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APPLICATION OF EL PASO ELECTRIC COMPANY TO CHANGE RATES	§ § § § § § § § §	**BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS**

DIRECT TESTIMONY OF

DANIEL J. LAWTON

ON BEHALF OF

CITY OF EL PASO, TEXAS

OCTOBER 22, 2021

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Schedules

DIRECT TESTIMONY OF

DANIEL J. LAWTON

SECTION I: INTRODUCTION/BACKGROUND/SUMMARY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Daniel J. Lawton. My business address is 12600 Hill Country Boulevard, Suite R-275, Austin, Texas 78738.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. I have been working in the utility consulting business as an economist since 1983. Consulting engagements have included electric utility load and revenue forecasting, cost of capital analyses, financial analyses, revenue requirements/cost of service reviews, and rate design analyses in litigated rate proceedings before federal, state and local regulatory authorities, and in court proceedings. I have worked with numerous municipal utilities developing electric rate cost of service studies for reviewing and setting rates. In addition, I have a law practice based in Austin, Texas. My main areas of legal practice include administrative law representing municipalities in electric and gas rate proceedings and other litigation and contract matters. I have included a brief description of my relevant educational background and professional work experience in Schedule DJL-1.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN RATE PROCEEDINGS?

A. Yes. A list of cases where I have previously filed testimony is included in Schedule DJL-1.

Q. ON WHOSE BEHALF ARE YOU FILING TESTIMONY IN THIS PROCEEDING?

A. I have been retained to review the El Paso Electric Company ("Company" or "EPE") cost of capital request, related financial integrity issues, and jurisdictional cost allocation on behalf of the City of El Paso ("City").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony in this proceeding is to address the Company's requested overall cost of capital and calculation of the jurisdictional allocation of costs between the Texas, New Mexico, and wholesale jurisdictions. I will address the Company's requested overall rate of return to be earned on rate base investment, capital structure, and cost rates for equity capital and long-term debt, which is presented in the direct testimony of EPE cost of capital witnesses, Ms. Jennifer Nelson and Ms. Lisa Budtke. In addition, I address the business risk, financial risk, the Company's financial integrity, projected capital investment requirements, and cash flow issues related to return on invested capital. I also address the Company's calculation of the jurisdictional allocation factor, specifically issues surrounding the jurisdictional direct assignment of certain solar facility and purchase power agreements.

Q. WHAT MATERIALS DID YOU REVIEW AND RELY ON FOR THIS TESTIMONY?

A. I have reviewed prior orders of the Public Utility Commission of Texas ("Commission") the Company's Direct testimony and supporting Schedules, Company responses to discovery requests, Value Line Investment Survey ("Value Line"), financial reports of the Company, along with other utility companies of comparable risk, and other financial information available in the public domain. When relying on various sources, I have referenced such sources in my testimony and/or attached Exhibits and included copies or summaries in my schedules and/or work papers.

Q. PLEASE SUMMARIZE YOUR FINDINGS AND CONCLUSIONS RELATED TO EQUITY RETURN IN THIS CASE.

A. My analysis of the Company's requested cost of equity capital in this proceeding, are shown in the following table:

Table 1[1]

Cost of Equity Estimates El Paso Electric Company

MODEL	RANGE	MIDPOINT
DCF Model	**9.46% - 9.49%**	**9.48%**
Two-stage DCF	**9.42% - 9.44%**	**9.43%**
CAPM	**8.77% - 8.86%**	**8.82%**
ECAPM	**8.99% - 9.06%**	**9.03%**
Bond Yield RP	**9.06% - 9.12%**	**9.09%**
Average All Models	**9.14% - 9.19%**	**9.17%**
Financial Risk Adjustment	**-38 Basis Points**	

[1] Each cost of equity capital estimate calculated above is discussed in the testimony and is presented in Schedules (DJL-7), (DJL-8), (DJL-9), and (DJL-10).

Based on the model results and evaluation of EPE's lower financial risks related to higher equity level in EPE's capital structure, a downward risk adjustment of about 38 to 53.5 basis points is necessary. Employing the lower end of 38 basis points of the financial risk adjustment results in a low-end equity return of 8.76% (9.14 - .38 = 8.76%). Applying a 38 basis point financial risk adjustment to the upper end of results yields 8.81 (9.19 - .38 = 8.81%). In my opinion, given the range of results of

[1] Each cost of equity capital estimate is discussed in the testimony and is presented in Schedules DJL-7), (DJL8), (DJL-9), and (DJL-10)

approximately 8.80% with a financial risk adjustment to about 9.2% average of all results before financial risk adjustment it is reasonable to employ a point estimate of 9.0% equity return in this case.[2] The 9.0% recommendation is based on the DCF and risk premium model results, and consideration of business and financial risks which includes consideration of the Company's capital structure. All of these model results and risks considerations are discussed in the following pages. When the 9.0% equity return recommendation is combined with the Company's capital structures and debt cost rates it results in a recommended return on rate base investment as follows for the EPE request:

Table 2

Recommended Capital Structure and Cost Rates for

El Paso Electric Company[3]

DESCRIPTION	RATIO	COST	WEIGHTED COST
Total DEBT	49.00%	5.57%	2.732%
COMMON EQUITY	51.00%	9.00%	4.590%
TOTAL CAPITAL	100.00%		7.322%

As discussed below, in my opinion, the recommended return levels (9.0% equity return and 7.322% overall return for EPE are consistent with current market capital costs in the utility industry and consistent with just and reasonable rates. My analyses of the Company witness Ms. Nelson's recommended 10.3% equity return and overall return request of 7.985% for EPE indicates that the Company's request is overstated and is not

[2] The calculation of the 38 to 53.5 basis point financial risk adjustment is discussed in the capital structure section of this testimony.

[3] Capital structure and debt cost rate Testimony of Jennifer Nelson and Lisa Budtke.

consistent with just and reasonable rates given current market capital costs.[4]

Q. PLEASE SUMMARIZE YOUR FINDINGS AND CONCLUSIONS IN THIS CASE.

A. Based on my analyses (which are fully explained in the following pages), I make the following conclusions and recommendations:

(i) A return of 9.0% on shareholder equity for EPE is consistent with current market capital cost requirements and is more than adequate for the Company to maintain its financial integrity and creditworthiness;

(ii) The Company's cash flows and liquidity at an overall rate of return on rate base investment of 7.322% is more than adequate to meet cash operating and construction requirements;

(iii) The Company's overall cost of capital, employing the Company's 49.0% debt and 51% equity capital structure and the requested cost rates for debt and my recommended equity return of 9.0% to be earned on rate base investment should be set at 7.322% for setting just and reasonable rates in this proceeding;

(iv) The Company's proposed 10.3% return for equity shareholders is an overstatement of the required return on equity to hold and attract equity capital; and

(v) The impact of the 9.0% equity return results in reducing requested annual revenue requirement approximately $17.2 million.

Q. PLEASE DESCRIBE YOUR RECOMMENDATIONS REGARDING JURISDICTIONAL ALLOCATION OF COSTS BETWEEN NEW MEXICO, TEXAS AND THE WHOLESALE JURISDICTIONS.

[4] The Company requested returns are shown in Schedule K-1.

A. The Company's proposal to adjust the jurisdictional allocator based on the specific assignment of certain solar facilities and solar purchase power agreements to New Mexico and to Texas.[5] The impact of the Company's adjustment is to increase the jurisdictional cost allocation and increase costs to Texas customers by about $4,343,751 to Texas customers to the benefit of New Mexico customers.[6] As explained in Section XIII the Company's proposed adjustment is not supported and should be denied.

SECTION II: OVERVIEW OF THE COMPANY RATE REQUEST AND ISSUE SUMMARY

Q. PLEASE DESCRIBE THE REQUESTED RATE INCREASE.

A. The Company's filing requests an annual net increase in base rate (non-fuel) revenue requirements of $41,097,144.[7] The test period for this case covers the 12-month historical period ended December 31, 2020.[8] The Company is currently collecting interim rates of $27.871 million related to the Transmission Cost Recovery Factor ("TCRF") and a Distribution Cost recovery Factor ("DCRF").[9] These TCRF and DCRF interim rate factors will be set to zero in this case and the TCRF and DCRF amounts will be added to base rates.[10] The total base rate change in this case is $69.689.[11] The resulting total base rate percentage increase is 13.55%, and the net increase reflecting

[5] See Company Testimony of witness Novella.
[6] See City of El Paso witness Nalepa cost of service testimony.
[7] See Company Filing at Schedule A-1, page 1 of 1, column (e) line 34, also see Witness James Schichtl direct testimony at page 3, line 18.
[8] Witness James Schichtl direct testimony at page 3, line 19.
[9] Witness James Schichtl direct testimony at page 3, lines 20 – 22.
[10] Witness James Schichtl direct testimony at page 3, line 22.
[11] The total base rate increase of $69.689 is the sum of $41.097 + $27.871 (TCRF & DCRF) + $0.721 reduction in miscellaneous revenues as discussed by James Schichtl direct testimony at page 3, lines 24 - 26.

current TCRF and DCRF interim rate revenues is about a 7.79% increase.[12] By any measure the proposed EPE increase request is substantial.

Q. WHAT ARE THE ISSUES DRIVING THE COST INCREASES IN THIS CASE?

A. There is no one overall issue or cost driver in this case, but rather a combination of several factors that drive the Company's revenue requirement in this case.

Witness James Schichtl does note that EPE is required to file this proceeding pursuant to the requirements of PURA § 36.212 and 16 Texas Administrative Code ("TAC") § 25.246(c).[13] In terms of actual cost drivers Witness Schichtl points out that EPE has invested $953.3 million in new electric plant to meet load growth and system improvement requirements.[14] A substantial part of this plant increase or about $477.7 million is associated with transmission and distribution plant,` $182.2 million for Palo Verde investments, $178.5 million in other production investments, and $114.9 million for general and other plant items.[15]

1. Cost of capital: In this case the Company is requesting an equity return of 10.3%, which is well above the 9.65% authorized by the Commission in the last proceeding, Docket No. 46831.[16] This 65-basis point requested increase in equity return increases revenue requirements by about $8.70 million per year.
2. Rate Base Investment described above the increased investment in plant.
3. Depreciation Expenses: Depreciation expenses have increased due to changes in depreciation rates and the addition of plant

[12] Witness James Schichtl direct testimony at page 3, lines 26 - 28.
[13] Witness James Schichtl direct testimony at page 4, lines 6 - 14.
[14] Witness James Schichtl direct testimony at page 4, lines 15 - 19.
[15] Witness James Schichtl direct testimony at page 4, lines 15 - 25.
[16] See Direct Testimony of Witness Jennifer Nelson at page 2, line 26. Also see Docket No. 48361 Final Order Approving the Settlement Agreement.

assets. The annual revenue impact of the incremental depreciation increase is about $16.9 million.[17]

It should be noted that there are other changes since the last rate proceeding – both increases and decreases. For example, the Company filing shows miscellaneous revenues have decreased causing a further need for base rate increase to offset the miscellaneous revenue decline, but customer growth since the last case increases billing units and reduces the impact of the cost increases described above.

Q. WHAT ARE THE ISSUES BEING ADDRESSED WITH REGARD TO EQUITY, RETURN, AND CAPITAL STRUCTURE?

A. The overall issue is what level of profits that El Paso Electric should be authorized to earn on rate base investment. The Company has requested an after-tax profit level on shareholder equity of 10.3% or about $107.366 million based on a requested rate base investment of $2.0439 billion.[18] Reducing the total Company requested return level by 50 basis points will reduce the total Company requested revenue requirements by about $6.691 million annually including tax impacts.

Since the last case Docket No. 46831,[19] El Paso Electric has requested an increase in equity return percentage profit request from 9.65% to 10.3% and increased the equity ratio from 48.348% to 51.0% in this proceeding. The impact of these changes increase shareholder profits and annual revenue requirements.

Also, since the Commission's final order in Docket No. 46831 The Company's requested shareholder profit and return on investment is overstated in light of current

[17] See Schedule A-1, column c, line 19.
[18] Rate Base from the Company Schedule A-1 jurisdictional rate base amounts. Shareholder profit from Schedule DJL-11.
[19] *Application of El Paso Electric Company To Change Rates*, Docket No. 46831 (Final Order December 18, 2017).

market capital cost. The Company's failure to recognize these lower capital costs overstates the need for a rate increase in this case.

SECTION III: REGULATORY ISSUES AND COST OF CAPITAL

Q. PLEASE EXPLAIN THE COST OF CAPITAL CONCEPT AS IT RELATES TO THE REGULATORY PROCESS.

A. The overall rate of return to be earned on rate base investment is an essential element in the regulatory and rate setting process and is typically a major part of overall revenue requirements. For example, in this case the Company's requested equity return is 10.3%. As is discussed above, a 50-basis point change in return on equity can have a large impact on overall revenue requirements, in this case about $6.691 million per year including tax gross-up factors.

Q. WHAT IS THE BREAKDOWN OF RETURN ON CAPITAL AND PROFIT BEING REQUESTED IN THIS CASE?

A. The overall return on rate base investment being requested in this case is shown in the following table.

Table 3[20]

El Paso Electric Rate Base and Return

DESCRIPTION	RATIO	COST RATE	WEIGHTED COST	RETURN	WEIGHTED COST W/FIT	RETURN w/ FIT
TOTAL DEBT	49.00%	5.576%	2.732%	$55,844,299	2.732%	$55,844,299
EQUITY	51.00%	10.30%	5.253%	$107,366,155	6.649%	$135,899,022

[20] See Schedule DJL-11.

TOTAL CAPITAL	**100.00%**		**7.985%**	**$163,210,454**	**9.381%**	**$191,743,321**
RATE BASE	**$2,043,901,676**					

[1] Data from Company filing Schedule A-1, also see Schedule DJL-11.

As can be seen from the Table 3, the Company is requesting that rates be set to allow the Company to earn a 7.985% overall return in the El Paso, Texas jurisdiction on a claimed test year investment level of $2.044 billion, which translates into about $163.210 millions of total return dollars before income taxes. The total return dollars can be broken down to $55.844 millions of interest return to cover claimed debt costs, and a Company request of $107.366 millions of profit for the shareholder.[21]

It is important to note that the shareholder profit being requested is an after-tax request. In other words, customers also must pay through rates a return on equity investment and income (state/federal/revenue related) taxes such that the $107.366 million profit request is available after all taxes are paid. Federal income taxes alone, at a 21% rate, adds about $28.533 million to customer rates.[22]

Q. PLEASE EXPLAIN HOW THE VARIOUS COMPONENTS OF COST OF CAPITAL ARE DETERMINED.

A. The overall rate of return in the regulatory process is best explained in two parts. First, return to senior securities, such as debt and preferred stock, both of which are included in the capital structure, are contractually set at issuance. The reasonableness of the cost of this contractual obligation between the utility and its investors is examined by regulatory agencies as part of the utility's overall revenue requirement.

The second part of a company's overall return requirement is the appropriate cost rate to assign the equity portion of capital costs. The return to equity should be established

[21] The capital structure and cost rates for El Paso is provided in Schedule (DJL-11).
[22] Tax Factor equal 1/(1-tax rate), which is (1/(1-.21)) equals 1.26582. This tax factor of 1.26582 times the requested shareholder profit level requested equals taxes and profits.

at a level that will permit the firm an opportunity to earn a fair rate of return. By fair rate of return, I mean a return to equity holders, which is sufficient to hold and attract capital, sufficient to maintain financial integrity, and a return to equity comparable to other investments of similar risks.

Two U.S. Supreme Court decisions are often cited as the legal standards for rate of return determination. The first is *Bluefield Water Works and Improvement Company v. Public Service Commission of West Virginia*, 262. U.S. 679 (1923). The *Bluefield* case established the following general standards for a rate of return: The return should be sufficient for maintaining financial integrity and capital attraction and a public utility is entitled to a return equal to that of investments of comparable risks.

The second U.S. Supreme Court decision is the *Federal Power Commission v. Hope Natural Gas Company*, 320 U.S. 591 (1942). In the *Hope* decision, the Court affirmed its earlier *Bluefield* standards and found that methods for determining return are not the test of reasonableness rather the result and impact of the result are controlling.

The cost of capital is defined as the annual percentage that a utility must receive to maintain its financial integrity, to pay a return to security owners and to ensure the continued attraction of capital at a reasonable cost and in an amount adequate to meet future needs. Mathematically, the cost of capital is the composite of the cost of several classes of capital used by the utility such as debt, preferred stock, and common stock, weighted on the basis of an appropriate capital structure.

The ratemaking process requires the regulator to determine the utility's cost of capital for debt, preferred stock and equity costs. These calculations of costs, when combined with the proportions of each type of capital in the capital structure, result in a percentage figure that is then multiplied by the value of assets (investment) used and useful in the production of the utility service to ultimately arrive at a rate charged to customers. Rates should not be excessive (exceed actual costs) or burdensome to the customer and at the same time should be just and reasonable to the utility.

Q. PLEASE EXPLAIN THE COST OF EQUITY CONCEPT.

A. The cost of equity, or return on equity capital, is the return expected by investors over some prospective time period. The cost of equity a regulatory authority finds is an estimate of the return investors expect prospectively when the rates from this case will be in effect.

The cost of common equity is not set by contract, and there are no hard and fast mathematical formulae with which to measure investor expectations with regard to equity requirements and perceptions of risk. As a result, any valid cost of equity recommendation must reflect investors' expectations of the risks facing a utility.

Q. WHAT PRINCIPAL METHODOLOGY DO YOU EMPLOY IN YOUR COST OF EQUITY CAPITAL ANALYSES?

A. I employ the Discounted Cash Flow ("DCF") methodology for estimating the cost of equity, keeping in mind the generally accepted premise that any utility's cost of equity capital is the risk-free return plus the premium required by investors for accepting the risk of investing in an equity instrument. It is my opinion that the best analytical technique for measuring a utility's cost of common equity is the DCF methodology. I also employ the two-stage DCF to reflect different (short-term and long-term) growth rate assumptions. Other return on equity modeling techniques such as the Capital Asset Pricing Model ("CAPM"), Empirical Capital Asset Pricing Model ("ECAPM"), and bond yield equity risk premium model are often used to check the reasonableness of the DCF results. I have employed all these modeling methods to arrive at my recommendations in this case.

Q. PLEASE DESCRIBE THE RISKS YOU REFER TO ABOVE.

A. As I stated earlier in this testimony, equity investors require compensation above and beyond the risk-free return because of the increased risk factors investors face in the

equity markets. Thus, investors require the risk-free return plus some risk premium above the risk-free return. The basic risks faced by investors that make up the equity risk premium include business risks, financial risks, regulatory risks, and liquidity risks.

SECTION IV. CURRENT CAPITAL MARKET CONDITIONS

Q. DO CURRENT ECONOMIC CONDITIONS WARRANT HIGHER RETURNS FOR UTILITY COMPANIES?

A. In my opinion, no. Over the period from late 2020 through first nine months of 2021 press releases and monetary policy announcements from the Federal Reserve Federal Open Market Committee ("FOMC") have signaled continuation of accommodative monetary policy and continued low interest rates.[23] Specifically, these FOMC press releases state; "[o}verall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses."[24]

Most of the Federal Reserve action since early 2020 has combined lower federal funds rate with quantitative easing all to address the impact of Covid-19 impacts on the economy. Over the second half of 2019: June, July, September, October, December

[23] Board of Governors of the Federal Reserve System, FOMC Statement Press Releases, November 5, 2020, December 16, 2020, January 27, 2021, June 16, 2021, July 28, 2021. These press releases and the Federal Reserve economic projections referred to herein have been included as Schedule DJL-2. They can also be found at https://www.federalreserve.gov/newsevents/pressreleases.htm.

[24] Board of Governors of the Federal Reserve System, FOMC Statement Press Releases, November 5, 2020, December 16, 2020, January 27, 2021, June 16, 2021, July 28, 2021.

2019 and into January 2020 Federal Reserve Federal FOMC statements and monetary policy announcements signaled accommodative monetary policy and continued low interest rates.[25] These Federal reserve actions to lower the federal funds rate during the last half of 2019 were in response to slower economic growth both domestically and globally.[26] Then in March 2020 the Federal Reserve monetary policy action addressed the impact of Covid-19 on the economy.[27] On or about March 3, 2020, the Federal Reserve lowered the Federal Funds rate by 50 basis points from 1.5% - 1.75% down to 1.0% - 1.25%.[28] Then less than two weeks later, on March 15, 2020 the Federal Reserve took emergency action and lowered the federal funds rate to zero.[29] In addition, the Federal Reserve stated that Quantitative Easing tools will be employed to maintain credit flows.[30] Thus, over the late 2019 through 2020 period, the FOMC has been easing monetary policy to accelerate economic growth- first in response to slower growth then since March 2020 in response to Covid-19 impacts on the economy.

The end result is that cost of capital since the Company's last case and today continues at historically low levels and is not increasing. The cost of capital continues at low levels as evidenced by a review of historical monthly government bond yields shown in Schedule DJL-3. In addition, authorized equity returns and long-term government bond yields are lower by historical standards as demonstrated by the continued trends

[25] Board of Governors of the Federal Reserve System, FOMC Statement Press Release, June 19, 2019; July 31, 2019; September 18, 2019; October 30, 2019, December 11, 2019 and January 29, 2020. These press releases and the Federal Reserve economic projections referred to herein can also be found at https://www.federalreserve.gov/newsevents/pressreleases.htm.

[26] *See* Board of Governors of the Federal Reserve System, FOMC Statement Press Release, July 31, 2019.

[27] *See* Board of Governors of the Federal Reserve System, FOMC Statement Press Release, March 3, 2020 and March 15, 2020.

