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APPLICATION OF EL PASO ELECTRIC COMPANY TO CHANGE RATES	**§ § §**	**BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS**

REDACTED

DIRECT TESTIMONY

AND WORKPAPERS

OF

CONSTANCE T. CANNADY

ON BEHALF OF THE

OFFICE OF PUBLIC UTILITY COUNSEL

REVENUE REQUIREMENT ISSUES

OCTOBER 22, 2021

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REDACTED
DIRECT TESTIMONY AND WORKPAPERS OF
CONSTANCE T. CANNADY

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I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Constance T. Cannady. I am an Executive Consultant with NewGen Strategies & Solutions, LLC. My office is located at 2803 Bowie Street, Amarillo, Texas 79109.

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

A. I am presenting testimony on behalf of the Office of Public Utility Counsel ("OPUC").

Q. PLEASE OUTLINE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. Attachment A provides a description of my qualifications and education, and a list of dockets in which I have provided expert witness testimony.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE A REGULATORY AGENCY?

A. Yes, I have. Attachment A includes a list of dockets in which I have provided expert witness testimony before the Public Utility Commission of Texas (the "Commission" or "PUCT") and other regulatory bodies.

II. PURPOSE AND SCOPE

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

A. The purpose of my testimony is to present my analysis, findings, and recommendations with respect to El Paso Electric Company's ("EPE" or the "Company") request to increase its Texas Retail base rates. Specifically, I address EPE's proposed treatment of the following expenses based on the Total Company calculations:

1. Rate treatment for three generating plants scheduled for retirement in 2022;
2. Fuel oil inventory for the Newman Station generating plants;
3. Capitalized non-qualified deferred compensation pension benefits;
4. Annual operating expenses for generating plants scheduled for retirement in 2022;
5. Annual level of wages and salaries;
6. Annual short-term incentive compensation;
7. Annual employee benefits expenses;
8. Non-recurring oil spill clean-up expenses;
9. Short-term debt as a component of capital structure;
10. Estimated attendant impacts of other adjustments; and
11. Calculation of excess accumulated deferred federal income taxes ("EADFIT") for base rates and Tax Rider.

Q. IF YOU DO NOT ADDRESS AN ISSUE OR POSITION IN YOUR TESTIMONY, SHOULD THAT BE INTERPRETED AS SUPPORTING THE COMPANY'S POSITION ON THAT ISSUE?

A. No. Any cost or adjustment included in EPE's Rate Filing Package ("RFP") that is not addressed in my testimony does not indicate my acquiescence to EPE's proposed cost or adjustment.

III. SUMMARY AND RECOMMENDATIONS

Q. PLEASE SUMMARIZE YOUR OVERALL RECOMMENDATIONS THAT IMPACT EPE'S PROPOSED TEXAS RETAIL REVENUE REQUIREMENTS.

A. Based on the Company's RFP, EPE requests an increase of $54,582,300 to its Total Company revenue requirement.[1] After application of the Texas jurisdictional cost allocators included in the RFP, Schedule P-1, the request results in a base rate increase of $41,817,778[2] to the Texas retail revenue requirement. As shown on Schedule CTC-1, I recommend a decrease of $22,781,753 to EPE's requested Total Company revenue requirement.[3] I also recommend that the balances of excess accumulated deferred federal income taxes ("EADFIT") be adjusted to appropriately reflect EADFIT balances that should be classified as "protected" pursuant to the Internal Revenue Service ("IRS") normalization rules, and those that are not, and therefore "unprotected." The Company's proposed EADFIT balances to be refunded via the proposed tax rider should be adjusted appropriately.

More specifically, my recommendations include:

- Remove the costs related to the retiring plants from base rates and develop a separate rate rider;
- Remove any capitalized non-qualified deferred compensation benefits expense from plant in service;
- Remove the cost related to the fuel oil inventory as fuel oil will no longer be used at the Newman generating plants;
- Adjust the level of wages and salaries to reflect normalized costs;
- Adjust the level of annual short-term incentive ("STI") compensation to reflect appropriate removal of financially based STI compensation awards;

[1] EPE Rate Filing Package ("RFP"), Schedule A.

[2] *Id.*, Schedule A-1.

[3] Schedule CTC-1 (Summary of recommended Adjustments to Total Company Revenue Requirements); NOTE: Application of the appropriate jurisdictional cost allocation study is necessary to determine the Texas Retail revenue requirement resulting from my Total Company recommended adjustments.

- Adjust benefits expenses to remove benefits disallowed by the Commission or inappropriately included in customer rates;
- Remove the cost of clean-up for the Newman generating station oil spill;
- Include the weighted average cost of short-term debt in the capital structure used to determine the rate of return;
- Estimate flow through adjustments for taxes other than income, cash working capital, and income taxes; and
- Develop the ratepayers refund to be provided via the proposed tax rider to reflect the appropriate classification of EADFIT as protected and unprotected and recommend disapproval of automatic adjustments to the tax rider for changes in the federal corporate income tax rate.

IV. RECOMMENDED ADJUSTMENTS TO RATE BASE

Q. PLEASE SUMMARIZE YOUR RECOMMENDED ADJUSTMENTS TO EPE'S PROPOSED TOTAL COMPANY RATE BASE.

A. As shown on Schedule CTC-2, I am recommending a Total Company rate base of $2.5892 billion, which is a reduction of $21.8 million[4] to EPE's Total Company rate base of $2.6110 billion.[5] My primary adjustments include the removal of the net investment related to three generating plants that EPE states will likely be retired at the end of 2022.[6] Base rates should not include a return *on* these assets that will no longer be providing service to ratepayers after 2022. Instead, I am recommending that the operations of these three plants be charged to ratepayers via a separate rider until such time that the plants are retired. I

[4] Schedule CTC-2.

[5] RFP, Schedule B-1.

