures are subject to change at any time upon approval of the municipalities, Public Utility Commission of Texas, or the

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Federal Energy Regulatory Commission under their respective authorities to regulate El Paso Electric Company, and (ii) such changes could affect the economics (costs, any credits, and other benefits) of my distributed generation, including the magnitude and existence of any net savings on my bill.

Rate-Case Expenses Recovery

60. The agreement provides for the review and recovery of EPE's rate-case expenses. (Agreement art. I.Q.)
61. The signatories agree that the rate-case expense Docket No. 47228 should be consolidated with this Docket No. 46831.
62. The signatories agree that under PURA § 36.061(b)(2), EPE should recover its reasonable and necessary rate-case expenses associated with this proceeding for services rendered through August 31, 2017, as well as all deferred rate-case expenses, subject to Commission Staff's review of the reasonableness and necessity of such expenses.
63. The signatories further agree that under PURA § 33.023(b), the City of El Paso, the Coalition, and Socorro (collectively, the cities) should be reimbursed by EPE for their reasonable and necessary rate-case expenses associated with this proceeding for services rendered through August 31, 2017, as well as deferred rate-case expenses, and that EPE should recover those amounts.
64. Commission Staff reviewed rate-case-expense invoices for EPE and the cities for services rendered through August 31, 2017. Based on this review, the signatories agree to the disallowance of \$58,000 of the total rate-case expenses requested and find the remaining amount of \$3,390,588.75 to be reasonable and necessary expenses and in compliance with 16 TAC § 25.245. To the extent the hourly rate for any service exceeded \$550, only \$550 per hour is included in this amount.
65. The signatories further agree that rate-case expenses associated with this proceeding incurred after August 31, 2017 by EPE and Cities will be captured in a regulatory asset and preserved for recovery consideration in EPE's next general base-rate case. EPE will not accrue any return on the regulatory asset in this subsection.

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66. The signatories agree that rate-case expenses discussed above through August 31, 2017, will be recovered through a rate-case-expense surcharge over three (3) years, and that this rate-case-expense surcharge will become effective as prescribed by the Commission. These expenses shall be allocated to customer classes as shown on attachment 9 to the agreement. In order to avoid having two concurrent rate-case-expense surcharges, the surcharge resulting from the instant proceeding shall incorporate the unrecovered amount of the rate-case expenses from Docket No. 44941, and the current surcharge from Docket No. 44941 shall be terminated. No return shall accrue on the rate-case expenses identified in this paragraph.

Commission Approval

67. The agreement, including the DG Agreement, is the result of good faith negotiations by the parties, and these efforts, as well as the overall result of the agreement viewed in light of the record as a whole, support the overall reasonableness and benefits of the terms of the agreement.
68. The allocation of the rate-case expenses among rate classes in attachment 9 to the agreement is just and reasonable.
69. The agreement is binding on each signatory only for the purpose of settling the issues as set out in the agreement and for no other purpose. Except to the extent that the agreement expressly governs a signatory's rights and obligations for future periods, the agreement, including all terms provided herein, shall not be binding or precedential on a signatory outside of this case except for a proceeding to enforce the terms of the agreement. The signatories acknowledge and agree that a signatory's support of the matters contained in the agreement may differ from its position or testimony in other proceedings. To the extent there is a difference, a signatory does not waive its position in such other proceedings. Because the agreement is a settlement agreement, a signatory is under no obligation to take the same position as set out in the agreement in other proceedings, whether those proceedings present the same or a different set of circumstances. The agreement is the result of compromise and was arrived at only for the purposes of settling this case.

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70. The agreement is not intended to be precedential except to the extent that (a) the agreement in article I.D, is a final determination on the reasonableness and necessity of the cost of EPE's investment; (b) the agreement in article I.G is a final determination of the reasonableness and necessity of the final decommissioning costs for the Four Corners Power Plant; (c) the agreements in articles I.J and I.K are final determinations of the DCRF and TCRF baselines being established by this case; and (d) the agreements in article I, sections C (cost of capital), E (allocation of certain solar resources), F (imputed capacity), G with regard to the amortization period for Four Corners decommissioning cost, H (depreciation), I (nuclear decommissioning), and M (continuation of rate treatments from Docket No. 44941) are intended to be adopted by the Commission and remain in place until such time as they may be changed on a prospective basis.
71. A signatory's agreement to entry of a final order of the Commission consistent with the agreement should not be regarded as an agreement to the appropriateness or correctness of any assumptions, methodology, or legal or regulatory principle that may have been employed in reaching the agreement.

II. Conclusions of Law

1. EPE is a public utility as that term is defined in PURA § 11.004(1) and an electric utility as that term is defined in PURA § 31.002(6).
2. The Commission exercises regulatory authority over EPE and jurisdiction over the subject matter of this application under PURA §§ 14.001, 32.001, 36.001–.211, and 39.552.
3. SOAH exercised jurisdiction over this proceeding under PURA § 14.053 and Texas Government Code § 2003.049.⁴
4. This docket was processed in accordance with the requirements of PURA, the Administrative Procedure Act,⁵ and the Commission's rules.
5. EPE provided notice of the application in compliance with PURA § 36.103 and 16 TAC § 22.51(a) and (b).

⁴ Tex. Gov't Code Ann. § 2003.049 (West 2016).

⁵ Tex. Gov't Code Ann. § 2001.001-.902 (West 2016 & Supp. 2017) (APA).

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6. The Commission has jurisdiction over an appeal from municipalities' rate proceedings under PURA § 33.051.
7. The agreement, taken as a whole, is a just and reasonable resolution of all the issues it addresses, results in just and reasonable rates, terms, and conditions, is supported by a preponderance of the credible evidence in the record, is consistent with the relevant provisions of PURA, and should be approved.
8. The revenue requirement, cost allocation, revenue distribution, and rate design contemplated by the agreement result in rates that are just and reasonable, comply with the ratemaking provisions of PURA, and are not unreasonably discriminatory or preferential.
9. EPE's rates resulting from the agreement are just and reasonable and meet the requirements of PURA § 36.003.
10. The agreement resolves all of the pending issues in this docket.
11. The tariff sheets and rate schedules included in the agreement are just and reasonable and accurately reflect the terms of the agreement.
12. The Commission's adoption of a final order consistent with the agreement satisfies the requirements of the APA §§ 2001.051 and 2001.056 without the necessity of a decision on contested case issues resulting from a hearing on the merits.
13. The requirements for informal disposition under 16 TAC § 22.35 have been met in this proceeding.

III. Ordering Paragraphs

In accordance with these findings of fact and conclusions of law, the Commission issues the following orders:

1. Consistent with the agreement and this Order, El Paso Electric Company's (EPE's) application is approved.
2. Consistent with the agreement and this Order, the rates, terms, and conditions described in this Order are approved.
3. EPE's tariffs attached to the agreement are approved.

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4. Within 20 days of the date of this Order, EPE shall file a clean record copy of the approved tariffs to be stamped "Approved" by Central Records and retained by the Commission.
5. EPE shall file proposed surcharge tariffs consistent with this Order within 20 days of the date of this Order in *Compliance Tariff for the Final Order in Docket No. 46831 (Application of El Paso Electric Company to Change Rates)*, Tariff Control No. 47840. No later than 10 days after the date of the tariff filing, any intervenor in the instant proceeding may file comments on the individual sheets of the tariff. No later than 15 days after the date of the tariff filing, Commission Staff shall file its comments recommending approval, modification, or rejection of the individual sheets of the tariff. Responses to Commission Staff's recommendation shall be filed no later than 20 days after the filing of the tariff. The Commission shall by letter approve, modify, or reject each tariff sheet, effective the date of the letter.
6. The surcharge tariff sheets shall be deemed approved and shall become effective on the expiration of 30 days from the date of filing, in the absence of written notification of modification or rejection by the Commission. If any surcharge sheets are modified or rejected, EPE shall file proposed revisions of those sheets in accordance with the Commission's letter within 10 days of the date of that letter, and the review procedure set out above shall apply to the revised sheets.
7. Copies of all tariff-related filings shall be served on all parties of record.
8. EPE shall provide separately to a customer the following acknowledgement in lieu of the acknowledgement proposed in the settlement agreement upon a customer's application for interconnection of distributed generation.

I acknowledge (i) that El Paso Electric Company's customer classifications, rates, charges, and fee structures are subject to change at any time upon approval of the municipalities, Public Utility Commission of Texas, or the Federal Energy Regulatory Commission under their respective authorities to regulate El Paso Electric Company, and (ii) such changes could affect the economics (costs, any credits, and other benefits) of my distributed generation, including the magnitude and existence of any net savings on my bill.

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9. If the federal income-tax rate for corporations is decreased before EPE files its next base-rate case, EPE shall record the difference between the amount of federal income-tax expense that EPE collects through the revenue requirement approved in this proceeding and reflected in its rates and the amount of federal income-tax expense calculated using the new federal income-tax rate,. EPE shall calculate this difference in accordance with finding of fact 24 and article I.B of the settlement agreement. This difference shall be treated as a regulatory liability, and EPE shall file a refund tariff with the Commission and municipal regulatory authorities within 120 days after the enactment of the law making a federal tax-rate change. In each subsequent year, within 90 days after the end of the fiscal year, EPE shall file to update the refund factor.
10. EPE is authorized to establish a regulatory asset to record any rate-case expenses associated with this proceeding that EPE and the cities incurred after August 31, 2017. EPE shall not accrue any return on this regulatory asset. In EPE's next general base-rate case, EPE and the cities shall seek Commission review and recovery of any rate-case expenses recorded in this regulatory asset or forfeit such expenses.
11. Entry of this Order consistent with the agreement does not indicate the Commission's endorsement or approval of any principle or methodology that may underlie the agreement. Entry of this Order consistent with the agreement shall not be regarded as binding holding or precedent as to the appropriateness of any principle or methodology underlying the agreement.
12. All other motions, requests for entry of specific findings of fact, conclusions of law, and any other requests for general or specific relief, if not expressly granted herein, are denied.

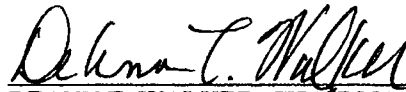
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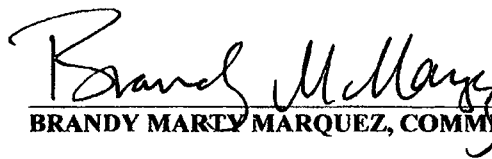
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Signed at Austin, Texas the 18th day of December 2017.

PUBLIC UTILITY COMMISSION OF TEXAS



DEANN T. WALKER, CHAIRMAN



BRANDY MARTEZ MARQUEZ, COMMISSIONER



ARTHUR C. D'ANDREA, COMMISSIONER

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Order Attachment A

ATTACHMENT 7 TO THE STIPULATION AND AGREEMENT IN EL PASO ELECTRIC COMPANY'S RATE CASE IN DOCKET NO. 46831-- DISTRIBUTED GENERATION

The provisions in this Attachment 7 are a component part of the Stipulation and Agreement (Agreement) in El Paso Electric Company's (EPE's) Docket No. 46831. This Attachment 7 is supported by EPE, the Public Utility Commission Staff, Energy Freedom Coalition of America, Solar Energy Industries Association and the County of El Paso, while the OPUC, the City of El Paso, ECO ELP and the Environmental Defense Fund do not oppose it.

1. **No Separate Rate Class:** Distributed Generation ("DG") customers shall remain constituents of the Residential Service or Small General Service rate classes, as applicable, for cost allocation, revenue distribution, and rate design purposes. Residential and Small General Service DG customers will pay the same retail charges as the rest of their respective classes except as described below and provided for in the applicable tariff, based on the customer's selection of rate options.
2. **Grandfathering:** Residential and Small General Service customers who submit an application for interconnection and receive an email from EPE that states the application has been received and is under review prior to the day the Commission issues an order implementing this Agreement will not be subject to the Minimum Bill provision at their current residence or place of business for a grandfathering term of 20 years from the date of interconnection of their DG installation. Should the original interconnection customer move or sell the premises at which the DG system is installed, the grandfathering will continue to apply to that DG system for subsequent owners for the remainder of the grandfathering term. In addition, if a customer whose facility is subject to being grandfathered removes the entire DG system and relocates some or all of the facility to a new premise, the grandfathering will continue to apply to that DG system at a single new location, subject to confirmation by the company.

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Grandfathered customers are subject to the same charges, including monthly customer charge, applicable to non-DG customers served under the applicable retail tariff and similarly will not be eligible to take service under the Experimental Demand Charge Monthly Rate.

3. **Customer Billing for Non-grandfathered DG Customers:**

Residential Service – Residential DG customers not subject to Grandfathering will be served on a default basis under the Standard Monthly Service Rate for their applicable rate schedule, subject to a Monthly Minimum Bill of \$30.00. The customer's base rate monthly bill will consist of the greater of: (i) the total of base rate charges, including the monthly customer charge; or (ii) the customer's Monthly Minimum Bill.

Non-grandfathered Residential DG customers may otherwise voluntarily elect to take service under one of the following options:

- (a) Alternate Time-of-Use Monthly Rate Customers may elect to receive service under the time-of-use (TOU) rate option provided for all residential customers under Rate 01, subject to a Minimum Monthly Bill of \$26.50. The customer's base rate monthly bill will consist of the greater of: (i) the total of base rate charges, including the monthly customer charge; or (ii) the customer's Monthly Minimum Bill. The Net Energy Metering (NEM) billing provision will be applied by TOU period for the billing cycle.
- (b) Experimental Demand Charge Monthly Rate - Customers may elect to receive service under the demand charge rate option provided for residential DG customers under Rate 01, the customer's base rate monthly bill will consist of (i) the applicable monthly customer charge, (ii) a monthly demand charge of \$3.16 per kW applicable to monthly peak metered demand, (iii) TOU energy charges and all applicable riders. The NEM billing provision will be applied by TOU period for the billing cycle. This option is not subject to a minimum bill provision. This optional rate will be available for DG customers only.

In addition to any applicable minimum bill, existing applicable riders and charges (e.g., the Energy Efficiency Cost Recovery Factor, the Military Base Discount Rate Factor, the Fixed Fuel Factor, Rate 48, Relate-back, Rate Case expense) and any new rate riders,

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(e.g. a DCRF or TCRF), will be billed on the basis of the customer's monthly base charges and net energy consumption or production.

Small General Service – Small General Service DG customers not subject to Grandfathering will be served on a default basis under the Standard Monthly Service Rate for their applicable rate schedule, subject to a Monthly Minimum Bill of \$39.00. The customer's base rate monthly bill will consist of the greater of: (i) the total of base rate charges, including the monthly customer charge; or (ii) the customer's Monthly Minimum Bill.

Non-grandfathered Small General Service DG customers may otherwise voluntarily elect to take service under one of the following options:

- (a) Alternate Time-of-Use Monthly Rate – Customers may elect to receive service under the TOU rate option provided for all small general service customers under Rate 02, subject to a Minimum Monthly Bill of \$36.50. The customer's base rate monthly bill will consist of the greater of: the total of base rate charges, including the monthly customer charge; or the customer's Monthly Minimum Bill. The NEM billing provision will be applied by TOU period for the billing cycle.
- (b) Experimental Demand Charge Monthly Rate - Customers may elect to receive service under the demand charge rate option provided for small general service DG customers under Rate 02, the customer's base rate monthly bill will consist of (i) the applicable monthly customer charge, (ii) a monthly demand charge of \$4.58 per kW applicable to monthly peak metered demand, (iii) TOU energy charges and all applicable riders. The NEM billing provision will be applied by TOU period for the billing cycle. This option is not subject to a minimum bill provision. This optional rate will be available for DG customers only.

In addition to any applicable minimum bill, existing applicable riders and charges (e.g., the Energy Efficiency Cost Recovery Factor, the Military Base Discount Rate Factor, the Fixed Fuel Factor, Rate 48, Relate-back, Rate Case expense) and any new rate riders. (e.g. a DCRF or TCRF), will be billed on the basis of the customer's monthly base charges and net energy consumption or production.

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4. **Cooperation Regarding Education Program:** EPE agrees to work with the local DG community, the City of El Paso and other municipalities in EPE's Texas service territory, Commission Staff, and the OPUC on a commercially reasonable education program regarding DG service for existing and potential customers.
5. **DG Metering Costs:** Metering costs for DG customers taking service under the Standard Monthly Service rate are recovered through the applicable base rates. No additional charges apply for DG customers relative to non-DG customers.

For DG customers electing service on the optional TOU or Demand rate option, additional charges as provided for in the applicable tariff will apply.
6. **Net Metering:** No changes are proposed or made to either the process of NEM for billing purposes or the application of Rate 48 for purposes of crediting net energy exports for eligible customers. The NEM billing provision will be applied by TOU period for the billing cycle for DG customers electing pricing options which include TOU energy pricing.
7. **Interconnection Application Fee:** The application fee included in Rate DG for an Interconnection Application for small and large generation facilities will not include specific cost recovery related to the GIS system. Interconnection application fees will be effective for new applications with rate approval under this settlement, and are not subject to the relate-back provision:

Interconnection Application Fees

Rated Capacity ≤ 100kW: \$85.00

Rated Capacity > 100kW: \$230.00

Amendments and addenda to an existing interconnection agreement undertaken in order to record increases of DG capacity or additions of storage will be subject to an interconnection application fee not to exceed 50% of the fee applicable for new interconnections. Amendments and addenda shall not result in forfeiture of grandfathering provisions where an agreement has previously been grandfathered. Cancellation of interconnection agreements and complete and permanent removal of

Order Attachment A

existing interconnected DG or storage shall result in forfeiture of grandfathering provisions but will not be subject to a fee of any kind.