[28] *See* Board of Governors of the Federal Reserve System, FOMC Statement Press Release, March 3, 2020.

[29] *See* Board of Governors of the Federal Reserve System, FOMC Statement Press Release, March 15, 2020.

[30] *See* Schedule DJL-2, Board of Governors of the Federal Reserve System, FOMC Statement Press Release, March 15, 2020.

in bond yields and in authorized electric utility equity returns set by regulatory authorities around the country that are shown in Schedule DJL-10.

Q. ARE ECONOMIC CONDITIONS EXPECTED TO IMPROVE IN THE 2022 PERIOD AND BEYOND?

A. Yes, but slowly. The impact of the Covid-19 crisis created substantial economic harm in the first part of 2020. The early 2020 impact of the Covid-19 public health crisis led to significant negative impacts on GDP growth and substantial unemployment.[31] The June 10, 2020 press release from the Federal Reserve states; "The coronavirus is causing tremendous human and economic hardship across the United States and around the world. The virus and measures taken to protect public health have induced sharp declines in economic activity and a surge in job losses."[32] Forecasts were for negative GDP growth of -6.5% in 2020 and slowed, economic growth through 2022.[33] The projections of unemployment for 2020 has increased to 9.3% remaining over 5.5% over the 2020 through 2022 forecast period.[34]

Thus, while pre Covid-19 short-term GDP growth continued at a slow pace, the economic projections indicated a slow-down of economic growth in the near term. Then, after the first half of 2020 and the full impact of Covid-19 the projected growth in economic activity is slower than what was earlier projected by the Federal Reserve.

[31] *See* Board of Governors of the Federal Reserve System, FOMC Statement Economic Projections, June 10, 2020,
[32] *See* Board of Governors of the Federal Reserve System, FOMC Statement Press Release, June 10, 2020.
[33] *See* Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents (June 10, 2020).
[34] *Id.*

In June 2020, the Federal Reserve FOMC adjusted economic projections for the negative impacts of Covid-19 and lower expected growth through 2022 and stated "the coronavirus poses evolving risks to economic activity."[35] Current economic projections indicate a longer-run GDP growth of about 1.8%.[36]

Q. DO THE FEDERAL RESERVE POLICY ACTIONS PROVIDE YOU WITH ANY INSIGHT AS TO THE DIRECTION AND LEVEL OF LONGER-TERM INTEREST RATES?

A. Current monetary policy objectives of the Federal Reserve are designed to stimulate economic growth and employment. As discussed above, the Federal Reserve actions maintaining the target zero level federal funds rates demonstrate that the federal funds rates will remain below levels expected to prevail in the long run. The goal of this monetary policy is to provide further economic stimulus and increased economic growth. Whatever the Federal Reserve decides in the coming months or next several years regarding monetary policy and rates is currently priced into market data.

The market evidence provided in Schedule DJL-3 shows monthly trends in long-term U.S. government bond yields generally remaining low. Thus, the Federal Reserve stated policy projected through 2022 of continued lower interest rates is reflected in market results. The Federal Reserve actions continue efforts to maintain lower interest rates in an effort to promote economic growth and lower unemployment levels.

[35] Federal Reserve Press Release, "Federal Reserve issues FOMC statement" (June 10, 2020) also see Schedule.
[36] *See* Schedule (DJL-2) Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents (September 22, 2021).

Evidence of lower rates in the marketplace such as 30-year U.S. Treasury yields indicates that it is reasonable to expect continued low yields for the foreseeable near-term future.

Q. WHAT LEVEL OF INTEREST RATES DO YOU EMPLOY FOR YOUR COST OF CAPITAL ANALYSIS?

A. I employ the most current three-month average as the best approximation of interest rate levels. In my opinion, the most recent three-months or quarter-year of activity adequately captures the levels and trends of interest rates while avoiding any limited influences monthly or shorter changes may have on interest rates. I also examine and consider the most recent monthly yields as part of the overall bond yield risk premium analysis.

Q. WHAT DOES THE FEDERAL RESERVE'S MOST RECENT ECONOMIC ASSESSMENT INDICATE REGARDING GROWTH?

A. I discussed earlier the current economic estimates of the FOMC, and economic projections from the Federal Reserve September 22, 2021 indicate long-term median GDP growth through the longer-run in the range of 1.8%.[37] The current policy of extending low interest rates and continuation of accommodative current high levels of unemployment and slow economic growth.

The recent Federal Reserve estimates are supported by recent (June 2021) forecasts in the Livingston Survey.[38] Current projections put unemployment at 4.7% by December

[37] See Schedule DJL-2, Federal Reserve Press Release and Economic Projections (September 22, 2021).

[38] The Livingston Survey is the oldest continuous survey of economist's expectations, published twice per year (June and December) https://www.philadelphiafed.org/research-and-data/real-time-center/livingston-survey

2021 and 4.4% in June 2022.[39] In terms of interest rates, projections of 10-year U.S. Treasury Bonds are to remain low and decline from prior projected levels.[40] Thus, private forecasting groups are consistent with current forecasts of the Federal Reserve.

Q. WHAT CONCLUSIONS DO YOU DRAW FROM CURRENT ECONOMIC CONDITIONS IN PROVIDING GUIDANCE IN SETTING EQUITY CAPITAL COSTS IN THIS PROCEEDING?

A. As a general matter, capital costs remain low in comparison to historical levels. Current 30-year U.S. Treasury bond yields are about 2.0% and below, down from levels just six months earlier.[41] Average authorized equity returns for regulated utilities have continued downward trend with other declining capital costs, as shown on Schedule DJL-10. The continued modest economic growth will cause general investor expectations of growth to continue to be moderate. The bottom line is that the general economic data does not support increasing capital costs.

Q. HAVE REGULATORY AUTHORITIES AROUND THE COUNTRY RECOGNIZED THE DECLINING COST OF EQUITY CAPITAL IN SETTING RATES?

A. Absolutely. Many regulatory authorities have established equity returns such that the average authorized equity return continues to decline and be below 10%. Regulatory authority cost of equity decisions for regulated utility operations during calendar year 2020 averaged about 9.43%.[42] This 9.43% level continues the downward historical

[39] The Livingston Survey (June 18, 2021) at 1. www.philadelphiafed.org.
[40] The Livingston Survey (June 18, 2021) at 2. www.philadelphiafed.org.
[41] Federal Reserve H-15 data base for March 6, 2020.
[42] Edison Electric Institute, "Rate Review Quarter 4, 2020."

trend in authorized equity returns. The average equity return remains at 9.43% after the first two quarters of 2021.[43] Again, these are lower authorized return levels than prior years.

SECTION V: EL PASO ELECTRIC AND THE TEXAS REGULATORY PROCESS

Q. DOES THE REGULATORY PROCESS IN TEXAS AFFORD EL PASO ELECTRIC RISK-REDUCING OPPORTUNITIES?

A. Yes. The Texas regulatory process provides a supportive regulatory framework. As discussed earlier, the Company is able to employ a TCRF and DCRF mechanism which provides for interim collection of transmission and distribution investments. Such interim rate mechanisms afford the Company opportunities to mitigate regulatory lag. Another example, is the generation cost rider which the Company proposes to employ in the near future on expected generation plant investments. Again like the TCRF and DCRF discussed earlier the GCRR will provide opportunities to mitigate regulatory lag and reduce business risks.

Such rate mechanisms reduce the Company's business risks through enhancing cash flow and improving the timing of cost expenditure recovery. El Paso has lower risk due to these mechanisms. I would note that some electric utilities have similar mechanisms, thus the Company's risks relative to the proxy electric companies are similar in terms of regulatory mechanisms that enhance cash flow and reduce regulatory lag.

Q. PLEASE EXPLAIN REGULATORY LAG AND HOW IT IMPACTS RATE SETTING AND REGULATORY RISK.

[43] Edison Electric Institute, "Rate Review Summary Mid-Year 2021 Review Regulatory and Financial Update at Page 1 Mid-Year 2021 Highlights.

A. Regulatory lag is the period of time it takes to adjust tariffs in a rate case proceeding. Generally, it is the time between the utility rate request or the realization of a needed rate adjustment and the ultimate authorization of a rate change. For example, a utility requesting a rate increase of $1 million based on an historical test year may claim earnings erosion due to the regulatory lag during the pendency of the rate process until the authorized increase is implemented. Also, a utility that receives a rate adjustment may assert regulatory lag if it finds its unit costs are higher than the cost levels upon which the rate adjustment was based.

The counter argument to these claims of regulatory lag and risks is that the utility controls the timing of its rate requests. Also, regulatory lag is built into the regulatory process to encourage the utility to control and monitor costs as a means of managing costs and bolstering profits. Regulatory lag can work both ways – sometimes there is earnings erosion while other times there can be excess earnings.

Other contributions to regulatory lag are increasing costs, inflation, increasing capital investments and lower growth and sales. I have discussed three mechanisms in Texas that address regulatory lag issues: (i) TCRF, (ii) DCRF, and (iii) GCRF. All of which assures current revenue recovery and prevents earnings erosions resulting from regulatory lag. The regulatory process in Texas provides the Company ample opportunity to earn its authorized return by reducing regulatory lag in the rate process.

SECTION VI: COMPARABLE GROUP ANALYSIS

Q. PLEASE EXPLAIN AND DESCRIBE THE STARTING POINT OF YOUR COST OF CAPITAL ANALYSIS FOR THIS CASE.

A. The first step for any cost of equity capital analysis is the selection of a comparable group of companies for which market data is available to conduct a market-based cost of capital analysis. I reviewed Ms. Nelson's risk screening criteria for her comparable group selection and I agree with her approach. Generally, Ms. Nelson starts with Value

Line electric utilities and excludes utilities based on whether dividend payments are continuous, more than 1 analyst for earnings estimates, exclude firms facing merger or buyout extraordinary impacts, exclude firms without investment grade bond rating, and exclude firms whose revenues from operations do not meet 60% from regulated operations. I will employ the same electric utilities in my comparable group and modeling analyses as Ms. Nelson has identified. All of these companies are dividend-paying utilities with investment grade bond ratings. I have included a listing in Schedule (DJL-4) of the electric utilities in the comparable group along with basic data for beta, historical, and forecasted equity ratios.

Q. DO YOU HAVE OTHER SPECIFIC REASONS EXPLAINING WHY YOU EXAMINED COMPARABLE GAS COMPANIES?

A. There are several reasons why the estimate of a cost of capital requires an analysis of a group of comparable risk companies rather than the single firm subject of the analysis:

(1) A comparable risk group analysis is consistent with the requirements of a fair and reasonable return addressed in the *Hope* and *Bluefield* cases. The return on investment should be commensurate with returns earned by firms with comparable risk. Thus, there is a need to examine firms of comparable risk to identify the fair and reasonable comparable returns being earned. In addition, the equity returns of comparable firms are viewed as opportunity costs of forgone investments in the market that like other investment opportunities, will directly impact the cost of equity of the Company.

(2) The reliability of the cost of equity estimate is enhanced when the calculation is based on equity capital estimates from a variety of risk equivalent companies. A group of comparable companies can be employed as a check on a single company analysis. Further, the comparable group analysis, whether employed as a check or the primary analysis, mitigates any distortions resulting from measurement errors in dividend yield and expected growth measures and estimates. For example, the average growth rate estimate based on forecasts of

several comparable firms is less likely to deviate from investor expectations of growth than an estimate for a single firm. Moreover, the general assumptions underlying the DCF model are more likely to be met for a group of companies than for a single firm.

(3) An analysis of a comparable group also avoids circularity problems. In the analysis of investor-owned utilities, the stock price (that is, the cost of equity capital) is a direct function of an investor's growth rate expectations, which is also a function of an investor's perception of the regulatory environment. The cost of equity depends in part on the anticipated regulatory environment and actions.

(4) Extending the sample size of comparable companies beyond a single regulatory influence will mitigate the regulatory circularity problem. Specific conditions concerning a subject utility often require that a comparable company analysis be employed. One of the most common conditions is the lack of market data necessary to perform a DCF analysis. In times of utility consolidation and merger, many utilities are owned and controlled by a single parent holding company.

SECTION VII: COST OF CAPITAL MODELS DCF ANALYSIS

Q. PLEASE EXPLAIN THE CONSTANT GROWTH DCF METHODOLOGY YOU HAVE EMPLOYED IN YOUR ANALYSIS.

A. The foundation of the DCF model is in the theory of security valuation. The price that an investor is willing to pay for a share of common stock today is determined by what income stream the investor expects to receive from the investment. The return the investor expects to receive over the investment time horizon is composed of: (i) dividend payments and (ii) the appreciated sale value of the investment. A proper analysis adds dividends to the gain on the final sale value, and discounts these expected future earnings to a present value.

To determine or estimate investor requirements using the DCF model, one computes a cost of capital requirement, or discount rate from the current market data and the expected dividend stream. The DCF model stated as a formula is as follows:

$$K = D/P + G$$

where:

K = required return on equity,

D = dividend rate,

P = stock price,

D/P = dividend yield, and

G = growth in dividends.

Q. PLEASE EXPLAIN HOW YOU CALCULATED THE DIVIDEND YIELD FOR THE COMPARABLE COMPANIES.

A. The dividend yield is the ratio of the dividend rate to the stock price. When calculating the dividend yield, one must be cautious and not rely on spot stock prices. One must be equally cautious not to rely on long periods of time as the data becomes unrepresentative of market conditions. The objective is to use a period of time such that the resulting dividend yield is representative of the prospective period when rates will be in effect.

While there is no fixed period for selecting the denominator of the dividend yield (i.e., stock price), the key guideline is that the yield not be distorted due to fluctuations in stock market prices. On the other hand, dividends, the numerator of the yield calculation, are relatively stable, as opposed to the stock prices, which are subject to daily and cyclical market fluctuations. The selection of a representative time period will dampen the effect of stock market changes.

The price and dividend data used for each of the proxy companies in the comparable group is contained in my Exhibit Schedule – (DJL-5).

I have examined monthly closing stock prices for the period April 2021 through

September 2021 for 26-week, 12-week, along with a review of the 52- week high and low averages, to calculate a representative price for the dividend yield calculation. For this analysis, I have employed the recent 3-month average price in calculating the dividend yield.

To calculate dividends, one could employ the current annualized dividend increased for ½ the expected growth rate. Because utility companies tend to increase quarterly dividends at different times throughout the year, the assumption is that dividend increases will be evenly distributed over the calendar quarters for the comparable group companies. Given the above, it is appropriate to calculate the expected dividend yield by applying one-half of the long-term estimates of growth to the current dividend yield. I have calculated the yield employing the dividend estimates from Value Line and the recent three-month average price and the resulting dividend yields are shown in my Exhibit Schedule (DJL-5) also adjusted for ½ of the projected growth rate.

Q. EXPLAIN HOW YOU HAVE CALCULATED THE EXPECTED GROWTH RATE IN YOUR CONSTANT GROWTH DCF ANALYSIS FOR THE COMPANIES IN THE COMPARABLE GROUP.

A. Like the dividend yield, there exists no single or simple method to calculate growth rates. The calculation of investor growth expectations is the most difficult part of the DCF analysis. To estimate investor expectations of growth, I have examined historical growth and forecasted growth rates, and other financial data for each of the companies in the comparable group.

Implementation of the DCF model requires the exercise of considerable judgment with regard to estimating investor expectations of growth and it is a difficult task, but such difficulties are not insurmountable. Many economic factors affect capital markets in general and individual stocks specifically. Such economic variables entail the current state of the economy, the trade deficit, federal budget uncertainty, fiscal policy, inflation, and Federal Reserve Board policies on interest rates.

Investors generally have good information on the economic and financial variables outlined above. All of this information is available quickly, especially in recent decades with easy access to the internet.

Like the information available on the general economy, investors also have access to a wealth of information about particular types of securities, industries and specific company investments. This information is also factored into investor expectations and therefore the stock price individuals are willing to pay.

Common stock earnings growth rate forecasts and historical growth rate data may be found in the Value Line publication. These Value Line earnings estimates are five-year projections in annual earnings. Again, Value Line is widely available to the public, and is a good source of earnings projections. Other earnings estimates are forecasted by Zacks as well as First Call projections, which are widely available on the internet at Zacks.com and Yahoo Finance respectively. Those earnings projections along with other stock specific financial data provide a range of estimates of earnings and are readily available at no cost.

Another growth estimate is referred to as the sustainable growth or retention ratio growth estimate. To project future growth in earnings under the sustainable growth method, one multiplies the fraction of a firm's earnings expected to be retained (not paid out as dividends) by the expected return on book equity. As a formula:

Growth = ("*b*" *x* "*r*")

Where:

"b" =1- (dividends per share/earnings per share)

"r" =earnings per share / net book value share

All the data necessary to calculate the elements of the sustainable growth method are available on a forecasted basis in Value Line.

I have extended this sustainable growth formula to include the impact of external equity financing. The growth formula including external financing is:

$$g = br + sv$$

The terms "b" and "r" have been described above, "s" is the expected growth in shares to finance investment, and "v" is the profitability of those expected investments.

Q. PLEASE EXPLAIN YOUR GROWTH RATE ANALYSIS.

A. I have included in my Exhibit Schedule (DJL-6), a three-page schedule showing the growth rates I have reviewed in my analysis. The first set of growth rate examined is the five-year and ten-year historical growth rate in earnings per share, dividends per share, and book value per share as reported by Value Line. The second set of growth rates is the Value Line forecasted growth rate in dividends, book value and earnings per share for each company in the comparable group. The third set of growth rates examined is the Zacks forecasted growth rate in earnings. The fourth growth estimate considered, the First Call growth estimate, is readily available to investors at Yahoo Finance.

In addition, I have examined the growth rates based on the forecasted internal growth, the so-called sustainable growth estimate discussed above.

The growth rates described above provide a range of estimates for each of the comparable companies. The resulting range of average and median forecasted growth rates for the electric utility comparable group is shown in Exhibit Schedule (DJL-6).

Q. DID YOU RELY ON THE HISTORICAL GROWTH RATES?

A. No. Historical growth rates are a starting place for the analysis, but investors consider additional information when formulating expectations. Moreover, whether the trends of the past ten or five years continue to hold may be a suspect assumption. Instead, I rely on the average of all earnings per share forecasted growth rates (from Value Line, Zacks, and Yahoo Finance) and the sustainable growth estimates (shown in Schedule

(DJL-6), page 1, column M and/or column L) as better predictors of investor expectations.

Q. PLEASE SUMMARIZE YOUR CONSTANT GROWTH DCF ANALYSIS.7

A. The comparable group mean and median results fall in a range of 9.46% to 9.49% with about a 9.48% midpoint. These analyses can be found in my Exhibit Schedule (DJL-7), column G. As I note on Schedule (DJL-7), all results below 7.5% or above 12.5% have been excluded from the calculations. There are no regulatory authorities considering or authorizing equity returns below 7.5% and investment alternative returns would likely keep investors from seeking returns below 7.5% for utility companies under current market conditions. Thus, I treated all results below 7.5% as unreasonable and excluded them from the analysis. Likewise, in the low-cost capital markets no regulatory authority is considering equity returns at or above 12.5% for electric utility operations. I have excluded such results as outliers.

Q. HAVE YOU CALCULATED ADDITIONAL DCF ANALYSES FOR THE COMPARABLE GROUP COMPANIES?

A. Yes. I have calculated a two stage non-constant growth DCF analysis for the companies in the comparable groups.

Q. PLEASE DESCRIBE YOUR TWO-STAGE NON-CONSTANT GROWTH DCF.

A. This analysis calculates equity cost using a non-constant growth two stage DCF Model. The constant growth DCF model is often adjusted to reflect multiple growth assumptions because the constant growth rate assumption is often not consistent with investor expectations. As an example, it is often the case where short-term growth

estimates are not consistent with long-term sustainable growth projections. In those instances, where more than one growth rate estimate is appropriate, a multi-stage non-constant growth model can be employed to derive a cost of capital estimate. In other words, the constant growth model is adjusted to incorporate multiple growth rate periods, assuring a constant growth (long-term) rate is estimated for a longer period.

For the comparable group, the first growth stage (years 1-4) of the model, the Value Line growth in dividends is employed and an annual dividend is calculated. The second stage (years 5 and beyond) employs an earnings growth estimate based on the individual company in the comparable group earnings per share forecast growth estimate.

Q39. WHAT ARE THE RESULTS OF THE TWO STAGE NON-CONSTANT GROWTH DCF ANALYSIS?

A. The results of the two-stage non-constant growth DCF analysis are shown in Exhibit Schedule (DJL-8), column L. The electric company comparable group mean and median results indicate a cost of equity range of 9.42% to 9.44% with an 9.43% midpoint.

SECTION VIII: BOND YIELD EQUITY RISK PREMIUM, CAPM AND ECAPM COST OF EQUITY ESTIMATE

Q. PLEASE DESCRIBE THE RISK PREMIUM ANALYSIS.

A. Debt instruments such as bonds (long-term debt) are less risky than common equity when both classes of capital are issued by the same entity. Bondholders have a prior contractual claim to the earnings of the corporation and returns on bonds are less variable and more predictable than stocks. The bottom line is that debt is less risky than equity. There are numerous return studies of capital market investments, all of which show lower returns with lower risks and higher returns with higher risk

investments. These financial truisms provide a sound theoretical basis and foundation for the risk premium method for estimating equity costs. The risk premium approach is useful in that the analysis is based on current market interest rates, that is, the current observable cost of debt capital. But the risk premium approach is not without its problems and drawbacks. In practice, there is considerable debate as to the time period to analyze in the determination of the bond/equity return risk spread. Historical debt/equity risk spreads measured over many decades may not be relevant to current capital market requirements. Others argue that a long-term analysis is necessary, since the goal is to measure investors' long-term expectations.