[6] See Attachment B, EPE Response to Commission Staff RFI No. 7-4.

am also recommending that any capitalized expenses related to non-qualified pension benefits be removed from rate base as inappropriate benefit expenses for which ratepayers should not be responsible. Additionally, I recommend that all fuel oil inventory at the Newman Station be removed from rate base, as it is no longer available for use as of the first quarter of 2020.[7] My adjustments to the Company proposed cash working capital and accumulated deferred income taxes are based on the estimated attendant impacts of my primary adjustments.

A. <u>ADJUSTMENT TO REMOVE COSTS RELATED TO GENERATING PLANT RETIREMENTS</u>

Q. PLEASE EXPLAIN YOUR RECOMMENDED ADJUSTMENT TO RATE BASE FOR PLANNED PLANT RETIREMENTS.

A. Based on discovery responses provided by EPE in this proceeding, it is my understanding that as of the filing of its Application, EPE had planned retirements at the end of 2022 for three generating plants; Newman Unit 1, Newman Unit 2 and Rio Grande Unit 7.[8] In EPE's 2021 Integrated Resource Plan, the retirement date for Newman Unit 1 could be extended for five years, but the final decision to continue to operate Newman Unit 1 beyond December 2022 will depend on evaluating other potential generation resources in the future.[9] Given this uncertainty, I am recommending that the costs related to all three generating plants be removed from base rates. As shown on Schedule CTC-3A, I have

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7 RFP, Schedule E-2.3.

8 See Attachment B, EPE Response to Commission Staff RFI No. 7-4.

9 *Id.*

reduced EPE's Total Company net plant in service by $11,605,618[10] to remove the associated net plant costs that were included in the Company's requested net plant in service.[11]

Q. ARE THESE THE ONLY ADJUSTMENTS YOU HAVE MADE TO REMOVE THE COSTS RELATED TO THESE THREE RETIRING PLANTS?

A. No. I also removed the operations and maintenance ("O&M") expense, depreciation and taxes other than income identified by the Company as being included for these plant operations in EPE's rate request.[12] However, there may be other attendant impacts that should be quantified by the Company if the Commission agrees with my proposed rate treatment. Other attendant impacts may include adjustments to accumulated deferred income taxes, materials and supplies or other costs directly related to these plants.

Q. ARE YOU RECOMMENDING THAT ANY RECOVERY OF THE COSTS RELATED TO THESE THREE GENERATING PLANTS BE DENIED BY THE COMMISSION?

A. No. I recommend that rate recovery for the assets and O&M costs associated with these three generating plants be accomplished through a separate retirement rate rider ("RET Rate Rider") that allows for charging Texas retail customers the costs to operate these facilities during the period that the generating plants remain used and useful in providing electric service to Texas retail customers. In contrast, EPE's proposal to allow the assets and O&M costs related to the retiring plants to remain in the total Company and Texas

[10] Schedule CTC-3.

[11] See Attachment C, EPE Response to Commission Staff RFI No. 7-5.

[12] Schedule CTC-5 and Attachment C, EPE Response to Commission Staff RFI No. 7-5.

retail revenue requirement will permit EPE to recover these asset and O&M costs until the Company files an application for new base rates. Based on the general requirement that base rate requests be filed every four years,[13] and the Company's original plans to retire all three plants by December 31, 2022, EPE's proposed rate treatment of the costs associated with the retiring plants would allow the Company to earn a return on the current balance of the assets and the test year O&M expenses well after these generating plants are no longer used and useful in providing electric service to Texas retail customers.

Q. WHY DO YOU BELIEVE THAT A SEPARATE RET RATE RIDER PROVIDES EQUITABLE TREATMENT TO BOTH THE COMPANY AND TEXAS RATEPAYERS?

A. The use of a separate rate rider allows EPE to earn a return on the generating plant assets and recover O&M expenses necessary to operate the generating plants, but only for the period that these plants are used and useful in providing electric service to Texas retail customers. The RET Rate Rider can be discontinued upon the actual retirement of the plants. The only remaining costs for EPE to recover from Texas retail customers would be the net book value of the retired assets at the time of retirement. I recommend that EPE book these remaining costs into a regulatory asset, the recovery of which should be determined in EPE's next general base rate case. As shown on Schedule CTC-3A, and assuming a net asset value on December 31, 2022, the regulatory asset would be approximately $8.8 million.[14]

[13] 16 Texas Administrative Code ("TAC") § 25.246.

[14] Schedule CTC-3.

Q. PLEASE EXPLAIN YOUR METHODOLOGY FOR DEVELOPING THE RET RATE RIDER.

A. As shown on Schedule CTC-3B and as I have discussed, I recommend that the RET Rate Rider include the net investment in Newman Unit 1, Newman Unit 2 and Rio Grande Unit 7 as of the end of the test year as well as the O&M expense, depreciation and taxes other than income as identified by the Company.[15] I have computed the return and federal income tax using a pre-tax rate of return that incorporates my recommended adjustments to EPE's proposed capital structure and cost of debt.[16] On a Total Company basis, the RET Rate Rider is estimated to recover approximately $7.95 million annually until retirement. Because the RET Rate Rider would cease to be charged to ratepayers upon retirement of the generating plants, ratepayers will only provide a return on these assets if the plants are providing electric service. With retirement, ratepayers would only be responsible for the undepreciated value of the plant assets, without the inclusion of a return component.

Q. HOW CAN THE UNCERTAINTY OF FINAL RETIREMENT OF NEWMAN UNIT 1 BE EFFECTIVELY TREATED WITH THE RET RATE RIDER?

A. Based on my recommended methodology for developing the RET Rate Rider, the components of each retiring plant will be specifically identified. To the extent that Newman Unit 1 provides any electric service to Texas ratepayers beyond the retirement of Newman Unit 2 and Rio Grande Unit 7, the specific costs for Newman Unit 1, as identified

[15] See Attachment C, EPE Response to Commission Staff RFI No. 7-5.