8. **Commercial and Industrial Customer Demand Ratchets:** EPE will reset the demand ratchet for customers installing DG and/or storage following interconnection of the DG and/or storage, effectively restarting the historical demand used for purposes of applying the tariffed demand ratchet.
9. **Collaboration Regarding DG Benefits:** Prior to proposing modifications to the rate structure and conditions applicable to DG customers as described in this Attachment #5 of the Agreement, EPE will collaborate with interested stakeholders in good faith to determine the cost and benefits of DG to EPE and EPE customers. This process should be informed by the November 2016 NARUC Manual Distributed Energy Resources Rate Design and Compensation and any supplements or amendments thereto, studies commissioned in other jurisdictions regarding the costs and benefits of distributed generation, and the MIT Energy Initiative's Utility of the Future.
10. **Forbearance Agreement:** For a period no less than three years after the Commission enters its final order in this proceeding, EPE will not initiate a proceeding to propose changes that would result in a rate structure change or rate increase to any DG customer that is different than the rate increase applicable to all other customers in their current class. For this same period, EPE will not propose a change in rate classes that would separate a DG customer from its current rate class unless all members of its current class are affected in the same manner. This restriction does not prevent periodic adjustments to charges under the riders in EPE's tariffs to pass through changes in costs as prescribed by the riders, and will not apply in instances where EPE is required by the PUCT or local municipality to file a rate proceeding. During this period, this provision does not affect the Commission's exercise of regulatory authority over EPE, including but not limited to rulemaking projects and EPE compliance with any such rule of general utility applicability.

**SELECT TEXAS MERGER REGULATORY COMMITMENTS PER FINAL ORDER IN
DOCKET NO. 49849 WITH IMPLICATIONS FOR THIS PROCEEDING**

Regulatory Commitment	Compliance
<p>53 d. The EPE board of directors must consider, subject to applicable Texas law, the best interests of EPE, consistent with this Order.</p>	<p>EPE has complied with this commitment.</p>
<p>56 a. <u>Economic Development Fund</u>. The applicants will dedicate \$100 million to promote economic development in the EPE service territory, including the City of El Paso, Texas and the City of Las Cruces, New Mexico. Of that amount, \$80,000,000 will be jurisdictionally allocated to EPE's Texas service territory over a period of 15 years. The \$80,000,000 allocated to Texas will be administered by the City of El Paso's Economic Development Department and will be funded by Sun Jupiter in fifteen (15) equal annual installments of \$5,333,333.33.</p> <p>The first installment will be made by December 15, 2020, with each successive installment due by December 15 or the following business day of the applicable year. Contributions to the fund will not be recoverable in EPE's rates.</p>	<p>EPE has complied with this commitment. Economic Development installments have been processed as required, with no associated costs included in cost of service for this rate request.</p>
<p>b. <u>Charitable Giving</u>. The applicants will maintain EPE's annual amount of charitable giving following the closing of the transaction at EPE's average annual charitable giving level for the three-year period ended December 31, 2018 (i.e., approximately \$1.2 million per year throughout EPE's service territory). This commitment will remain regardless of the level allowed in EPE's rates. All signatories reserve the right to challenge inclusion of these expenses in rates. To the extent EPE seeks to recover these costs in rates, the inclusion of such costs much be described in the executive summary of the rate filing package.</p>	<p>EPE has complied with this commitment. EPE is requesting recovery of charitable contributions to the extent allowed and has included such request in its executive summary. EPE witnesses Borden and Prieto address charitable contributions in their direct testimonies.</p>

**SELECT TEXAS MERGER REGULATORY COMMITMENTS PER FINAL ORDER IN
DOCKET NO. 49849 WITH IMPLICATIONS FOR THIS PROCEEDING**

Regulatory Commitment	Compliance
<p>c. <u>Low-Income Assistance Programs.</u> The applicants will maintain EPE's existing low-income assistance programs while evaluating potential methods to improve such programs.</p>	<p>EPE has and will continue to comply with this commitment.</p>
<p>d. <u>Entry Level Training Programs.</u> The applicants will create or enhance programs that provide entry-level training focused on engineering, management, and finance skills for the local labor force in collaboration with The University of Texas at El Paso, El Paso Community College, and New Mexico State University. This commitment will remain regardless of the level allowed in EPE's rates. All signatories reserve the right to challenge inclusion of these expenses in rates. To the extent EPE seeks to recover these costs in rates, the inclusion of such costs must be described in the executive summary of the rate filing package.</p>	<p>EPE has complied with this commitment. EPE is requesting recovery of training program costs to the extent allowed and has included such request in its executive summary. EPE witness Prieto addresses program costs in her direct testimonies.</p>
<p>e. <u>Apprenticeship Programs.</u> The applicants will create or enhance apprenticeship programs for technical and professional positions for students in local high schools and colleges. This commitment will remain regardless of the level allowed in EPE's rates. All signatories reserve the right to challenge inclusion of these expenses in rates. To the extent EPE seeks to recover these costs in rates, the inclusion of such costs must be described in the executive summary of the rate filing package.</p>	<p>EPE has complied with this commitment. EPE is requesting recovery of training program costs to the extent allowed and has included such request in its executive summary. EPE witnesses Prieto and Doyle address programs and costs in their direct testimonies.</p>
<p>f. <u>Supplier Diversity.</u> The applicants will continue and enhance utility-supplier diversity by promoting the inclusion of minority-, women-, LGBTQ-, and veteran-owned businesses into EPE's supply chain. This commitment will remain regardless of the level allowed in EPE's</p>	<p>EPE has complied with this commitment. EPE is requesting recovery of supplier diversity related costs to the extent allowed and has included such request in its executive summary. EPE witness Prieto addresses these costs in her direct testimonies.</p>

**SELECT TEXAS MERGER REGULATORY COMMITMENTS PER FINAL ORDER IN
DOCKET NO. 49849 WITH IMPLICATIONS FOR THIS PROCEEDING**

Regulatory Commitment	Compliance
<p>rates. All signatories reserve the right to challenge inclusion of these expenses in rates. To the extent EPE seeks to recover these costs in rates, the inclusion of such costs must be described in the executive summary of the rate filing package.</p>	
<p>g. <u>New Technology Programs.</u> The applicants will study and evaluate growth opportunities related to electric vehicles, distributed generation, and battery storage in collaboration with The University of Texas at El Paso, El Paso Community College, and New Mexico State University. All signatories reserve the right to challenge inclusion of these expenses in rates. To the extent EPE seeks to recover these costs in rates, the inclusion of such costs must be described in the executive summary of the rate filing package.</p>	<p>EPE has complied with this provision but is not requesting cost recovery in this application. EPE witness Prieto discusses this commitment in more detail in her testimony.</p>
<p>58 a. <u>Rate Credit.</u> EPE will issue a rate credit to its Texas customers in a total aggregate amount for all customers of \$21 million. The rate credit will be distributed among customers in 36 monthly installments. No later than 45 days after the closing of the transaction, EPE will make a tariff filing to implement the rate credit. EPE will not attempt to recover the value of this rate credit in future rate cases.</p>	<p>EPE has complied with this provision. The rate credit was approved in Docket No. 50477, and the cost is not included in this rate request.</p>
<p>b. Goodwill. The applicants will not seek recovery in rates of the transaction acquisition premium. Any goodwill associated with the transaction will not be included in rate base, cost of capital, or operating expenses in future EPE ratemaking proceedings. Write-downs or write-offs of goodwill will not be included in the calculation of net income for dividend or other distribution payments purposes.</p>	<p>EPE has complied with this provision. EPE witness Prieto discusses this commitment in more detail in her testimony.</p>

**SELECT TEXAS MERGER REGULATORY COMMITMENTS PER FINAL ORDER IN
DOCKET NO. 49849 WITH IMPLICATIONS FOR THIS PROCEEDING**

Regulatory Commitment	Compliance
<p>c. Pushdown Accounting. Neither IIF US 2 nor any of its affiliates will elect to apply pushdown accounting for the transaction (i.e., the transaction will have no impact on EPE's assets being acquired). Any incremental goodwill will not be allocated to, or recognized within, EPE's balance sheet.</p>	<p>EPE has complied with this provision. EPE witness Prieto discusses this commitment in more detail in her testimony.</p>
<p>d. Transaction Costs. The applicants will not seek recovery of transaction costs in EPE's rates. None of the transaction costs will be borne by EPE's customers, nor will EPE seek to include transaction costs in its rates. Transaction costs are those incremental costs paid to advance or consummate the transaction. Examples of transaction costs include, but are not limited to the following: IIF US 2 time and expenses; EPE change-of-control payments; any tax impact as a result of the transaction; certain executive severance costs related to the transaction; and third-party costs, including bank advisors, external legal advisors, rating agencies, and expert witnesses and consultants in each case paid to advance or consummate the transaction. Transaction costs do not include EPE employee time.</p>	<p>EPE has complied with this provision. No transaction costs have been included in this rate application. EPE witness Prieto discusses this commitment in more detail in her testimony.</p>
<p>e. Capital Expenditures. EPE will continue to make minimum capital expenditures in an amount equal to EPE's current five-year budget for the five-year period beginning January 1, 2021, subject to the following adjustments, which must be reported to the Commission in EPE's earnings monitoring report: EPE may reduce capital spending due to conditions not under EPE's control, including, without limitation, siting delays, cancellations of projects by third-parties, weaker than expected economic conditions, or if EPE determines that a particular expenditure would not be prudent.</p>	<p>EPE has and will comply with this provision. EPE witness Budtke discusses this commitment in her testimony.</p>

**SELECT TEXAS MERGER REGULATORY COMMITMENTS PER FINAL ORDER IN
DOCKET NO. 49849 WITH IMPLICATIONS FOR THIS PROCEEDING**

Regulatory Commitment	Compliance
<p>f. <u>Transition Costs.</u> No IIF US 2 time and expenses, third party costs, fees, expenses, or costs of the transition (transition costs) will be borne by EPE's customers, nor will EPE seek to include transition costs in rates. Transition costs are those costs necessary to integrate EPE into the holdings of IIF US 2, whether incurred before or after the closing of the transaction, including the one-time transition costs being incurred whether directly or indirectly through affiliate charges to transition EPE to ownership by IIF US 2 and to integrate EPE's operations and systems with those of IIF US 2. Provided, however, that transition costs do not include EPE employee time, costs-to-achieve savings or synergies, or costs that reflect reasonable and necessary costs in providing service to the public. <i>Costs to achieve</i> reflect reasonable and necessary amounts incurred to realize operating enhancements, efficiency gains, or costs reduction initiatives.</p>	<p>EPE has complied with this provision. No transition costs have been included in this rate application. EPE witness Prieto discusses this commitment in more detail in her testimony.</p>
<p>g. <u>Electric Furnace Rate.</u> EPE will not propose to eliminate the Electric Furnace Rate in its next base rate case following Commission approval of the transaction.</p>	<p>EPE has complied with this provision.</p>
<p>h. <u>EADIT.</u> EPE commits that it will not amortize or reduce the regulatory liabilities for excess accumulated deferred income taxes recorded as a result of the federal legislation commonly referred to as the Tax Cuts and Jobs Act of 2017 until the amortization is reflected in rates, and EPE agrees that the determination of the treatment of this amount will be addressed in the next base rate case for EPE.</p>	<p>EPE has complied with this provision. EPE is proposing to amortize and credit to customers excess accumulated deferred income taxes in this application through the existing tax credit rider. EPE witnesses Prieto and Carrasco discuss this commitment and the related credit in more detail in their testimony.</p>
<p>60 v. <u>Affiliate Asset Transfer.</u> Neither EPE nor Sun Jupiter will transfer any material assets or facilities to any affiliates, other than a transfer that is on an arm's-length basis consistent with the Commission and</p>	<p>EPE has complied with this provision.</p>

**SELECT TEXAS MERGER REGULATORY COMMITMENTS PER FINAL ORDER IN
DOCKET NO. 49849 WITH IMPLICATIONS FOR THIS PROCEEDING**

Regulatory Commitment	Compliance
New Mexico Public Regulation Commission (NMPRC) affiliate standards as applicable to EPE.	
w. Arm's-Length Relationship. Each of EPE and Sun Jupiter will maintain an arm's-length relationship with one another and with IIF US 2 and its affiliates, consistent with the Commission and NMPRC affiliate standards as applicable to EPE.	EPE has complied with this provision.
y. Separate Books and Records. Each of EPE and Sun Jupiter will maintain accurate, appropriate, and detailed books, financial records and accounts, including checking and other bank accounts, and custodial and other securities safekeeping accounts that are separate and distinct from those of any other entity.	EPE has complied with this provision.
aa. <u>Consolidated Tax Return</u> . EPE will be a party to a consolidated corporate tax return with the Sun Jupiter consolidated tax group, which will be carried out subject to a formal tax sharing agreement and policy.	EPE has and will continue to comply with this provision.
68. The signatories agreed to the following regulatory commitments addressing employment:	
68 a. <u>Workforce</u> . For at least five years after closing, as a result of the transaction, EPE will not implement any material involuntary workforce reductions or changes to wages, benefits, and other terms and conditions of employment in effect prior to the transaction.	EPE has and will continue to comply with this requirement.
b. <u>Existing Collective Bargaining Agreements</u> . EPE will honor the terms of EPE's existing collective bargaining agreements.	EPE has complied with this requirement.

**SELECT TEXAS MERGER REGULATORY COMMITMENTS PER FINAL ORDER IN
DOCKET NO. 49849 WITH IMPLICATIONS FOR THIS PROCEEDING**

Regulatory Commitment	Compliance
c. <u>Collective Bargaining Negotiations</u> . EPE will enter into good faith bargaining with its represented employees during and after the term of the existing collective bargaining agreements in order to negotiate new bargaining agreements.	EPE has and will continue to comply with this requirement.
d. <u>Responsible Contractor Policy</u> . EPE will adhere to a responsible contractor policy.	EPE has and will continue to comply with this requirement.
e. <u>EPE Officer, Manager, and Employee Compensation</u> . The compensation of EPE officers, managers, and employees will in no manner be tied to, reflect, or be related to the financial, operating, or other performance of any entity other than EPE and Rio Grande Resources Trust II.	EPE has complied with this provision. Officer, Manager, and Employee Compensation included in this application are unrelated to the financial, operating, or other performance of any entity other than EPE.
b. <u>Compliance Reports</u> . For a period of five years after the closing of the transaction, EPE will make annual reports to the Commission regarding its compliance with the terms stated in the order approving the transaction.	EPE will comply with this commitment with its first required report to be filed in 2021.



DOCKET NO. _____

APPLICATION OF EL PASO
ELECTRIC COMPANY TO CHANGE
RATES

§
§
§

PUBLIC UTILITY COMMISSION
OF TEXAS

DIRECT TESTIMONY

OF

CYNTHIA S. PRIETO

FOR

EL PASO ELECTRIC COMPANY

JUNE 2021

EXECUTIVE SUMMARY

Cynthia S. Prieto is Vice President and Controller for El Paso Electric Company (the "Company" or "EPE"). She directs the establishment and maintenance of the Company's accounting principles, practices, and procedures for the maintenance of its fiscal records and the preparation of its financial reports. She also oversees the activities of the Financial and Regulatory Accounting, Tax, Plant Accounting, Revenue and Energy Accounting, and Payroll Departments and is responsible for appraising operating results in terms of costs, budgets, operating policies and trends.

Ms. Prieto testifies that EPE's books, accounts and records are kept in compliance with the Federal Energy Regulatory Commission's Uniform System of Accounts, as required by Section 14.151 of the Public Utility Regulatory Act of Texas and Section 25.72 of the Substantive Rules of this Commission.

Ms. Prieto sponsors certain identified schedules and supports the necessity and reasonableness of the identified adjustments to the Test Year ended December 31, 2020 and expenses contained therein. The schedules she sponsors or co-sponsors include certain A Schedules (cost of service); B Schedules (accumulated provision); E Schedules (short-term assets/ fossil fuel/ customer deposits); F Schedule (description of Company); G Schedules (a variety of subjects); H Schedules (Production O&M); J Schedules (financial statements); R Schedule (financial information); and S Schedules (Independent Accounting Review). In her testimony, she specifically discusses:

- Employee Compensation and Benefits;
- Other Administrative and General Expenses;
- Excess Accumulated Deferred Income Taxes;
- Compliance with Docket No. 49849;
- COVID-19 Expenses;
- FERC Audit Reclass; and
- Waiver of Audit (Schedule S)

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EXHIBITS

CSP-1 – Listing of Rate Filing Package Schedules Sponsored or Co-sponsored by Cynthia S. Prieto
CSP-2 – Excess Accumulated Deferred Income Tax – ARAM Illustration
CSP-3 – KPMG Affidavit Relating to the Schedule S Waiver

I. Introduction and Qualifications

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Cynthia S. Prieto. My business address is 100 North Stanton Street, El Paso, Texas 79901.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by El Paso Electric Company ("EPE" or the "Company") as Vice President and Controller.

Q. DESCRIBE BRIEFLY YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I earned a Bachelor of Business Administration Degree with a concentration in Accounting from the University of New Mexico in 1985. I was employed by Ernst & Young in the Audit section from 1985 to 1992 where I was assigned to various clients, including oil and gas companies. I was employed as an Audit Senior Manager by KPMG LLP from 1993 to 1996 where I was assigned to various clients. I accepted a position with the Company in 2006 as a financial accountant where I worked until I was transferred to the Tax department in 2007. Since that time, I have held various positions until I was promoted to my current position in September 2020.