Another version of the risk premium method is the capital asset pricing model ("CAPM"). Generally, the CAPM begins with a theoretically risk-free interest rate such as a 30-year Treasury bond yield. The risk premium, or equity spread above and beyond the risk-free rate is adjusted by the stock beta.[44] The risk-free return measure is combined with the equity risk premium adjusted for the measure of beta to arrive at a CAPM result.

Like the risk premium discussed above, the CAPM is subject to measurement uncertainties. First, the problem of how to measure the equity risk premium and the time period for which the premium is analyzed are subject to considerable debate. This problem and associated criticisms is generic to all variants of the risk premium model. Second, measures of beta are sometimes unstable from period to period and may not reflect the equity risk spread measure.

Finally, I examine Empirical Capital Asset Pricing Model (ECAPM") estimates. The ECAPM is quite similar to the CAPM described above with the difference being an adjustment for the beta estimate in the model. Firms with beta estimates below unity tend to have actual beta values that are higher. The ECAPM includes an adjustment to

[44] Beta is a measure of the volatility of the specific stock movement relative to that of a market measure such as the S&P 500. A beta below 1.0 means that a specific stock is less volatile than the market measure, while a beta above 1.0 indicates a specific stock is more volatile than the market measure.

correct for any systematic measurement errors in beta.

Risk premium methods should be viewed with caution. The bond yield equity risk premium analysis, CAPM and ECAPM described below consists of analyses that estimate the EPE cost of capital and are employed along with the DCF results described earlier to estimate the Company's cost of equity.

Q. DESCRIBE YOUR BOND YIELD EQUITY RISK PREMIUM ANALYSIS.

A. The bond yield equity risk premium analysis compares the authorized electric utility return on equity relative to 30-year U.S. Treasury bond yields for the period 1981 - 2020. This analysis is set forth in my Exhibit Schedule (DJL-10). The resulting risk premium is combined with the 30-year U.S. Treasury Bond recent 3-month average yield and the September 2021 spot yield to determine the range of risk premium estimates of equity costs.

The resulting risk premium range of results for gas utilities is 9.06% to 9.12% with a midpoint of 9.09%.

CAPITAL ASSET PRICING MODEL ANALYSIS

Q. PLEASE EXPLAIN HOW YOU CALCULATED THE EQUITY RETURN ESTIMATE EMPLOYING THE CAPM.

A. I employed the basic CAPM formula denoted as follows:

$$R_f + \beta(R_m - R_f)$$

$$R_f + \beta(R_m - R_f)$$

Where:

R_f= risk free rate;

ß =beta;

R_m= market return; and

$R_m - R_f$ = market risk premium or MRP

This is the typical model structure employed by most financial analysts in estimating equity returns.

Q. WHAT RISK FREE (R_f) VALUE DID YOU EMPLOY IN YOUR CAPM ESTIMATE?

A. I employed the most recent three-month average of the 30 Year U.S. Treasury Bond rates. This three-month average is:

Table 4

30-Year U.S. Government Bond Yields

July 2021	1.94%
August 2021	1.92%
September 2021	1.94%
3-Month Average	1.93%

Q. WHAT VALUE DID YOU EMPLOY FOR BETA IN YOUR CAPM ANALYSIS?

A. I employed a Value Line beta estimate for each company in the comparable group as shown in my Exhibit Schedule (DJL-4), column A.

Q. WHAT VALUE HAVE YOU EMPLOYED FOR THE MARKET RISK PREMIUM ("MRP")?

A. To calculate the MRP, I first looked at the historical risk premiums for the period 1926- 2020. These historical equity and bond returns are calculated and reported through the 2020 Stocks, Bonds, Bills, and Inflation annual yearbook published by Duff & Phelps. The following summarizes the historical MRP for the 1926-2020 period:

Table 4

Market Risk Premium

Investment[45]	Arithmetic Mean Return
Large Company Stocks	12.20%
Less: Long-Term Government Bonds	5.05%
Historical MRP	7.15%

Thus, the historical MRP is 7.15% above the risk-free rate U.S. Treasury Bonds.

I also considered a forward looking MRP based on forecasted Value Line returns shown in Schedule (DJL-4). Combining these Value Line estimates with the current average 30-year U.S. Treasury yields of 1.93% produces an 8.22% MRP (10.15% - 1.93% = 8.22%). Weighting the current and forecasted MRP's of 8.22% with a 50% weight and the historical 7.15% MRP with a 50% weight results in a MRP of 7.685% or rounded to 7.70%. I have employed the 7.70%% blended current and historical MRP estimate given the low interest rates and wide spreads between debt and equity in current markets.

The 7.70% MRP is at the higher end of the expected ranges of MRP's of 5% - 8% found in a number of studies in the financial literature, but current financial markets

[45]Market Results for Stocks, Bonds, Bills, and Inflation, 1926-2020, John Wyley & Sons, Inc. 2020 Yearbook.

suggest higher MRP's.[46]

Q. IN YOUR ANALYSES, HAVE YOU INCLUDED A CALCULATION OF THE EMPIRICAL CAPM OR ECAPM RETURN ESTIMATE FOR THIS CASE?

A. Yes. Like the CAPM analysis discussed above, the ECAPM estimate of equity return relies on basic financial theory in order to correct for biased beta estimates, an adjustment is made so as not to understate the cost of equity. The basic formula for the ECAPM for beta conversion is as follows:

$$K = R_f + 0.25(R_m - R_f) + 0.75\,\beta(R_m - R_f)$$

Q. WHAT ARE THE RESULTS OF YOUR CAPM AND ECAPM ANALYSES FOR THE GAS COMPANY COMPARABLE GROUP?

A. The results of these CAPM and ECAPM analyses can be found in my Schedule (DJL-9), at column D the CAPM results for the gas comparable group are 8.77% - 8.86% with an 8.82% midpoint. The range of ECAPM results in column "I" are 8.99% to 9.06% with a midpoint of 9.03%.

Q. PLEASE SUMMARIZE YOUR COST OF EQUITY CAPITAL RESULTS.

A. Table 1 above is a summary of the equity cost estimates for the comparable groups of companies employing the constant growth DCF, Two-Stage DCF, bond yield equity Risk Premium, CAPM, and ECAPM models. The average of all model midpoint results is 9.17%. Considering only the results of 9.17% and the lower 8.80% results when the Company's lower financial risk (capital structure) is considered suggest a 9.0% equity cost is appropriate. In this case, after considering the 38-basis point adjustment for lower financial risk I am recommending a 9.0% equity return reflecting all the modeling results and the Company's financial risks.

[46]Morin, Roger; New Regulatory Finance, Public Utility Reports, Inc. (2006). See Chapter 5.

SECTION IX: CAPITAL STRUCTURE

Q. WHAT CAPITAL STRUCTURE IS THE COMPANY PROPOSING IN THIS PROCEEDING?

A. Based on the Company filing at Schedule K-1 reflecting capital cost through the test year end the Company is proposing the following capital structure, cost rates and overall cost of capital to be earned on rate base investment:

TABLE 5
EL PASO ELECTRIC
OVERALL REQUESTED COST OF CAPITAL[47]

Line No	Description	Percent	Cost Rate	Weighted Cost
1	Long-Term Debt	49.00%	5.57%	2.732%
3	Common Equity	51.00%	10.30%	5.253%
4	Total	100.00%	---	7.985%

Thus, the Company requests an overall cost of capital to be earned on the El Paso Electric rate base investment of 7.985% in this case.

Q. WHAT IS THE SIGNIFICANCE OF CAPITAL STRUCTURE?

A. The overall cost of capital is the sum of the weighted average cost rates of various sources of capital. The quantity or portion of each type of capital, combined with the cost rate of capital determines the overall rate of return that the Company should be allowed to earn in this proceeding. The most significant relationship in any capital

[47] El Paso Filing Statement K.

structure is the debt-to-equity ratio.

Q. DOES THERE EXIST SOME SET RELATIONSHIP OR IDEAL MIX OF DEBT AND EQUITY CAPITAL?

A. There exists no set debt/equity relationship for all firms or all industries in terms of leveraging. However, the ideal capital structure is one that minimizes the overall cost of capital to the firm, while still maintaining financial integrity so as to maintain the ability to attract capital at reasonable costs to meet future needs. Because the cost of debt is generally lower than the cost of equity, and also because the cost of debt represents a tax-deductible expense, any increase in the quantity of debt capital tends to decrease the overall cost of capital relative to equity financing. One must keep in mind that increases in the quantity of debt financing can cause the financial risk of the Company to increase. In other words, there is a cost for the savings associated with increased debt leveraging. That cost is increased financial risk to the firm.

In summary, it is not possible to determine with precision the exact proportion of debt and equity that minimizes the overall cost of capital without imposing undue financial risk upon the Company. There does exist some range of capital structure that generally, meets the goal of minimizing the overall cost of capital while maintaining the firm's financial integrity.

Q. WHAT CRITERIA SHOULD REGULATORS EMPLOY IN DETERMINING THE APPROPRIATE CAPITAL STRUCTURE TO BE USED FOR RATEMAKING?

A. In my opinion, rate regulation should focus on two criteria to determine the appropriate capital structure. Those factors as outlined below should be economy and safety.

The advantage of debt in the capital structure is that debt costs less than equity. Moreover, interest charges are deductible for income tax purposes and act to reduce taxes. Thus, the more debt in the capital structure the lower the cost of capital will be. The question of economy is addressed by examining whether increases in the debt ratio act to increase the cost rates of both debt and equity so as to over balance the benefits of the larger proportion of debt.

In addition, there is always the overriding question of safety. In other words, financial risk is increased if the proportion of debt is increased by such a magnitude that interest obligations cannot be covered during periods of depressed earnings.

Q. HAVE YOU MADE ANY CHANGES TO THE COMPANY'S PROPOSED CAPITAL STRUCTURE AND COST RATES?

A. Other than reducing the cost of equity from the 10.3% requested level to 9.0%, I am not at this time proposing any other capital structure, but as I discuss below, I have adjusted my recommended equity cost rate of 9.0% to reflect lower financial risk facing EPE relative to the comparable group. However, to the extent the Company makes changes in updates additional issues may be raised that may need to be addressed.

I should also note that the 51.00% equity ratio El Paso has included in capital structure is somewhat higher (about 5 percentage points 51% versus about 46%) than the peer group equity ratios shown in Schedule (DJL-4). The higher El Paso 51.00% equity ratio reflects lower financial risk for El Paso relative to the peer group.

Q. IF THE COMMISSION ACCEPTS THE COMPANY'S PROPOSED CAPITAL STRUCTURE WITH A 51.00% EQUITY RATIO, SHOULD THE EQUITY RETURN BE ADJUSTED TO ADDRESS THE LOWER FINANCIAL RISK OF THE COMPANY RELATIVE TO THE COMPARABLE RISK GROUP?

A. Yes. It is a fundamental truism of finance that as a firm increases the relative amount

of debt capital in the capital structure, total fixed charges (interest) increase the fixed obligations of the firm. The resulting residual earnings available to equity become subject to increased volatility and risk as leverage and fixed obligations increase. It is important to note that the average comparable risk company group has about a 46.00% equity ratio would be more-risky (in terms of financial risk) than the El Paso 51.00% equity ratio. As such the equity return estimates developed from the comparable group would reflect higher financial risk and would need to be reduced if applied to EPE with a 51.00% equity ratio for setting rates in this case.

Q. CAN YOU POINT TO STUDIES IN THE FINANCIAL LTERATURE THAT EVALUATE THE IMPACT OF INCREASED FINANCIAL LEVERAGE IN THE CAPITAL STRUCTURE AND EQUITY COST?

A. Yes. There are numerous studies in the financial literature, both empirical and theoretically based that attempt to quantify the effects of leverage on the common equity costs.[48] These studies suggest an increase in common equity costs in a range of 7.6 basis points on the low end to 13.8 basis points on the high end for every one percent increase in the debt ratio within the 40% to 50% range of leverage. [49] Thus, on average, there is about a 10.7 basis point increase [(7.6% + 13.8%)/2] in equity cost for every 1% increase in debt in capital structure.[50]

Q. DOES THE FACT THAT THE COMPARABLE RISK GROUP HAS A 46.00% EQUITY RATIO WHILE THE EPE APPLICATION EMPLOYED A 51.00% EQUITY RATIO IMPLY THAT EPE IS LESS RISKY IN TERMS OF FINANCIAL RISK THAN THE COMPARABLE GROUP?

A. Yes. The EPE 51% equity level exceeds the comparable group equity average, thus EPE's financial risks are less than the comparable group. Given the data in Schedule (DJL-4), I have estimated the comparable group equity ratio based on the mean and

[48] See Morin, Roger: New Regulatory Finance, Public Utility Reports, 2006, at 468-469.
[49] *Id.*
[50] *Id.*

median estimates to be 46%.0%. The 5.0 percentage point difference (51% - 46%) in equity in capital structure conservatively translates into a range of about 38 basis points (5.0 percentage points x 7.6 low end adjustment) to an average of 53.5 basis points (5.0 percentage points x 10.7 average level of basis points)[51] equity cost reduction for EPE relative to the comparable group results. I have reduced the equity return range recommendation identified in Table 1 of 9.14% to 9.19% down by 38 basis points to 8.76% to 8.81%%. Considering the results of both ranges a point estimate of 9.0% reflects EPE's lower financial risk given 51% equity in the capital structure versus the comparable group 46%.

Q. WHAT CAPITAL STRUCTURE AND COST RATES ARE YOU RECOMMENDING THAT THE COMMISSION ADOPT IN THIS CASE?

A. Based on the analyses and results discussed above, I am recommending the following capital structure, cost rates and overall cost of capital for this case:

TABLE 6
EL PASO ELECTRIC COMPANY
RECOMMENDED COST OF CAPITAL

Description	Ratio	Cost	Weighted Cost
Long-term Debt	49.00%	5.576%	2.732%
Common Equity	51.00%	9.0%	4.59%
Total	100.00%	---	7.322%

As can be seen from the above table when the long-term debt cost rates and common equity cost rates reflect current market conditions, the Company's overall cost of

[51] This calculation conservatively employs the lower end and average of the 7.6 to 13.8 basis point adjustment range discussed above.

capital for El Paso is 7.322%. I have included the capital structure in my Exhibit schedule (DJL-11) as part of the financial metrics analysis.

SECTION X: FINANCIAL INTEGRITY

Q. WILL YOUR RECOMMENDED RETURN PROVIDE THE COMPANY SUFFICIENT CASH FLOW AND FINANCIAL METRICS TO MAINTAIN ITS FINANCIAL INTEGRITY?

A. Yes. Based on the capital structure above, my recommended overall cost of capital (which is based on a 9.0% equity return) provides sufficient financial metrics for the Company.

Q. WHAT FINANCIAL RATIOS OR FINANCIAL METRICS SHOULD THE COMMISSION CONSIDER WHEN EVALUATING COST OF EQUITY?

A. In my opinion, the Commission should consider the financial metrics that bond rating agencies consider in evaluating credit risk to a company. Key financial metrics involve cash flow coverage as a percentage of debt, and debt leverage ratio.

Q. HOW ARE THESE FINANCIAL RATIOS CONSIDERED AND CALCULATED?

A. Ratings agencies such as Moody's, Fitch, and Standard & Poor's develop rating guidelines that make explicit general ratings outcomes that are typical or expected given various financial and business risk combinations. A rating matrix or guideline is

just that, a guideline, not a rule written in stone that guarantees a particular rating for a particular achieved financial metric level.

Funds or cash flow from a company's operations, in other words cash flow, are very critical to any rating/risk consideration. Interest and principal obligations of a company cannot be paid out of earnings if earnings are not cash. Thus, analyses of cash flow reveal debt-servicing ability.

Debt and capital structure considerations are indicative of leverage and flexibility to address financial changes. The 2008 liquidity crisis that hit all markets and industries is an example of the importance of financial flexibility. Stable and continuous cash flows provide financial flexibility.

Several of these financial ratios are calculated in my Exhibit Schedule (DJL-11) employing my recommendations in this proceeding. The results of my analyses indicate financial metrics, and maintaining financial integrity.

SECTION XI: RESPONSIVE TESTIMONY TO JENNIFER NELSON

Q. DO YOU HAVE ANY COMMENTS REGARDING THE DIRECT TESTIMONY AND RECOMMENDATIONS OF COMPANY WITNESS JENNIFER NELSON?

A. Yes, I have a number of comments. Before addressing the specifics of Ms. Nelson's analyses, it is important to point out that in most utility rate proceedings, the cost of capital is a significant part of revenue requirements and also one of the most contentious issues in a rate proceeding. This proceeding is no different as the impact of cost of equity on revenue requirements is about $1.34 million per 10 basis points. As described below the facts show Ms. Nelson's claims to be inconsistent with market

evidence. Ms. Nelson's model results (DCF, CAPM, ECAPM, and bond yield plus risk premium) are inconsistent with fundamental financial theory. Ms. Nelson's analysis lacks credibility.

First, Ms. Nelson's recommended return on equity range of 10.00% to 10.75%,[52] and point estimate of 10.30% for the Company is not supported given current capital market conditions and indicators.[53] I discussed earlier in this testimony, current market data and how such current market data when applied to a comparable group of companies supports an equity return in the 9.0% range.

Second, the derivation of Ms. Nelson's identified ROE range of 9.75% to 10.75% is not supported by her analysis and the source of the range of results is shrouded in mystery. For example, a review of her results at Table 1 on pages 3 and 4 of her testimony shows the following:

i) Only the **high-end** 10.01% to 10.07% Constant Growth DCF results fall into the proposed 9.75% to 10.75% ROE range;

ii) Only the **high-end** 10.17% to 10.23% Quarterly Growth DCF results fall into the proposed 9.75% to 10.75% ROE range;

iii) **NONE** of the Capital Asset Pricing Model results modeled by Ms. Nelson ranging from 12.42% to 12.78% fall into the proposed 9.75% to 10.75% ROE range thus these modeling efforts are essentially ignored in Ms. Nelson's final analysis;

iv) **NONE** of the Empirical Capital Asset Pricing Model results modeled by Ms. Nelson ranging from 12.87% to 13.14% fall into the proposed 9.75% to 10.75% ROE range thus this effort is ignored in Ms. Nelson's final analysis; and

[52] See Ms. Nelson Direct Testimony at page 65, line 20.
[53] See Ms. Nelson Direct Testimony at page 65, line 23.

v) Ms. Nelson's Bond Yield Plus Risk Premium estimate of 9.81% employing inflated interest rate assumptions and questionable model results falls at the low end of the proposed 9.75% to 10.75% ROE range.

Only, the highest DCF estimates and the questionable risk premium estimate employing inflated interest rate estimates fall into Ms. Nelson 9.75% to 10.75% reasonable ROE range. All of Ms. Nelson's other DCF estimates, all of Ms. Nelson's CAPM estimates, and all of Ms. Nelson's ECAPM estimates are unreasonable relative to her ROE reasonable range. Again, how the 9.75% to 10.75% range is calculated is a mystery.

Q. HOW DOES MS. NELSON END UP WITH SUCH A HIGH 10.3% EQUITY RETURN ESTIMATE FOR EL PASO WHEN CAPITAL COSTS ARE LOW AND DECLINING?

A. There are four reasons that drive Ms. Nelson's capital cost estimate, what can only be described as an unreasonable, unsupported, and unreliable equity return estimates. First, her DCF analysis Ms. Nelson includes unreasonable and, in some cases, theoretically impossible cost of equity estimates leading to an unreliable equity return estimate. Rather than exclude such unreliable and theoretically impossible results, Ms. Nelson averages all her estimates. Averaging unreasonable results with reasonable estimates produces an unreliable average of all results.

Second, Ms. Nelson's analysis was submitted some months ago and the analysis fails to recognize the lower and declining level of interest rates and lower capital costs. Instead, Ms. Nelson employs out of date interest rate levels and unreliable projections of future interest rate levels. The result is that the interest rates employed by Ms. Nelson

are substantially higher than current yield levels. This overstatement of interest rates impacts her CAPM, ECAPM, and to some extent the bond yield equity Risk Premium analyses.

Third, Ms. Nelson's reliance on the *ex-ante* calculations of Market Risk Premium in her Exhibit JEN-4 leads to an additional overstatement in her CAPM and ECAPM estimates in this case. Again Ms. Nelson ignores unreasonable results in her *ex-ante* analysis of market risk premium and attempts to average away unreliable estimates. I discuss these issues and problems below.

Fourth, Ms. Nelson's bond yield equity risk premium model leads to unreasonable results. As I discuss below if interest rates are rising or declining her bond yield risk premium model will produce the same equity return estimate. I demonstrate below how Ms. Nelson's analysis suffers from a theoretical flaw.

The bottom line is that Ms. Nelson's models and estimates are not reliable, in some cases theoretically flawed, and her equity return estimates and conclusion are unsupported.

Q. PLEASE ADDRESS THE ISSUES YOU FOUND WITH MS. NELSON'S DCF ANALYSIS?

A. Ms. Nelson first employed a standard constant growth DCF analysis. I have no problem with her basic model and application of the constant growth DCF in this case. The problem occurs with some of Ms. Nelson's inputs (growth rates) and her results at Exhibit JEN-2 pages 1 through 3. Ms. Nelson's DCF analyses produce results (equity return estimates) from as low as 4.79%, 4.91%,[54] 5.05%,[55] and 5.14.[56] She includes each of these results in her calculations. Moreover, there are additional unreasonably low estimates between 5.2% and 7.50% that Ms. Nelson also includes in her

[54] Direct Testimony of Ms. Nelson at Exhibit JEN-2, page 1 of 3, column 9.
[55] Direct Testimony of Ms. Nelson at Exhibit JEN-2, page 2 of 3, column 9.
[56] Direct Testimony of Ms. Nelson at Exhibit JEN-2, page 3 of 3, column 9 .

calculations.[57] It is simply unreasonable to include such outliers in the analysis. On the other end of her analysis Ms. Nelson employs results as high as 17.60% in her constant growth DCF analysis.[58] Like the unreasonably low results these unreasonably high values destroy the credibility of her ROE estimate. Attempts to average these values away does not solve the problem.