[16] Schedule CTC-3B.

on Schedule CTC-3B, can continue to be charged through an adjusted RET Rate Rider calculation.

Q. IS THERE COMMISSION PRECEDENT TO DISALLOW A RETURN ON ELECTRIC PLANT THAT IS NO LONGER PROVIDING SERVICE TO RATEPAYERS, BUT PROVIDE FOR THE RECOVERY OF THE UNDEPRECIATED COSTS OF THE PLANT ASSETS AT RETIREMENT?

A. Yes. In Docket No. 46449, the Commission's decision disallowed any return *on*, but provided for the recovery *of* the undepreciated costs for Southwestern Electric Power Company's ("SWEPCO") Welsh Unit 2, which had retired by the end of the test year in that proceeding.[17] In the Order on Rehearing, the Commission specifically stated that SWEPCO would not be allowed to earn a return on a plant that was no longer used and useful as follows:

> 69. Allowing SWEPCO a return of, but not on, its remaining investment in Welsh unit 2 balances the interests of ratepayers and shareholders with respect to a plant that no longer provides service.[18]

Q. ARE YOU RECOMMENDING A SIMILAR BASE RATE TREATMENT FOR THE GENERATING PLANTS THAT MAY RETIRE BY THE END OF 2022?

A. Yes. As with the treatment adopted by the Commission for Welsh Unit 2, I am recommending that EPE be authorized to recover the undepreciated asset balances for each of the retiring plants at their actual time of retirement. The estimated undepreciated balance shown on Schedule CTC-3A is only an estimate and should be computed as of the actual

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[17] *Application of Southwestern Electric Power Company for Authority to Change Rates and Reconcile Fuel Costs*, Docket No. 46449, Order on Rehearing at Finding of Fact ("FOF") No. 69 (Mar. 19, 2018).

[18] *Id.* at FOF No. 69.

retirement date for each generating plant. The actual undepreciated balances should be afforded rate recovery in EPE's next general base rate case without any additional carrying charges.

B. <u>ADJUSTMENT TO REMOVE CAPITALIZED NON-QUALIFIED DEFERRED COMPENSATION ("NQDC") COSTS</u>

Q. PLEASE DESCRIBE WHAT IS MEANT BY NON-QUALIFIED DEFERRED COMPENSATION COSTS.

A. As described in the Direct Testimony of EPE witness Ms. Cynthia S. Prieto, EPE offers two pension benefit plans that are non-funded defined benefit plans.[19] Typically, these types of non-funded defined benefit plans are classified as NQDC because the plans are established for highly paid management to supplement the already provided pension and retirement benefits afforded to all employees.

NQDC benefit plans are established because the Company has a limit as to how much retirement it can provide and deduct for tax purposes under the Employee Retirement Income Security Act ("ERISA"). In addition, NQDC benefit plans are not covered by ERISA's requirements that certain funding levels be maintained.

Q. WHY ARE YOU RECOMMENDING AN ADJUSTMENT TO RATE BASE FOR THE BENEFITS EXPENSE RELATED TO EPE'S NQDC PLANS?

A. As will be discussed later in my testimony, I am recommending that the cost of NQDC benefits plans be removed from the employee benefits expense in this proceeding.[20] As with any employee related expense for which only a portion of the total cost are included

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[19] Direct Testimony of Cynthia S. Prieto, p. 11.

[20] Schedule CTC-8.

in O&M expense, there is a corresponding amount that has been capitalized. Therefore, I recommend that the capitalized portion of the NQDC benefit plans be removed from rate base. Based on the Company's response to Commission Staff RFI No. 12-1, EPE has capitalized $2,041,715 of NQDC costs into rate base from 2016 through the test year end.[21] Therefore, my recommended adjustment is to remove this amount from rate base as shown on Schedule CTC-3C.

Q. HAS THE COMMISSION RENDERED ANY DECISIONS WITH RESPECT TO REMOVING CAPITALIZED NQDC BENEFIT EXPENSE?

A. Yes. In Docket No. 46449, the Commission's Order on Rehearing included the following finding:

> "129. The capitalized portion of SWEPCO's supplemental-executive-retirement-plan (SERP) payments that are financially based are properly excluded from SWEPCO's rate base because they are not reasonable or necessary to provide utility service to the public, are not in the public interest, and should not be included in SWEPCO's cost of service."[22]

Similarly, EPE's capitalized NQDC benefits expense should be removed from rate base as it is not necessary to provide electric service to ratepayers, and these costs result from providing additional financial benefits to executives and highly paid management that are not generally available to EPE employees at large.

C. <u>ADJUSTMENT TO REMOVE FUEL OIL INVENTORY</u>

Q. PLEASE DESCRIBE THE COMPANY'S PROPOSAL WITH RESPECT TO THE FUEL OIL INVENTORY FOR THE NEWMAN STATION.

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[21] See Attachment D, EPE Response to Commission Staff RFI No. 12-1.

[22] *Application of Southwestern Electric Power Company for Authority to Change Rates and Reconcile Fuel Costs*, Docket No. 46449, Order on Rehearing at FOF No. 129 (Mar. 19, 2018).

A. It is my understanding that EPE is including a total fuel inventory of $1,749,819 in its Total Company rate base, which includes the 13-month average inventory values for fuel oil, natural gas, diesel fuel, and an allowance for environmental inventory.[23] As shown on Schedule CTC-4, the fuel oil, natural gas and diesel inventories comprise $1,701,756[24] of the total, with fuel oil representing approximately $652,096 of the EPE's total requested fuel stock inventory.[25]

Q. WHAT ARE YOU RECOMMENDING WITH RESPECT TO THE FUEL OIL INVENTORY?

A. I am recommending that the 13-month average value of $652,096 in fuel oil inventory be removed from EPE's proposed Total Company rate base as shown on Schedule CTC-2.[26]

Q. PLEASE EXPLAIN.

A. Based on the information provided in the Rate Filing Package, Schedule E-2.3, the fuel oil was previously used at the Newman Station. However, as of the first quarter of 2020, the fuel oil can no longer be burned by the Newman Station.[27] Therefore, the fuel oil inventory is no longer used and useful in providing service to ratepayers.