Q. WHAT ARE YOUR PRINCIPAL AREAS OF RESPONSIBILITY?

A. I serve under the general direction of the Chief Financial Officer, and I direct the establishment and maintenance of the Company's accounting principles, practices, and procedures for the maintenance of its fiscal records and the preparation of its financial reports. I also oversee the activities of the Financial and Regulatory Accounting, Tax, Plant Accounting, Revenue and Energy Accounting, and Payroll Departments and am responsible for appraising operating results in terms of costs, budgets, operating policies, and trends.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY OR TESTIFIED BEFORE ANY REGULATORY AUTHORITIES?

1 A. Yes. I have filed testimony before the Public Utility Commission of Texas ("PUCT" or
2 "Commission") and have filed testimony and testified before the New Mexico Public
3 Regulation Commission ("NMPRC").
4

5 II. Purpose of Testimony

6 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

7 A. My direct testimony addresses a number of topics. First, I support the Company's overall
8 cost of service, including the Test Year end trial balances and unadjusted operations and
9 maintenance ("O&M") expense found in the A, A-2, A-4, and A-5 schedules of the
10 Rate-Filing Package ("RFP") and included in EPE's requested cost of service and rate base.
11 My testimony will also address accumulated provisions (Schedule B-2), short term assets
12 and fossil fuel inventories (E Schedules), payroll, pension, other postemployment benefits
13 ("OPEB"), and other expenses identified in the G schedules of the RFP. I also sponsor
14 EPE's calculation of excess accumulated deferred income taxes ("excess ADIT") including
15 the excess ADIT resulting from the Tax Cuts and Jobs Act of 2017 ("TCJA") and explain
16 the Company's recommendation to return the excess ADIT to customers in a manner
17 consistent with Internal Revenue Code ("IRC") normalization requirements
18 (Schedule G-7.9 et. seq.).

19 My testimony next addresses the Company's compliance (from a cost perspective)
20 with several commitments included in the resolution of and final order in Docket
21 No. 49849, *Joint Report and Application of El Paso Electric Company, Sun Jupiter*
22 *Holdings LLC, and IIF US Holdings 2 LP for Regulatory Approvals Under PURA*
23 *§§ 14.101, 39.262, and 39.915*. I then address the Company's proposal to recover costs
24 associated with the COVID-19 pandemic in accordance with Commission orders under
25 Project No. 50664. My testimony also explains the Federal Energy Regulatory
26 Commission ("FERC") Account reclassification of administrative and general ("A&G")
27 expenses relating to the Palo Verde Generation Station to nuclear O&M expense. I further
28 sponsor the Company's financial statements (Schedule J) and address the conditions upon
29 which the Commission granted the Company's request to waive the Schedule S filing
30 requirements involving the independent audit review of the rate filing package performed
31 by outside accountants.

1 It is important to note that several of the schedules described above are
2 co-sponsored by me with other EPE witnesses. For those schedules which I co-sponsor, in
3 the description of each Schedule below, I specify what information I sponsor, which is
4 generally the Test Year amounts.
5

6 Q. WHY ARE YOU THE APPROPRIATE PERSON TO SPONSOR THESE TOPICS?

7 A. In my role as Vice President and Controller, I have detailed knowledge regarding the
8 Company's financial and accounting records including the expenses it incurs while
9 providing service to customers. I oversee the Company's payroll department, and
10 therefore, have knowledge and experience in the areas of compensation, pension, and
11 OPEB. I also oversee the Company's tax department (and managed that department for
12 many years) and so I am familiar with the calculation and requirements of excess ADIT.
13 My job duties and responsibilities as Controller also qualify me to provide testimony
14 regarding the Company's independent audit review covering the Test Year.
15

16 Q. WHAT TEST YEAR IS THE COMPANY USING IN THIS FILING?

17 A. This filing uses the 12 months ended December 31, 2020, as the Test Year.
18

19 Q. WHAT RFP SCHEDULES DO YOU SPONSOR OR CO-SPONSOR IN THIS
20 PROCEEDING?

21 A. Exhibit CSP-1 indicates the schedules that I am sponsoring or co-sponsoring with other
22 witnesses.
23

24 Q. WERE THE SCHEDULES AND EXHIBITS YOU ARE SPONSORING OR
25 CO-SPONSORING PREPARED BY YOU OR UNDER YOUR DIRECT
26 SUPERVISION?

27 A. Yes, they were.
28

29 Q. ON WHAT BASIS WERE THE REFERENCED SCHEDULES PREPARED?

30 A. The schedules were prepared using the books and records of the Company, and they are
31 accurate summaries of the business records upon which they are based. In addition, these

1 books and records are kept in compliance with the FERC's Uniform System of Accounts,
2 as required by section 14.151 of the Public Utility Regulatory Act of Texas and 16 Texas
3 Administrative Code ("TAC") § 25.21. A summary of the schedules sponsored or
4 co-sponsored by me in this case is included in Section X below.
5

6 **III. Employee Compensation and Benefits**

7 Q. IS THE COMPANY SEEKING RECOVERY OF COSTS RELATING TO EMPLOYEE
8 COMPENSATION AND BENEFITS?

9 A. Yes. The Company is seeking recovery of the employee compensation and benefit costs
10 included in Schedules G-1 through G-2.3, which are described in Section X below. In
11 addition, I support salary and wage and benefit adjustments which are located in
12 Workpaper A-3, Adjustment No. 3 – Salaries and Wages, and Adjustment No. 4 – Pensions
13 and Benefits.
14

15 Q. IS THE OVERALL LEVEL OF COMPENSATION AND BENEFIT EXPENSES THE
16 COMPANY IS REQUESTING IN THIS PROCEEDING REASONABLE AND
17 NECESSARY?

18 A. Yes. EPE's overall, combined compensation and benefit costs are reasonable and
19 necessary. The total amount of compensation and benefits is market-driven and EPE's
20 overall level of compensation is not excessive when compared to other businesses with
21 which EPE must compete to attract and retain required personnel. EPE administers its
22 compensation and benefit plans in a cost effective and efficient manner. The Company
23 provides compensation and benefits for employees at a reasonable cost, and EPE negotiates
24 with vendors for competitive rates for both the Company and the employees.
25

26 Q. IS IT IMPORTANT THAT THE COMPANY'S OVERALL COMPENSATION
27 PACKAGES THAT IT OFFERS TO ITS EMPLOYEES BE COMPETITIVE WITH ITS
28 PEERS IN THE UTILITY INDUSTRY?

29 A. Yes, it is. The business of EPE requires that it attract, develop, and retain highly qualified
30 talent with good professional skills. The nature of the Company's work is highly technical
31 and requires a workforce rich in engineering, financial, and other professional and technical

1 skills. The majority of the Company's positions require not only a sound educational
2 background, but also a number of years of training and development to become fully
3 proficient in the work required. Therefore, the Company invests in programs such as the
4 Doña Ana Community College Line Worker Certification Program and engages in
5 internship and training programs with educational partners such as The University of
6 Texas – El Paso, New Mexico State University, and the El Paso Community College,
7 which are further discussed in Section VI below.

8 Our compensation and benefit plans are market-based. We routinely (annually, in
9 the case of officer compensation) compare total compensation for equivalent positions or
10 levels of skill and responsibility to a defined comparator universe. This comparator
11 universe is composed of companies based on the relevant labor market from which
12 applicants are or could be recruited. Our comparators vary from those of a
13 company-specific group to those companies in our industry whose compensation data is
14 reported in aggregate by third-party surveys. In 2013, the Company implemented the
15 results of a year-long classification and compensation study with the assistance of Aon (a
16 market leader in total rewards compensation competitiveness). As discussed below, the
17 compensation levels from this study are updated on an annual basis. The objectives of the
18 study included the development of a classification and compensation program that allows
19 for the attraction and retention of qualified individuals and opportunities for growth and
20 development within a competitive salary structure framework. The compensation phase of
21 the study included a market survey of comparable organizations, analysis of each position
22 to the market, and recommendations for conversion to a market-based system.

23 As a result, EPE's overall compensation, and executive compensation specifically,
24 is reasonable when compared to its peers. EPE's ratepayers benefit from a unified strategy
25 and approach to total compensation that help to ensure it is attracting and retaining the
26 talent the Company needs in a complex operational and service delivery business model.
27 The Company's programs are designed to motivate and reward employees to achieve
28 benefits for customers through safety, regulatory compliance, reliability, and customer
29 service that are consistent with EPE's public service mandate to provide safe, reliable, and
30 cost-effective electrical service.

1 Q. HOW IS EMPLOYEE COMPENSATION DETERMINED?

2 A. The Company develops compensation for non-union employees by benchmarking jobs to
3 comparable positions in EPE's service territory and within the utility industry through
4 salary surveys and other sources of information on compensation. The Board of Directors
5 contracts with Meridian Compensation Partners LLC ("Meridian") to provide consulting
6 and analysis of executive compensation. The Board of Directors relies on a market analysis
7 of executive salaries by Meridian to establish compensation of officers. Officers'
8 compensation is generally established at or near 50% of the market range in relation to
9 comparable companies. This methodology results in reasonable compensation levels for
10 officers of the Company.

11 The Company also contracts with Aon for consulting and analysis of compensation
12 for exempt and non-exempt non-union employees. While there are a number of positions
13 at the Company for which it competes for universal skill sets that are normally found at a
14 local level (such as customer service representatives and field service representatives), the
15 Company does compete with other utilities for many positions that require specialized
16 experience or training in the electric utility industry (such as engineers and plant
17 managers). In addition, the cost of living and salary structures in El Paso are different from
18 other areas. Aon takes these factors into account in recommending the compensation levels
19 for individual positions. The Company seeks to establish salary ranges that are comparable
20 to jobs in the electric utility industry for similarly sized utilities. The Company's salary
21 structure is designed to ensure that the Company can hire, reward, and retain competent
22 employees for each position in the Company. Each year since Aon completed the 2013
23 comprehensive classification and compensation study, Aon, utilizing data from its own
24 salary survey and from other sources such as the annual Willis Towers Watson ("WTW")
25 compensation study, has provided EPE with updated salary information to reflect market
26 levels.

27 Compensation for union employees, including contracted changes in compensation,
28 is negotiated in the union contract, which is the product of collective bargaining. The
29 current union contract became effective on September 3, 2019 and expires on September 3,
30 2023. In negotiating union wage levels, the Company follows a similar process of
31 reviewing wages for similar jobs in El Paso and in the electric utility industry. The union

1 contract provides for a 3.0% wage increase on September 3 in the years 2020 and 2021 and
2 a 3.2% increase on September 3, 2022.

3 The Company adjusted salaries and wages to reflect the salary level as of
4 February 1, 2021, for all employees. Salary levels at this date reflect the latest salaries for
5 all EPE employees including non-union salary increases effective in January 2021,
6 executive salary increases effective in February 2021, and union increases as of
7 September 3, 2020. See Workpaper A-3, Adjustment No. 3 for these calculations. EPE is
8 not seeking to reflect the contractual union wage increase effective September 3, 2021, in
9 salaries and wages expense.

10
11 Q. WHAT IS EPE'S OVERALL APPROACH TO THE COMPENSATION PROGRAMS
12 AND BENEFIT PLANS IT PROVIDES TO EXECUTIVE OFFICERS AND THE COSTS
13 OF THOSE PROGRAMS AND PLANS?

14 A. EPE has designed compensation and supplemental benefits programs to be competitive
15 with other similarly sized utilities in order to attract and retain qualified executive officers.
16 These programs include base salary, short-term incentive pay, long-term incentives, a
17 supplemental pension restoration program, and select executive benefits such as home
18 security and financial planning allowances. In total, EPE's programs are targeted at the
19 50th percentile of the market in order to be competitive with similar utilities, and they
20 comply with industry best practices and are heavily performance-based. Financially based
21 incentive compensation is excluded from the requested cost of service. EPE's total package
22 of direct compensation and supplemental benefits for executive officers in the aggregate is
23 comparable in both design and cost to programs offered by comparable companies within
24 the utility industry.

25 The Company's overall executive compensation and benefits are reasonable and
26 necessary, consistent with market and commercial standards, and are designed to ensure
27 that the Company can hire, reward, and retain competent executive officers.

28
29 Q. HOW IS THE COMPENSATION OF EPE'S EXECUTIVE OFFICERS DETERMINED?

30 A. The Board of Directors People and Remuneration Committee ("PARCO") reviews and
31 approves compensation for all executive officers. All members of the Board of Directors

1 attend the PARCO meetings. The PARCO reviews the performance of the Chief Executive
2 Officer ("CEO") at least annually. The CEO reviews other executive officers' performance
3 and reports their evaluations to the PARCO. EPE's CEO also recommends to, and
4 discusses with, the PARCO compensation elements for executive officers, although the
5 PARCO approves actual compensation awarded.

6 As discussed previously, the Board has engaged Meridian to conduct annual
7 reviews of the total compensation program for the executive officers and provide other
8 advice on industry and best practices as the Board may request. Meridian provides the
9 Board with relevant market data and typical industry practices to consider when making
10 compensation decisions.

11
12 Q. IS THE COMPANY SEEKING RECOVERY OF FINANCIALLY BASED INCENTIVE
13 COMPENSATION AMOUNTS INCLUDED IN THE COMPANY'S ANNUAL CASH
14 BONUS PLAN?

15 A. No. Only the non-financially based portion of the Company's annual cash bonus plan is
16 included in the requested salaries and wages, in conformance with prior Commission
17 precedent. The amount of the non-financially based annual bonus expense included in this
18 filing can be found in Workpaper A-3, Adjustment No. 3, page 2, column (d), line 10.

19
20 Q. HAS THE COMPANY INCLUDED AMOUNTS IN COST OF SERVICE FOR
21 LONG-TERM INCENTIVES FOR EXECUTIVES?

22 A. No. In compliance with prior Commission precedent, the Company has removed the cost
23 of long-term incentives for executives from its requested cost of service since they include
24 financial based components. The Total Company amount of this adjustment can be found
25 in Workpaper A-3, Adjustment No. 4, page 2, line 6, column (c).

26
27 Q. WHAT BENEFIT PLANS ARE OFFERED TO EMPLOYEES?

28 A. The Company offers a comprehensive package of benefits to employees. Providing
29 employees with a comprehensive benefit package is an important component of employee
30 compensation. The Company provides the same benefits to both union and non-union

1 employees. Employee benefits, some of which are funded by employee contributions,
2 include:

- 3 • Paid time off,
- 4 • 401(k) Retirement Savings Plan,
- 5 • Retirement Income Plan (pension plan),
- 6 • Health insurance,
- 7 • Dental insurance,
- 8 • Vision insurance,
- 9 • Life insurance,
- 10 • Accidental death and dismemberment insurance,
- 11 • Short-term disability insurance,
- 12 • Long-term disability insurance,
- 13 • Flexible Spending Accounts,
- 14 • Health Savings Account,
- 15 • Employee Assistance Program,
- 16 • Wellness Program,
- 17 • Retiree life insurance, and
- 18 • Retiree health insurance.

19 These benefits are reasonable and necessary, consistent with market and commercial
20 standards, and are provided to ensure that the Company can hire, reward, and retain
21 competent employees for each position in the Company.

22
23 Q. HAS EPE CHANGED ITS BENEFIT PLANS TO MANAGE COSTS?

24 A. Yes. Since the 2017 Rate Case, EPE modified its medical plan by implementing a number
25 of changes to incent employees and retirees to use medical care in an effective and efficient
26 manner. As discussed below, changes were made to the retiree medical plan that have
27 reduced OPEB expenses in this case. In fact, the amount included in cost of service related
28 to OPEB expense is actually a credit to customers, which increased from the Test Year
29 Period reduction in expense of \$4.4 million to a reduction in expense of \$6.6 million for
30 the Adjusted Test Year Period. Additionally, effective February 1, 2020, the Company

1 implemented a restructuring of the Voluntary Employee Benefits Association trust that
2 holds the assets for the OPEB plan. The restructuring split the trust from one trust into four
3 trusts in order to realize tax savings on investment income and increase the deductibility of
4 contributions made by the Company for income tax purposes. Plan and Trust amendments
5 implementing this restructuring have been provided in Workpaper G-2a through G-2g.
6

7 Q. WHAT COSTS ARE INCLUDED IN COST OF SERVICE FOR PENSION AND
8 OTHER POST-EMPLOYMENT BENEFITS?

9 A. WTW, the Company's actuaries, has prepared actuarial estimates of expenses for 2021 for
10 the pension and OPEB plans in accordance with generally accepted accounting principles
11 ("GAAP") that are reflected in the pro forma adjustments in Workpaper A-3, Adjustment
12 No. 4. The actuarial report is based upon the funded status of the plans at December 31,
13 2020, which allows WTW to compute an estimate of 2021 expenses for each plan. The
14 actuarial report prepared by WTW is included in Schedule G-2.1 Attachment A, for the
15 pension plan and Schedule G-2.2 Attachment A, for the OPEB. The Company consults
16 with WTW for services related to its pension, medical, and retiree benefit plans and WTW
17 prepares actuarial reports to determine the annual expense for pension and OPEB for
18 financial reporting under GAAP and reporting under the Employment Retirement Income
19 Security Act of 1974.
20

21 Q. WHAT SUPPLEMENTAL PENSION BENEFITS ARE OFFERED TO EPE'S
22 EXECUTIVE OFFICERS?

23 A. Two types of supplemental pension benefits are offered to EPE's executive officers: (i) the
24 Supplemental Executive Retirement Plan ("SERP"), which is a consolidation of the
25 Supplemental Retirement and Survivor Income Plan, Executive Retirement Agreements,
26 and Directors' Retirement Plan, that were offered to executive officers and directors prior
27 to and during EPE's emergence from bankruptcy in February 1996 and (ii) the Excess
28 Benefit Plan, adopted in 2004, which provides supplemental pension benefits to EPE's
29 executive officers, whose benefits in the retirement income plan are limited because of the
30 benefit limitations imposed by the IRS.
31

1 Q. COULD YOU PLEASE DESCRIBE THE COMPANY'S SUPPLEMENTAL
2 EXECUTIVE RETIREMENT PLAN (SERP)?

3 A. The Company's SERP, a non-funded defined benefit plan, covers certain former employees
4 and directors of the Company. The pension cost for the SERP is based on substantially the
5 same actuarial methods and economic assumptions as those used for the retirement income
6 plan that covers all EPE employees. The Company closed the SERP to new participants
7 in 1996, after the plan's costs were approved by the bankruptcy court in conjunction with
8 the reorganization plan and the Company's emergence from bankruptcy. The approval of
9 the SERP benefit plans upon emergence from bankruptcy allowed for a smooth
10 management transition and, as part of the Company's plan of reorganization, helped
11 customers to benefit from the revaluation of EPE's generating assets as discussed by EPE
12 witness Larry J. Hancock. A copy of the plan document for the SERP is included in
13 Workpaper G-2i and the actuarial report prepared by WTW is included in Schedule G-2
14 Attachment A.