The problem with Ms. Nelson's analysis is that a 4.79% equity return estimate (which she includes in her analysis) is 78 basis points **below the Company's embedded debt costs** and on its face is an illogical and unreasonable estimate. Rather than remove outliers and illogical results Ms. Nelson averages these illogical estimates into her final estimate. Averaging illogical and unreasonable estimates with other reasonable estimates only leads to an **unreasonable average** result. Had Ms. Nelson removed such unreasonable low estimates from her analysis her constant growth low and mid-range results would be in the 9.16% to 9.92% range with a midpoint of about 9.54%.[59] Then when you adjust for El Paso's lower financial risks the final ROE estimates are even lower – around 9.0%.

Ms. Nelson's quarterly DCF analysis Schedule JEN-3, pages 1–3, has the same problems with unreasonably low and high results. Correcting these results produces a low and high-range quarterly DCF estimate of about 9.27% to 10.17%. The average or midpoint quarterly DCF result is 9.72% that after adjustment for financial risk is closer to 9.0%. I have included in Schedule DJL-12 a correction to these constant DCF and quarterly DCF results by eliminating all estimates less than or equal to 7.50% and for purposes of symmetry all amounts greater than 12.50%. These corrections change the constant DCF range to 9.16% to 9.92% with a mid-point of 9.54%. The quarterly DCF corrected range becomes 9.27% to 10.17% with a mid-point of 9.72%. When these corrected DCF results are adjusted for lower financial risk, the result is closer to the 9.0% recommended in this case.

[57] Direct Testimony of Ms. Nelson at Exhibit JEN-2, pages 1 through 3, column 9.
[58] Direct Testimony of Ms. Nelson at Exhibit JEN-2, pages 1 through 3, column 11.
[59] See Schedule (DJL-12) Panel A recalculation of Ms. Nelson's DCF analysis.

Recently, the Public Service Commission of Utah addressed a similar DCF analysis relying on outlier or unreasonable inputs and stated:

> We find the usefulness of that model [constant growth DCF] **is impeached by outlier inputs**, … **The quality of any financial model results depend primarily on the quality of the inputs**.[60] (Emphasis added)

Thus, regulatory authorities are also skeptical of the credibility and reasonableness of Ms. Nelson's DCF models and treatment of outliers.

Q. PLEASE DESCRIBE THE PROBLEMS YOU HAVE FOUND IN MS. NELSON's BOND YIELD EQUITY RISK PREMIUM ANALYSIS?

A. The first problem with Ms. Nelson's bond yield equity risk premium model is that Ms. Nelson's employs overstated interest rates for the 30-year U.S. Treasury bonds, the risk-free component of the analysis. Given Ms. Nelson's submitted her analysis prior to these lower market rates which was discussed earlier in my testimony, her risk-free rate assumptions do not reflect current market realities. Current, 30-year U.S. Government bonds are currently in the 2.0% range. Ms. Nelson's analyses employ two interest rates; (i) 30-year U.S. bond estimates of 2.31% current, (ii) 2.88% projected, both of which substantially exceed current capital market costs.[61] Updating Ms. Nelson's analysis for the current debt cost levels will reduce ROE estimates.[62]

A second problem with the bond yield equity risk premium model is that the results of the model application are not consistent with reasonable expectations and financial theory. For example, Ms. Nelson's at Exhibit JEN-5, page 1, estimates the bond yield risk premium ROE results assuming a the low 2.31% 30-year U.S. Treasury yield and

[60] Application of Dominion Energy Utah to Increase Distribution Rates and Charges and Make Tariff Modifications, Public Service Commission Utah, Docket No. 19-057-02, Report and Order at 7 (February 25 2020)
[61] Direct Testimony Jennifer Nelson at Exhibit JEN-5 page 1.
[62] See Schedule DJL-10.

concludes a 9.81% equity return estimate.[63] Ms. Nelson then employs her model and estimates the results employing a higher 2.88% 30-year Treasury yield and concludes the same 9.81% equity return.[64] Thus, her model results predict the same equity return 9.81% whether Treasury yields are 2.31% or 57 basis points higher at a forecasted 2.88% level. If one employs the lower 2.0% current level of treasury yields Ms. Nelson's model would forecast a higher 9.88% ROE estimate. It should be expected that when debt capital costs (U.S. Treasury yields) are decreasing capital costs including equity costs are also declining.

These results are counter-intuitive as one would expect a higher return when capital costs (Treasury yields) are increasing. Here is another illustration of the problem. A test of Ms. Nelson's model produces a ROE estimate of about 11.97% when a 0.5% 30-year U.S. Treasury yield is employed and about 11.96% when a 7.50% 30-year U.S. Treasury yield is employed.[65] Whether debt costs are increasing 7.50% or decreasing o.5% Ms. Nelson's model produces the same 11.97% equity return estimate. Ms. Nelson's historical data shown graphically at JEN-6 page 1 of 28 shows a negative relationship between 30-yeaar U.S. Treasury yields and risk premiums. This means as interest rates decline risk premiums increase. But her model produces high forecasts at low and high 30-year U.S. Treasury levels. There is a problem with Ms. Nelson's model and the results should be given no weight in this case. I present in Schedule (DJL-13) a graphic representation of Ms. Nelson's ROE model projections at different levels of 30-year U.S. Treasury rates from 0.5% to 7.5%. The resulting ROE projections form a U-shape ROE forecast result indicating ROE projections are high at both low and higher U.S. Treasury rates. Ms. Nelson's bond yield equity risk premium model should be given no weight in this case.

Q. DOES THE USE OF OVERSTATED 30-YEAR U.S. TREASURY RATES IMPACT MS. NELSON'S CAPM AND ECAPM ESTIMATES?

[63] Direct Testimony Robert Hevert at Exhibit RBH-6 page 1 of 20.
[64] Direct Testimony Robert Hevert at Exhibit RBH-6 page 1 of 20.
[65] See Schedule (DJL-13).

A. Yes. The same overstatement of risk-free rates (Treasury yields) is applicable to Ms. Nelson's CAPM and ECAPM analyses. In addition, Ms. Nelson's calculation of *ex-ante* market risk premium critical to the CAPM and ECAPM analyses has numerous problems. I have discussed above the problems surrounding Ms. Nelson's use of overstated Treasury yields.

Ms. Nelson's calculation of MRP is described in her direct testimony at pages 43 to 44 and the results are presented in her 12-page Exhibit JEN-4. In this analysis Ms. Nelson produces an *ex-ante* forward looking market return expectation employing the S&P 500 companies employing data from Bloomberg and Value Line to estimate the forward DCF estimates. This analysis also produces illogical results. These illogical results are ignored as Ms. Nelson plows forward with her mechanical analysis. For example, in some cases, just as in her constant growth and quarterly growth DCF estimates Ms. Nelson calculates negative DCF estimates.[66] Investors do not purchase with loss expectations. Rather than exclude these illogical results Ms. Nelson includes such results in her weighted average analysis. Other forecasted DCF results on the high end. The following table summarizes these extraordinary market estimates.

TABLE 7

WITNESS NELSON'S *EX ANTE* DCF ESTIMATES FOR MARKET RISK PREMIUM

COMPANY	STOCK SYMBOL	Ms. Nelson DCF ROE ESTIMATE BLOOMBERG DATA		Ms. Nelson DCF ROE ESTIMATE VALUE LINE DATA
AMERICAN AIRLINES	AAL	95.0%[67]		-3.50%[68]

[66] Direct Testimony Ms. Nelson at Exhibit JEN-4 pages 3, 5, 6, 7, 8 at column 6.
[67] Direct Testimony Ms. Nelson at Exhibit JEN-4, page 1.
[68] Direct Testimony Ms. Nelson at Exhibit JEN-4, page 7.

ALASKA AIR GROUP	ALK	191.7%[69]		1.50%[70]
DELTA AIRLINES	DAL	388.45%[71]		4.50%[72]
UNITED AIRLINES	UAL	124.8%[73]		1.50%[74]

When Ms. Nelson estimates expected ROEs using the DCF model for the airline industry using Bloomberg data the industry is flying high with ROE estimates of 95%, 123%, 191% and even an astounding 388% ROE for Delta Airlines, but Ms. Nelson includes such estimates in her weighted average.[75] Then when Ms. Nelson makes estimates for the same period for these same firms using Value Line data the airline industry looks much different with ROE's ranging from -3.50% to 4.50%. Only the data source is different in these analyses. Such mechanical applications destroy any credibility in the analysis.

Q. ARE YOU ABLE TO CORRECT MS. NELSON'S CAPM AND ECAPM ANALYSES?

A. In the end even Ms. Nelson seems to have abandoned this CAPM and ECAPM calculation therefore, there is no need to correct these modeling problems.

Q. PLEASE SUMMARIZE YOUR COMMENTS ON MS. NELSON'S COST OF CAPITAL TESTIMONY.

[69] Direct Testimony Ms. Nelson at Exhibit JEN-4, page 1.
[70] Direct Testimony Ms. Nelson at Exhibit JEN-4, page 7.
[71] Direct Testimony Ms. Nelson at Exhibit JEN-4, page 2.
[72] Direct Testimony Ms. Nelson at Exhibit JEN-4, page 8.
[73] Direct Testimony Ms. Nelson at Exhibit JEN-4, page 6.
[74] Direct Testimony Ms. Nelson at Exhibit JEN-4, page 11.
[75] Direct Testimony Ms. Nelson at Exhibit JEN-4 pages 1 - 2 at column 6.

Ms. Nelson's equity return calculations are outdated due to market capital cost changes since she wrote her testimony. Ms. Nelson's analysis contains questionable assumptions and estimates. When Ms. Nelson's models are corrected the net result supports a much lower cost of equity in the 9.0% range. Last in terms of risks, the Company is a low risk vertically integrated electric utility. Further, the Company has lower financial risk than the comparable group as such the EPE cost of equity should be adjusted downward from the comparable group results.

SECTION XII: JURISDITIONAL ALLOCATION

Q. WHAT ISSUE(S) DO YOU ADDRESS IN THIS SECTION OF YOUR TESTIMONY?

A. I address several issues surrounding the Company's proposed jurisdictional allocator and allocation of total EPE system costs between the Texas and New Mexico jurisdictions. In this case, the Company employed the 4 Coincident Peak-Average and Excess ("4CP-A&E") allocator for demand costs in the jurisdictional allocation of costs.[76] The issue I address involves EPE adjustments made to the jurisdictional energy and demand allocators. Specifically, certain of EPE's solar resources were directly assigned to Texas or New Mexico and the associated energy and demand usage was removed from the jurisdictional allocators.[77] The claimed reason for this proposed adjustment is based on the claim that "[g]eneration from EPE's solar resources that were built to serve a specific jurisdiction's customers was directly assigned to the relevant jurisdiction."[78]

The result of this adjustment is to allocate more system costs to Texas customers

[76] See Direct Testimony of George Novela at page 8, lines 1-7.
[77] See Direct Testimony of George Novela at page 7, lines 15- 21.
[78] See Direct Testimony of George Novela at page 7, lines 15-16.

increasing annual revenue requirements in this case by about $4.3 million.[79] To accomplish this jurisdictional cost shifting adjustment for solar related facilities by making the following adjustments (see Table 8 below) to the jurisdictional demand allocator.

TABLE 8

SOLAR PLANT ADJUSTMENTS FOR JURISDICTIONAL ALLOCATION

NEW MEXICO SOLAR	**DEMAND KW ADJ.[80]**	**ENERGY KWH ADJ.[81]**
HATCH	2,935.5 Kw	13,592,249 Kwh
NRG	14,374 Kw	50,948,777 Kwh
SUN EDISON 1 & 2	14,425.5 Kw	56,443,344 Kwh
RIO GRANDE	41.75 Kw	79,870 Kwh
Total Assigned New Mexico		**127,268,539 Kwh**
TEXAS SOLAR		
WRANGLER	1.5 Kw	4,002 Kwh
STANTON TOWER	16.25 Kw	66,831 Kwh
EPCC	4.25 Kw	23,947 Kwh
VAN HORN	10 Kw	34,394 Kwh
NEWMAN	41.75 Kw	96,123 Kwh
TOTAL ASSIGNED TEXAS		**242,983 Kwh**

As shown in Table 8 above, EPE claims that the Company acquires and directly assigns **significantly more** solar resources for the New Mexico jurisdictional customers than

[79] The annual revenue requirement is calculated by Cities witness Nalepa employing the EPE COS model.
[80] Adjustment in 4 coincident peak for June, July, August, and September per EPE response to CEP 4-6 Attachment 2 p. 10 of 104.
[81] Adjustment in energy per facility per EPE response to CEP 4-6 Attachment 2 p. 9 of 104.

the Texas jurisdictional customers. When these direct assignments are reflected in the jurisdictional allocation for the assignment of all other costs, Texas customers not only get fewer solar resources, the Texas customers also are assigned $4.3 million more in costs for other resources. At best this $4.3 million cost shift is a questionable result; more important the direct assignment of all these solar resources to only New Mexico customers is very questionable. It is unusual that EPE would plan and develop system resources such that only certain jurisdictions could largely benefit from solar facilities.

Q. IS EPE CONSISTENT IN HOW SYSTEM RESOURCES ARE PLANNED AND ALLOCATED?

No. EPE's treatment of solar and general planning is not consistent. Resources are generally planned across the system without regard to jurisdictional boundary. The typical resource plan goal seeks to identify and acquire the most cost-effective portfolio of resources to supply expected customer demands.[82] I recognize that different jurisdictions may have different requirements that impact planning, but these differing planning requirements should not shift costs to other jurisdictional customers. In this case, EPE asserts that about 99.8% of solar resources (as measured by energy output shown in Table 10 above) were specifically built for New Mexico customers. So, when calculating the apportionment of all remaining costs on the EPE system, the solar energy (kwh) and demands (kw) (Table 10 above) are subtracted from New Mexico customer loads resulting in all other (Texas) customers having relatively higher system loads and more cost responsibility. This is how Texas customers end up with the additional $4.3 million in cost responsibility in this case. In other words, it is not that EPE has more costs – instead it is how EPE assigns resources that creates the cost disparity.

One example of a jurisdictional difference is the New Mexico treatment of Palo Verde 3 relative to the Texas rate treatment. In New Mexico the Palo Verde 3 facility is not included in rate base.[83] To the extent Palo Verde capacity and energy is used for New

[82] EPE "2021 Integrated Resource Plan" November 9, 2020 presentation Public Participation Meeting 4.
[83] See New Mexico Case No. 20-00104-UT at pp 126-127 (April 6, 2021).

Mexico customers it is valued at the market price for the lowest equivalent firm capacity and related energy available to EPE.[84] The New Mexico jurisdictions exclusion of the Palo Verde 3 facility in New Mexico does not shift costs to Texas customers. Instead, the impact (of jurisdictional allocation) of the Palo Verde 3 decision stays entirely in the New Mexico jurisdiction and does not impact Texas customers.

The same result should apply to the assignment of solar facilities. While the capacity of the solar facilities seems to replace the approximate 39 Mw's of excluded Palo Verde 3 facility that is no reason to shift costs to Texas customers through the jurisdictional allocation process. For these reasons I have recommended that the proposed adjustment to recognize specifically assigned solar facilities in the jurisdictional allocator be denied.

SECTION XIII: RATE CASE EXPENSES

Q. WHAT ISSUE(S) DO YOU ADDRESS IN THIS SECTION OF YOUR TESTIMONY?

A. I address rate case expenses incurred by my firm in this case. Specifically, I have included an affidavit in my Schedule (DJL-14) setting forth the actual (through September 30, 2021) and estimated (through completion of the case) rate case expenses. I plan to update these estimated and actual amounts at the time of hearing. I also provide invoices outlining the charges in this case.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

[84] See New Mexico Case No. 20-00104-UT at page 127 (April 6, 2021).

DANIEL J. LAWTON
B.A. ECONOMICS, MERRIMACK COLLEGE
M.A. ECONOMICS, TUFTS UNIVERSITY
J.D. LAW, TEXAS SOUTHERN UNIVERSITY

Prior to beginning his own consulting practice Diversified Utility Consultants, Inc., in 1986 where he practiced as a firm principal through December 31, 2005, Mr. Lawton had been in the utility consulting business with R.W. Beck and Associates a national engineering and consulting firm. In addition, Mr. Lawton has been employed as a senior analyst and statistical analyst with the Department of Public Service with the Public Utilities Commission of Minnesota. Prior to Mr. Lawton's involvement in utility regulation and consulting he taught economics, econometrics and statistics at Doane College.

Mr. Lawton has conducted numerous revenue requirements, fuel reconciliation reviews, financial, and cost of capital studies on electric, gas and telephone utilities for various interveners before local, state and federal regulatory bodies. In addition, Mr. Lawton has provided studies, analyses, and expert testimony on statistics, econometrics, accounting, forecasting, and cost of service issues. Other projects in which Mr. Lawton has been involved include rate design and analyses, prudence analyses, fuel cost reviews and regulatory policy issues for electric, gas and telephone utilities. Mr. Lawton has developed software systems, databases and management systems for cost-of-service analyses.

Mr. Lawton has developed and numerous forecasts of energy and demand used for utility generation expansion studies as well as municipal financing. Mr. Lawton has represented numerous municipalities as a negotiator in utility related matters. Such negotiations ranges from the settlement of electric rate cases to the negotiation of provisions in purchase power contracts.

In addition to rate consulting work Mr. Lawton through the Lawton Law Firm represents numerous municipalities in Texas before regulatory authorities in electric and gas proceedings. Mr. Lawton also represents municipalities in various contract and franchise matters involving gas and electric utility matters.

A list of cases in which Mr. Lawton has provided testimony is attached.

UTILITY RATE PROCEEDINGS IN WHICH TESTIMONY HAS BEEN PRESENTED BY DANIEL J. LAWTON

ALASKA REGULATORY COMMISSION		
Beluga Pipe Line Company	P-04-81	Cost of Capital
Municipal Light & Power	U-13-184	Cost of Capital
Enstar Natural Gas Co.	U-14-111	Cost of Capital & Revenue Requirements
Enstar Natural Gas Co.	U-16-066	Cost of Capital & Revenue Requirements
Municipal Light & Power	U-16-094	Cost of Capital

PUBLIC UTILITIES COMMISSION OF CALIFORNIA		
Southern California Edison	12-0415	Cost of Capital
San Diego Gas and Electric	12-0416	Cost of Capital
Southern California Gas	12-0417	Cost of Capital
Pacific Gas and Electric	12-0418	Cost of Capital

PUBLIC UTILITIES COMMISSION OF COLORADO		
Public Service Co. of Colorado	19AL-0268E	Cost of Capital

GEORGIA PUBLIC SERVICE COMMISSION		
Georgia Power Co.	25060-U	Cost of Capital

FEDERAL ENERGY REGULATORY COMMISSION		
Alabama Power Co.	ER83-369-000	Cost of Capital
Arizona Public Service Co.	ER84-450-000	Cost of Capital
Florida Power & Light	EL83-24-000	Cost Allocation, Rate Design
Florida Power & Light	ER84-379-000	Cost of Capital, Rate Design, Cost of Service
Southern California Edison	ER82-427-000	Forecasting

LOUISIANA PUBLIC SERVICE COMMISSION		
Louisiana Power & Light	U-15684	Cost of Capital, Depreciation
Louisiana Power & Light	U-16518	Interim Rate Relief
Louisiana Power & Light	U-16945	Nuclear Prudence, Cost of Service

MARYLAND PUBLIC SERVICE COMMISSION		
Baltimore Gas and Electric Co.	9173	Financial
Baltimore Gas and Electric Co.	9326	Financial

MINNESOTA PUBLIC UTILITIES COMMISSION		
Continental Telephone	P407/GR-81-700	Cost of Capital
Interstate Power Co.	E001/GR-81-345	Financial
Montana Dakota Utilities	G009/GR-81-448	Financial, Cost of Capital
New ULM Telephone Co.	P419/GR81767	Financial
Norman County Telephone	P420/GR-81-230	Rate Design, Cost of Capital
Northern States Power	G002/GR80556	Statistical Forecasting, Cost of Capital
Northwestern Bell	P421/GR80911	Rate Design, Forecasting

MISSUORI PUBLIC SERVICE COMMISSION		
Missouri Gas Energy	GR-2009-0355	Financial
Ameren UE	ER-2010-0036	Financial

FLORIDA PUBLIC SERVICE COMMISSION		
Progress Energy	070052-EI	Cost Recovery
Florida Power and Light	080677-EI	Financial
Florida Power and Light	090130-EI	Depreciation
Progress Energy	090079-EI	Depreciation
Florida Power and Light	120015-EI	Financial Metrics
Florida Power and Light	140001-EI	Economic and Regulatory Policy Issues
Florida Power and Light	150001-EI	Economic and Regulatory Policy Issues Financial Gas Hedging
Florida Power and Light	160001-EI	Economic and Regulatory Policy Issues Financial Gas Hedging
Florida Power and Light	160021-EI	Equity Bonus Rewards & Financial Metrics
Florida Power and Light	20170057-EI	Economic and Regulatory Policy Issues Financial Gas Hedging
Gulf Power Company & Florida Public Utilities Company	20200151-EI & 20200194-PU	Deferred Accounting
Florida Power and Light	20210015-EI	Economic and Regulatory Policy Issues, Equity Bonus Rewards & Financial Metrics