Q. WHAT EXPLANATION DID THE COMPANY PROVIDE WITH RESPECT TO THE DISCONTINUANCE OF FUEL OIL USAGE?

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[23] RFP, Schedule E-1.1, p. 4.

[24] *Id.*

[25] The estimated 13-month average for fuel oil inventory is based on the twelve-month period from January 2020 through December 2020 as provided in the Rate Filing Package, Schedule E-2.4 and an estimated December 2019 as shown on Cannady Workpapers, Tab "Fuel Inv."

[26] Schedule CTC-2.

[27] RFP, Schedule E-2.3, p. 1.

A. EPE experienced a fuel oil spill at the Newman Station in early 2020 due to a failure in the fuel oil forwarding pump.[28] Based on the Company's assessment of the costs to repair the pump, EPE made the decision to discontinue using fuel oil as an alternative fuel at the Newman Station.[29] In 2021, EPE received and selected a bid to remove the fuel oil inventory, whereby the contractor will take possession of the entire inventory in exchange for any clean-up costs.[30] As a result, the fuel oil inventory included in EPE's proposed rate base will not even be owned by EPE during the period the rates from this proceeding will be in effect.

D. <u>OTHER RATE BASE ADJUSTMENTS</u>

Q. ARE YOU RECOMMENDING ANY ADDITIONAL ADJUSTMENTS TO THE COMPANY'S PROPOSED TOTAL COMPANY RATE BASE?

A. Yes. To provide the attendant impacts of my recommended adjustments to rate base, capital structure, O&M expenses and taxes, I have adjusted several components of rate base. As will be discussed later in my testimony, I have adjusted the amount of short-term incentive compensation for the year, which has a corresponding capital adjustment of $536,191 that I have removed from plant in service.[31] I have also adjusted the Company's proposed cash working capital study, as adjusted by EPE's Errata No. 2 to its Application filed on October 1, 2021,[32] to reflect my recommended adjustment to rate base, O&M expense, capital

[28] *Id.*

[29] *Id.*

[30] See Attachment E, EPE Response to CEP RFI No. 11-10.

[31] Schedule CTC-3.

[32] EPE's Errata No. 2 to its Application, correction to the net revenue lag days from 44.4 to 44.

structure, taxes other than income and income taxes. As shown on Schedule CTC-2, my estimated adjustment to EPE's proposed cash working capital reduces the Total Company rate base by $1,449,022.[33] I have also adjusted EPE's proposed balance of accumulated deferred income taxes ("ADIT") by $5,541,093 to account for my recommended adjustments to EPE proposed level of employee benefits.[34] I note that these are estimated attendant impacts based on my ability to quantify the amounts related to my recommended adjustments. As I have already testified, one example of an additional attendant impact could be the amount of ADIT that is specifically related to the retiring generating plants. These balances should also be removed from rate base and receive rate treatment via my recommended RET Rate Rider.[35]

V. RECOMMENDED ADJUSTMENTS TO O&M AND DEPRECIATON EXPENSE

Q. PLEASE SUMMARIZE YOUR RECOMMENDED ADJUSTMENTS TO EPE'S PROPOSED TOTAL COMPANY O&M AND DEPRECIATION EXPENSE.

A. As shown on Schedule CTC-1, I recommend that the Company's proposed total Company O&M expense be reduced by $9.7 million[36] from the Company's proposed $515.7 million[37] to my recommended Total Company O&M expense of $506 million.[38] With respect to

[33] Schedule CTC-2 and Cannady Workpapers, Tab "C2Adj. to Exhibit DSD-2."

[34] Schedule CTC-5.

[35] As of the writing of this testimony, I have requested the ADIT balances for each of the retiring plants but have not yet received a response. See OPUC RFI No. 11-3.

[36] Schedule CTC-1.

[37] RFP, Schedule A.

[38] RFP, Schedule B-1.

EPE's proposed Total Company depreciation expense, I removed the annual depreciation expense for each of the retiring generating plants for a total reduction to base rate depreciation expense of $1,412,814.[39] In addition to my recommended removal of O&M expenses related to the retiring plants, I recommend adjustments based on the following:

A. Adjustment to Wage and Salary Expense;
B. Adjustment to Short-Term Incentive Expense;
C. Adjustment to Employee Benefits Expense; and
D. Adjustment to Remove Newman Oil Spill Expense.

A. ADJUSTMENT TO WAGE AND SALARY EXPENSE

Q. PLEASE EXPLAIN EPE'S ADJUSTMENT TO ANNUALIZE ITS SALARY AND WAGE EXPENSE.

A. As discussed by EPE Witness Ms. Prieto, EPE annualized its base wage and salary expense using the monthly base payroll as of February 1, 2021.[40] Added to the base level of wages and salaries is the test year level of overtime and the test year level of payments in lieu of Paid Time Off ("PTO").[41] After application of the Company's budgeted payroll expense ratio of 74.95%, EPE proposes a Total Company annualized payroll expense of $82,425,568, excluding incentive compensation.[42]

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED ANNUALIZED WAGES AND SALARY EXPENSE EXCLUDING INCENTIVE COMPENSATION?

[39] Schedule CTC-1 and Schedule CTC-3A. Note: The depreciation expense for each of the retiring generating plants will be included in the RET Rate Rider until the plants are no longer providing service.

[40] Direct Testimony of Cynthia S. Prieto, p. 7.

[41] RFP, WP/A-3, Adjustment No. 3, p. 2.