15
16 Q. COULD YOU PLEASE DESCRIBE THE COMPANY'S EXCESS BENEFIT PLAN?

17 A. The Company's Excess Benefit Plan was adopted in 2004 and covers certain active and
18 former employees. The Excess Benefit Plan seeks to supplement executive officers'
19 pension benefits that are restricted due to IRS limitations, so as to provide benefits
20 comparable to what other employees receive through the retirement income plan. Pension
21 cost for the Excess Benefit Plan is based on substantially the same actuarial methods and
22 economic assumptions as those used for EPE's retirement income plan.

23
24 Q. IS IT COMMON FOR UTILITIES LIKE EPE TO OFFER PLANS LIKE EPE'S EXCESS
25 BENEFIT PLAN?

26 A. Yes. Virtually all investor-owned public utilities offer "restorative" plans such as the
27 Excess Benefit Plan offered by the Company. Even though the Company is no longer
28 publicly traded, our recruiting and retention market for executive officers must still be
29 competitive with these companies. Due to earnings limits imposed by the IRC on the
30 Company's retirement income plan, these supplemental pension benefit plans allow the
31 participants to earn a benefit proportional to their overall compensation. A copy of the

1 plan document for the Excess Benefit Plan is included in Workpaper G-2h and the actuarial
2 report prepared by WTW is included in Schedule G-2 Attachment A.
3

4 Q. WHY IS IT IMPORTANT FOR THE COMPANY TO OFFER AN EXECUTIVE
5 RETIREMENT PACKAGE COMMENSURATE WITH THOSE OFFERED BY
6 SIMILAR COMPANIES?

7 A. These supplemental pension benefit plans are just one component of our overall
8 compensation and benefit plan. Our overall compensation and benefit program must be
9 competitive in order for EPE to compete for the talent and personnel necessary to
10 effectively operate our business. Absent the Excess Benefit Plan, EPE's executive officers
11 would not be competitively compensated with regard to their retirement benefits.
12

13 Q. HAS THE COMPANY MADE ANY ADJUSTMENTS TO ITS TEST YEAR PAYROLL
14 AMOUNT?

15 A. Yes. Salaries and wages requested in cost of service were annualized based on payroll data
16 as of February 2021. In addition, the portion of the annual bonus related to financial
17 incentives was removed from the requested cost of service. Both the annualized salaries
18 and wages and the non-financial annual bonus amounts were then multiplied by the ratio
19 of payroll expense to total payroll costs that was utilized by the Company in its 2021 annual
20 budget. The use of the 2021 budgeted ratio of payroll expense is consistent with the
21 methodology used in the 2017 Rate Case. The salaries and wages adjustment is reflected
22 on Schedule A-3 and is calculated in Workpaper A-3, Adjustment No. 3.
23

24 Q. HAS THE COMPANY MADE ANY ADJUSTMENTS TO ITS TEST YEAR PAYROLL
25 TAX EXPENSE AMOUNT?

26 A. Yes. Payroll taxes were calculated by applying the rates and salary limits effective in 2021
27 to the adjusted salaries and wages requested in the cost of service as calculated in
28 Workpaper A-3, Adjustment No. 3. Additionally, an adjustment for payroll taxes for
29 PVGS was included in Adjustment No. 16 to remove amounts recorded in the Test Year
30 that related to prior years. The payroll tax adjustment is reflected on Schedule G-9 and is
31 calculated in Workpaper A-3, Adjustment No. 16.

1
2 Q. DID THE COMPANY INCLUDE PAYROLL COSTS RELATED TO ITS RECENT
3 MERGER IN ITS REQUESTED COST OF SERVICE?

4 A. No. In Docket No. 49849, the Commission ordered that certain costs related to the merger
5 not be charged to customers and specifically excluded internal labor costs. However, for
6 GAAP purposes, internal labor costs related to the merger were segregated by the Company
7 and charged to FERC account 426.5-Other Deductions, along with other merger costs. The
8 merger-related internal labor costs are included in the Schedule G-1.3 in column (d) as
9 Other Expensed Payroll costs in the calendar years 2020 and 2019. Though it was not
10 required by the Commission, only payroll expenses not related to the merger that are listed
11 in Schedule G-1.3 in column (b) are included in the Test Year Period payroll expenses in
12 this filing. Since the merger was completed in 2020, no additional internal labor will be
13 allocated to merger costs in the Adjusted Test Year. As described above, in
14 Workpaper A-3, Adjustment No. 3, the Company applied the 2021 budgeted payroll
15 expense ratio to the annualized February 2021 payroll costs to calculate the payroll expense
16 requested in this filing.
17

18 Q. HAS THE COMPANY MADE ANY ADJUSTMENTS TO ITS TEST YEAR PENSION
19 AND BENEFIT AMOUNT?

20 A. Yes. The Company's pension and benefit adjustment calculation is included in
21 Workpaper A-3, Adjustment No. 4. Adjustment No. 4 reduces Test Year pension and
22 benefits expense to reflect known and measurable costs as follows (line numbers refer to
23 page 2 of Adjustment No. 4):

- 24 1. Costs for the Pension, OPEB, SERP, and Excess Plans were adjusted to reflect the
25 2021 actuarial estimated expense as prepared by WTW (lines 1 and 3).
- 26 2. The 401(k) costs were adjusted to reflect the Company's current contribution levels
27 (line 2).
- 28 3. The compensation cost of the Company's long-term incentive program was removed
29 from the Test Year expense (line 6).
- 30 4. Medical expenses were adjusted to remove out-of-period medical expense rebates
31 received during the Test Year (line 7).

- 1 5. Other employee benefits were adjusted to remove Paid Time Off ("PTO") Accrual
2 and PTO sell-back amounts since these amounts are included in salaries and wages
3 in Adjustment No. 3 (line 9).
4 6. Costs for employee separation agreements were removed from Test Year costs
5 (line 10).
6 7. Additionally, medical expenses related to COVID-19 were removed in the
7 calculation of Per Book costs on page 1 of Adjustment No. 4 in Note (A). The total
8 adjustment related to COVID-19 is discussed in Section VII below.
9

10 **IV. Other Administrative and General Expenses**

11 Q. IS THE COMPANY SEEKING RECOVERY OF OTHER COSTS RELATING TO
12 ADMINISTRATIVE AND GENERAL EXPENSES?

13 A. Yes. The Company is seeking recovery of the A&G costs described in the schedules below
14 in Section X of my testimony (Schedules G-4 through G-4.3e and G-8).
15

16 Q. WHAT OTHER A&G EXPENSES ARE INCURRED BY THE COMPANY?

17 A. In addition to salaries and wages and employee benefits, the Company incurs A&G
18 expenses for office supplies and expenses, outside services, insurance (including workers
19 compensation, liability insurance, and property insurance), advertising, rents, regulatory
20 commission expenses, and miscellaneous general expenses. These expenses are necessary
21 for the Company to support its operations. Office supplies and expenses include not only
22 the cost of paper, printing, and other office supplies, but also work-related travel and other
23 employee expenses. The Company must maintain insurance against property losses and
24 for liability protection. Advertising educates customers about safety, billing practices, and
25 energy efficiency. Regulatory commission expenses are necessary to comply with
26 requirements of the PUCT, NMPRC, and FERC. Miscellaneous general expenses include
27 costs not recognized in other FERC accounts and reflect necessary costs for the Board of
28 Directors, memberships in industry and professional organizations, and other costs of
29 operating the Company.

30 EPE works to ensure that administrative expenses are reasonable by using
31 competitive bidding for many services including insurance and office supplies. Other costs

1 are negotiated. Some costs such as industry and professional dues are set on a statewide
2 or nationwide basis. EPE also seeks to only use services necessary to operate its business.
3 EPE witness Jennifer I. Borden discusses adjustments to A&G expenses in her testimony.
4

5 Q. DOES THE COMPANY EMPLOY OUTSIDE SERVICES TO PERFORM VARIOUS
6 COMPANY ACTIVITIES?

7 A. Yes, the Company employs outside legal and other services to perform activities required
8 by the Company. Outside services to perform administrative activities are primarily
9 obtained in the following areas:

- 10 • Accounting and tax,
- 11 • Internal audit,
- 12 • Legal, and
- 13 • Information technology.

14 The Company employs an independent accounting firm to audit its GAAP financial
15 statements each year in accordance with requirements by Company debt holders and its
16 regulatory financial statements as required by the FERC's Uniform System of Accounts.
17 The Company has outsourced certain aspects of its internal audit activities. The
18 outsourcing of internal audit activities allows the Company to leverage the expertise and
19 resources of a global consulting firm and obtain specific audit expertise in areas such as
20 information technology. The Company obtains approval of the Audit Committee of the
21 Board of Directors each year for the cost of audit and review of activities by its independent
22 accounting firm and internal audit consulting firm. The Company also uses outside
23 accounting resources to obtain expertise on tax issues as needed.

24 The Company must address legal issues in a number of areas. The Company
25 employs outside law firms to obtain specific expertise, such as Texas and New Mexico
26 regulatory or litigation counsel and to address legal issues that require resources in excess
27 of the Company's in-house legal resources. Often the same law firms are used to provide
28 services to maintain continuity and to leverage familiarity with Company issues. The
29 Company negotiates with these firms to obtain competitive rates for their services.

30 The Company outsourced certain aspects of its information technology functions
31 in December 2007, which includes help desk, infrastructure, desktop support, and systems

1 development. The Company's remaining information technology staff manages and
2 coordinates the activities of the outsourcer and performs information technology support
3 in key areas such as information security and financial systems.

4 The Company uses other outside services on an as needed basis to obtain specific
5 expertise or additional resources. The Company seeks to competitively bid these activities
6 or negotiate competitive rates.

7
8 Q. WHAT COMPRISES CUSTOMER CARE COSTS?

9 A. Customer care costs are comprised of expenses related to maintaining and supporting a
10 team of employees dedicated to serving EPE customers. Customer care functions include
11 (i) maintaining a call center and customer service centers; (ii) meter reading, billing,
12 payment processing, and collection activities; and (iii) the establishment of new service.
13 To support customer care employees and these functions, EPE uses several software
14 applications and third-party vendors. The main software application is EPE's Customer
15 Care & Billing ("CC&B") application, which includes EPE's customer data base. The
16 third-party vendors provide services such as bill printing and mailing, payment processing,
17 and additional call center staffing. During the Test Year, the Company incurred additional
18 customer-related costs resulting from the COVID-19 pandemic that have been deferred and
19 amortized in the cost of service as discussed later in my direct testimony.

20
21 Q. HOW HAS THE CC&B SYSTEM IMPROVED CUSTOMER CARE?

22 A. The CC&B system has allowed the Company to provide more information to customers
23 regarding their electric usage and provides customer service representatives more
24 information to respond to customers' inquiries. An upgrade in 2017 to the CC&B system
25 implemented a new customer web self-service application that improved the Company's
26 customers' ability to pay their bills online, request service stops, transfer service and start
27 new service, enroll in auto pay, perform a high consumption review, and view their billing
28 history. It also provides customers responses to frequently asked questions and
29 conservation tips. The CC&B system reduced the time between when a meter is read and
30 when a bill is sent, which improved cash flow and is reflected in reduced cash working
31 capital requirements. The system also improved the process for reviewing billing

1 information, which reduces the overall cost of billing and provides better information to
2 improve the customer experience. In addition, the CC&B system allows for more efficient
3 implementation of rate changes, including rate-related customer refunds.
4

5 Q. HAS THE COMPANY TAKEN STEPS TO CONTROL CUSTOMER CARE COSTS?

6 A. Yes, it has. The Company has been mindful of the size of its customer care staff while still
7 improving the customer experience. Staff attrition has been offset with technology and
8 outsourcing options. Overall, customer care expenses have decreased approximately 5%
9 per customer since 2015 and the Test Year costs are at the lowest level per customer since
10 2015. The Company has also sought to reduce meter reading costs by installing more
11 electronic meters that can be read remotely.
12

13 Q. HOW DOES THE COMPANY CALCULATE BAD DEBT EXPENSE?

14 A. As discussed on Schedule G-3, the Company maintains a bad debt risk rate for each
15 accounts receivable aging category (i.e., 0-30 days, 31-60 days, 61-90 days, and over
16 90 days) on a three-year average basis. The bad debt risk rate is applied monthly to the
17 Company's aged accounts receivable to determine the balance required in FERC
18 Account 144 – Accumulated Provision for Uncollectible Accounts. The net write-offs and
19 collections are recorded in the Accumulated Provision for Uncollectible Accounts on a
20 monthly basis and this adjusted balance is compared to the calculated balance and the
21 difference is recorded monthly as bad debt expense.
22

23 Q. DID THE COMPANY EXPERIENCE AN INCREASE IN BAD DEBT EXPENSE
24 RELATED TO COVID-19?

25 A. Yes. In total, the Company's bad debt expense for the Test Year was \$4,016,247 higher
26 due to the COVID-19 pandemic as indicated on Workpaper A-3, Adjustment No. 7,
27 column (i), line 15. The pandemic caused many customers to lose jobs and other income
28 sources and, in response, the Commission and the NMPRC ordered moratoriums on
29 customer disconnections. The adverse impacts of the pandemic experienced by EPE's
30 customers resulted in the Company incurring more bad debt during the pandemic than it
31 otherwise would have incurred.

1
2 Q. HOW DID THE COMPANY ADJUST ITS CALCULATION OF BAD DEBTS
3 EXPENSE FOR COVID-19?

4 A. As discussed above, the Company calculates its risk rate on a three-year average. The
5 Company experienced an increase in the bad debt risk rate beginning in March 2020 due
6 to the pandemic. The Company calculated the difference between the increased bad debt
7 risk rate and the three-year average bad debt risk rate ("the pandemic bad debt risk rate")
8 and applied that pandemic bad debt risk rate to the Company's aged accounts receivable to
9 calculate the pandemic bad debt expense. In accordance with the PUCT Order on
10 COVID-19,¹ the Company created a Regulatory Asset for the increase in bad debt expense
11 due to COVID-19. The Company removed the additional bad debt expense related to
12 COVID-19 from its Test Year expenses in Workpaper A-3, Adjustment No. 7. As
13 discussed in Section VII of my direct testimony, the Company is requesting the return of
14 COVID-19 expenses, including the increased bad debts expense attributed to COVID-19,
15 through a specific tariff.

16
17 Q. CAN YOU PLEASE SUMMARIZE YOUR TESTIMONY WITH RESPECT TO THE
18 COMPANY'S REQUESTED LEVEL OF CUSTOMER CARE COSTS?

19 A. The Company's requested level of customer care costs are essential for the Company to
20 provide the level of service its customers expect and deserve. The amounts are reasonable
21 and necessary and should be allowed by the Commission.

22
23 Q. HAS THE COMPANY MADE CONTRIBUTIONS AND DONATIONS IN THE TEST
24 YEAR?

25 A. Yes. The Company made contributions and donations of \$1.3 million during the Test Year
26 for educational, community service, and economic development purposes. These amounts
27 are detailed on Schedules G-4.2 to G-4.2c as discussed below. Not only are charitable
28 contributions and donations a necessary part of EPE's involvement in the communities it
29 serves, they are required in the merger commitments prescribed by the Commission as

¹ *Issues Related to the State of Disaster for the Coronavirus Disease 2019*, Project No. 50664, Order Related to Accrual of Regulatory Assets (Mar. 26, 2020).

discussed later in my testimony. In her testimony, EPE witness Borden discusses the adjustment to contributions and donations, including the calculation pursuant to 16 TAC § 25.231 (b)(1)(E) and she sponsors the adjustment that is included in Workpaper A-3, Adjustment No. 26.

Q. WHAT OTHER A&G EXPENSES ARE INCURRED BY EPE?

A. Other A&G Expenses incurred by the Company and the reference to the Schedule where those expenses are detailed is as follows:

1. Advertising and Membership Dues – detailed in the discussion of Schedules G-4 to G-4.3e below.
2. Payments for Legislative Monitoring, Lobbying, Penalties, and Fines – detailed in the discussion of Schedules G-5 to G-5.5 below.
3. Below the Line Expenses (Non-Operating Expenses) – detailed in the discussion of Schedule G-12 below.

Q. ARE EPE'S A&G EXPENSES REASONABLE AND NECESSARY TO PROVIDE SERVICE TO ITS CUSTOMERS?

A. Yes. EPE conducts its A&G functions in a cost effective and efficient manner. It has outsourced information technology and other activities where third parties could provide these services in a more cost-effective manner. Advertising expenses are a reasonable and necessary part of providing service to customers and consist primarily of costs to provide information and/or instructions to customers. Additionally, as discussed by EPE witness Borden, advertising expenses included in Adjusted Test Year cost of service have been limited to only those amounts allowed by 16 TAC § 25.231 (b)(1)(E).