NORTH CAROLINA UTILITIES COMMISSION		
North Carolina Natural Gas	G-21, Sub 235	Forecasting, Cost of Capital, Cost of Ser

OKLAHOMA PUBLIC SERVICE COMMISSION		
Arkansas Oklahoma Gas Corp.	200300088	Cost of Capital
Public Service Co. of Oklahoma	200600285	Cost of Capital
Public Service Co. of Oklahoma	200800144	Cost of Capital
Public Service Co. of Oklahoma	201200054	Financial and Earnings Related
Oklahoma Natural Gas	201500213	Return on Equity, Financial, capital Structure

PUBLIC SERVICE COMMISSION OF INDIANA		
Kokomo Gas & Fuel Company	38096	Cost of Capital

PUBLIC UTILITIES COMMISSION OF NEVADA		
Nevada Bell	99-9017	Cost of Capital
Nevada Power Company	99-4005	Cost of Capital
Sierra Pacific Power Company	99-4002	Cost of Capital
Nevada Power Company	08-12002	Cost of Capital

Southwest Gas Corporation	09-04003	Cost of Capital
Sierra Pacific Power Company	10-06001 & 10-06002	Cost of Capital & Financial
Nevada Power Co. and Sierra Pacific Power Co.	11-06006 11-06007 11-06008	Cost of Capital
Southwest Gas Corp.	12-04005	Cost of Capital
Sierra Power Company	13-06002 13-06003 13-06003	Cost of Capital
NV Energy & MidAmerican Energy Holdings Co.	13-07021	Merger and Public Interest Financial
Sierra Pacific Power Company	16-06006	Cost of Capital
Nevada Power Company	17-06003	Cost of Capital
Nevada Power & Sierra Pacific	18-02012 Consolidated	Tax Cut and Jobs Act Issues
Southwest Gas	18-05031	Cost of Capital
Sierra Pacific Power Company	19-06002	Cost of Capital
Southwest Gas	20-02023	Cost of Capital

PUBLIC SERVICE COMMISSION OF UTAH		
PacifiCorp	04-035-42	Cost of Capital
Rocky Mountain Power	08-035-38	Cost of Capital
Rocky Mountain Power	09-035-23	Cost of Capital

Rocky Mountain Power	10-035-124	Cost of Capital
Rocky Mountain Power	11-035-200	Cost of Capital
Questar Gas Company	13-057-05	Cost of Capital
Rocky Mountain Power	13-035-184	Cost of Capital
Dominion Energy Utah	19-057-13	Capital Structure & Imputed Debt
Dominion Energy Utah	19-057-02	Cost of Capital

SOUTH CAROLINA PUBLIC SERVICE COMMISSION		
Piedmont Municipal Power	82-352-E	Forecasting

PUBLIC UTILITY COMMISSION OF TEXAS		
Central Power & Light Co.	6375	Cost of Capital, Financial Integrity
Central Power & Light Co.	9561	Cost of Capital, Revenue Requirements
Central Power & Light Co.	7560	Deferred Accounting
Central Power & Light Co.	8646	Rate Design, Excess Capacity
Central Power & Light Co.	12820	STP Adj. Cost of Capital, Post Test-year adjustments, Rate Case Expenses
Central Power & Light Co.	14965	Salary & Wage Exp., Self-Ins. Reserve, Plant Held for Future use, Post Test Year Adjustments, Demand Side Management, Rate Case Exp.
Central Power & Light Co.	21528	Securitization of Regulatory Assets
El Paso Electric Co.	9945	Cost of Capital, Revenue Requirements, Decommissioning Funding
El Paso Electric Co.	12700	Cost of Capital, Rate Moderation Plan, CWIP, Rate Case Expenses

El Paso Electric Co.	46831	Cost of Capital, Decommissioning Funding, Allocation
El Paso Electric Co.	52195	Cost of Capital and Jurisdictional Allocation
Entergy Gulf States Inc.	16705	Cost of Service, Rate Base, Revenues, Cost of Capital, Quality of Service
Entergy Gulf States Inc.	21111	Cost Allocation
Entergy Gulf States Inc.	21984	Unbundling
Entergy Gulf States Inc.	22344	Capital Structure
Entergy Gulf States Inc.	22356	Unbundling
Entergy Gulf States Inc.	24336	Price to Beat
Gulf States Utilities Co.	5560	Cost of Service
Gulf States Utilities Co.	6525	Cost of Capital, Financial Integrity
Gulf States Utilities Co.	6755/7195	Cost of Service, Cost of Capital, Excess Capacity
Gulf States Utilities Co.	8702	Deferred Accounting, Cost of Capital, Cost of Service
Gulf States Utilities Co.	10894	Affiliate Transaction
Gulf States Utilities Co.	11793	Section 63, Affiliate Transaction
Gulf States Utilities Co.	12852	Deferred acctng., self-Ins. reserve, contra AFUDC adj., River Bend Plant specifically assignable to Louisiana, River Bend Decomm., Cost of Capital, Financial Integrity, Cost of Service, Rate Case Expenses
GTE Southwest, Inc.	15332	Rate Case Expenses
Houston Lighting & Power	6765	Forecasting
Houston Lighting & Power	18465	Stranded costs
Lower Colorado River Authority	8400	Debt Service Coverage, Rate Design

Southwestern Electric Power Co.	5301	Cost of Service
Southwestern Electric Power Co.	4628	Rate Design, Financial Forecasting
Southwestern Electric Power Co.	24449	Price to Beat Fuel Factor
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Southwestern Public Service Co.	19512	Fuel Reconciliation
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Texas-New Mexico Power Co.	10200	Prudence
Texas-New Mexico Power Company	17751	Rate Case Expenses
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Texas Utilities Electric Co.	9300	Cost of Service, Cost of Capital
Texas Utilities Electric Co.	11735	Revenue Requirements
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West Texas Utilities Company	7510	Cost of Capital, Cost of Service
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Energas Company	8205	Cost of Capital
Energas Company	9002-9135	Cost of Capital, Revenues, Allocation
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TXU Lone Star Pipeline	8976	Cost of Capital, Capital Structure
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Westar Transmission Company	5787	Cost of Capital, Revenue Requirement
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Southern Utilities Company	7371-R	Cost of Capital, Cost of Service

SCOTSBLUFF, NEBRASKA CITY COUNCIL

K. N. Energy, Inc.		Cost of Capital

HOUSTON CITY COUNCIL		
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PUBLIC UTILITY REGULATION BOARD OF EL PASO, TEXAS		
Southern Union Gas Company		Cost of Capital

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City of San Benito, et. al. vs. PGE Gas Transmission et. al.	96-12-7404	Fairness Hearing

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DISTRICT COURT SOUTH DAYTONA, FLORIDA

City of South Daytona v. Florida Power and Light	2008-30441-CICI	Stranded Costs

EL PASO ELECTRIC COMPANY
PUBLIC UTILITY COMMISSION OF TEXAS
PUCT DOCKET NO. 52195 SOAH DOCKET NO. 473-21-2606
TEST YEAR ENDED DECEMBER 31, 2020

FEDERAL RESERVE November 5, 2020 PRESS RELEASE
FEDERAL RESERVE December 16, 2020 PRESS RELEASE
FEDERAL RESERVE January 27, 2021 PRESS RELEASE
FEDERAL RESERVE June 16, 2021 PRESS RELEASE
FEDERAL RESERVE July 28, 2021`PRESS RELEASE
FEDERAL RESERVE September 22, 2021`PRESS RELEASE
FEDERAL RESERVE September 22, 2021 Summary of ECONOMIC PROJECTIONS
(PROVIDED IN PDF FORMAT)

For release at 2:00 p.m., EDT, September 22, 2021

Summary of Economic Projections

In conjunction with the Federal Open Market Committee (FOMC) meeting held on September 21–22, 2021, meeting participants submitted their projections of the most likely outcomes for real gross domestic product (GDP) growth, the unemployment rate, and inflation for each year from 2021 to 2024 and over the longer run. Each participant's projections were based on information available at the time of the meeting, together with her or his assessment of appropriate monetary policy—including a path for the federal funds rate and its longer-run value—and assumptions about other factors likely to affect economic outcomes. The longer-run projections represent each participant's assessment of the value to which each variable would be expected to converge, over time, under appropriate monetary policy and in the absence of further shocks to the economy. "Appropriate monetary policy" is defined as the future path of policy that each participant deems most likely to foster outcomes for economic activity and inflation that best satisfy his or her individual interpretation of the statutory mandate to promote maximum employment and price stability.

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, September 2021

Percent

Variable	Median[1]					Central Tendency[2]					Range[3]				
	2021	2022	2023	2024	Longer run	2021	2022	2023	2024	Longer run	2021	2022	2023	2024	Longer run
Change in real GDP	5.9	3.8	2.5	2.0	1.8	5.8–6.0	3.4–4.5	2.2–2.5	2.0–2.2	1.8–2.0	5.5–6.3	3.1–4.9	1.8–3.0	1.8–2.5	1.6–2.2
June projection	7.0	3.3	2.4		1.8	6.8–7.3	2.8–3.8	2.0–2.5		1.8–2.0	6.3–7.8	2.6–4.2	1.7–2.7		1.6–2.2
Unemployment rate	4.8	3.8	3.5	3.5	4.0	4.6–4.8	3.6–4.0	3.3–3.7	3.3–3.6	3.8–4.3	4.5–5.1	3.0–4.0	2.8–4.0	3.0–4.0	3.5–4.5
June projection	4.5	3.8	3.5		4.0	4.4–4.8	3.5–4.0	3.2–3.8		3.8–4.3	4.2–5.0	3.2–4.2	3.0–3.9		3.5–4.5
PCE inflation	4.2	2.2	2.2	2.1	2.0	4.0–4.3	2.0–2.5	2.0–2.3	2.0–2.2	2.0	3.4–4.4	1.7–3.0	1.9–2.4	2.0–2.3	2.0
June projection	3.4	2.1	2.2		2.0	3.1–3.5	1.9–2.3	2.0–2.2		2.0	3.0–3.9	1.6–2.5	1.9–2.3		2.0
Core PCE inflation[4]	3.7	2.3	2.2	2.1		3.6–3.8	2.0–2.5	2.0–2.3	2.0–2.2		3.5–4.2	1.9–2.8	2.0–2.3	2.0–2.4	
June projection	3.0	2.1	2.1			2.9–3.1	1.9–2.3	2.0–2.2			2.7–3.3	1.7–2.5	2.0–2.3		
Memo: Projected appropriate policy path															
Federal funds rate	0.1	0.3	1.0	1.8	2.5	0.1	0.1–0.4	0.4–1.1	0.9–2.1	2.3–2.5	0.1	0.1–0.6	0.1–1.6	0.6–2.6	2.0–3.0
June projection	0.1	0.1	0.6		2.5	0.1	0.1–0.4	0.1–1.1		2.3–2.5	0.1	0.1–0.6	0.1–1.6		2.0–3.0

NOTE: Projections of change in real gross domestic product (GDP) and projections for both measures of inflation are percent changes from the fourth quarter of the previous year to the fourth quarter of the year indicated. PCE inflation and core PCE inflation are the percentage rates of change in, respectively, the price index for personal consumption expenditures (PCE) and the price index for PCE excluding food and energy. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated. Each participant's projections are based on his or her assessment of appropriate monetary policy. Longer-run projections represent each participant's assessment of the rate to which each variable would be expected to converge under appropriate monetary policy and in the absence of further shocks to the economy. The projections for the federal funds rate are the value of the midpoint of the projected appropriate target range for the federal funds rate or the projected appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. The June projections were made in conjunction with the meeting of the Federal Open Market Committee on June 15–16, 2021. One participant did not submit longer-run projections for the change in real GDP, the unemployment rate, or the federal funds rate in conjunction with the June 15–16, 2021, meeting, and one participant did not submit such projections in conjunction with the September 21–22, 2021, meeting.

1. For each period, the median is the middle projection when the projections are arranged from lowest to highest. When the number of projections is even, the median is the average of the two middle projections.
2. The central tendency excludes the three highest and three lowest projections for each variable in each year.
3. The range for a variable in a given year includes all participants' projections, from lowest to highest, for that variable in that year.
4. Longer-run projections for core PCE inflation are not collected.

Press Release

PDF

September 22, 2021

Federal Reserve issues FOMC statement

For release at 2:00 p.m. EDT

Share

The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.

With progress on vaccinations and strong policy support, indicators of economic activity and employment have continued to strengthen. The sectors most adversely affected by the pandemic have improved in recent months, but the rise in COVID-19 cases has slowed their recovery. Inflation is elevated, largely reflecting transitory factors. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy continues to depend on the course of the virus. Progress on vaccinations will likely continue to reduce the effects of the public health crisis on the economy, but risks to the economic outlook remain.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With inflation having run persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time. Last December, the Committee indicated that it would continue to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until substantial further progress has been made toward its maximum employment and price stability goals. Since then, the economy has made progress toward these goals. If progress continues broadly as expected, the Committee judges that a moderation in the pace of asset purchases may soon be warranted. These asset purchases help foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Thomas I. Barkin; Raphael W. Bostic; Michelle W. Bowman; Lael Brainard; Richard H. Clarida; Mary C. Daly; Charles L. Evans; Randal K. Quarles; and Christopher J. Waller.

Implementation Note issued September 22, 2021

Last Update: September 22, 2021

Press Release

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July 28, 2021

Federal Reserve issues FOMC statement

For release at 2:00 p.m. EDT

Share

The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.

With progress on vaccinations and strong policy support, indicators of economic activity and employment have continued to strengthen. The sectors most adversely affected by the pandemic have shown improvement but have not fully recovered. Inflation has risen, largely reflecting transitory factors. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy continues to depend on the course of the virus. Progress on vaccinations will likely continue to reduce the effects of the public health crisis on the economy, but risks to the economic outlook remain.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With inflation having run persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time. Last December, the Committee indicated that it would continue to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until substantial further progress has been made toward its maximum employment and price stability goals. Since then, the economy has made progress toward these goals, and the Committee will continue to assess progress in coming meetings. These asset purchases help foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

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Implementation Note issued July 28, 2021

Last Update: July 28, 2021

Press Release

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June 16, 2021

Federal Reserve issues FOMC statement

For release at 2:00 p.m. EDT

Share

The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.

Progress on vaccinations has reduced the spread of COVID-19 in the United States. Amid this progress and strong policy support, indicators of economic activity and employment have strengthened. The sectors most adversely affected by the pandemic remain weak but have shown improvement. Inflation has risen, largely reflecting transitory factors. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy will depend significantly on the course of the virus. Progress on vaccinations will likely continue to reduce the effects of the public health crisis on the economy, but risks to the economic outlook remain.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With inflation having run persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time. In addition, the Federal Reserve will continue to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until substantial further progress has been made toward the Committee's maximum employment and price stability goals. These asset purchases help foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

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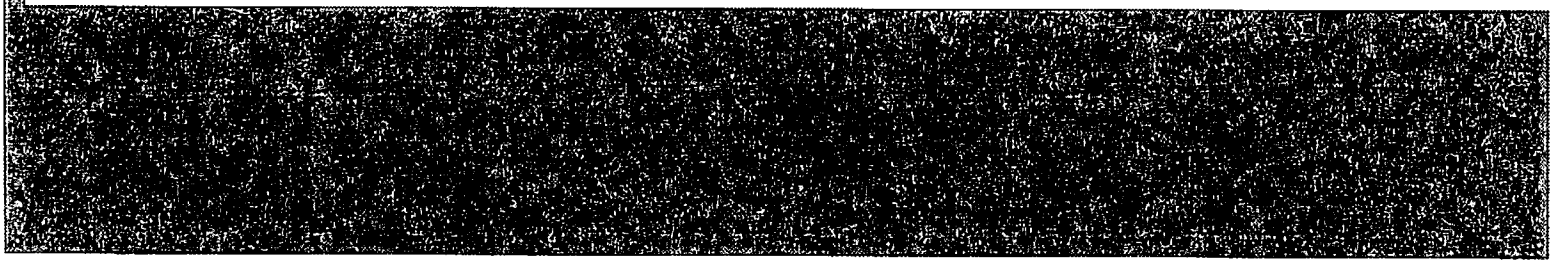
Implementation Note issued June 16, 2021

Last Update: June 16, 2021



Press Release

PDF

January 27, 2021

Federal Reserve issues FOMC statement

For release at 2:00 p.m. EST

Share

The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.

The COVID-19 pandemic is causing tremendous human and economic hardship across the United States and around the world. The pace of the recovery in economic activity and employment has moderated in recent months, with weakness concentrated in the sectors most adversely affected by the pandemic. Weaker demand and earlier declines in oil prices have been holding down consumer price inflation. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy will depend significantly on the course of the virus, including progress on vaccinations. The ongoing public health crisis continues to weigh on economic activity, employment, and inflation, and poses considerable risks to the economic outlook.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With inflation running persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time. In addition, the Federal Reserve will continue to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until substantial further progress has been made toward the Committee's maximum employment and price stability goals. These asset purchases help foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

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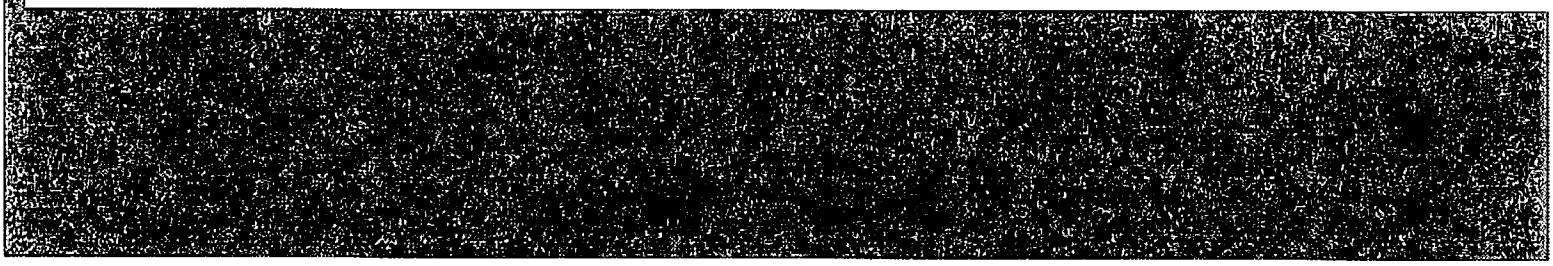
Implementation Note issued January 27, 2021

Last Update: January 27, 2021



Press Release

PDF

December 16, 2020

Federal Reserve issues FOMC statement

For release at 2:00 p.m. EST

Share

The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.

The COVID-19 pandemic is causing tremendous human and economic hardship across the United States and around the world. Economic activity and employment have continued to recover but remain well below their levels at the beginning of the year. Weaker demand and earlier declines in oil prices have been holding down consumer price inflation. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy will depend significantly on the course of the virus. The ongoing public health crisis will continue to weigh on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With inflation running persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time. In addition, the Federal Reserve will continue to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until substantial further progress has been made toward the Committee's maximum employment and price stability goals. These asset purchases help foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

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Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michelle W. Bowman; Lael Brainard; Richard H. Clarida; Patrick Harker; Robert S. Kaplan; Neel Kashkari; Loretta J. Mester; and Randal K. Quarles.

Implementation Note issued December 16, 2020

Last Update: December 16, 2020

Press Release

PDF

November 05, 2020

Federal Reserve issues FOMC statement

For release at 2:00 p.m. EST

Share

The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time, thereby promoting its maximum employment and price stability goals.

The COVID-19 pandemic is causing tremendous human and economic hardship across the United States and around the world. Economic activity and employment have continued to recover but remain well below their levels at the beginning of the year. Weaker demand and earlier declines in oil prices have been holding down consumer price inflation. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy will depend significantly on the course of the virus. The ongoing public health crisis will continue to weigh on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term.

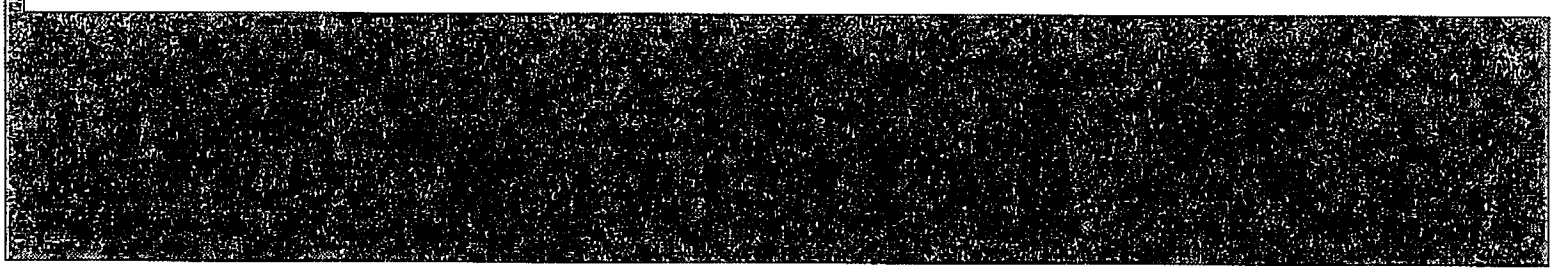
The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With inflation running persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time. In addition, over coming months the Federal Reserve will increase its holdings of Treasury securities and agency mortgage-backed securities at least at the current pace to sustain smooth market functioning and help foster accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Voting for the monetary policy action were Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michelle W. Bowman; Lael Brainard; Richard H. Clarida; Mary C. Daly; Patrick Harker; Robert S. Kaplan; Loretta J. Mester; and Randal K. Quarles. Ms. Daly voted as an alternate member at this meeting.