[42] *Id.*

A. No. I recommend two adjustments to the Company's computation. First, due to the noted fluctuations of the annual payments in lieu of PTO for the period 2017 through the test year end,[43] I recommend that the annualized level of payments in lieu of PTO be based on the average of the annual amounts shown for the calendar years 2017 through 2020. My recommended computation reduces the payments in lieu of PTO from EPE's proposed level of $728,596 to my recommended annualized level of $702,012.[44] Second, I recommend that the Commission disallow the use of a budgeted payroll expense ratio and apply the actual payroll expense ratio for the test year. As shown on Schedule CTC-7A, EPE has used a budgeted payroll expense ratio of 74.96% rather than an expense ratio that is known and measurable.[45] I recommend using the actual expense ratio for payroll based on the known and measurable average expense ratio for the period January 2021 through June 2021, or 74.74%.[46] The total impact of my two recommended adjustments to EPE's annual wages and salaries expense, excluding incentive compensation is a reduction of $250,814 on a Total Company basis.[47]

B. <u>ADJUSTMENT TO SHORT-TERM INCENTIVE COMPENSATION</u>

Q. HOW HAS EPE CALCULATED THE COMPANY'S PROPOSED AMOUNT OF SHORT-TERM INCENTIVE ("STI") COMPENSATION FOR INCLUSION IN THE TOTAL COMPANY REVENUE REQUIREMENT?

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43 RFP, Schedule G-1.6.

44 Schedule CTC-7A and Cannady Workpapers, Tab "Copy of schedule G-1.6."

45 See Attachment F, EPE Response to OPUC RFI No. 2-14 and RFP, WP/A-3 Adjustment 3.

46 See Attachment G, EPE Response to OPUC RFI No. 8-3 [100% - 25.26% = 74.74%].

47 Schedule CTC-7A.

A. According to the testimony of EPE witness Ms. Prieto, EPE is only requesting STI compensation based on non-financial performance metrics, set at the targeted percentages for each employee.[48] As shown on WP/A-3, Adjustment 3 of the RFP, EPE is requesting total STI compensation of $5,372,127 before the application of EPE's proposed budgeted payroll expense ratio.[49] After applying its proposed expense ratio, EPE's requested O&M expense for the STI compensation is $4,026,406.[50] Based on the calculation provided in EPE's confidential response to OPUC RFI No. 2-9, the Company's adjustment to remove financially based incentive compensation is to [redacted][51] After adjusting for percentage of the awards based on financial performance metrics, EPE assumes that all remaining amounts are based on operational measures.

Q. DO YOU AGREE WITH THE EPE'S CALCULATION FOR DETERMINING THE APPROPRIATE LEVEL OF STI COMPENSATION?

A. No. The methodology used by EPE to determine an adjusted test year level of STI compensation does not appropriately limit the level of STI compensation based on the actual awards or target percentages by employee prior to removing the amount associated with financially based performance measures. In addition, EPE's methodology does not consider that [redacted]

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[48] Direct Testimony of Cynthia S. Prieto, p. 8.

[49] RFP, WP/A-3, Adjustment 3.

[50] *Id.*

[51] See Attachment H, EPE Confidential Response to OPUC No. 2-9, Attachment 1.

[redacted].[52] As shown on Schedule CTC-7, I recommend that the Company's proposal for STI compensation expense be reduced by an additional $1,597,778.[53]

Q. PLEASE PROVIDE AN OVERVIEW OF THE PURPOSE OF THE STI COMPENSATION PLAN OFFERED TO EPE EMPLOYEES.

A. As a component of an employee's total compensation, EPE offers all its employees the opportunity to earn incentive compensation pursuant to both the overall performance of EPE and the performance of the individual employees.[54] EPE's STI compensation plan applies to all EPE employees.[55]

Q. HOW IS THE AMOUNT OF THE ACTUAL SHORT-TERM INCENTIVE COMPENSATION PAYOUT DETERMINED UNDER EPE'S STI COMPENSATION PLAN?

A. Based on the performance metrics outlined in the Company's 2020 STI compensation plan, there was a combination of financially based performance metrics and operational performance metrics in determining the 2020 STI compensation awards.[56] Operational performance metrics included customer satisfaction and system reliability performance metrics.[57] However, it is critical to point out that the overall Company performance, [redacted]

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[52] See Attachment I, EPE Confidential Response to CEP RFI No. 3-3, p. 5.

[53] Schedule CTC-7.

[54] See Attachment I, EPE Confidential Response to CEP RFI No. 3-3, p. 5.

[55] *See* Attachment J, EPE Response to OPUC RFI No. 2-8.

[56] See Attachment K, EPE Response to CEP RFI No. 3-2.

[57] *Id.*

[redacted][58]

Q. EXPLAIN THE IMPORTANCE OF THE [redacted] WHEN DETERMINING THE AMOUNT OF STI COMPENSATION THAT IS APPROPRIATELY INCLUDED IN RATES.

A. The [redacted] is considered the "affordability trigger" for payment of any STI compensation.[59] [redacted]

> [redacted][60]

Q. WHY IS IT IMPORTANT THAT THE COMPANY DEMONSTRATE THAT THE STI COMPENSATION INCLUDED IN RATES BE BASED ENTIRELY ON OPERATIONAL PERFORMANCE MEASURES AND NOT ON FINANCIALLY BASED PERFORMANCE METRICS?

A. As demonstrated by the PUCT cases cited below, the PUCT has consistently found that incentive compensation awarded based on operational performance measures is recoverable in rates, while incentive compensation awarded based on financial

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[58] See Attachment I, EPE Confidential Response to CEP RFI No. 3-3, p. 5.