V. Excess Deferred Income Taxes ("Excess ADIT")

Q. CAN YOU PLEASE DESCRIBE THE ACCOUNTING FOR INCOME TAXES REQUIRED UNDER GAAP?

A. Yes. Accounting for income taxes under GAAP is contained in the Accounting Standards Codification ("ASC") in section ASC 740 (formerly SFAS No. 109, Accounting for Income Taxes). There are several components to the calculation: currently payable income

1 taxes, deferred income taxes, and investment tax credits. EPE witness Sean M. Ihorn
2 covers these components in his direct testimony. However, I will address the excess ADIT
3 resulting from changes in both federal and state income tax rates, including the change in
4 the federal income tax rate resulting from the TCJA.
5

6 Q. CAN YOU EXPLAIN WHAT THE TCJA IS AND ITS MOST SIGNIFICANT
7 PROVISION APPLICABLE TO THIS CASE?

8 A. The TCJA was a significant revision to the federal tax code that primarily became effective
9 on January 1, 2018. The TCJA made two significant changes with respect to the
10 Company's accounting for federal income tax expense. First, the federal corporate
11 statutory income tax rate decreased from 35% to 21%. Second, EPE can no longer deduct
12 bonus depreciation (a form of accelerated depreciation) for assets acquired and placed into
13 service after December 31, 2017.
14

15 Q. HOW DO THE REDUCTION IN THE FEDERAL CORPORATE INCOME TAX RATE
16 AND THE ELIMINATION OF BONUS DEPRECIATION GENERALLY IMPACT THE
17 COMPANY'S TAX EXPENSE INCLUDED IN ITS CUSTOMERS' RATES?

18 A. The reduction in the federal income tax rate reduces the income tax expense reflected in
19 cost of service. As explained above, the income tax expense the Company recovers in rates
20 includes both currently payable taxes and income taxes deferred for payment in the future.
21 Over the last several years, the Company deferred significant amounts of income tax
22 payments by deducting accelerated depreciation, including bonus depreciation. Those
23 deferred income tax payments were calculated based on the corporate federal income tax
24 rate of 35% in effect at that time.

25 The reduction in the federal income tax rate reduces the amount of current income
26 taxes the Company must pay and the amount of deferred income taxes the Company will
27 pay in the future. Both the reduction in the federal income tax rate and the Company's
28 inability to deduct bonus depreciation reduce the amount of deferred income tax amounts
29 that accrue each year.
30

1 Q. DID THE COMPANY ADJUST BASE RATES TO REFLECT THE CHANGE IN
2 CURRENT FEDERAL INCOME TAXES CAUSED BY THE TCJA?

3 Yes. As required by the Final Order in EPE's last base rate case, Docket No. 46831,
4 Findings of Fact Nos. 23 through 29 and Ordering Paragraph 9, EPE filed an application
5 to implement a refund tariff in Docket No. 48124 on March 1, 2018. The proposed tax
6 refund factor was calculated to return to customers the difference between the amount of
7 current federal income tax expense included in rates from Docket No. 46831 and the
8 amount that would have been included in rates had changes from the TCJA been in effect
9 at the time rates in Docket No. 46831 were established. The tax factor was implemented
10 on April 1, 2018 and was approved by the Commission on December 10, 2018. The credit
11 to customers also included amortization of the regulatory liability created by EPE to record
12 the reduction in current federal income tax expense for the period of January 1, 2018, until
13 the refund tariff became effective (April 1, 2018). The tax credit factor is required to be
14 updated annually until the effective date of rates in this base rate case. Through March 31,
15 2020, EPE has refunded \$75.6 million to customers through this tax factor.

16
17 Q. HAS THE COMPANY UPDATED THE REFUND TARIFF FROM DOCKET
18 NO. 48124 ON AN ANNUAL BASIS?

19 A. Yes. The Company has updated the refund tariff from Docket No. 48124 annually in
20 Docket Nos. 49251 (2019), 50575 (2020), and 51826 (2021).

21
22 Q. WHY WILL THE REFUND TARIFF FROM DOCKET NO. 48124 NOT BE
23 EXTENDED FOR THE RATES ESTABLISHED IN THIS CASE?

24 A. The refund tariff accounted for the fact that the rates set in the Company's prior rate case
25 were determined based on income tax expenses calculated at the federal income tax rate in
26 effect prior to the passage of the TCJA. The rates set in this case will be based on income
27 tax expense calculated using the lower rate set by the TCJA, so there will no longer be a
28 need for the refund tariff.

29
30 Q. HAS THE TCJA ALSO RESULTED IN OTHER SPECIFIC CHANGES TO THE RATES
31 THE COMPANY IS REQUESTING IN THIS CASE?

1 A. Yes. Prior to adoption of the TCJA, deferred income taxes were recorded at the 35% tax
2 rate and reflected in ADIT. Pursuant to GAAP, in December 2017, the Company reduced
3 its book balance of ADIT to reflect the amount of deferred income taxes it will pay in the
4 future at the new 21% rate. That reduction is referred to as excess ADIT, and EPE recorded
5 the reduction as a regulatory liability at December 31, 2017. Since deferred income taxes
6 were originally recovered from customers at the 35% tax rate and the corresponding ADIT
7 reduced rate base, the excess ADIT charged to customers that will not be paid to the federal
8 government should be returned to customers. In addition, the regulatory liability for ADIT
9 previously collected from customers should continue to be used to reduce rate base. EPE
10 has included an amortization of this excess ADIT in the calculation of income tax expense
11 in cost of service consistent with the Commission's December 18, 2017, Final Order in
12 Docket No. 46831.

13
14 Q. HOW DID THE COMPANY CALCULATE THE AMOUNT OF EXCESS DEFERRED
15 INCOME TAXES RELATED TO THE TCJA?

16 A. The Company calculated excess ADIT from the TCJA in several steps. The first step was
17 to recalculate ADIT at December 31, 2017, using the revised federal income tax rate of
18 21% as prescribed by the TCJA. Next, the Company compared the revised ADIT to the
19 original ADIT at December 31, 2017, calculated using the federal income tax rate of 35%.
20 As part of the calculation, the ADIT balance at December 31, 2017, was updated for
21 adjustments which resulted from the filing of the 2017 federal income tax return. The
22 Company then took the difference between the original and revised ADIT balances and
23 recorded this difference as excess ADIT. The calculation of excess ADIT from the TCJA
24 is located in Workpaper G-7.9(a) and amounts to approximately \$206.6 million, net of the
25 required regulatory gross-up amount (\$266,888,574 on line 57, column (g) less
26 \$60,242,667 on line 14, column (g)).

27
28 Q. DID THE COMPANY MAKE ADJUSTMENTS TO THE EXCESS ADIT RELATED TO
29 THE TCJA?

30 A. Yes. The excess ADIT from the TCJA was adjusted to remove amounts corresponding to
31 ADIT that have not been included in rate base in this and prior base rate filings. These

1 adjustments are included in Workpaper G-7.9(a) in column (h). The remaining excess
2 ADIT is \$193,822,696, as calculated on Workpaper G-7.9(a), column (i). It is this amount
3 that the Company is proposing to amortize, or return to customers, in this case and in future
4 years.

5
6 Q. WHAT ARE THE RULES THAT GOVERN THE CALCULATION OF
7 AMORTIZATION OF EXCESS ADIT?

8 A. The IRC normalization rules require the division of excess ADIT into two categories,
9 "protected" and "unprotected." Excess ADIT resulting from accelerated depreciation is
10 classified as "protected", while excess ADIT resulting from temporary differences not
11 related to accelerated depreciation is classified as "unprotected". The classification of
12 excess ADIT is crucial in calculating the amortization of excess ADIT. In IRC
13 § 168(i)(9)(A)(i), the amortization of protected excess ADIT is required to be calculated
14 utilizing the Average Rate Assumption Method ("ARAM") in order to avoid a
15 normalization violation. The TCJA (Section 13001(d)(d)(B)) defines ARAM as the:

16 method under which the excess in the reserve for deferred taxes is reduced
17 over the remaining lives of the property as used in its regulated books of
18 account which gave rise to the reserve for deferred taxes. Under such method,
19 during the time period in which the timing differences for the property reverse,
20 the amount of the adjustment to the reserve for the deferred taxes is calculated
21 by multiplying (1) the ratio of the aggregate deferred taxes for the property to
22 the aggregate timing differences for the property as of the beginning of the
23 period in question, by (2) the amount of timing differences which reverse
24 during such period.

25
26 Revenue Proclamation ("Rev. Proc.") 2020-39 provides further guidance on the
27 amortization method of protected excess ADIT, referred to as "ETR" (Excess Tax
28 Reserves). Rev. Proc. § 4(1) states "taxpayers must use ARAM to calculate the reversal of
29 their ETR if the taxpayer's regulatory books . . . are based upon the vintage account data
30 necessary to use ARAM."

31
32 Q. WHAT ARE THE IRC'S NORMALIZATION REQUIREMENTS AND WHY ARE
33 THEY IMPORTANT TO THE COMMISSION?

1 A. The IRC's normalization requirements are discussed in the direct testimony of EPE witness
2 Ihorn. Generally, they require that excess ADIT for assets on which accelerated
3 depreciation has been taken for federal income tax purposes (i.e., protected excess ADIT)
4 be amortized no more rapidly or to a greater extent than that calculated under ARAM.²
5

6 Q. WHAT WOULD BE THE CONSEQUENCES OF A NORMALIZATION VIOLATION
7 AND HOW WOULD IT AFFECT THE COMPANY AND ITS CUSTOMERS?

8 A. If the normalization rules were violated, there would be two negative impacts: (1) income
9 taxes would become payable for the amount of amortization in excess of the ARAM
10 calculation and, more importantly, (2) the Company would not be permitted to use
11 accelerated depreciation methods for income tax purposes in the future. Instead, book
12 depreciation would have to be used for income tax purposes. If this were to happen, it
13 would be devastating for the Company and its customers. If EPE is not able to use
14 accelerated tax depreciation for any of its assets, there would be no future ADIT associated
15 with the depreciation-related temporary differences (i.e., protected ADIT) for those assets.
16 Not only is protected ADIT a significant source of cost-free capital that the Company uses
17 to fund the assets needed to serve its customers, in addition, there would be no protected
18 ADIT rate base offset in future rate cases.
19

20 Q. DOES THE COMPANY HAVE THE VINTAGE RECORDS NEEDED TO COMPUTE
21 AMORTIZATION OF PROTECTED EXCESS ADIT USING ARAM?

22 A. Yes. The Company utilizes PowerTax software, which is commonly used throughout the
23 utility industry to store the vintage account data related to its plant in service balances,
24 calculate federal tax depreciation and calculate the amortization of protected excess ADIT
25 using ARAM. Vintage account data includes two components. The first is the year the
26 property is placed in service, or the vintage year. Account data refers to plant in service
27 accounts adopted in the FERC Uniform System of Accounts, i.e., FERC
28 Accounts 301-399.1. No further subdivision is required since tax amounts related to each
29 FERC account are also depreciated using a common tax depreciation methodology and

² IRC sec. 168(i)(9)(A)(i).

1 rate. Since the Company has the vintage account records for its plant in service, the IRC
2 requires the Company to utilize ARAM in order to avoid a normalization violation.
3 Amortizing protected excess ADIT using another method could result in a normalization
4 violation.

5
6 Q. HOW IS THE ANNUAL AMORTIZATION OF PROTECTED EXCESS ADIT
7 CALCULATED?

8 A. First, it is important to understand that the amortization of excess ADIT using ARAM does
9 not begin until book depreciation exceeds tax depreciation, which is calculated for each
10 vintage account record for the Company's plant in service. ARAM amortization is similar
11 to the reversal of accumulated ADIT in that you continue to accumulate deferred income
12 taxes until book depreciation exceeds tax depreciation, then you begin amortizing the
13 deferred ADIT over the remaining book life of the underlying asset. Congress provided
14 for the use of accelerated tax depreciation in order to provide an incentive for the
15 investment in certain capital assets. The normalization rules preserve this incentive by, in
16 part, (i) requiring that excess ADIT be amortized no faster than the rate at which the ADIT
17 would have been reduced had the tax rate not changed and the excess not been created and
18 (ii) requiring that this determination be made on an asset-by-asset basis (i.e., vintage
19 account records) if the required property records are available. As a result, if the property
20 records are available, ARAM requires the development of an average rate of amortization
21 equal to (i) the amount of excess ADIT for each asset or asset class divided by (ii) the total
22 amount of ADIT that has been provided on that same asset. Once the book depreciation
23 exceeds tax depreciation, the average rate of amortization is calculated and applied to the
24 annual ADIT reversal to calculate the amortization of the excess ADIT on an annual basis.
25 This may sound complicated, but the concept is fairly simple and easily illustrated by the
26 single-asset example contained on Exhibit CSP-2.

27
28 Q. PLEASE EXPLAIN THE EXAMPLE CALCULATION OF THE AMORTIZATION OF
29 EXCESS ADIT USING ARAM PROVIDED ON EXHIBIT CSP-2.

30 A. The exhibit provides an example of the calculation of the book and tax depreciation on a
31 fixed asset with a value of \$1 million, a tax depreciation life using the IRS 5-year Modified

1 Accelerated Cost Recovery System, and a book depreciation life of 10 years on a
2 straight-line basis that was placed into service in the year 2016. In the first two years of
3 the asset's life, the ADIT is calculated using a federal income tax rate of 35 percent
4 multiplied by the annual temporary difference. At the end of the second year, the federal
5 income tax rate is reduced to 21 percent.³ At that time, the excess ADIT is created.
6 However, additional deferred taxes are accumulated at the new tax rate through 2020
7 because tax depreciation exceeds book depreciation for this particular asset, creating
8 additional temporary differences in 2018, 2019 and 2020. Under ARAM, the average rate
9 used to amortize the excess ADIT is not determined, *and no amortization takes place*, until
10 the first year that the temporary difference reverses (i.e., the year in which book
11 depreciation exceeds tax depreciation), which, in the example, is in the year 2021. At that
12 time, the amortization rate (i.e., 10.1266%) is determined by dividing (i) the total excess
13 ADIT (i.e., \$44,800 (line 5, column l)) by (ii) the cumulative balance of temporary
14 differences at the end of 2020 (i.e., \$442,400 (line 5, column f)). This average rate is then
15 applied to the amount of the reversal of temporary differences in the current year of \$42,400
16 to arrive at the amortization of excess ADIT amount of \$4,294 for 2021. The amount of
17 the reversal of the cumulative temporary difference is the amount that book depreciation
18 exceeds tax depreciation in the current year. The amortization continues at 10.1266 percent
19 of each year's reversal of the cumulative temporary difference until the ADIT is fully
20 reversed and excess ADIT is fully amortized, according to the ARAM methodology.
21 Because ARAM is calculated on an asset-by-asset basis, it is important that property
22 records be detailed enough to track these amortization amounts on a granular enough level.

23
24 Q. DOES THE TOTAL AMORTIZATION OF PROTECTED EXCESS ADIT CHANGE
25 ANNUALLY?

26 A. Yes. Since the calculation of the amortization of protected excess ADIT does not begin
27 until book depreciation exceeds tax depreciation for each vintage account, the Company's
28 total amortization will change annually as ADIT begins to reverse for each asset and
29 vintage. This is illustrated by the example in Exhibit CSP-2, where the annual amortization

³ This is identical to the tax rate change that occurred with the enactment of the TCJA that created the excess deferred ADIT at issue in this proceeding.

1 is calculated in column (k) and is \$0 for the first three years, \$4,294 in the fourth year and
2 \$10,127 for the remaining four years.

3
4 Q. HOW DID THE COMPANY CALCULATE THE AMORTIZATION OF THE
5 PROTECTED EXCESS ADIT FROM THE TCJA IN THIS FILING?

6 A. The actual amortization of protected excess ADIT from the TCJA cannot be finalized for
7 any year until both the book depreciation and federal income tax depreciation are finalized,
8 which occurs when the federal income tax return is filed for that year. However, the
9 Company has forecasted its amortization of protected excess ADIT from the TCJA for the
10 years 2020, 2021 and 2022. Because the rates in this filing are expected to be effective in
11 2022, the Company has included the projected amortization from 2022 in the calculation
12 of income tax expense in this filing. The amortization of the protected excess ADIT from
13 the TCJA that is included in income tax expense in this filing is \$4,729,900 and is
14 calculated at Workpaper G-7.9(a) in column (l).

15
16 Q. HOW MUCH OF THE TOTAL AMOUNT OF EXCESS ADIT THE COMPANY IS
17 PROPOSING TO AMORTIZE IN THIS PROCEEDING IS UNPROTECTED ADIT?

18 A. The amount of unprotected ADIT the Company is proposing to amortize in this proceeding
19 amounts to a debit (i.e., asset) balance of \$18,309,671. As I stated previously, unprotected
20 ADIT is ADIT related to temporary differences other than those created through the use of
21 accelerated tax depreciation. An example of an unprotected ADIT is ADIT related to debt
22 issuance costs, which is a deferred tax asset. In other words, instead of a tax liability that
23 the Company expected, before the enactment of the TCJA, to pay back to the government
24 at the then-current 35% tax rate, this amount represents a deferred income tax asset – or
25 expected future tax savings – that must now be recovered from customers.

26
27 Q. OVER WHAT PERIOD OF TIME IS THE COMPANY PROPOSING TO AMORTIZE
28 THE AMOUNT OF UNPROTECTED EXCESS ADIT?