Implementation Note issued November 5, 2020

Last Update: November 05, 2020



EL PASO ELECTRIC COMPANY

PUBLIC UTILITY COMMISSION OF TEXAS

PUCT DOCKET NO. 52195 SOAH DOCKET NO. 473-21-2606

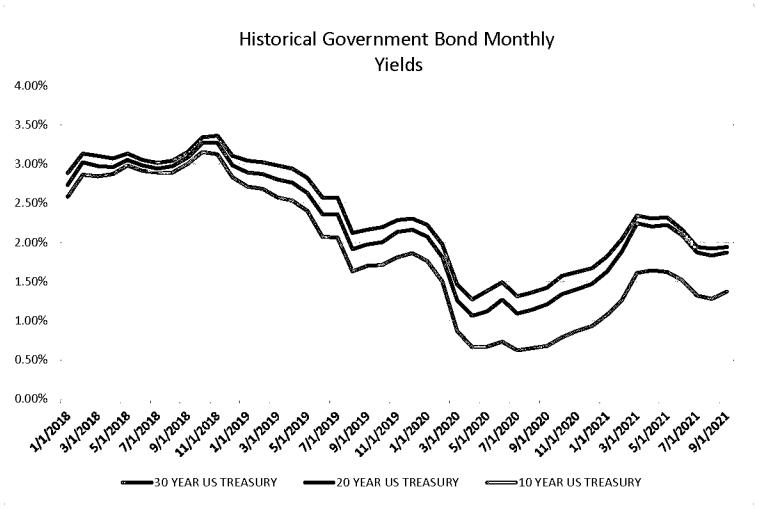
TEST YEAR ENDED DECEMBER 31, 2020

JANUARY 2018 THROUGH SEPTEMBER 2021

MONTHLY YIELDS GOVERNMENT BONDS

	A	B	C
DATE	30 YEAR US TREASURY	20 YEAR US TREASURY	10 YEAR US TREASURY
1/1/2018	2.88%	2.73%	2.58%
2/1/2018	3.13%	3.02%	2.86%
3/1/2018	3.10%	2.97%	2.84%
4/1/2018	3.07%	2.96%	2.87%
5/1/2018	3.13%	3.05%	2.98%
6/1/2018	3.05%	2.98%	2.91%
7/1/2018	3.01%	2.94%	2.89%
8/1/2018	3.04%	2.97%	2.89%
9/1/2018	3.15%	3.08%	3.00%
10/1/2018	3.34%	3.27%	3.15%
11/1/2018	3.36%	3.27%	3.12%
12/1/2018	3.10%	2.98%	2.83%
1/1/2019	3.04%	2.89%	2.71%
2/1/2019	3.02%	2.87%	2.68%
3/1/2019	2.98%	2.80%	2.57%
4/1/2019	2.94%	2.76%	2.53%
5/1/2019	2.82%	2.63%	2.40%
6/1/2019	2.57%	2.36%	2.07%
7/1/2019	2.57%	2.36%	2.06%
8/1/2019	2.12%	1.91%	1.63%
9/1/2019	2.16%	1.97%	1.70%
10/1/2019	2.19%	2.00%	1.71%
11/1/2019	2.28%	2.13%	1.81%
12/1/2019	2.30%	2.16%	1.86%
1/1/2020	2.22%	2.07%	1.76%
2/1/2020	1.97%	1.81%	1.50%
3/1/2020	1.46%	1.26%	0.87%
4/1/2020	1.27%	1.06%	0.66%
5/1/2020	1.38%	1.12%	0.67%
6/1/2020	1.49%	1.27%	0.73%
7/1/2020	1.31%	1.09%	0.62%
8/1/2020	1.36%	1.14%	0.65%
9/1/2020	1.42%	1.21%	0.68%
10/1/2020	1.57%	1.34%	0.79%
11/1/2020	1.62%	1.40%	0.87%
12/1/2020	1.67%	1.47%	0.93%
1/1/2021	1.82%	1.63%	1.08%
2/1/2021	2.04%	1.88%	1.26%
3/1/2021	2.34%	2.24%	1.61%
4/1/2021	2.30%	2.20%	1.64%
5/1/2021	2.32%	2.22%	1.62%
6/1/2021	2.16%	2.09%	1.52%
7/1/2021	1.94%	1.87%	1.32%
8/1/2021	1.92%	1.83%	1.28%
9/1/2021	1.94%	1.87%	1.37%
AVERAGE	**2.35%**	**2.20%**	**1.87%**
3 MONTH AVG	**1.93%**	**1.86%**	**1.32%**
MINIMUM	**1.27%**	**1.06%**	**0.62%**
MAXIMUM	**3.36%**	**3.27%**	**3.15%**

SOURCES: COLUMNS A-C FROM www.federalreserve.gov; H-15 DATA



EL PASO ELECTRIC COMPANY
PUBLIC UTILITY COMMISSION OF TEXAS
PUCT DOCKET NO. 52195 SOAH DOCKET NO. 473-21-2606
TEST YEAR ENDED DECEMBER 31, 2020
COMPARABLE GROUP BASE DATA

			A	B	C	D	E	F	G	H	I	J	K
				CURRRENT AND ESTIMATED EQUITY RATIO				EXPECTED EARNINGS ANALYSIS 2024 - 2026					
LINE NO.	COMPANY NAME	SYMBOL	BETA	EQUITY RATIO 2020	EQUITY RATIO 2021	EQUITY RATIO 2022	EQUITY RATIO 2024-2026	EPS 2024-2026	BVPS 2024-2026	EXPECTED EARNINGS	ADJUSTMENT FACTOR	ADJUSTED EARNINGS 2024-2026	*ADJUSTED EARNINGS 2024-2026*
1	ALLETE, INC.	ALE	0.90	59.00%	58.00%	59.00%	57.50%	$ 4.50	$ 51.25	8.78%	1.01902	8.95%	8.95%
2	ALLIANT ENERGY CORP	LNT	0.85	44.90%	47.50%	46.50%	45.50%	$ 3.25	$ 28.25	11.50%	1.02287	11.77%	11.77%
3	AMEREN CORP	AEE	0.85	44.30%	45.50%	46.00%	49.50%	$ 5.00	$ 48.00	10.42%	1.04104	10.84%	10.84%
4	AMERICAN ELECTRIC POWER	AEP	0.75	41.50%	41.00%	41.50%	40.50%	$ 6.00	$ 56.00	10.71%	1.04034	11.15%	11.15%
5	AVISTA CORPORATION	AVA	0.95	49.60%	52.50%	49.50%	50.50%	$ 2.75	$ 33.50	8.21%	1.02139	8.38%	8.38%
6	CMS ENERGY CORPORATION	CMS	0.80	28.60%	32.50%	33.00%	33.50%	$ 3.50	$ 26.00	13.46%	1.03417	13.92%	
7	DTE ENERGY CO.	DTE	0.95	39.50%	38.50%	40.00%	39.00%	$ 7.25	$ 78.75	9.21%	1.02701	9.45%	9.45%
8	DUKE ENERGY CORP.	DUK	0.90	44.40%	44.00%	44.00%	43.50%	$ 6.50	$ 68.50	9.49%	1.01340	9.62%	9.62%
9	ENTERGY CORPORATION	ETR	0.95	33.70%	32.00%	33.00%	32.50%	$ 7.50	$ 67.50	11.11%	1.02587	11.40%	11.40%
10	EVERGY INC	EVRG	0.95	48.70%	49.00%	49.00%	48.50%	$ 4.25	$ 45.50	9.34%	1.01824	9.51%	9.51%
11	HAWAIIAN ELECTRIC	HE	0.80	52.70%	55.00%	54.00%	52.50%	$ 2.50	$ 25.75	9.71%	1.02021	9.90%	9.90%
12	IDACORP, INC.	IDA	0.85	56.10%	55.50%	55.50%	51.00%	$ 5.75	$ 60.75	9.47%	1.01790	9.63%	9.63%
13	NEXTERA, INC	NEE	0.95	46.50%	45.00%	45.50%	46.00%	$ 3.50	$ 25.75	13.59%	1.03574	14.08%	
14	NORTHWESTERN CORPORATION	N'WE	0.95	47.20%	47.50%	50.00%	51.00%	$ 4.00	$ 47.75	8.38%	1.02230	8.56%	8.56%
15	OGE ENERGY CORP	OGE	1.05	51.00%	45.50%	51.50%	52.50%	$ 2.75	$ 21.75	12.64%	1.01814	12.87%	
16	OTTER TAIL CORPORATION	OTTR	0.90	58.20%	56.50%	55.00%	61.00%	$ 3.25	$ 27.75	11.71%	1.02864	12.05%	12.05%
17	PINNACLE WEST CAPITAL	PNW	0.90	47.20%	45.00%	45.50%	44.00%	$ 6.50	$ 61.50	10.57%	1.02676	10.85%	10.85%
18	PORTLAND GENERAL ELECTRIC CO.	POR	0.90	46.40%	44.50%	44.50%	46.00%	$ 3.50	$ 34.75	10.07%	1.01805	10.25%	10.25%
19	SOUTHERN COMPANY	SO	0.95	38.10%	37.00%	38.00%	38.50%	$ 4.50	$ 32.50	13.85%	1.02512	14.19%	
20	WEC ENERGY GROUP, INC.	WEC	0.80	47.10%	45.50%	45.50%	47.00%	$ 5.25	$ 40.25	13.04%	1.01960	13.30%	
21	XCEL ENERGY INC.	XEL	0.80	42.60%	42.00%	42.50%	42.00%	$ 3.75	$ 34.50	10.87%	1.02640	11.16%	11.16%
22	MEAN		**0.89**	**46.06%**	**45.69%**	**46.14%**	**46.29%**	**$ 4.56**	**$ 43.63**	**10.77%**	**1.02487**	**11.04%**	**10.22%**
23	MEDIAN		**0.90**	**46.50%**	**45.50%**	**45.50%**	**46.00%**	**$ 4.25**	**$ 40.25**	**10.57%**	**1.02287**	**10.85%**	**10.08%**
	EL PASO ELECTRIC				**51.00%**								

SOURCE:
COLUMNS A - G: VALUE LINE INVSTMENT SURVEY July 23, 2021, August 13, 2021, September 10, 2021
Value Line Electric Utility East, Central & West
COLUMN H: COLUMN F/COLUMN G
COLUMN I: SCHEDULE (DJL-6) PAGE 2
COLUMN J: COLUMN H * COLUMN I
COLUMN K: EXCLUDE VALUES BELOW 7.5% AND ABOVE 12.50%

EL PASO ELECTRIC COMPANY
PUBLIC UTILITY COMMISSION OF TEXAS
PUCT DOCKET NO. 52195 SOAH DOCKET NO. 473-21-2606
TEST YEAR ENDED DECEMBER 31, 2020
COMPARABLE GROUP STOCK PRICES

LINE NO.	COMPANY	SYMBOL	A Apr-21	B May-21	C Jun-21	D Jul-21	E Aug-21	F Sep-21	G 6 MONTH Average	H 3 MONTH Average	I DIVIDEND	J BASE YIELD
1	ALLETE, INC.	ALE	$70.36	$68.89	$69.98	$70.32	$67.42	$59.97	$67.82	$65.90	$2.52	3.82%
2	ALLIANT ENERGY CORP	LNT	$56.17	$57.15	$55.76	$58.53	$60.80	$57.44	$57.64	$58.92	$1.61	2.73%
3	AMEREN CORP	AEE	$84.84	$84.20	$80.04	$83.92	$87.72	$83.57	$84.05	$85.07	$2.20	2.59%
4	AMERICAN ELECTRIC POWER	AEP	$88.71	$86.00	$84.59	$88.12	$89.57	$82.72	$86.62	$86.80	$2.96	3.41%
5	AVISTA CORPORATION	AVA	$46.02	$45.53	$42.67	$42.83	$41.85	$39.32	$43.04	$41.33	$1.69	4.09%
6	CMS ENERGY CORPORATION	CMS	$64.39	$62.74	$59.08	$61.79	$64.13	$61.49	$62.27	$62.47	$1.74	2.79%
7	DTE ENERGY CO.	DTE	$117.38	$115.67	$108.64	$116.50	$119.50	$113.15	$115.14	$116.38	$3.30	2.84%
8	DUKE ENERGY CORP.	DUK	$100.69	$100.22	$98.72	$105.11	$104.66	$98.54	$101.32	$102.77	$3.94	3.83%
9	ENTERGY CORPORATION	ETR	$109.29	$105.26	$99.70	$102.92	$110.61	**$105.99**	$105.63	$106.51	$3.80	3.57%
10	EVERGY INC	EVRG	$63.97	$61.99	$60.43	$65.22	$68.45	$62.83	$63.82	$65.50	$2.14	3.27%
11	HAWAIIAN ELECTRIC	HE	$43.06	$43.05	$42.28	$43.34	$43.60	$41.00	$42.72	$42.65	$1.36	3.19%
12	IDACORP, INC.	IDA	$102.48	$97.95	$97.50	$105.45	$105.35	$104.12	$102.14	$104.97	$2.84	2.71%
13	NEXTERA, INC	NEE	$77.51	$73.22	$73.28	$77.90	$83.99	$81.90	$77.97	$81.26	$1.54	1.90%
14	NORTHWESTERN CORPORATION	N'WE	$68.03	$63.35	$60.22	$61.99	$63.60	$59.12	$62.72	$61.57	$2.48	4.03%
15	OGE ENERGY CORP	OGE	$33.56	$34.50	$33.65	$33.75	$35.41	$33.55	$34.07	$34.24	$1.61	4.70%
16	OTTER TAIL CORPORATION	OTTR	$47.23	$47.97	$48.81	$50.79	$54.87	$55.11	$50.80	$53.59	$1.56	2.91%
17	PINNACLE WEST CAPITAL	PNW	$84.65	$84.58	$81.97	$83.55	$76.90	$35.42	$74.51	$65.29	$3.32	5.09%
18	PORTLAND GENERAL ELECTRIC CO.	POR	$50.86	$47.94	$46.08	$48.90	$51.35	$48.45	$72.49	$72.66	$1.72	2.37%
19	SOUTHERN COMPANY	SO	$66.17	$63.92	$60.51	$63.87	$65.73	$63.61	$67.82	$65.50	$2.64	4.03%
20	WEC ENERGY GROUP, INC.	WEC	$97.17	$93.91	$88.95	$94.14	$94.48	$91.23	$93.31	$93.28	$2.71	2.91%
21	XCEL ENERGY INC.	XEL	$71.30	$70.88	$65.88	$68.25	$68.75	$63.19	$68.04	$66.73	$1.83	2.74%
22	MEAN								**$ 73.04**	**$ 73.02**	**$ 2.36**	**3.31%**
23	MEDIAN								**$ 68.04**	**$ 65.90**	**$ 2.20**	**3.19%**

SOURCE: PRICE DATA PER YAAHOO FINANCE RETRIEVED ON SEPTEMBER 23, 2021

EL PASO ELECTRIC COMPANY
PUBLIC UTILITY COMMISSION OF TEXAS
PUCT DOCKET NO. 52195 SOAH DOCKET NO. 473-21-2606
TEST YEAR ENDED DECEMBER 31, 2020
COMPARABLE GROUP GROWTH RATES

			A	B	C	D	E	F	G		H	I	J	K	L	M
			HISTORICAL GROWTH RATES								FORECAST GROWTH RATES					
LINE NO.	COMPANY	SYMBOL	EPS 10 YR GROWTH	DPS 10 YR GROWTH	BVPS 10 YR GROWTH	EPS 5 YR GROWTH	DPS 5 YR GROWTH	BVPS 5 YR GROWTH	HISTORICAL AVERAGE		EPS VL FORECAST	YAHOO EPS	ZACKS EPS	"br+sv" INTERNAL GROWTH	AVERAGE EPS FORECAST	AVERAGE GROWTH FORECAST
1	ALLETE, INC.	ALE	4.00%	3.00%	5.00%	2.50%	3.50%	4.50%	3.75%		5.00%	5.67%	6.00%	3.42%	5.56%	4.49%
2	ALLIANT ENERGY CORP	LNT	7.00%	6.50%	5.00%	6.50%	7.00%	6.50%	6.42%		5.50%	5.80%	5.89%	4.54%	5.73%	5.14%
3	AMEREN CORP	AEE	2.00%			8.00%	3.50%	3.50%	4.25%		6.50%	7.70%	7.34%	6.12%	7.18%	6.65%
4	AMERICAN ELECTRIC POWER	AEP	4.00%	5.00%	4.00%	4.00%	5.50%	3.00%	4.25%		6.50%	6.03%	5.72%	5.80%	6.08%	5.94%
5	AVISTA CORPORATION	AVA	4.00%	6.50%	4.00%	4.50%	4.00%	4.00%	4.50%		3.00%	6.20%	5.11%	3.20%	4.77%	3.99%
6	CMS ENERGY CORPORATION	CMS	7.50%	11.50%	5.00%	7.00%	7.00%	5.50%	7.25%		6.00%	5.72%	6.91%	6.15%	6.21%	6.18%
7	DTE ENERGY CO.	DTE	7.50%	6.00%	4.50%	8.00%	7.50%	5.00%	6.42%		2.00%	2.65%	6.00%	4.60%	3.55%	4.07%
8	DUKE ENERGY CORP.	DUK	2.50%	3.00%	2.00%	1.50%	3.50%	1.00%	2.25%		7.00%	5.45%	5.29%	3.34%	5.91%	4.63%
9	ENTERGY CORPORATION	ETR		1.50%	1.00%	3.00%	2.00%		1.88%		3.00%	5.70%	1.35%	4.81%	3.35%	4.08%
10	EVERGY INC	EVRG									8.00%	5.70%	5.85%	3.95%	6.52%	5.24%
11	HAWAIIAN ELECTRIC	HE	6.00%		3.00%	3.50%		3.50%	4.00%		3.00%	1.30%	7.26%	4.21%	3.85%	4.03%
12	IDACORP, INC.	IDA	6.00%	8.00%	5.00%	4.00%	8.00%	4.50%	5.92%		4.00%	3.20%	3.87%	3.43%	3.69%	3.56%
13	NEXTERA, INC	NEE	6.00%	10.00%	9.00%	6.50%	12.00%	10.50%	9.00%		10.50%	8.32%	8.32%	6.47%	9.05%	7.76%
14	NORTHWESTERN CORPORATION	N'WE	5.50%	5.50%	6.00%	3.50%	6.50%	5.50%	5.42%		3.00%	4.50%	4.79%	3.43%	4.10%	3.76%
15	OGE ENERGY CORP	OGE	4.50%	7.50%	6.00%	3.00%	9.50%	4.00%	5.75%		4.00%	3.90%	4.45%	3.76%	4.12%	3.94%
16	OTTER TAIL CORPORATION	OTTR	11.50%	1.50%		8.00%	3.00%	5.00%	5.80%		7.00%	9.00%	4.70%	4.91%	6.90%	5.90%
17	PINNACLE WEST CAPITAL	PNW	6.50%	4.00%	3.50%	5.00%	5.50%	4.00%	4.75%		5.00%	0.10%	5.00%	4.85%	3.37%	4.11%
18	PORTLAND GENERAL ELECTRIC CO.	POR	4.00%	4.00%	3.00%	1.50%	6.00%	3.50%	**3.67%**	#	8.50%	7.10%	8.60%	4.17%	8.07%	6.12%
19	SOUTHERN COMPANY	SO	3.00%	3.50%	3.50%	2.50%	3.50%	3.00%	**3.17%**	#	6.00%	6.50%	4.93%	5.82%	5.81%	5.82%
20	WEC ENERGY GROUP, INC.	WEC	8.00%	13.50%	7.50%	7.50%	8.50%	8.00%	8.83%		6.50%	6.50%	6.26%	4.56%	6.42%	5.49%
21	XCEL ENERGY INC.	XEL	6.00%	5.50%	4.50%	5.50%	6.00%	5.00%	5.42%		6.00%	6.70%	6.13%	4.86%	6.28%	5.57%
22	MEAN		**5.55%**	**5.89%**	**4.53%**	**4.78%**	**5.89%**	**4.71%**	**5.13%**		**5.52%**	**5.42%**	**5.70%**	**4.59%**	**5.55%**	**5.07%**
23	MEDIAN		**6.00%**	**5.50%**	**4.50%**	**4.25%**	**6.00%**	**4.50%**	**5.08%**		**6.00%**	**5.72%**	**5.85%**	**4.56%**	**5.81%**	**5.14%**

COLUMNS A - F AND H:VALUE LINE INVSTMENT SURVEY July 23, 2021, August 13, 2021, September 10, 2021

COLUMN G: AVERAGE COLUMNS A THROUGH F VALUE LINE INVSTMENT SURVEY July 23, 2021, August 13, 2021, September 10, 2021

YAHOO FINANCE Retrieved SEPTEMBER 23, 2021.