[59] *Id.*

[60] *Id.*

performance measures cannot be included in rates. The PUCT has consistently found that financially based incentive compensation should be the responsibility of a company's shareholders, not the ratepayers, because financially based incentive compensation is a benefit specifically to shareholders, not ratepayers. Specifically, the PUCT has provided the following rulings with respect to financially based incentive compensation:

1. SPS – Docket No. 43695

> "It is well-established that a utility may not include in its rates the costs of incentives that are tied to financial-performance measures. The Commission agrees with the SOAH ALJs' characterization of the annual incentive plan as 'complicated' and notes that when a utility elects to adopt a compensation plan that involves both financially-based and performance-based metrics, the utility still must show it has removed all aspects of the financially-based goals from its requested expense."[61]

2. Entergy Texas, Inc. – Docket No. 40295

> "The Commission has repeatedly ruled that a utility cannot recover the cost of financially-based incentive compensation because financial measures are of more immediate benefit to shareholders and financial measures are not necessary or reasonable to provide utility services."[62]

3. SWEPCO – Docket No. 40443

> "215. The PUC permits a utility to recover in its base rate incentives that are designed to achieve 'operational measures' and that are necessary and reasonable to provide utility services, but not incentive programs that are designed to achieve 'financial measures.'
>
> 216. Operational measures are those designed to encourage a utility's employees to meet goals and standards relating to the efficient operation of the utility, a benefit to shareholders and ratepayers alike.

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[61] *Application of Southwestern Public Service Company for Authority to Change Rates*, Docket No. 43695, Order on Rehearing at 5 (Feb. 23, 2016).

[62] *Application of Entergy Texas, Inc. for Rate Case Expenses Pertaining to PUC Docket No. 39896*, Docket No. 40295, Order at 2 (May 21, 2013).

> 217. Financial measures are those designed to encourage employees to achieve financial targets, a benefit primarily to shareholders."[63]

4. AEP Texas, Central Company - Docket No. 33309

> "82. TCC's inclusion of annual and long-term incentive compensation related to financial incentives in cost of service is unreasonable because it is not necessary for the provision of T&D utility services."[64]

As provided in the Proposal for Decision with respect to incentive compensation as adopted by the Commission in Docket No. 40443:

> "If an amount is identified as part of an incentive compensation program, then it will be subject to the Commission's tests to determine whether the incentives will be included in rate base."[65]

Based on this strong Commission precedent, an electric utility must definitively show that any incentive compensation included in rates was awarded based on operational performance measures and that any incentive compensation awarded based on financial performance measures has been excluded from rates.

Q. DOES EPE'S PROPOSED ADJUSTMENT EFFECTIVELY REMOVE ALL OF THE STI COMPENSATION THAT WAS AWARDED ON THE BASIS OF FINANCIAL PERFORMANCE?

A. No.

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[63] *Application of Southwestern Electric Power Company for Authority to Change Rates and Reconcile Fuel Costs*, Docket No. 40443, Order on Rehearing, Finding of Fact ("FOF") Nos. 215-217, (Mar. 6, 2014).

[64] *Application of AEP Texas Central Company for Authority to Change Rates,* Docket No. 33309, Order on Rehearing, FOF No. 82, (Mar. 4, 2008).

[65] *Application of Southwestern Electric Power Company for Authority to Change Rates and Reconcile Fuel Costs*, Docket No. 40443, Proposal for Decision at 80 (May 20, 2013).

Q. DOES EPE'S PROPOSED ADJUSTMENT ACCURATELY REFLECT A LEVEL OF STI COMPENSATION BASED ON THE TARGETED PERCENTAGES SET FOR EACH EMPLOYEE?

A. No.

Q. PLEASE EXPLAIN.

A. Based on my review of the computation provided by EPE, the methodology used to set STI compensation at 100% of its employees' target awards and set the affordability trigger adjustments is flawed for two reasons:

1. The methodology does not limit the STI compensation received by each employee to the actual award if it is less than their respective target percentage or to the target percentage if the award is greater than the individual employee's target percentage; and
2. EPE has not taken into consideration the requirement that the [redacted]

Q. DID EPE EMPLOYEES MEET THEIR RESPECTIVE STI COMPENSATION GOALS FOR 2020 IN ORDER TO ACHIEVE 100% OR GREATER OF TARGET PERCENTAGE PAYOUTS DURING THE TEST YEAR?

A. Based on EPE's confidential responses to OPUC RFI No. 2-9, the total STI compensation from which EPE adjusts for the percentage awards based on financial metrics [redacted][66] [redacted]

[66] Cannady Confidential Workpapers, Tab "Target."

[redacted][67] Therefore, EPE's methodology overstates the amount of STI compensation that should be adjusted for the financial performance components.

Q. WHAT IS THE IMPACT OF FIRST ADJUSTING THE INDIVIDUAL EMPLOYEE STI COMPENSATION TO TARGET FOR EMPLOYEES WHO RECEIVED AWARDS THAT WERE GREATER THAN TARGET?

A. As shown on Confidential Schedule CTC-7A, setting the level of STI compensation to either the actual award by employee (if less than target) or the target award by employee (if the actual award was greater than target) reduces the test year STI compensation by [redacted].[68] Removing 50% for financial performance results in a reduction of [redacted] to the Company proposed STI expense.[69]

Q. PLEASE EXPLAIN YOUR CONCERN THAT THE COMPANY'S STI COMPENSATION ADJUSTMENT METHODOLOGY DOES NOT TAKE INTO ACCOUNT THE [redacted] "TRIGGER".

A. As I have testified, [redacted][70] [redacted]

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[67] Confidential Schedule CTC-7B.

[68] *Id.*

[69] *Id.*

[70] See Attachment I, EPE Confidential Response to CEP RFI No. 3-3, p. 5.

[redacted][71] [redacted].[72] After applying my recommended payroll expense ratio of 74.74%, my total recommended adjustment to the Company's proposed STI compensation expense is a reduction of $1,597,778[73] to the Company's proposed expense of $4,026,409 on a Total Company basis. As I have testified, my adjustment also reduces plant in service by $536,191 to account for the capitalized portion of my adjustment to STI compensation as shown on Schedule CTC-3.