29 A. The Company is proposing to amortize the amount of unprotected ADIT over the estimated
30 life of the associated assets, which, in this case, is four years using the "Reverse South
31 Georgia" method. The Reverse South Georgia approach is a methodology allowed by the

1 Internal Revenue Service ("IRS") and utilized by the FERC beginning in 1987 to compute
2 regulatory depreciation (annual amortization of deferred income taxes) using a weighted
3 average life. The Reverse South Georgia method of normalization allows the Company to
4 spread the excess over the remaining lives of the assets that gave rise to the ADIT.
5 Application of the Reverse South Georgia method resulted in a four-year recovery period,
6 which reflects the shorter life of the unprotected net regulatory tax asset. The four-year
7 period is reasonable because it approximates the average remaining life of the underlying
8 ADIT that resulted in EPE's unprotected net regulatory tax asset. The calculation of the
9 average life of the unprotected excess ADIT is included in Workpaper G-7.9(a).3.
10

11 Q. HAS THE COMPANY REFLECTED ANY AMORTIZATION RELATED TO THE
12 TCJA EXCESS ADIT ON ITS FINANCIAL BOOKS?

13 A. No. In the Settlement of Docket No. 46831, the Company agreed to defer the return of the
14 excess ADIT resulting from future federal income tax rate changes until it's next base rate
15 case. In compliance with this agreement, the Company has not included any amortization
16 of the excess ADIT created by the TCJA in income tax expense to date.
17

18 Q. HOW IS THE COMPANY PROPOSING TO RETURN THE UNAMORTIZED ADIT
19 FROM 2018 TO 2021?

20 A. The Company is proposing to return to customers the unamortized excess ADIT relating
21 to the TCJA (i.e., the excess ADIT accrued for years 2018 to 2021 – the "stub period")
22 through a federal income tax specific rate tariff over a four-year period. The Company
23 chose a four-year period for the rate tariff based on two factors: (1) the number of years of
24 amortization of protected excess ADIT that has not been returned is four years (2018-2021)
25 and (2) the average life of the unprotected excess ADIT is also four years.

26 As discussed by EPE witness Manuel Carrasco, the Company proposes a specific
27 tariff that would allow the Company to return excess ADIT (the net amount of protected
28 excess ADIT for the stub period and unprotected excess ADIT) to customers over a
29 four-year period. The proposed tariff further allows a reconciliation of additional tax
30 expenses if the U.S. federal government increases the corporate income tax rate during the

four years of the tariff. The proposed excess ADIT rate tariff is further described in EPE witness Carrasco's direct testimony and his sponsored schedules.

Q. WHAT IS THE AMOUNT OF THE RATE TARIFF THAT THE COMPANY IS PROPOSING AND HOW WAS IT CALCULATED?

A. There are two components of the rate tariff, the amortization of the unprotected excess ADIT, and the amortization of the stub period protected excess ADIT. The first component, unprotected excess ADIT, is an increase to tax expense of \$18,309,671. The second component of the rate tariff is the amortization of the stub period protected excess ADIT for the years 2018 to 2021 as calculated using ARAM, which equals a decrease to tax expense of \$20,748,433. When these amounts are combined, the result is a net decrease to tax expense of \$2,438,763, which would average to \$609,691 annually over four years. As described by EPE witness Carrasco, the final tariff amount is \$830,360 annually, after the gross-up for income taxes, revenue related taxes and uncollectible expenses.

Q. ARE THERE ADDITIONAL EXCESS ADIT BALANCES THAT NEED TO BE ADDRESSED IN THIS CASE?

A. Yes. The Company continues to amortize the excess ADIT from federal income tax rate changes in the 1980s. The calculation of the excess ADIT from these rate changes is in Workpaper G-7.9(a).1. The Company also has excess state ADIT resulting from the normalization of state income taxes pursuant to the settlement agreement that was approved by the Commission Final Order in PUCT Docket No. 44941. This excess state ADIT is being amortized over a 15-year period which was also approved by this order.

Q. ARE THERE ADDITIONAL EXCESS STATE ADIT BALANCES THAT NEED TO BE ADDRESSED IN THIS CASE?

A. Yes. The phased-in reduction in the New Mexico corporate income tax rate included in New Mexico House Bill 641, signed into law in 2013, has now been completed. In addition, the phased-in reduction in the Arizona corporate income tax rate in Arizona House Bill 2001 has also been completed. Therefore, similar to the situation with the federal excess ADIT resulting from the TCJA discussed above, the Company has reduced

1 its book balance of state ADIT to reflect the amount of deferred income tax payments,
2 calculated at the previously higher rates, that the Company will pay in the future at the new
3 lower rates effective in 2017 and 2018. Workpaper G-7.9(a).2, line 4, column (c), shows
4 the resulting Total Company amount of the excess state ADIT as of December 31, 2019 of
5 \$2,961,268, ("2019 excess state ADIT") which the Company booked as a regulatory
6 liability. As with the excess federal ADIT, the Company previously recovered the 2019
7 excess state ADIT through customer rates and now seeks to begin amortization of the 2019
8 excess state ADIT in this proceeding.
9

10 Q. OVER WHAT PERIOD OF TIME DOES THE COMPANY PROPOSE TO AMORTIZE
11 THIS AMOUNT OF EXCESS STATE ADIT?

12 A. The Company proposes to use the Reverse South Georgia method for amortization of the
13 excess state ADIT resulting in a 15-year amortization period. Although this method is not
14 required for excess state deferred income taxes, it is consistent with FERC and IRS
15 precedent regarding the treatment of excess deferred federal income taxes and is also
16 consistent with the amortization period approved for the 2016 excess state ADIT in the
17 Commission's Docket No. 44941 Final Order.
18

19 **VI. Compliance with Docket No. 49849**

20 Q. WHAT DOES THIS SECTION OF YOUR TESTIMONY ADDRESS?

21 A. In this section of my testimony, I address EPE's compliance from a cost perspective with
22 several Company commitments included in the resolution of and final order in Docket
23 No. 49849, *Joint Report and Application of El Paso Electric Company, Sun Jupiter*
24 *Holdings LLC, and IIF US Holdings 2 LP for Regulatory Approvals Under PURA*
25 *§§ 14.101, 39.262, and 39.915*. EPE witness James Schichtl addresses EPE's compliance
26 in general with the commitments.
27

28 Q. WHAT IS THE FIRST COMMITMENT YOU ADDRESS?

29 A. The first item is EPE's commitment to maintain its annual amount of charitable giving
30 following the closing of the transaction at EPE's average annual charitable giving level for

1 the three-year period ended December 31, 2018 (i.e., approximately \$1.2 million per year
2 throughout EPE's service territory). (FoF 56 b).

3
4 Q. HAS EPE COMPLIED WITH THIS COMMITMENT?

5 A. Yes. While the Test Year includes only about five months post-closing, the Test Year
6 amount of charitable giving was \$1.3 million which is included in non-operating expenses
7 and deductions, FERC Account 426.1. The detail of EPE's charitable giving in the Test
8 Year is included in Schedules G-4.2 to G-4.2c. EPE witness Borden addresses the
9 limitation prescribed by 16 TAC § 25.231(b)(1)(E) and the amount that has been included
10 in EPE's revenue requirement in this case in her testimony and in Workpaper A-3,
11 Adjustment No. 26.

12
13 Q. WHAT IS THE NEXT COMMITMENT THAT YOU ADDRESS?

14 A. The next commitment is the commitment to create or enhance programs that provide
15 entry-level training focused on engineering, management, and finance skills for the local
16 labor force in collaboration with The University of Texas at El Paso ("UTEP"), El Paso
17 Community College, and New Mexico State University ("NMSU"). (FoF 56 d).

18
19 Q. DID EPE INCUR COSTS FOR ENTRY-LEVEL TRAINING DURING THE TEST
20 YEAR?

21 A. Yes. EPE hosts a summer internship program during the summer on an annual basis.
22 Students from high schools in the Company's service territory are recruited to participate
23 in a 10-week internship program that provides overall industry knowledge (Electricity 101
24 course), on-the-job training in many EPE departments (accounting, engineering, human
25 resources, public relations, safety and others), involvement in a community service project,
26 and interaction with EPE employees, customers, and vendors. The college summer
27 internship program recruits students from UTEP, NMSU, and other colleges and
28 universities across the country. To be eligible for the college summer internship, students
29 must have a tie to El Paso (e.g., went to high school in El Paso). The college summer
30 internship program provides the same training as the high school internship program. Due
31 to the COVID-19 pandemic, the summer internship program was limited to college

1 students in 2020 and 2021; however, the college program was increased by 20% in both
2 students and duration in 2021. The cost for this program is less than \$100,000 annually.
3

4 Q. WHAT IS THE NEXT COMMITMENT THAT YOU ADDRESS?

5 A. The next commitment is the commitment to create or enhance apprenticeship programs for
6 technical and professional positions for students in local high schools and colleges
7 (FoF 56 e).
8

9 Q. DID EPE INCUR COSTS FOR APPRENTICE PROGRAMS DURING THE TEST
10 YEAR?

11 A. Yes. As I discussed previously in Section III, the Company invests in programs such as
12 the Doña Ana Community College Line Worker Certification Program and engages in
13 internship and training programs with educational partners such as the UTEP, NMSU, and
14 the El Paso Community College. In addition to the Line Worker Certification Program,
15 which is discussed by EPE witness R. Clay Doyle, the Company has a GRID internship
16 program that hires interns from NMSU and UTEP on a part-time basis throughout the year.
17 The GRID internship hires students during both their undergraduate and post-graduate
18 work in areas such as engineering, accounting, and finance. EPE also provides entry-level
19 training to many employees including operator training and apprenticeships in substations,
20 overhead construction, metering, and other operational areas. These apprenticeship
21 programs are also discussed by EPE witness Doyle. Wages for GRID interns of
22 approximately \$350,000, wages for apprentices of approximately \$4.5 million, and costs
23 of approximately \$90,000 for the Doña Ana Community College Line Worker Certification
24 Program are included in EPE's requested revenue requirement in this proceeding.
25

26 Q. WHAT IS THE NEXT COMMITMENT THAT YOU ADDRESS?

27 A. The next commitment is to not seek recovery in rates of the transaction acquisition
28 premium. The Commission Order provided that any "goodwill associated with the
29 transaction will not be included in rate base, cost of capital, or operating expenses in future
30 EPE ratemaking proceedings," and that "[w]rite-downs or write-offs of goodwill will not

1 be included in the calculation of net income for dividend or other distribution payments
2 purposes." (FoF 58 b).

3
4 Q. DID EPE COMPLY WITH THIS COMMITMENT?

5 A. Yes. EPE did not record any goodwill as a result of the merger and has therefore not
6 included any cost associated with goodwill and the transaction premium in either rate base
7 or expenses in this case.

8
9 Q. WHAT IS THE NEXT COMMITMENT THAT YOU ADDRESS?

10 A. The next commitment is for neither IIF US 2 nor any of its affiliates to elect to apply
11 pushdown accounting for the transaction, such that the "transaction will have no impact on
12 EPE's assets being acquired," and that "[a]ny incremental goodwill will not be allocated to,
13 or recognized within, EPE's balance sheet." (FoF 58 c).

14
15 Q. DID EPE COMPLY WITH THIS COMMITMENT?

16 A. Yes. Pushdown accounting was not applied to EPE as a result of the merger transaction.

17
18 Q. WHAT IS THE NEXT COMMITMENT THAT YOU ADDRESS?

19 A. I address two commitments next, which are the commitment to not seek recovery of any
20 transaction costs and the commitment to not seek recovery of any transition costs. Both
21 transaction costs and transition costs were defined in the Order in Docket No. 49849
22 (FoF 58 d and f).

23
24 Q. DID EPE COMPLY WITH THIS COMMITMENT?

25 A. Yes. Costs associated with the transaction and transition were recorded as strategic
26 transaction costs in FERC Account 426.5, which is not included in EPE's revenue
27 requirement in this proceeding as indicated on Schedule G-12.

28
29 Q. WHAT IS THE NEXT COMMITMENT THAT YOU ADDRESS?

30 A. The next commitment is that EPE committed that it "will not amortize or reduce the
31 regulatory liabilities for excess accumulated deferred income taxes recorded as a result of

1 the federal legislation commonly referred to as the Tax Cuts and Jobs Act of 2017 until the
2 amortization is reflected in rates, and EPE agrees that the determination of the treatment of
3 this amount will be addressed in the next base rate case for EPE." (FoF 58 h).
4

5 Q. DID EPE COMPLY WITH THIS COMMITMENT?

6 A. Yes. EPE has complied with this requirement, and I addressed the calculation of the excess
7 ADIT, which was not reduced as a result of the merger, and the appropriate amortization
8 of excess deferred income taxes earlier in my direct testimony in Section V.
9

10 Q. WHAT IS THE NEXT COMMITMENT THAT YOU ADDRESS?

11 A. The next commitment I address is that EPE "will be a party to a consolidated corporate tax
12 return with the Sun Jupiter consolidated tax group, which will be carried out subject to a
13 formal tax-sharing agreement and policy." (FoF 60 aa).
14

15 Q. DID EPE COMPLY WITH THIS COMMITMENT?

16 A. Yes. EPE signed a formal tax-sharing agreement with Sun Jupiter upon the closing of the
17 merger. The tax-sharing agreement is included in EPE witness Ihorn's testimony as
18 Exhibit SMI-2. The 2020 federal income taxes will be divided into two corporate income
19 tax returns. The first will be a stand-alone return filed by EPE for the period January 1,
20 2020 to July 28, 2020; the period prior to the merger. The second return will be filed as a
21 consolidated corporate federal income tax return with Sun Jupiter for the period July 29,
22 2020 to December 31, 2020. Both of these returns are due to be filed no later than
23 October 15, 2021.
24

25 Q. WHAT IS THE NEXT COMMITMENT THAT YOU ADDRESS?

26 A. The next commitment is that EPE, along with the other applicants, committed that they
27 "will continue and enhance utility-supplier diversity by promoting the inclusion of
28 minority-, women-, LGBTQ-, and veteran-owned businesses into EPE's supply chain."
29 (FoF 56 f).
30

1 Q. DID EPE INCUR COSTS FOR PROMOTING UTILITY-SUPPLIER DIVERSITY
2 DURING THE TEST YEAR?

3 A. EPE has promoted supplier diversity for many years and continued to do so in the Test
4 Year. In the Test Year, EPE's suppliers included 592 diverse suppliers (56% of total
5 suppliers) with owners classified as small businesses, women-owned, veteran-owned, and
6 minority-owned. EPE spent \$99.4 million (30% of total spent) with these vendors in the
7 Test Year. Due to COVID-19 restrictions, several events planned to promote supplier
8 diversity in 2020 were postponed until 2021. Total costs incurred in 2020 for this program
9 were less than \$6,000.
10

11 Q. WHAT IS THE NEXT COMMITMENT THAT YOU ADDRESS?

12 A. The next commitment is that EPE, along with the other applicants, committed that they
13 "will study and evaluate growth opportunities related to electric vehicles, distributed
14 generation, and battery storage in collaboration with the University of Texas at El Paso,
15 El Paso Community College, and New Mexico State University. All signatories reserve
16 the right to challenge inclusion of these expenses in rates. To the extent EPE seeks to
17 recover these costs in rates, the inclusion of such costs must be described in the executive
18 summary of the rate filing package." (FoF 56 g).
19

20 Q. DID EPE INCUR COSTS FOR SUCH PROGRAMS DURING THE TEST YEAR?

21 A. No. Due to COVID-19, these programs were postponed until 2021. However, in 2021,
22 EPE has already collaborated with NMSU on an application to the Department of Energy
23 for a "Connected Communities" grant and initiated discussions with UTEP on a potential
24 collaboration around electrification.
25

26 VII. COVID-19 Expenses

27 Q. WAS THE COMPANY IMPACTED BY THE COVID-19 PANDEMIC DURING THE
28 TEST YEAR?

29 A. Yes. The Company's Test Year end for this rate case is December 31, 2020. Consequently,
30 the government imposed COVID-19 restrictions in 2020 and the accompanying business
31 changes had a significant impact on the Company, its employees, and its customers.

1 Q. HOW WAS THE COMPANY IMPACTED BY COVID-19 DURING THE TEST YEAR?

2 A. The Company was impacted in many ways by the COVID-19 pandemic. Like many other
3 companies, our employees had to adjust to remote work routines, new safety protocols, and
4 the stresses of a national health emergency all while continuing to provide reliable service
5 to customers. The COVID-19 pandemic also substantially increased costs associated with
6 the provision of electric service to customers in two major ways: (1) increased bad debt
7 expenses; and (2) other COVID-19 specific costs.
8

9 Q. HOW DID THE COVID-19 PANDEMIC AFFECT THE COMPANY'S BAD DEBT
10 EXPENSE?

11 A. As discussed in Section IV of my direct testimony, the Company's bad debt expense for
12 the Test Year was approximately \$4 million higher (on a total company basis) than bad
13 debt expenses in prior years.
14

15 Q. WHAT OTHER COSTS DID THE COMPANY INCUR AS A RESULT OF THE
16 COVID-19 PANDEMIC?

17 A. In compliance with federal, state, and local government public health orders, the Company
18 had to reset its operations to accommodate remote access, virtual business interactions, and
19 expanded technological infrastructure. These increased costs were necessary for the
20 Company to continue providing reliable electric service to customers while its employees
21 were ordered to stay home. Moreover, the COVID-19 pandemic increased administrative
22 and other operational costs primarily related to additional cleaning services, supplies, and
23 increased medical costs for testing, treatment and consulting.
24

25 Q. HOW MUCH DID THE COMPANY INCUR IN NON-BAD DEBT COSTS RELATING
26 TO COVID-19?

27 A. For the Test Year, the Company incurred approximately \$4 million in additional non-bad
28 debt related COVID-19 costs.
29

30 Q. WERE THE COMPANY'S COVID-19 RELATED COSTS REASONABLE AND
31 NECESSARY TO PROVIDE RELIABLE ELECTRIC SERVICE TO CUSTOMERS?