ZACKS.COM Retrieved SEPTEMBER 23, 2021

EL PASO ELECTRIC COMPANY
PUBLIC UTILITY COMMISSION OF TEXAS
PUCT DOCKET NO. 52195 SOAH DOCKET NO. 473-21-2606
TEST YEAR ENDED DECEMBER 31, 2020
COMPARABLE GROUP GROWTH RATES

LINE NO.	COMPANY	SYMBOL	1 "b"	2 "r"	3 CHANGE IN EQUITY	4 ADJUSTMENT FACTOR	5 ADJUSTED "r"	6 MARKET TO BOOK 2020	7 GROWTH IN SHARES	8 "s"	9 "v"	10 "br"+"sv" GROWTH
1	ALLETE, INC.	ALE	33.33%	8.78%	3.88%	1.019	8.95%	1.61	0.72%	1.16%	37.88%	3.42%
2	ALLIANT ENERGY CORP	LNT	36.92%	11.50%	4.68%	1.023	11.77%	1.95	0.21%	0.41%	48.64%	4.54%
3	AMEREN CORP	AEE	42.00%	10.42%	8.56%	1.041	10.84%	1.77	2.02%	3.59%	43.53%	6.12%
4	AMERICAN ELECTRIC POWER	AEP	37.50%	10.71%	8.41%	1.040	11.15%	1.79	2.06%	3.69%	44.00%	5.80%
5	AVISTA CORPORATION	AVA	27.27%	8.21%	4.37%	1.021	8.38%	1.57	1.61%	2.52%	36.19%	3.20%
6	CMS ENERGY CORPORATION	CMS	40.00%	13.46%	7.08%	1.034	13.92%	2.40	0.42%	1.00%	58.40%	6.15%
7	DTE ENERGY CO.	DTE	41.38%	9.21%	5.55%	1.027	9.45%	1.56	1.23%	1.92%	35.71%	4.60%
8	DUKE ENERGY CORP.	DUK	34.62%	9.49%	2.72%	1.013	9.62%	1.61	0.03%	0.04%	37.73%	3.34%
9	ENTERGY CORPORATION	ETR	36.00%	11.11%	5.31%	1.026	11.40%	1.93	0.76%	1.47%	48.08%	4.81%
10	EVERGY INC	EVRG	40.00%	9.34%	3.72%	1.018	9.51%	1.54	0.28%	0.43%	35.00%	3.95%
11	HAWAIIAN ELECTRIC	HE	38.00%	9.71%	4.12%	1.020	9.90%	1.65	0.69%	1.14%	39.41%	4.21%
12	IDACORP, INC.	IDA	35.65%	9.47%	3.65%	1.018	9.63%	1.81	0.00%	-0.01%	44.77%	3.43%
13	NEXTERA, INC	NEE	35.71%	13.59%	7.41%	1.036	14.08%	3.20	0.65%	2.10%	68.79%	6.47%
14	NORTHWESTERN CORPORATION	N'WE	30.00%	8.38%	4.56%	1.022	8.56%	1.57	1.50%	2.36%	36.33%	3.43%
15	OGE ENERGY CORP	OGE	29.09%	12.64%	3.70%	1.018	12.87%	2.18	0.01%	0.02%	54.21%	3.76%
16	OTTER TAIL CORPORATION	OTTR	38.46%	11.71%	5.90%	1.029	12.05%	2.07	0.25%	0.53%	51.74%	4.91%
17	PINNACLE WEST CAPITAL	PNW	34.62%	10.57%	5.50%	1.027	10.85%	1.87	1.25%	2.34%	46.52%	4.85%
18	PORTLAND GENERAL ELECTRIC CO.	POR	40.00%	10.07%	3.68%	1.018	10.25%	1.65	0.10%	0.17%	39.57%	4.17%
19	SOUTHERN COMPANY	SO	34.67%	13.85%	5.15%	1.025	14.19%	2.00	0.90%	1.80%	50.00%	5.82%
20	WEC ENERGY GROUP, INC.	WEC	34.29%	13.04%	4.00%	1.020	13.30%	2.48	0.00%	0.00%	59.75%	4.56%

EL PASO ELECTRIC COMPANY
PUBLIC UTILITY COMMISSION OF TEXAS
PUCT DOCKET NO. 52195 SOAH DOCKET NO. 473-21-2606
TEST YEAR ENDED DECEMBER 31, 2020
COMPARABLE GROUP GROWTH RATES

LINE NO.	COMPANY	SYMBOL	11 DPS 2024 - 2026	12 EPS 2024 - 2026	13 BVPS 2024- 2026	14 2020 EQUITY RATIO	15 2024 - 26 EQUITY RATIO	16 2020 TOTAL CAPITAL	17 2024 -26 TOTAL CAPITAL	18 2020 EQUITY CAPITAL	19 2024-2026 EQUITY CAPITAL	20 2024-2026 FORECAST PRICE	21 2024-2026 BVPS	22 2024-2026 MARKET TO BOOK	23 SHARES 2020	24 SHARES 2024-26
1	ALLETE, INC.	ALE	$3.00	$4.50	$51.25	59.00%	57.50%	$3,888	$4,825	$2,294	$2,774	$82.50	$51.25	1.61	52.10	54.00
2	ALLIANT ENERGY CORP	LNT	$2.05	$3.25	$28.25	44.90%	45.50%	$12,657	$15,700	$5,683	$7,144	$55.00	$28.25	1.95	249.87	252.50
3	AMEREN CORP	AEE	$2.90	$5.00	$48.00	44.30%	49.50%	$20,158	$27,200	$8,930	$13,464	$85.00	$48.00	1.77	253.30	280.00
4	AMERICAN ELECTRIC POWER	AEP	$3.75	$6.00	$56.00	41.50%	40.50%	$49,537	$76,000	$20,558	$30,780	$100.00	$56.00	1.79	496.60	550.00
5	AVISTA CORPORATION	AVA	$2.00	$2.75	$33.50	49.60%	50.50%	$4,090	$4,975	$2,029	$2,512	$52.50	$33.50	1.57	69.24	75.00
6	CMS ENERGY CORPORATION	CMS	$2.10	$3.50	$26.00	28.60%	33.50%	$19,223	$23,100	$5,498	$7,739	$62.50	$26.00	2.40	288.94	295.00
7	DTE ENERGY CO.	DTE	$4.25	$7.25	$78.75	39.50%	39.00%	$31,426	$41,700	$12,413	$16,263	$122.50	$78.75	1.56	193.77	206.00
8	DUKE ENERGY CORP.	DUK	$4.25	$6.50	$68.50	44.40%	43.50%	$103,589	$120,900	$45,994	$52,592	$110.00	$68.50	1.61	769.00	770.00
9	ENTERGY CORPORATION	ETR	$4.80	$7.50	$67.50	33.70%	32.50%	$32,386	$43,500	$10,914	$14,138	$130.00	$67.50	1.93	200.24	208.00
10	EVERGY INC	EVRG	$2.55	$4.25	$45.50	48.70%	48.50%	$17,924	$21,600	$8,729	$10,476	$70.00	$45.50	1.54	226.84	230.00
11	HAWAIIAN ELECTRIC	HE	$1.55	$2.50	$25.75	52.70%	52.50%	$4,436	$5,450	$2,338	$2,861	$42.50	$25.75	1.65	109.18	113.00
12	IDACORP, INC.	IDA	$3.70	$5.75	$60.75	56.10%	51.00%	$4,560	$6,000	$2,558	$3,060	$110.00	$60.75	1.81	50.46	50.45
13	NEXTERA, INC	NEE	$2.25	$3.50	$25.75	46.50%	46.00%	$78,457	$113,400	$36,483	$52,164	$82.50	$25.75	3.20	1960.00	2025.00
14	NORTHWESTERN CORPORATION	N'WE	$2.80	$4.00	$47.75	47.20%	51.00%	$4,409	$5,100	$2,081	$2,601	$75.00	$47.75	1.57	50.59	54.50
15	OGE ENERGY CORP	OGE	$1.95	$2.75	$21.75	51.00%	52.50%	$7,126	$8,300	$3,634	$4,358	$47.50	$21.75	2.18	200.10	200.20
16	OTTER TAIL CORPORATION	OTTR	$2.00	$3.25	$27.75	58.20%	61.00%	$1,495	$1,900	$870	$1,159	$57.50	$27.75	2.07	41.47	42.00
17	PINNACLE WEST CAPITAL	PNW	$4.25	$6.50	$61.50	47.20%	44.00%	$11,948	$16,750	$5,639	$7,370	$115.00	$61.50	1.87	112.76	120.00
18	PORTLAND GENERAL ELECTRIC CO.	POR	$2.10	$3.50	$34.75	46.40%	46.00%	$5,628	$6,800	$2,611	$3,128	$57.50	$34.75	1.65	89.54	90.00
19	SOUTHERN COMPANY	SO	$2.94	$4.50	$32.50	38.10%	38.50%	$73,336	$93,300	$27,941	$35,921	$65.00	$32.50	2.00	1056.50	1105.00
20	WEC ENERGY GROUP, INC.	WEC	$3.45	$5.25	$40.25	47.10%	47.00%	$22,228	$27,100	$10,469	$12,737	$100.00	$40.25	2.48	315.43	315.43
21	XCEL ENERGY INC.	XEL	$2.30	$3.75	$34.50	42.60%	42.00%	$34,220	$45,200	$14,578	$18,984	$67.50	$34.50	1.96	537.44	553.00

EL PASO ELECTRIC COMPANY
PUBLIC UTILITY COMMISSION OF TEXAS
PUCT DOCKET NO. 52195 SOAH DOCKET NO. 473-21-2606
TEST YEAR ENDED DECEMBER 31, 2020
CONSTANT GROWTH DISCOUNTED CASH FLOW

LINE NO.	COMPANY	SYMBOL	A AVERAGE PRICE	B DIVIDEND	C DIVIDEND YIELD	D ADJUSTED DIVIDEND YIELD	E GROWTH RATE	F ROE	G ADJUSTED ROE
1	ALLETE, INC.	ALE	$65.90	$2.52	3.82%	3.93%	5.56%	9.49%	9.49%
2	ALLIANT ENERGY CORP	LNT	$58.92	$1.61	2.73%	2.81%	5.73%	8.54%	8.54%
3	AMEREN CORP	AEE	$85.07	$2.20	2.59%	2.68%	7.18%	9.86%	9.86%
4	AMERICAN ELECTRIC POWER	AEP	$86.80	$2.96	3.41%	3.51%	6.08%	9.60%	9.60%
5	AVISTA CORPORATION	AVA	$41.33	$1.69	4.09%	4.19%	4.77%	8.96%	8.96%
6	CMS ENERGY CORPORATION	CMS	$62.47	$1.74	2.79%	2.87%	6.21%	9.08%	9.08%
7	DTE ENERGY CO.	DTE	$116.38	$3.30	2.84%	2.89%	3.55%	6.44%	
8	DUKE ENERGY CORP.	DUK	$102.77	$3.94	3.83%	3.95%	5.91%	9.86%	9.86%
9	ENTERGY CORPORATION	ETR	$106.51	$3.80	3.57%	3.63%	3.35%	6.98%	
10	EVERGY INC	EVRG	$65.50	$2.14	3.27%	3.37%	6.52%	9.89%	9.89%
11	HAWAIIAN ELECTRIC	HE	$42.65	$1.36	3.19%	3.25%	3.85%	7.10%	
12	IDACORP, INC.	IDA	$104.97	$2.84	2.71%	2.76%	3.69%	6.45%	
13	NEXTERA, INC	NEE	$81.26	$1.54	1.90%	1.98%	9.05%	11.03%	11.03%
14	NORTHWESTERN CORPORATION	N'WE	$61.57	$2.48	4.03%	4.11%	4.10%	8.21%	8.21%
15	OGE ENERGY CORP	OGE	$34.24	$1.61	4.70%	4.80%	4.12%	8.92%	8.92%
16	OTTER TAIL CORPORATION	OTTR	$53.59	$1.56	2.91%	3.01%	6.90%	9.91%	9.91%
17	PINNACLE WEST CAPITAL	PNW	$65.29	$3.32	5.09%	5.17%	3.37%	8.54%	8.54%
18	PORTLAND GENERAL ELECTRIC CO.	POR	$72.66	$1.72	2.37%	2.46%	8.07%	10.53%	10.53%
19	SOUTHERN COMPANY	SO	$65.50	$2.64	4.03%	4.15%	5.81%	9.96%	9.96%
20	WEC ENERGY GROUP, INC.	WEC	$93.28	$2.71	2.91%	3.00%	6.42%	9.42%	9.42%
21	XCEL ENERGY INC.	XEL	$66.73	$1.83	2.74%	2.83%	6.28%	9.11%	9.11%
22	MEAN		**$ 73.02**	**$ 2.36**	**3.31%**	**3.40%**	**5.55%**	**8.94%**	**9.46%**
23	MEDIAN		**$ 65.90**	**$ 2.20**	**3.19%**	**3.25%**	**5.81%**	**9.11%**	**9.49%**

SOURCES

ADJUSTED ROE: ALL ROE RESULTS BELOW 7.50% AND ABOVE 12.50% EXCLUDED AS OUTLIERS

COLUMNS A-E FROM SCHEDULE (DJL-5) AND SCHEDULE (DJL-6)

EL PASO ELECTRIC COMPANY
PUBLIC UTILITY COMMISSION OF TEXAS
PUCT DOCKET NO. 52195 SOAH DOCKET NO. 473-21-2606
TEST YEAR ENDED DECEMBER 31, 2020
COMPARABLE GROUP TWO-STAGE GROWTH DCF

			A	B	C	D	E	F	G	H	I	J	K	L
LINE NO.	COMPANY	SYMBOL	NXT YEAR DPS 2020	DPS 2024-2026	ANNUAL CHANGE IN DIVIDEND	CURRENT PRICE	YEAR 1 DIVIDEND	YEAR 2 DIVIDEND	YEAR 3 DIVIDEND	YEAR 4 DIVIDEND	YEAR 5 DIVIDEND	GROWTH YEARS 5-150	TWO-STAGE ROE	ADJUSTED TWO-STAGE ROE
1	ALLETE, INC.	ALE	$2.64	$3.00	$0.12	$65.90	$2.64	$2.76	$2.88	$3.00	$3.17	5.56%	9.42%	9.42%
2	ALLIANT ENERGY CORP	LNT	$1.70	$2.05	$0.12	$58.92	$1.70	$1.82	$1.93	$2.05	$2.17	5.73%	8.62%	8.62%
3	AMEREN CORP	AEE	$2.34	$2.90	$0.19	$85.07	$2.34	$2.53	$2.71	$2.90	$3.11	7.18%	9.88%	9.88%
4	AMERICAN ELECTRIC POWER	AEP	$3.17	$3.75	$0.19	$86.80	$3.17	$3.36	$3.56	$3.75	$3.98	6.08%	9.68%	9.68%
5	AVISTA CORPORATION	AVA	$1.76	$2.00	$0.08	$41.33	$1.76	$1.84	$1.92	$2.00	$2.10	4.77%	8.97%	8.97%
6	CMS ENERGY CORPORATION	CMS	$1.80	$2.10	$0.10	$62.47	$1.80	$1.90	$2.00	$2.10	$2.23	6.21%	8.96%	8.96%
7	DTE ENERGY CO.	DTE	$3.45	$4.25	$0.27	$116.38	$3.45	$3.72	$3.98	$4.25	$4.40	3.55%	6.79%	
8	DUKE ENERGY CORP.	DUK	$3.98	$4.25	$0.09	$102.77	$3.98	$4.07	$4.16	$4.25	$4.50	5.91%	9.39%	9.39%
9	ENTERGY CORPORATION	ETR	$4.08	$4.80	$0.24	$106.51	$4.08	$4.32	$4.56	$4.80	$4.96	3.35%	7.40%	
10	EVERGY INC	EVRG	$2.65	$2.55	-$0.03	$65.50	$2.65	$2.62	$2.58	$2.55	$2.72	6.52%	9.75%	9.75%
11	HAWAIIAN ELECTRIC	HE	$1.40	$1.55	$0.05	$42.65	$1.40	$1.45	$1.50	$1.55	$1.61	3.85%	7.07%	
12	IDACORP, INC.	IDA	$3.09	$3.70	$0.20	$104.97	$3.09	$3.29	$3.50	$3.70	$3.84	3.69%	6.80%	
13	NEXTERA, INC	NEE	$1.70	$2.25	$0.18	$81.26	$1.70	$1.88	$2.07	$2.25	$2.45	9.05%	11.04%	11.04%
14	NORTHWESTERN CORPORATION	N'WE	$2.56	$2.80	$0.08	$61.57	$2.56	$2.64	$2.72	$2.80	$2.91	4.10%	8.12%	8.12%
15	OGE ENERGY CORP	OGE	$1.69	$1.95	$0.09	$34.24	$1.69	$1.78	$1.86	$1.95	$2.03	4.12%	9.15%	9.15%
16	OTTER TAIL CORPORATION	OTTR	$1.64	$2.00	$0.12	$53.59	$1.64	$1.76	$1.88	$2.00	$2.14	6.90%	9.91%	9.91%
17	PINNACLE WEST CAPITAL	PNW	$3.63	$4.25	$0.21	$65.29	$3.63	$3.84	$4.04	$4.25	$4.39	3.37%	9.23%	9.23%
18	PORTLAND GENERAL ELECTRIC CO.	POR	$1.80	$2.10	$0.10	$72.66	$1.80	$1.90	$2.00	$2.10	$2.27	8.07%	10.25%	10.25%
19	SOUTHERN COMPANY	SO	$2.70	$2.94	$0.08	$65.50	$2.70	$2.78	$2.86	$2.94	$3.11	5.81%	9.60%	9.60%
20	WEC ENERGY GROUP, INC.	WEC	$2.89	$3.45	$0.19	$93.28	$2.89	$3.08	$3.26	$3.45	$3.67	6.42%	9.44%	9.44%
21	XCEL ENERGY INC.	XEL	$1.94	$2.30	$0.12	$66.73	$1.94	$2.06	$2.18	$2.30	$2.44	6.28%	9.09%	9.09%
22	MEAN		**$ 2.51**	**$ 2.90**	**$ 0.13**	**$ 73.02**	**$ 2.51**	**$ 2.64**	**$ 2.77**	**$ 2.90**	**$ 3.06**	**5.55%**	**8.98%**	**9.44%**
23	MEDIAN		**$ 2.56**	**$ 2.80**	**$ 0.12**	**$ 65.90**	**$ 2.56**	**$ 2.62**	**$ 2.71**	**$ 2.80**	**$ 2.91**	**5.81%**	**9.23%**	**9.42%**

SOURCE:
VALUE LINE INVSTMENT SURVEY July 23, 2021, August 13, 2021, September 10, 2021
Value Line Electric Utility East, Central & West

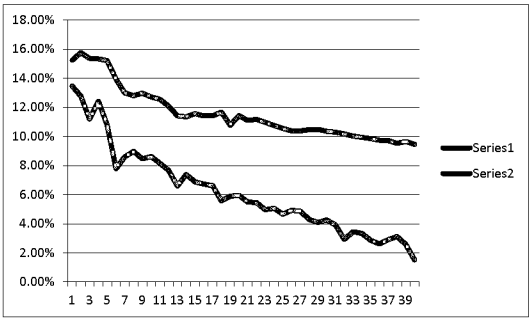
EL PASO ELECTRIC COMPANY
PUBLIC UTILITY COMMISSION OF TEXAS
PUCT DOCKET NO. 52195 SOAH DOCKET NO. 473-21-2606
TEST YEAR ENDED DECEMBER 31, 2020
CAPM AND ECAPM CALCULATIONS

	CAPITAL ASSET PRICING MODEL							EMPIRICAL CAPITAL ASSET PRICING MODEL						
			A	B	C	D	E			F	G	H	I
	COMPANY	SYMBOL	BETA	MARKET RISK PREMIUM	RISK FREE RATE	CAPM	ADJUSTED CAPM	COMPANY	SYMBOL	BETA	MARKET RISK PREMIUM	RISK FREE RATE	ECAPM
1	ALLETE, INC.	ALE	0.90	8.24%	1.93%	9.34%	9.34%	ALLETE, INC.	ALE	0.90	8.24%	1.93%	9.55%
2	ALLIANT ENERGY CORP	LNT	0.85	8.24%	1.93%	8.93%	8.93%	ALLIANT ENERGY CORP	LNT	0.85	8.24%	1.93%	9.24%
3	AMEREN CORP	AEE	0.85	8.24%	1.93%	8.93%	8.93%	AMEREN CORP	AEE	0.85	8.24%	1.93%	9.24%
4	AMERICAN ELECTRIC POWER	AEP	0.75	8.24%	1.93%	8.11%	8.11%	AMERICAN ELECTRIC POWER	AEP	0.75	8.24%	1.93%	8.62%
5	AVISTA CORPORATION	AVA	0.95	8.24%	1.93%	9.76%	9.76%	AVISTA CORPORATION	AVA	0.95	8.24%	1.93%	9.86%
6	CMS ENERGY CORPORATION	CMS	0.80	8.24%	1.93%	8.52%	8.52%	CMS ENERGY CORPORATION	CMS	0.80	8.24%	1.93%	8.93%
7	DTE ENERGY CO.	DTE	0.95	8.24%	1.93%	9.76%	9.76%	DTE ENERGY CO.	DTE	0.95	8.24%	1.93%	9.86%
8	DUKE ENERGY CORP.	DUK	0.90	8.24%	1.93%	9.34%	9.34%	DUKE ENERGY CORP.	DUK	0.90	8.24%	1.93%	9.55%
9	ENTERGY CORPORATION	ETR	0.95	8.24%	1.93%	9.76%	9.76%	ENTERGY CORPORATION	ETR	0.95	8.24%	1.93%	9.86%
10	EVERGY INC	EVRG	0.95	8.24%	1.93%	9.76%	9.76%	EVERGY INC	EVRG	0.95	8.24%	1.93%	9.86%
11	HAWAIIAN ELECTRIC	HE	0.80	8.24%	1.93%	8.52%	8.52%	HAWAIIAN ELECTRIC	HE	0.80	8.24%	1.93%	8.93%
12	IDACORP, INC.	IDA	0.85	8.24%	1.93%	8.93%	8.93%	IDACORP, INC.	IDA	0.85	8.24%	1.93%	9.24%
13	NEXTERA, INC	NEE	0.95	8.24%	1.93%	9.76%	9.76%	NEXTERA, INC	NEE	0.95	8.24%	1.93%	9.86%
14	NORTHWESTERN CORPORATION	N'WE	0.95	8.24%	1.93%	9.76%	9.76%	NORTHWESTERN CORPORATION	N'WE	0.95	8.24%	1.93%	9.86%
15	OGE ENERGY CORP	OGE	1.05	8.24%	1.93%	10.58%	10.58%	OGE ENERGY CORP	OGE	1.05	8.24%	1.93%	10.48%
16	OTTER TAIL CORPORATION	OTTR	0.90	8.24%	1.93%	9.34%	9.34%	OTTER TAIL CORPORATION	OTTR	0.90	8.24%	1.93%	9.55%
17	PINNACLE WEST CAPITAL	PNW	0.90	8.24%	1.93%	9.34%	9.34%	PINNACLE WEST CAPITAL	PNW	0.90	8.24%	1.93%	9.55%
18	PORTLAND GENERAL ELECTRIC CO.	POR	0.90	8.24%	1.93%	9.32%	9.32%	PORTLAND GENERAL ELECTRIC CO.	POR	0.90	8.24%	1.93%	9.53%
19	SOUTHERN COMPANY	SO	0.95	8.24%	1.93%	9.34%	9.34%	SOUTHERN COMPANY	SO	0.95	8.24%	1.93%	9.55%
20	WEC ENERGY GROUP, INC.	WEC	0.80	8.24%	1.93%	8.52%	8.52%	WEC ENERGY GROUP, INC.	WEC	0.80	8.24%	1.93%	8.93%
21	XCEL ENERGY INC.	XEL	0.80	8.24%	1.93%	8.52%	8.52%	XCEL ENERGY INC.	XEL	0.80	8.24%	1.93%	8.93%
22	MEAN		**0.89**			**9.25%**	**9.25%**	MEAN		**0.89**			**9.48%**
23	MEDIAN		**0.90**			**9.34%**	**9.34%**	MEDIAN		**0.90**			**9.55%**