C. ADJUSTMENT TO EMPLOYEE BENEFITS EXPENSE

Q. PLEASE DESCRIBE THE COMPANY'S REQUEST WITH RESPECT TO EMPLOYEE BENEFITS.

A. The Company is requesting an adjusted pensions and benefits expense of $11,005,205 on a Total Company basis.[74] The request includes employee benefits expense for both qualified and non-qualified pension plans, other post-retirement benefits ("OPEB"), medical and dental benefits, life insurance, 401K plan, and a variety of other benefits as

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[71] See Attachment H, EPE Confidential Response to OPUC No. 2-9, Attachment 1.

[72] Confidential Schedule CTC-7B.

[73] Schedule CTC-7.

[74] RFP, WP/A-3, Adjustment No. 4.

identified in the RFP.[75]

Q. DO YOU AGREE WITH THE LEVEL OF EMPLOYEE BENEFITS EXPENSE REQUESTED BY THE COMPANY?

A. No. As shown on Schedule CTC-8, I recommend that the Commission disallow EPE's requested employee benefits expense for the following benefits:

- Supplemental Executive Retirement Plan ("SERP")
- Excess Benefit Plan
- 2021 Savings in OPEB Expense
- Employee Appreciation/Awards
- Company Sponsored Events for Employees
- Parking
- Electric Vehicle credits

In addition, I have adjusted the Company's level of OPEBs to reflect an anticipated $220,000 premium savings for these benefits in 2021. Finally, I have adjusted the Company level of 401K expense to match my recommended adjustment to the STI compensation expense. My total recommended adjustment to the Company's employee benefits expense is a reduction of $2,399,568 for a recommended Total Company expense of $8,605,637.[76]

Q. PLEASE EXPLAIN YOUR RECOMMENDED ADJUSTMENT TO EXCLUDE SERP EXPENSE FROM RATES.

A. Based on the RFP, the Company reported a total test year cost of $4,824,919 for its SERP benefit plan. The expense component included in the Company's requested benefits

[75] RFP, WP/A-3, Adjustment No. 4, Tab "f1.Other Employee Benefit Split."

[76] Schedule CTC-8.

expense is $1,033,409.[77] I am recommending that the entire expense of $1,033,409 be disallowed[78] based on prior Commission decisions with respect to SERP benefit plans.[79] As shown on Schedule CTC-8, the SERP benefits expense represents approximately 40% of the total employee retirement plan expense[80] requested by EPE on a Total Company basis and over 9% of all employee benefits expense.[81]

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. As I have testified, EPE's SERP benefit plan is a NQDC non-funded pension benefit for prior executives and highly paid management employees.[82] As of the end of the test year, EPE's SERP benefit plan had only 26 participants, all of whom are former employees.[83] The Company does not have a separate fund for its SERP and makes no regular contributions to such a plan.[84]

Q. WHY IS THE FACT THAT THE SERP IS A NQDC NON-FUNDED BENEFIT PLAN IMPORTANT WHEN DETERMINING THE REASONABLENESS OF PASSING ON SERP BENEFITS EXPENSES TO RATEPAYERS?

A Unlike the Retirement Income Plan, which is available to all qualified EPE employees and is managed via a separate pension fund, the Company does not include any funding for the

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[77] Attachment L, EPE Response to Commission Staff RFI No. 1-22.

[78] Schedule CTC-8.

[79] See for example, *Application of Southwestern Electric Power Company for Authority to Change Rates and Reconcile Fuel Costs*, Docket No. 46449, Order on Rehearing at FOF No. 227 (Mar. 19, 2018).

[80] *Id.*, [$1,033,409 / ($1,033,409 + $635,307 + $937,304) = 39.65%].

[81] *Id.*, [$1,033,409 / $11,005,205 = 9.39%].

[82] The SERP benefit plan was closed to new participants in 1996, RFP, Schedule G-2.

[83] See Attachment M, EPE Response to TIEC RFI 2-1.

[84] RFP, Schedule G-2, Attachment A, p. 39.

SERP benefits and pays the benefits on an as needed basis with the Company's available cash. In addition, there are no guarantees that the SERP benefits will be paid to the participants. Any funding provided by ratepayers would not specifically be used to pay SERP benefits but would be used as the Company's general funds.[85] In essence, any payment by ratepayers for the SERP benefits plan is cost-free capital to the Company, without any requirement that it is actually used to pay for SERP benefits. To appropriately include this type of benefits expense, there should be a deduction to rate base for the accumulated amount of SERP benefits expense paid for by ratepayers. The Company has not proposed such an adjustment to rate base.

Q. PLEASE EXPLAIN YOUR RECOMMENDED ADJUSTMENT TO EPE'S PROPOSED EXCESS BENEFIT PLAN.

A I am recommending that the benefits expense related to the Excess Benefit Plan be disallowed. EPE's Excess Benefit Plan essentially provides the same benefits as EPE's SERP benefits plan that was closed to new participants in 1996. The Excess Benefits Plan was adopted in 2004.[86] Like the SERP, the Excess Benefit Plan is a NQDC non-funded plan that is paid for from the Company's general fund,[87] without any guarantees that the benefits will be paid. At test year end, there were 13 current EPE officers and 19 former EPE officers participating in the plan.[88] As shown on Schedule CTC-8, EPE is requesting

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[85] RFP, Schedule G-2, pp. 2-3.