1 A. Yes. The Company incurred the costs as a direct result of state and local government public
2 health orders. The Company had to comply in order to continue providing reliable electric
3 service to its customers.
4

5 Q. HOW DID THE COMPANY ACCOUNT FOR THESE COVID-19 RELATED COSTS?

6 A. On March 26, 2020, the Commission issued an Order in Project No. 50664 that allowed
7 regulated utility companies to use an accounting mechanism to identify and recover
8 COVID-19 related expenses. In compliance with this Commission Order, the Company
9 recorded a regulatory asset that captures its expenses resulting from the COVID-19
10 pandemic. The March 26, 2020, Commission Order also provided that the Commission
11 would evaluate and decide the recovery of COVID-19 expenses and the appropriate period
12 of expense recovery in future rate proceedings. The Company respectfully requests that
13 the Commission approve EPE's proposal for these COVID-19 expense recovery issues in
14 this rate proceeding.
15

16 Q. DOES THE COMPANY PROPOSE TO RECOVER ITS TOTAL COVID-19 RELATED
17 EXPENSES THROUGH BASE RATES?

18 A. No. The Company has removed COVID-19 related costs, net of savings, from its cost of
19 service and has recorded a regulatory asset as discussed above. The adjustment removing
20 the O&M costs from cost of service is included in Workpaper A-3, Adjustment No. 7. The
21 Company's adjusted rate base includes the COVID-19 regulatory asset and associated
22 carrying costs, less one year of amortization. This adjustment is included in
23 Workpaper B-1, Adjustment No. 3.
24

25 Q. HOW DOES THE COMPANY PROPOSE TO RECOVER ITS COVID-19 EXPENSES
26 IN THIS PROCEEDING?

27 A. As discussed by EPE witness Carrasco, the Company proposes a COVID-19 specific tariff
28 that would allow the Company to recover actual COVID-19 expenses (both additional
29 COVID-19 related bad-debt costs and other costs) over a three-year period. The total
30 Company annual costs proposed to be recovered through this tariff are included in
31 Workpaper A-3, Adjustment No. 11. As part of the COVID-19 rate tariff, the Company

1 will true-up the bad-debt portion of the COVID-19 recovery at the end of each year to
2 account for any adjustments to the COVID-19-related expenses during the period new rates
3 are in effect. The proposed COVID-19 rate tariff is further described in EPE witness
4 Carrasco's direct testimony and his sponsored schedules.
5

6 Q. IS THE COMPANY'S PROPOSAL TO RECOVER REASONABLE AND NECESSARY
7 COVID-19-RELATED EXPENSES REASONABLE?

8 A. Yes. The Company's proposal to recover reasonable and necessary COVID-19-related
9 expenses is reasonable and complies with the Commission's March 26, 2020, Order in
10 Project No. 50664.
11

12 **VIII. FERC Account Reclass**

13 Q. WHY DID THE COMPANY RECLASS A&G EXPENSES TO OPERATION AND
14 MAINTENANCE EXPENSE IN DECEMBER 2020?

15 A. The Division of Audits and Accounting within the Office of Enforcement of the FERC
16 completed an audit of the Company in January 2021. The audit covered the period from
17 January 1, 2016 to June 30, 2020. The final audit report issued in Docket No. PA19-3-000
18 on January 28, 2021 included an audit finding related to accounting for joint owner billing.
19 The FERC determined the Company did not functionalize portions of third-party billings
20 characterized as A&G expenses for O&M related to PVGS, the Palo Verde transmission
21 switchyards and Four Corners. In compliance with the requirements in the final audit
22 report, in December 2020, portions of the billings from Arizona Public Service Company
23 for the O&M of PVGS that were initially recorded as A&G were reclassified by the
24 Company into FERC Account 524, Miscellaneous Nuclear Power Expenses. Additionally,
25 portions of the billings from the Salt River Project for the O&M of the Palo Verde
26 transmission switchyards that were initially recorded as A&G were reclassified by the
27 Company into FERC Account 566. No adjustments were made related to Four Corners
28 because the Company sold its share of Four Corners prior to the Test Year, therefore were
29 no third-party billings related to Four Corners in the Test Year. These reclassifications
30 represent a shift from A&G into O&M accounts and do not represent an increase in costs
31 incurred during the Test Year ended December 31, 2020.

1 Q. WHICH SCHEDULES DOES THE FERC AUDIT FINDING NOTED ABOVE
2 IMPACT?

3 A. Several Schedules which detail A&G and O&M costs on a monthly basis were impacted
4 by the reclassification. The Company added a footnote describing the reclassification to
5 Schedules H-1, H-1.1, H-1.1a1, and Schedule G-15.

6
7 **IX. Schedule S Audit Waiver**

8 Q. HAS THE COMMISSION WAIVED THE COMPANY'S RFP FILING REQUIREMENT
9 PERTAINING TO THE SCHEDULE S AUDIT?

10 A. Yes. With certain conditions, the Commission agreed to waive the Schedule S filing
11 requirements for this rate case.

12
13 Q. WHAT ARE THE CONDITIONS?

14 A. As described in the Notice of Approval (Docket No. 51780), the Commission agreed to
15 waive the Schedule S filing requirements for this rate case in exchange for the Company's
16 commitment to provide the following:

- 17 • Testimony or affidavit from its independent auditors that describes procedures
18 performed in auditing the Company's FERC Form 1 ("FF1") and the interdependency
19 of that financial report and the audited financial statements of the Company, and such
20 assurance will be filed with the application or within 30 days thereafter;
- 21 • Testimony from the Company explaining the derivation of the rate-filing package
22 information from the audited financial statements;
- 23 • Testimony describing the Company's participation in its most recent FERC audit and
24 the corrective measures implemented in response to that audit;
- 25 • A commitment to forgo recovery of rate-case expenses associated with costs of
26 bringing this waiver request before the Commission; and
- 27 • A commitment to meet the Schedule S requirements of the Commission's rate-filing
28 package at the filing of its next base-rate proceeding following the 2021 proceeding.

29
30 Q. HOW HAS THE COMPANY COMPLIED WITH THE ORDER?

1 A. The Company's independent audit firm (KPMG LLP) provided an affidavit confirming the
2 procedures performed during the audit of the Company's FF1 and the interdependency of
3 that financial report to the Company's audited financial statements. A copy of the affidavit
4 is included as Exhibit CSP-3. My direct testimony addresses the derivation of the
5 rate-filing package information from the audited financial statements, and the Company's
6 participation in its most recent FERC audit, including the corrective measures implemented
7 as a result of the audit. Moreover, the expenses incurred by the Company in pursuit of the
8 Schedule S waiver are excluded from the requested amount of rate-case expenses included
9 in Schedule G-14 and Workpaper B-1, Adjustment No. 3.
10

11 Q. DOES THE COMPANY COMMIT TO MEETING THE SCHEDULE S
12 REQUIREMENTS IN ITS NEXT BASE-RATE PROCEEDING AFTER THIS CASE?

13 A. Yes.
14

15 Q. HOW DID THE COMPANY DERIVE THE RATE-FILING PACKAGE
16 INFORMATION FROM ITS AUDITED FINANCIAL STATEMENTS?

17 A. The Company used Regulatory Management Solution ("RMS"), a module of the
18 PowerPlan software, to calculate rate base and cost of service for the Test Year and the
19 Adjusted Test Year for this rate case. The accounting information in the RMS module for
20 the Test Year was derived directly from the Company's regulatory accounting records
21 which are maintained in other PowerPlan modules and are kept in accordance with both
22 FERC and Commission requirements. The Company's regulatory accounting records in
23 PowerPlan were also used to prepare the Company's FF1 for the Test Year, which was
24 audited by KPMG. Other schedules included in the RFP that provide the detail of specific
25 items in rate base and cost of service were either obtained directly from information
26 provided in the FF1 or were reconciled to balances reported in the FF1.
27

28 Q. PLEASE DESCRIBE THE COMPANY'S PARTICIPATION IN ITS MOST RECENT
29 FERC AUDIT.

30 A. In January 2021, the FERC released its final audit report, which covered the period from
31 January 1, 2016 to June 30, 2020. The FERC audit included both operational areas of the

1 Company and a review of both the accounting requirements of the Uniform System of
2 Accounts and the reporting requirements of the FF1.

3
4 Q. DID THE FERC AUDIT IDENTIFY THE NEED FOR ANY CORRECTIVE
5 MEASURES?

6 A. The FERC's final audit report listed four compliance findings, two related to operational
7 items, and two related to accounting items. The first accounting finding noted that the
8 Company did not file for the use of updated depreciation rates in its formula rate from 2016
9 to 2018. The updated depreciation rates resulted from the approval of new depreciation
10 rates in other jurisdictions (Texas and New Mexico), but failure to obtain approval from
11 the FERC. The second accounting finding discussed above noted that the Company did
12 not correctly functionalize portions of third-party billings related to the Company's
13 ownership in PVGS, Four Corners Generating Station, and the Palo Verde Transmission
14 Switchyard. The Company recorded a portion of the invoices received from the operator
15 of these facilities as A&G that should have been recorded as O&M, thereby overstating
16 A&G and understating O&M expenses. Overall, the total expense related to these facilities
17 remained unchanged and only the allocation between A&G and O&M expenses was
18 impacted.

19
20 Q. HAS THE COMPANY IMPLEMENTED THE CORRECTIVE MEASURES? IF SO,
21 HOW?

22 A. Yes. The depreciation rates used in the Company's formula rate from 2016 to 2018 were
23 filed with the FERC in Docket No. ER19-2893-000 and accepted by delegated letter order
24 on January 10, 2020. The depreciation rates were filed by the Company with the FERC
25 during the period of the audit once the Company became aware that they had not previously
26 been filed. The filing was accepted by the FERC prior to the completion of its audit report.
27 Additionally, as described in Section VIII above, the Company reclassified certain
28 expenses associated with joint owner billings from FERC Account 930.2 to Accounts 566
29 and 524 for the Palo Verde transmission switchyards and PVGS, respectively. The FERC
30 did not require the Company to restate financial statements that had been previously filed,
31 but instead allowed the Company to reclassify expenses in its next filing, as noted above.

1 **X. Summary of Schedules Sponsored**

2 **A. The A Schedules (Cost of Service Summary)**

3 Q. WHAT DOES SCHEDULE A, OVERALL COST OF SERVICE, ADDRESS?

4 A. Schedule A, which I co-sponsor with EPE witness Borden, presents EPE's overall,
5 system-wide cost of service, including such items as O&M expense, depreciation expense,
6 taxes other than income taxes, income taxes, pro-forma adjustments, and return. It also
7 includes fuel and purchased power information for the Test Year. This information is
8 presented on a system-wide (total utility) basis, as EPE serves three jurisdictions (retail in
9 Texas and New Mexico and wholesale under the FERC jurisdiction). The information in
10 Schedule A that I sponsor is the Per Book amounts in column (b).

11
12 Q. WHAT DOES SCHEDULE A-2, COST-OF-SERVICE DETAIL BY ACCOUNT,
13 ADDRESS?

14 A. I co-sponsor Schedule A-2 with EPE witness Borden. The information I sponsor in this
15 schedule is the Test Year Amounts in column (b). The schedule provides the Company's Test
16 Year cost-of-service detail by account in accordance with the RFP on a total-Company basis.

17
18 Q. WHAT DOES SCHEDULE A-4, DETAIL TEST-YEAR END TRIAL BALANCE,
19 ADDRESS?

20 A. I sponsor Schedule A-4, which provides the test-year end trial balances by FERC accounts.

21
22 Q. WHAT DOES SCHEDULE A-5, UNADJUSTED O&M, ADDRESS?

23 A. I also sponsor Schedule A-5, which provides a detailed listing (by FERC account) of
24 amounts included in unadjusted O&M expense.

25
26 **B. The B Schedules (Rate Base and Return)**

27 Q. WHAT B SCHEDULES DO YOU SPONSOR?

28 A. I sponsor or co-sponsor schedules B-1 (Total Company), B-2 (Accumulated Provision
29 Balances), and B-2.1 (Accumulated Provision Policies). These schedules provide rate-base
30 amounts, and the balances and policies of accumulated provisions accounts.

1 Q. WHAT DOES SCHEDULE B-1, TOTAL COMPANY, ADDRESS?

2 A. This schedule summarizes the original cost of EPE's rate base, the requested adjustments,
3 and the requested rate of return. I sponsor the Per Books Total Company amounts of EPE's
4 rate base and the Adjustments and Total Requested amounts are sponsored by EPE witness
5 Borden.

6
7 Q. WHAT DOES SCHEDULE B-2, ACCUMULATED PROVISION BALANCES,
8 ADDRESS?

9 A. Schedule B-2 provides the monthly balance of the provision for uncollectible accounts, the
10 accumulated provision for pensions and benefits, accumulated miscellaneous operating
11 provision, and accumulated provision for rate refund. For each of these provision accounts,
12 the amount accrued each month, and the amount charged off each month in the Test Year
13 and ending account balance are shown.

14
15 Q. WHAT DOES SCHEDULE B-2.1, ACCUMULATED PROVISION POLICIES,
16 ADDRESS?

17 A. This schedule provides the Company's policy detail regarding accumulated provision
18 accounts and explains how such policies benefit our customers.

19
20 **C. The E Schedules (Short-Term Assets and Inventories)**

21 Q. WHICH E SCHEDULES DO YOU SPONSOR?

22 A. The E Schedules address short-term assets and inventories. I sponsor or co-sponsor the
23 following E Schedules:

24 /
25 /
26 /
27 /
28 /
29 /
30 /
31 /

Schedule	Description
Schedule E-1	Monthly Balances of Short-Term Assets
Schedule E-1.1	Detail of Short-Term Assets
Schedule E-1.3	Short-Term Asset Policies
Schedule E-2.3	Fuel Inventories
Schedule E-2.4	Inventory Levels
Schedule E-2.5	Inventory Values
Schedule E-3.1	Fuel Oil Burns
Schedule E-5	Prepayments and Materials and Supplies
Schedule E-6	Customer Deposits

Q. WHAT DOES SCHEDULE E-1, MONTHLY BALANCES OF SHORT-TERM ASSETS, ADDRESS?

A. Schedule E-1 lists each short-term asset requested in rate base (e.g., materials and supplies, prepayments, and fuel inventory). The schedule provides book balances for the month ended December 2019 before the Test Year began and each of the twelve months of the Test Year, January 2020 through December 2020, in order to arrive at a 13-month average.

Q. WHAT DOES SCHEDULE E-1.1, DETAIL OF SHORT-TERM ASSETS, ADDRESS?

A. This schedule details the monthly per book balances of short-term assets by category identified in Schedule E-1.

Q. WHAT DOES SCHEDULE E-1.3, SHORT-TERM ASSET POLICIES, ADDRESS?

A. This schedule details any changes in accounting policy for the book balances for the short-term assets listed in Schedule E-1. There were no changes to accounting policies for short-term assets in the Test Year.

Q. WHAT DOES SCHEDULE E-2.3, FUEL INVENTORIES, ADDRESS?

A. Schedule E-2.3 presents an analysis of the fossil fuel inventories on hand at the end of the Test Year by type and location. It also contains information regarding the total storage

1 capacity and the unused capacity at each location. I co-sponsor this schedule with EPE
2 witness David C. Hawkins and I sponsor the dollar value of the inventories.

3
4 Q. WHAT DOES SCHEDULE E-2.4, INVENTORY LEVELS, ADDRESS?

5 A. This schedule presents the Company's monthly fossil fuel inventory levels for the Test Year
6 in dollars as well as volume. I co-sponsor this schedule with EPE witness Hawkins, and I
7 sponsor the dollar value of inventories.

8
9 Q. WHAT DOES SCHEDULE E-2.5, INVENTORY VALUES, ADDRESS?

10 A. This schedule provides the Company's accounting treatment for the fossil fuel cost and
11 British thermal units ("Btu") content of fuel burned from inventory. I co-sponsor this
12 schedule with EPE witness Hawkins.

13
14 Q. WHAT DOES SCHEDULE E-3.1, FUEL OIL BURNS, ADDRESS?

15 A. Schedule E-3.1 contains the amount of fuel oil burned in barrels, million Btu, and dollars
16 by month, plant, and reason. The information is presented for the Test Year and by
17 calendar year for the previous five years. I co-sponsor this schedule with EPE witness
18 Hawkins. This information I sponsor in this schedule is the dollar value of fuel oil burned.

19
20 Q. WHAT DOES SCHEDULE E-5, PREPAYMENTS, MATERIALS AND SUPPLIES,
21 ADDRESS?

22 A. Schedule E-5 presents the balance of prepayments and materials and supplies charged to
23 O&M expense by month during the Test Year.

24
25 Q. WHAT DOES SCHEDULE E-6, CUSTOMER DEPOSITS, ADDRESS?

26 A. This schedule presents the Company's policy for determining when a customer deposit
27 becomes inactive and lists the balance of customer deposits at the end of the Test Year.