SOURCE:
VALUE LINE INVSTMENT SURVEY July 23, 2021, August 13, 2021, September 10, 2021
Value Line Electric Utility East, Central & West
ALL CAPM & ECAPM ROE RESULTS BELOW 7.5% AND ABOVE 12.5% EXCLUDED

EL PASO ELECTRIC COMPANY
PUBLIC UTILITY COMMISSION OF TEXAS
PUCT DOCKET NO. 52195 SOAH DOCKET NO. 473-21-2606
TEST YEAR ENDED DECEMBER 31, 2020
BOND YIELD RISK PREMIUM ROE ESTIMATE

	A	B	C
YEAR	30 YEAR US TREASURY BOND YIELD	AUTHORIZED ELECTRIC UTILITY EQUITY RETURN	RISK PREMIUM
1981	13.45%	15.22%	1.77%
1982	12.76%	15.76%	3.00%
1983	11.18%	15.36%	4.18%
1984	12.41%	15.32%	2.91%
1985	10.79%	15.20%	4.41%
1986	7.78%	13.93%	6.15%
1987	8.59%	12.99%	4.40%
1988	8.96%	12.79%	3.83%
1989	8.45%	12.97%	4.52%
1990	8.61%	12.70%	4.09%
1991	8.14%	12.55%	4.41%
1992	7.67%	12.09%	4.42%
1993	6.59%	11.41%	4.82%
1994	7.37%	11.34%	3.97%
1995	6.88%	11.55%	4.67%
1996	6.71%	11.39%	4.68%
1997	6.61%	11.40%	4.79%
1998	5.58%	11.66%	6.08%
1999	5.87%	10.77%	4.90%
2000	5.94%	11.43%	5.49%
2001	5.49%	11.09%	5.60%
2002	5.43%	11.16%	5.73%
2003	4.96%	10.97%	6.01%
2004	5.04%	10.75%	5.71%
2005	4.64%	10.54%	5.90%
2006	4.91%	10.36%	5.45%
2007	4.84%	10.36%	5.52%
2008	4.28%	10.46%	6.18%
2009	4.08%	10.48%	6.40%
2010	4.25%	10.34%	6.09%
2011	3.91%	10.29%	6.38%
2012	2.92%	10.17%	7.25%
2013	3.45%	10.02%	6.57%
2014	3.34%	9.92%	6.58%
2015	2.84%	9.85%	7.01%
2016	2.60%	9.74%	7.14%
2017	2.90%	9.70%	6.80%
2018	3.11%	9.52%	6.41%
2019	2.58%	9.65%	7.07%
2020	1.51%	9.44%	7.93%
AVERAGE	6.40%	11.57%	5.27%



	G	
DESCRIPTION		3 MONTH AVERAGE
CURRENT 30 YEAR US TREASURY	2.04%	1.93%
AVERAGE YIELD IN STUDY PERIOD	6.40%	6.40%
INTEREST RATE DELTA	-4.36%	-4.47%
INTEREST RATE CHANGE IN STUDY	-0.41600946	-0.41600946
ADJUSTMENT TO RISK PREMIUM	1.82%	1.86%
BASIC RISK PREMIUM PER STUDY	5.27%	5.27%
ADJUSTED RISK PREMIUM	7.08%	7.13%
RISK PREMIUM EQUITY RETURN	**9.12%**	**9.06%**

SOURCES:

COLUMNS A: www.federalreserve.gov (H-15 data)

COLUMNS B: EDISON ELECTRIC INSTITUTE RATE CASE SUMMARY Q4 2019 RRA REPORT

COLUMNS C: Column B less Column A

COLUMNS G CURRENT YIELDS: SCHEDULE (DJL-3) 3 MONTH AVERAGE; AND CURRENT YIELD OR SPOT YIELD IS THE YIELD AT October 2021 YIELD.

INTEREST RATE CHANGE: RATE OF CHANGE SLOPE OF RISK PREMIUM TO YIELD

EL PASO ELECTRIC COMPANY
PUBLIC UTILITY COMMISSION OF TEXAS
PUCT DOCKET NO. 52195 SOAH DOCKET NO. 473-21-2606
TEST YEAR ENDED DECEMBER 31, 2020
FINANCIAL METRICS

		A	B	C	D	E	F	G
		COMPANY REQUESTED CAPITAL STRUCTURE COST RATES AND RETURN						
LINE NO.	DESCRIPTION	CAPITAL	RATIO	COST RATE	WEIGHTED COST	RETURN	WEIGHTED COST w/FIT GROSS UP @ 21%	RETURN W/FIT GROSS UP @ 21%
1	LONG TERM DEBT	$1,001,511,821	49.00%	5.576%	2.732%	$55,844,299	2.732%	$55,844,299
2	COMMON EQUITY	$1,042,389,855	51.00%	10.300%	5.253%	$107,366,155	6.744%	$137,844,078
3	TOTAL CAPITAL	$2,043,901,676	100.00%		7.985%	$163,210,454	9.476%	$193,688,377
4	RATE BASE			$2,043,901,676				
5	Capital Structure PER SCHEDULE K.							
6	RATE BASE PER SCHEDULE A-1							

		A	B	C	D	E	F	G
7		ALTERNATIVE COST OF CAPITAL WITH EQUITY RETURN @ 9.00%						
8	DESCRIPTION	CAPITAL	RATIO	COST RATE	WEIGHTED COST	RETURN	WEIGHTED COST w/FIT	RETURN W/FIT
9	LONG TERM DEBT	$1,001,511,821	49.00%	5.576%	2.732%	$55,844,299	2.732%	$55,844,299
10	COMMON EQUITY	$1,042,389,855	51.00%	9.000%	4.590%	$93,815,087	5.893%	$120,446,282
11	TOTAL CAPITAL	$2,043,901,676	100.00%		7.322%	$149,659,386	8.625%	$176,290,581
12	RATE BASE			$2,043,901,676		($13,551,068)		($17,397,796)

		A	B	C		
LINE NO.		COMPANY FINANCIALS REQUESTED & CASH FLOWS ($000's)	ADJUSTED COMPANY FINANCIALS REQUESTED & CASH FLOWS ($000's)	Difference	SOURCES COL. A	SOURCES COL. B
21	RATE BASE	$2,043,901,676	$2,043,901,676	$0	LINE 4, COLUMN C	LINE 12, COLUMN C.
22	RETURN	$163,210,454	$149,659,386	($13,551,068)	LINE 3, COLUMN E	LINE 11 COLUMN E
23	RETURN/W FIT	$193,688,377	$176,290,581	($17,397,796)	LINE 3, COLUMN G	LINE 11, COLUMN G
24	DEPRECIATION & AMOTIZ.	$99,088,920	$99,088,920	$0	SCHEDULE A-1, line 19	SCHEDULE A-1, line 19
25	EARNINGS BEFORE INTEREST, TAXES, DEPREC, AMORT	$292,777,297	$275,379,501	($17,397,796)	LINE 3, COLUMN G PLUS DEPRECIATION @ LINE 24 COLUMN A	LINE 11, COLUMN g PLUS DEPRECIATION @ LINE 24 COLUMN B
26	CURRENT DEFERRED INCOME TAXES	$5,721,725	$5,721,725	$0	EPE FILING SCHEDULE A-1, LINE 27 COLUMN F	EPE FILING SCHEDULE A-1, LINE 27 COLUMN F
27	FUNDS FROM OPERATIONS FFO	$212,176,800	$198,625,732	($13,551,068)	LINE 3, COLUMN E PLUS DEPRECIATION AND DEFERRED TAXES LESS INTEREST	LINE 11, COLUMN E PLUS DEPRECIATION AND DEFERRED TAXES LESS INTEREST
28	TOTAL DEBT	$1,001,511,821	$1,001,511,821	$0	CAPITAL STRUCTURE LINE 1 COL A	CAPITAL STRUCTURE LINE 9 COL A
29	TOTAL INTEREST ESTMATED	$55,844,299	$55,844,299	$0	CAPITAL STRUCTURE, LIN 1COL E	CAPITAL STRUCTURE, LIN 9 COL E
		(D) EPE FILED CASE FINANCIAL	(E) ALTERNATIVE FINANCIAL			
30	FINANCIAL METRICS	METRIC RESULTS	METRIC RESULTS			
31	FFO/DEBT (%) [excludes interest]	21%	20%			
32	DEBT/EBITDA(x)	3.421	3.637			
	FFO/ INTEREST COVERAGE(x) PER FITCH					
33	RATINGS	3.799	3.557			
34	DEBT/FFO	4.720	5.042			

SOURCES

COLUMNS D ROW 31: COL. A:27/A:28

COLUMNS D ROW 32: COL. A:28/A:25

COLUMNS D ROW 33: COL. A:27/A:29

COLUMNS D ROW 34: COL. A:28/A:27

EL PASO ELECTRIC COMPANY
PUBLIC UTILITY COMMISSION OF TEXAS
PUCT DOCKET NO. 52195 SOAH DOCKET NO. 473-21-2606
TEST YEAR ENDED DECEMBER 31, 2020
EL PASO PROPOSED DCF MODEL RESULTS ADJUSTED FOR OUTLIERS
EPE WITNESS NELSON CONSTANT GROWTH DCF MODEL RESULTS ADJUSTED FOR OUTLIERS

		30-DAY STOCK PRICE				60-DAY STOCK PRICE				180-DAY STOCK PRICE		
Company	Ticker	LOW ROE	MEAN ROE	HIGH ROE		LOW ROE	MEAN ROE	HIGH ROE		LOW ROE	MEAN ROE	HIGH ROE
ALLETE, Inc.	ALE	9.93%	10.44%	10.95%		10.09%	10.60%	11.11%		10.38%	10.89%	11.40%
Alliant Energy Corporation	LNT	8.79%	8.96%	9.09%		8.78%	8.95%	9.08%		8.67%	8.84%	8.98%
Ameren Corporation	AEE	8.98%	9.93%	10.50%		8.99%	9.93%	10.51%		8.90%	9.85%	10.42%
American Electric Power Company, Inc.	AEP	9.47%	9.89%	10.28%		9.44%	9.86%	10.25%		9.35%	9.78%	10.17%
Avista Corporation	AVA		8.92%	10.93%			9.22%	11.23%			9.48%	11.49%
CMS Energy Corporation	CMS	10.04%	10.34%	10.65%		9.99%	10.29%	10.60%		9.88%	10.18%	10.48%
DTE Energy Company	DTE	9.24%	9.46%	9.60%		9.31%	9.53%	9.66%		9.38%	9.60%	9.74%
Duke Energy Corporation	DUK	9.34%	9.41%	9.55%		9.32%	9.39%	9.53%		9.43%	9.51%	9.65%
Entergy Corporation	ETR		8.67%	9.66%			8.52%	9.51%			8.43%	9.41%
Evergy, Inc	EVRG	9.52%	10.41%	11.92%		9.64%	10.53%	12.04%		9.65%	10.53%	12.04%
Hawaiian Electric Industries, Inc.	HE											
IDACORP, Inc.	IDA			7.58%				7.65%				7.72%
NextEra Energy, Inc.	NEE	9.96%	11.14%			9.88%	11.06%			9.95%	11.12%	
NorthWestern Corporation	NWE		7.91%	8.67%			8.13%	8.90%			8.34%	9.10%
OGE Energy Corp.	OGE	8.99%	9.26%	9.60%		8.96%	9.23%	9.58%		8.96%	9.23%	9.57%
Otter Tail Corporation	OTTR	10.68%	11.69%			10.80%	11.82%			10.96%	11.98%	
Pinnacle West Capital Corporation	PNW	7.76%	8.17%	8.89%		7.70%	8.11%	8.82%		7.68%	8.09%	8.80%
Portland General Electric Company	POR	7.69%				7.86%				8.02%		
The Southern Company	SO	7.87%	9.39%	10.92%		7.83%	9.36%	10.89%		7.99%	9.52%	11.05%
WEC Energy Group, Inc.	WEC	9.31%	9.44%	9.72%		9.24%	9.37%	9.64%		9.11%	9.24%	9.51%
Xcel Energy Inc.	XEL	9.02%	9.19%	9.32%		8.93%	9.10%	9.24%		8.80%	8.97%	9.11%
Proxy Group Mean Adjusted		**9.16%**	**9.59%**	**9.87%**		**9.17%**	**9.61%**	**9.90%**		**9.19%**	**9.64%**	**9.92%**
Proxy Group Median Adjusted		**9.28%**	**9.43%**	**9.66%**		**9.28%**	**9.38%**	**9.64%**		**9.23%**	**9.52%**	**9.65%**
Average of the Proxy Group Mean and Median Adjusted		**9.22%**	**9.51%**	**9.77%**		**9.22%**	**9.50%**	**9.77%**		**9.21%**	**9.58%**	**9.79%**

SOURCE EXHIBIT JEN-2 WHERE ALL OBSERVATIONS OUTSIDE THE 7.5% TO 12.5% RANGE ARE REMOVED

EPE WITNESS NELSON QUARTERLY GROWTH DCF MODEL RESULTS ADJUSTED FOR OUTLIERS

		30-DAY STOCK PRICE				60-DAY STOCK PRICE				180-DAY STOCK PRICE		
Company	Ticker	LOW ROE	MEAN ROE	HIGH ROE		LOW ROE	MEAN ROE	HIGH ROE		LOW ROE	MEAN ROE	HIGH ROE
ALLETE, Inc.	ALE	10.13%	10.66%	11.19%		10.31%	10.83%	11.36%		10.61%	11.14%	11.67%
Alliant Energy Corporation	LNT	8.84%	9.01%	9.15%		8.83%	9.01%	9.14%		8.72%	8.90%	9.04%
Ameren Corporation	AEE	8.96%	9.93%	10.52%		8.97%	9.94%	10.53%		8.88%	9.85%	10.44%
American Electric Power Company, Inc.	AEP	9.60%	10.04%	10.44%		9.57%	10.01%	10.41%		9.48%	9.92%	10.32%
Avista Corporation	AVA		9.02%	11.10%			9.33%	11.42%			9.61%	11.70%
CMS Energy Corporation	CMS	10.11%	10.41%	10.73%		10.05%	10.36%	10.68%		9.94%	10.25%	10.56%
DTE Energy Company	DTE	9.34%	9.57%	9.71%		9.41%	9.64%	9.78%		9.49%	9.72%	9.86%
Duke Energy Corporation	DUK	9.57%	9.65%	9.80%		9.56%	9.63%	9.76%		9.68%	9.76%	9.90%
Entergy Corporation	ETR		8.86%	9.88%			8.70%	9.72%		6.98%	8.60%	9.62%
Evergy, Inc	EVRG	9.66%	10.57%	12.13%		9.78%	10.70%	12.26%		9.79%	10.70%	12.27%
Hawaiian Electric Industries, Inc.	HE											
IDACORP, Inc.	IDA			7.65%				7.72%				7.79%
NextEra Energy, Inc.	NEE	9.97%	11.16%	12.74%		9.89%	11.08%			9.96%	11.15%	
NorthWestern Corporation	NWE		8.01%	8.80%			8.24%	9.03%			8.45%	9.24%
OGE Energy Corp.	OGE	9.21%	9.50%	9.86%		9.19%	9.47%	9.83%		9.18%	9.47%	9.82%
Otter Tail Corporation	OTTR	10.80%	11.85%			10.93%	11.98%			11.10%	12.15%	
Pinnacle West Capital Corporation	PNW	7.84%	8.26%	9.00%		7.77%	8.20%	8.94%		7.75%	8.17%	8.91%
Portland General Electric Company	POR	7.81%				7.99%				8.16%		
The Southern Company	SO	8.07%	9.66%	11.25%		8.04%	9.63%	11.21%		8.20%	9.80%	11.38%
WEC Energy Group, Inc.	WEC	9.35%	9.49%	9.77%		9.28%	9.41%	9.69%		9.14%	9.28%	9.56%
Xcel Energy Inc.	XEL	9.07%	9.24%	9.38%		8.98%	9.15%	9.29%		8.85%	9.02%	9.16%
Proxy Group Mean Adjusted		**9.27%**	**9.72%**	**10.17%**		**9.28%**	**9.74%**	**10.05%**		**9.17%**	**9.77%**	**10.07%**
Proxy Group Median Adjusted		**9.35%**	**9.61%**	**9.87%**		**9.35%**	**9.63%**	**9.78%**		**9.18%**	**9.74%**	**9.86%**
Average of the Proxy Group Mean and Median Adjusted		**9.31%**	**9.66%**	**10.02%**		**9.31%**	**9.68%**	**9.91%**		**9.18%**	**9.76%**	**9.97%**

SOURCE EXHIBIT JEN-3 WHERE ALL OBSERVATIONS OUTSIDE THE 7.5% TO 12.5% RANGE ARE REMOVED

EL PASO ELECTRIC COMPANY
PUBLIC UTILITY COMMISSION OF TEXAS
PUCT DOCKET NO. 52195 SOAH DOCKET NO. 473-21-2606
TEST YEAR ENDED DECEMBER 31, 2020

BOND YIELD PLUS RISK PREMIUM ESTIMATES

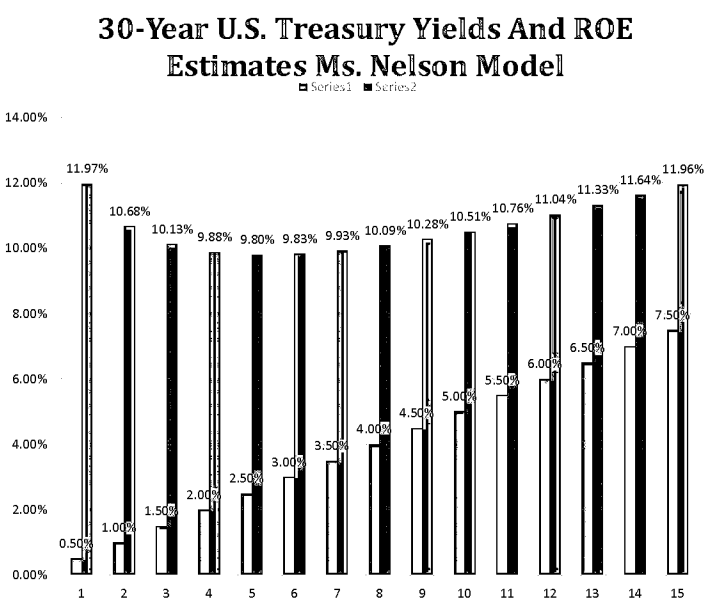
EMPLOYING WITNESS NELSON'S MODEL

WITNESS NELSON'S MODEL AND RESULTS AS PROPOSED AT EXHIBIT JEN-6

Constant	Slope	30-Year Treasury Yield	Risk Premium	Return on Equity Estimate
-2.25%	-2.59%			
Current 30-Year Treasury		2.31%	7.51%	9.82%
Projected 30-Year Treasury		2.88%	6.94%	9.82%

WITNESS NELSON'S MODEL RESULTS AT ALTERNATIVE U.S. TREASURY YIELDS

Constant	Slope	30-Year Treasury Yield	Risk Premium	Return on Equity Estimate
-2.25%	-2.59%			
Current 30-Year Treasury		2.31%	7.51%	9.82%
Projected 30-Year Treasury		2.88%	6.94%	9.82%
		0.50%	11.47%	11.97%
		1.00%	9.68%	10.68%
		1.50%	8.63%	10.13%
		2.00%	7.88%	9.88%
		2.50%	7.30%	9.80%
		3.00%	6.83%	9.83%
		3.50%	6.43%	9.93%
		4.00%	6.09%	10.09%
		4.50%	5.78%	10.28%
		5.00%	5.51%	10.51%
		5.50%	5.26%	10.76%
		6.00%	5.04%	11.04%
		6.50%	4.83%	11.33%
		7.00%	4.64%	11.64%
		7.50%	4.46%	11.96%



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