28
29 **D. The F Schedule (Description of Company)**

30 Q. WHAT DOES SCHEDULE F, DESCRIPTION OF COMPANY, ADDRESS?

1 A. Schedule F provides a general description of the Company, including its service area and
2 diversity of operations.
3

4 **E. The G Schedules (Accounting Information)**

5 Q. WHAT DO THE G SCHEDULES ADDRESS?

6 A. The G Schedules address accounting information and expenses relating to employee
7 compensation and benefits, bad debt expense, advertising, income taxes and other
8 administrative and business expenses. I sponsor or co-sponsor the following schedules:

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1	Schedule G-1	Payroll Information
2	Schedule G-1.1	Regular and Overtime Payroll
3	Schedule G-1.2	Regular Payroll by Category
4	Schedule G-1.3	Payroll Capitalized vs. Expensed
5	Schedule G-1.4	Payroll by Company
6	Schedule G-1.5	Number of Employees
7	Schedule G-1.6	Payments Other Than Standard Pay
8	Schedule G-2	General Employee Benefit Information
9	Schedule G-2.1	Pension Expense
10	Schedule G-2.2	Postretirement Benefits Other Than Pension
11	Schedule G-2.3	Administration Fees
12	Schedule G-3	Bad Debt Expense
13	Schedule G-4	Summary of Advertising, Contributions, & Dues
14	Schedule G-4.1	Summary of Advertising Expense
15	Schedule G-4.1a	Summary of Advertising Expense
16	Schedule G-4.1b	Summary of Advertising to Promote & Retain Usage
17	Schedule G-4.1c	Summary of General Advertising Expense
18	Schedule G-4.1d	Capitalized Advertising
19	Schedule G-4.2	Summary of Contribution & Donation Expense
20	Schedule G-4.2a	Summary of Educational Contributions & Donations
21	Schedule G-4.2b	Summary of Community Service Contributions & Donations
22	Schedule G-4.2c	Summary of Economic Development Contributions & Donations
23	Schedule G-4.3	Summary of Membership Dues Expense
24	Schedule G-4.3a	Summary of Industry Organization Dues
25	Schedule G-4.3b	Summary of Business/Economic Dues
26	Schedule G-4.3c	Summary of Professional Dues
27	Schedule G-4.3d	Summary of Social, Recreational, Fraternal or Religious Expense
28	Schedule G-4.3e	Summary of Political Organizations Expense
29	Schedule G-5	Summary of Exclusions from Test Year Expense
30	Schedule G-5.1	Analysis of Legislative Advocacy
31	Schedule G-5.1a	Payments to Registered Lobbyists
32	Schedule G-5.1b	Payments for Monitoring Legislation
33	Schedule G-5.2	Summary of Penalties and Fines
34	Schedule G-6	Summary of Test Year Affiliate Transactions
35	Schedule G-6.1	Summary of Test Year Expense by Affiliate
36	Schedule G-6.2	Summary of Adjustments to Test Year Expense by Affiliate
37	Schedule G-7.9	Amortization of Protected and Unprotected Excess Deferred Taxes
38	Schedule G-7.9a	Analysis of Excess Deferred Taxes by Timing Difference
39	Schedule G-7.9b	Reconciliation of Excess
40	Schedule G-7.9c	Analysis of Reserve Accounting for Excess Deferred Taxes
41	Schedule G-7.13	List of FIT Testimony
42	Schedule G-8	Outside Services Employed – FERC 900 Series Expenses
43	Schedule G-10	Factoring Expense
44	Schedule G-12	Below the Line Expenses
45	Schedule G-15	Monthly O&M Expense

Payroll Information (G-1 Schedules)

Q. WHAT INFORMATION IS IN SCHEDULE G-1, PAYROLL INFORMATION?

A. Schedule G-1 provides a narrative of EPE's payroll practices.

Q. WHAT INFORMATION IS IN SCHEDULES G-1.1, REGULAR AND OVERTIME PAYROLL; G-1.2, REGULAR PAYROLL BY CATEGORY; AND G-1.3, PAYROLL CAPITALIZED VS. EXPENSED?

A. Schedules G-1.1, G-1.2, and G-1.3 provide gross payroll information for each month in the January 2020 – December 2020 Test Year as well as the three most recent calendar years before the Test Year—2017, 2018, and 2019.

- Schedule G-1.1, provides total payroll costs segregated by regular, overtime and other payroll categories. The detail of other payroll costs is provided on Schedule G-1.6.
- Schedule G-1.2, provides the detail of regular payroll costs between union and non-union payroll costs.
- Schedule G-1.3, provides the detail of payroll costs that were expensed in O&M, capitalized, and expensed in non-operating (other expensed) accounts. As discussed previously, payroll costs related to the merger were included in the other expensed column.

Q. DESCRIBE SCHEDULE G-1.4, PAYROLL BY COMPANY.

A. Schedule G-1.4 does not apply to EPE. Schedule G-1.4 asks for gross payroll charged by the operator of a joint plant to other participants. While EPE owns a portion of PVGS, it was not the operator of the plant and did not disburse payroll to employees who work at the unit.

Q. WHAT INFORMATION IS IN SCHEDULES G-1.5, NUMBER OF EMPLOYEES, AND G-1.6, PAYMENTS OTHER THAN STANDARD PAY?

A. Both of these schedules provide employee information for each month in the Test Year as well as the three most recent calendar years before the Test Year—2017, 2018, and 2019.

- Schedule G-1.5 provides an employee count for full-time employees, part-time employees, and total employees.

- 1 • Schedule G-1.6 reports all payments other than standard pay or overtime pay made to
2 employees.

3
4 **Employee Benefits (G-2 Schedules)**

5 Q. WHAT DO THE G-2 SCHEDULES CONTAIN?

6 A. The G-2 schedules contain employee benefit information, as well as pension and OPEB
7 expense and administration fees.

8
9 Q. DESCRIBE SCHEDULE G-2, GENERAL EMPLOYEE BENEFIT INFORMATION.

10 A. Schedule G-2, pages 1 to 4, describes all employee benefits paid by EPE during the Test
11 Year. Schedule G-2, pages 5 and 6 include the claims, life insurance and other plan costs
12 as required in pages 1 to 4. As explained above, plan documents and trust agreements for
13 each plan are included in the G-2 Workpapers.

14
15 Q. WHAT INFORMATION IS IN SCHEDULE G-2.1, PENSION EXPENSE?

16 A. Schedule G-2.1 provides information about EPE's pension expense and contributions to the
17 pension fund.

18
19 Q. DESCRIBE SCHEDULE G-2.2, POSTRETIREMENT BENEFITS OTHER THAN
20 PENSION.

21 A. Schedule G-2.2 provides information about EPE's OPEB plan, (or Accounting Standards
22 Codification Topic 715), and contributions made to the fund and the net periodic benefit
23 cost for the Test Year and the prior three years.

24
25 Q. WHAT INFORMATION IS IN SCHEDULE G-2.3, ADMINISTRATION FEES?

26 A. Schedule G-2.3 describes employee benefit plan administration fees requested in EPE's
27 cost of service. The monthly Test Year administration fees are included in Schedule G-2
28 on pages 5 and 6. Additionally, Workpaper G-2.3a (Confidential) and Workpaper G-2.3b
29 (Highly Sensitive) contain copies of the administration contracts and monthly invoices.

30
31 Q. WHAT DOES SCHEDULE G-3, BAD-DEBT EXPENSE CONTAIN?

1 A. Schedule G-3, pages 1 and 2, contains the Company's policies for writing off bad debts and
2 the methodology for calculating bad debt expense. Schedule G-3, page 3, lists the monthly
3 revenue, uncollectible expense and net bad debt write-off amounts for the Test Year and
4 the three prior years. In addition, page 3 of Schedule G-3 lists the amount of uncollectible
5 expense that was charged to a regulatory asset related to COVID-19 and the adjustment to
6 uncollectible expense for COVID-19 that is included in Workpaper A-3, Adjustment No. 7
7 in Note (D).
8

9 Q. WHAT DOES SCHEDULE G-4, SUMMARY OF ADVERTISING, CONTRIBUTIONS &
10 DUES, ADDRESS?

11 A. This schedule represents a summary of advertising, and contributions and donations
12 expense for the Test Year, which I sponsor. EPE witness Borden co-sponsors this Schedule
13 and provides the amount of contributions and donations subject to the 0.3% of revenue
14 limitation imposed by 16 TAC§ 25.231(b)(1)(E).
15

16 Q. WHAT DO SCHEDULES G-4.1 THROUGH G-4.1c ADDRESS?

17 A. Schedule G-4.1 summarizes advertising expense by FERC account, category, and Test
18 Year amount. Schedules G-4.1a through G-4.1c provide a detail of Test Year expense for
19 informational/instructional advertising expenses, advertising to promote and retain usage,
20 and general advertising expense, respectively.
21

22 Q. IS EPE SEEKING RECOVERY OF ANY AMOUNTS FOR ADVERTISING
23 EXPENSES IN ITS TEST YEAR COST OF SERVICE?

24 A. Yes, subject to and consistent with the limitation prescribed by 16 TAC § 25.231(b)(1)(E),
25 EPE is seeking to recover \$1,637,980 in advertising costs. Earlier in my testimony, I
26 explain how these costs are necessary and reasonable to provide service.
27

28 Q. WHAT DOES SCHEDULE G-4.1d, CAPITALIZED ADVERTISING EXPENSE,
29 ADDRESS?

30 A. Schedule G-4.1d requires details concerning capitalized advertising costs. There were no
31 advertising costs capitalized since rates were last set in Docket No. 46831.

1 Q. WHAT DO SCHEDULES G-4.2 THROUGH G-4.2c ADDRESS?

2 A. Schedule G-4.2 summarizes contributions and donations expenses in the following
3 categories: educational, community service, and economic development. The schedule
4 includes the FERC account charged, the schedule number that provides the details of the
5 expense, and the Test Year amount. The remaining schedules provide the detail and
6 business purpose of the organization for educational contributions and donations
7 (Schedule G-4.2a), community service contributions and donations (Schedule G-4.2b), and
8 economic development contribution and donations (Schedule G-4.2c), as required by the
9 Commission's RFP.

10
11 Q. WHAT DO SCHEDULES G-4.3 THROUGH G-4.3e ADDRESS?

12 A. Schedule G-4.3 summarizes membership dues or support expenses categorized by industry
13 organization, business/economic development organization, professional organization,
14 social/recreational/religious organization, and political organization. The schedule
15 includes the schedule number that details the expense and the Test Year amount. The detail
16 of amounts excluded from Adjusted Test Year expense is provided in Workpaper G-4.3
17 and the adjustment for the amounts in Test Year O&M is in Workpaper A-3, Adjustment
18 No. 24, which is sponsored by EPE witness Borden.

19 Schedule G-4.3a provides the detail of industry organization dues; Schedule G-4.3b
20 has the detail of business and economic dues; Schedule G-4.3c provides the detail for
21 professional dues; Schedule G-4.3d provides the detail of social, recreational, fraternal, or
22 religious expenses; and Schedule G-4.3e details political organization expenses.

23
24 **Summary of Test Year Exclusions**

25 Q. PLEASE DESCRIBE SCHEDULES G-5 THROUGH G-5.1b.

26 A. Schedule G-5 presents a summary of all Test Year expenditures in the categories of
27 legislative advocacy expenses, penalties and fines, other exclusions,
28 social/recreational/religious, and political. The schedule includes a description of the
29 expenditure, the schedule number that details the expenditure, and the Test Year amount.
30 Schedules G-5.1 through G-5.1b summarize legislative advocacy expense, payments made
31 to individuals registered to lobby on behalf of the utility during the Test Year, and payments

1 made to individuals or firms who monitored legislation for the utility during the Test Year,
2 respectively. The Company is not requesting lobbying expenses in the cost of service in
3 accordance with PURA Section 36.062. I co-sponsor Schedules G-5.1, G-5.1a and G-5.1b
4 with EPE witness Schichtl.
5

6 Q. PLEASE DESCRIBE SCHEDULE G-5.2, SUMMARY OF PENALTIES AND FINES.

7 A. This schedule requires a summary of all penalties and fines included in the Test Year
8 expense. EPE is not requesting recovery of any fines or penalties in its cost of service.
9

10 **Summary of Test Year Affiliate Transactions (G-6 Schedules)**

11 Q. THE G-6 SCHEDULES REQUIRE INFORMATION ABOUT TEST YEAR AFFILIATE
12 TRANSACTIONS AND EXPENSES. ARE THERE ANY FOR THE COMPANY?

13 A. Yes. Schedule G-6 lists amounts included in Test Year expense related to transactions with
14 JP Morgan Chase. Although JP Morgan Chase is not considered to be an affiliate by the
15 FERC, the Commission required the Company to report any transactions with JP Morgan
16 Chase in filings subsequent to the merger. The expenses listed in Schedules G-6 and G-6.1
17 are for banking services, are reasonable and necessary, were arms-length, and were negotiated
18 prior to the merger. Therefore, these expenses were not adjusted from the Test Year.
19

20 Q. WHAT DO SCHEDULES G-6.1 AND G-6.2 CONTAIN?

21 A. Schedule G-6.1 details the Test Year expenses by affiliate and Schedule G-6.2 summarizes
22 the adjustments to Test Year expenses by affiliate. As explained above, EPE did not make
23 any adjustments to expense transactions with affiliates for the Test Year.
24

25 **Summary of Excess ADIT (G-7.9 Schedules)**

26 Q. PLEASE DESCRIBE SCHEDULE G-7.9, AMORTIZATION OF PROTECTED AND
27 UNPROTECTED EXCESS DEFERRED TAXES.

28 A. This schedule summarizes the amortization of protected and unprotected excess deferred
29 federal income tax and the amortization of excess deferred state income tax included by
30 the Company in this filing. This schedule also summarizes the methodologies used by the
31 Company to calculate the amortization of excess deferred taxes.

1
2 Q. PLEASE DESCRIBE SCHEDULE G-7.9(a), ANALYSIS OF EXCESS DEFERRED
3 TAXES BY TIMING DIFFERENCE.

4 A. This schedule provides the detail of the amortization of excess deferred taxes contained in
5 Schedule G-7.9 by timing difference and the unamortized balance of excess deferred taxes
6 by timing difference at the end of the Test Year. Workpaper G-7.9(a).1 includes the
7 calculation of the amortization of the excess deferred taxes that arose from the decrease in
8 the federal income tax rate in 1989 and the subsequent increase in the federal income tax
9 rate of 1%. Workpaper G-7.9(a).2 provides the calculation of the amortization of excess
10 state ADIT that resulted from the Company's change to the normalization method for state
11 income taxes at January 1, 2016. This workpaper also provides the calculation of the
12 excess state ADIT from the state income tax rate changes that occurred on January 1, 2017
13 and January 1, 2018. The calculation of the TCJA-related excess deferred taxes and related
14 amortization are included in Workpaper G-7.9(a).3 and is discussed earlier in in my
15 testimony.
16

17 Q. PLEASE DESCRIBE SCHEDULE G-7.9(b), RECONCILIATION OF EXCESS.

18 A. This schedule provides the unamortized excess deferred tax balances at the Test Year end
19 December 31, 2020, and a reconciliation, by timing difference, to the unamortized excess
20 tax balances at September 30, 2016, that were filed with the Commission in Docket
21 No. 46831.
22

23 Q. PLEASE DESCRIBE SCHEDULE G-7.9(c), ANALYSIS OF RESERVE ACCOUNTING
24 FOR EXCESS DEFERRED TAXES.

25 A. This schedule is not applicable to the Company. The Company was not required by prior
26 Commission order to establish reserve accounting for excess deferred taxes.

27 Q.

28 Q. PLEASE DESCRIBE SCHEDULE G-7.13, LIST OF FIT TESTIMONY.

29 A. This schedule lists all witnesses that are filing testimony in this case that support the
30 Company's federal income tax and ADIT requests. The most recent tax return filed (for

1 the calendar year ended December 31, 2019) is included as part of the confidential
2 workpapers for this schedule. I co-sponsor this schedule with EPE witness Ihorn.

3
4 **Summary of Outside Services Employed (Schedule G-8)**

5 Q. WHAT DOES SCHEDULE G-8, OUTSIDE SERVICES EMPLOYED – FERC 900
6 SERIES EXPENSES, CONTAIN?

7 A. Schedule G-8 presents information on outside services employed during the Test Year that
8 appear in the FERC 900 series of accounts. The schedule includes the FERC account,
9 vendor name, Test Year amount, along with the purpose of the vendor's service and
10 whether the expense is recurring or non-recurring. Earlier in my testimony, I discussed
11 how these costs are necessary and reasonable.

12
13 **Factoring Expense (Schedule G-10)**

14 Q. WHAT DOES SCHEDULE G-10, FACTORING EXPENSE, CONTAIN?

15 A. Schedule G-10 contains information about factoring expense. This schedule is not
16 applicable to EPE because the Company does not factor any of its receivables.

17
18 **Below the Line Expenses (Schedule G-12)**

19 Q. WHAT INFORMATION IS IN SCHEDULE G-12, BELOW THE LINE EXPENSES?

20 A. Schedule G-12 summarizes all expenses charged "below the line" during the Test Year.
21 Except for certain donation expenses charged to FERC Account 426.1 as allowed by
22 16 TAC § 25.231(b)(1)(E), expenses charged below the line are not included in the Test
23 Year cost of service. I co-sponsor this schedule with EPE witness Borden.

24
25 **Monthly O&M Expenses (Schedule G-15)**

26 Q. WHAT INFORMATION IS IN SCHEDULE G-15, MONTHLY O&M EXPENSE?

27 A. Schedule G-15 includes EPE's O&M expense for each account in the Uniform System of
28 Accounts, with:

- 29 1. expense by month, as booked for the Test Year, and the total;
30 2. adjustments to the booked amount; and
31 3. total adjusted O&M expense.