[86] *Id.*

[87] *Id.*

[88] See Attachment M, EPE Response to TIEC RFI 2-1.

a test year expense for the Excess Benefit Plan of $937,304;[89] which is greater than the amount requested for the qualified retirement plan available to all employees.[90] My recommended adjustment removes this expense from test year adjusted benefits expense.[91]

Q. HAS THE COMMISSION TAKEN A POSITION WITH RESPECT TO NQDC BENEFIT PLANS?

A Yes. In recent decisions, the Commission has consistently disallowed the costs related to NQDC benefit plans for inclusion in rates. The following decisions provide some examples:

1. SWEPCO – Docket No. 46449

> "227. SWEPCO's non-qualified executive retirement benefits in the amount of $191,007 are not reasonable or necessary to provide utility service to the public, not in the public interest, and should not be included in SWEPCO's cost of service."[92]

2. Entergy Texas, Inc. – Docket No. 39896

> "142. ETI's non-qualified executive retirement benefits in the amount of $2,114,931 are not reasonable or necessary to provide utility service to the public, not in the public interest, and should not be included in ETI' s cost of service."[93]

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[89] See Attachment L, EPE Response to Commission Staff RFI No. 1-22.

[90] Schedule CTC-8.

[91] *Id.*

[92] *Application of Southwestern Electric Power Company for Authority to Change Rates and Reconcile Fuel Costs*, Docket No. 46449, Order on Rehearing at FOF No. 227 (Mar. 19, 2018).

[93] *Application of Entergy Texas, Inc. for Authority to Change Rates and Reconcile Fuel Cost, and Obtain Deferred Accounting Treatments*, Docket No. 39896, Order on Rehearing at FOF No. 142 (Nov. 2, 2012).

Q. WHY ARE YOU RECOMMENDING AN ADJUSTMENT TO EPE'S PROPOSED EXPENSE FOR OPEBS?

A In response to CEP RFI No. 3-15, the Company stated that it is expected to save approximately $220,000 in OPEB expense in 2021 based on changes to the benefits plan.[94] EPE states that these savings should not be addressed because the savings were not considered in the actuarial study.[95] However, these service costs will be addressed in the next actuarial study for which I have requested a copy but have not received as of the writing of this testimony.[96] Therefore, pending a review of the most recent actuarial study for OPEB benefits expenses, I have included these anticipated savings in my recommended adjustments to employee benefits expense.[97]

Q. PLEASE EXPLAIN YOUR RECOMMENDATION TO DISALLOW THE OTHER EMPLOYEE BENEFITS LISTED EARLIER IN YOUR TESTIMONY.

A. The remaining employee benefit costs that I recommend be disallowed are those benefits that are neither required to attract and retain qualified employees nor provide safe and reliable electric service to customers. Providing employees with appreciation awards or paying for company social events should not be paid for by ratepayers. Additionally, ratepayers should not pay for employees' expenses for parking at their work location. Although the Company may wish to promote the use of electric vehicles by its employees, the Commission should not allow the Company to pass these costs on to ratepayers.

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94 See Attachment N, EPE Response to CEP RFI No. 3-15.

95 *Id.*

96 OPUC RFI No. 12-1.

97 Schedule CTC-8.

Therefore, I recommend the removal of any costs included in the test year related to these benefits. My adjustment is shown on Schedule CTC-8 and reduces benefits expense by $322,338.[98]

Q. ARE YOU RECOMMENDING ANY ADDITIONAL ADJUSTMENTS TO BENEFITS EXPENSE BASED ON YOUR ADJUSTMENT TO OTHER EMPLOYEE RELATED EXPENSES?

A. Yes, as shown on Schedule CTC-8, I have adjusted the 401K benefit expense based on my recommended adjustment to wage and salary expense.[99] My recommended adjustment reduces EPE's proposed 401K benefits expense of $3,673,406 by $53,199, to my recommended adjusted test year 401K benefits expense of $3,620,207.[100]

D. ADJUSTMENT FOR NON-RECURRING OIL SPILL EXPENSE

Q. PLEASE EXPLAIN YOUR RECOMMENDED ADJUSTMENT RELATED TO THE FUEL OIL SPILL AT THE NEWMAN STATION.

A. As I have testified, EPE experienced a fuel oil spill at the Newman station related to a faulty fuel oil forwarding pump.[101] In response to CEP RFI No. 11-3, EPE incurred $27,445 during the test year for clean-up of the spill.[102] I have removed this amount from the test year expense as non-recuring due to the fact that EPE has stated that any additional clean-up costs going forward will be covered by the third-party entity that will take

[98] *Id.*, [($134,661)+($114,994)+($61,566)+($11,117)=($322,338)].

[99] Cannady Non-Confidential Workpapers, Tab "C2 Adj to 401K".

[100] Schedule CTC-8.

[101] RFP, Schedule E-1.1, page 4.

[102] See Attachment O, EPE Response to CEP RFI No. 11-3.

ownership of the fuel oil inventory.[103] My recommended adjustment to remove the $27,455 in fuel oil clean-up expense is shown on Schedule CTC-9.[104]

VI. CAPITAL STRUCTURE

Q. PLEASE EXPLAIN EPE'S PROPOSAL WITH RESPECT TO THE APPROPRIATE CAPITAL STRUCTURE FOR USE IN DETERMINING RATE OF RETURN.

A. Based on the Direct Testimony of EPE Witness Ms. Lisa D. Budtke, EPE is requesting the following capital structure:[105]

Equity	51%
Long Term Debt	49%
Total Capital	100%

According to Ms. Budtke, this capital structure is not based on the Company's actual capital structure as of the end of the test year, but rather is based on a capital structure that is "more reflective of its projected capital structure over the next few years."[106]

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSAL?

A. No. Given the Company's use of short-term debt to finance a portion of its operations[107] as well as its ability to have equity infusions from its new parent company,[108] a more appropriate capital structure for EPE would be to include an average balance of short-term

[103] See Attachment E, EPE Response to CEP RFI No. 11-10.

[104] Schedule CTC-9.

[105] Direct Testimony of Lisa D. Budtke, p. 7.

[106] *Id.,* p. 8.

[107] *Id.,* p. 5.

[108] *Id.,* pp. 6-7.

debt. I recommend that the appropriate capital structure include the average balance of short-term debt from the Company's Revolving Credit Facility ("RCF"), not related to nuclear fuel financing. As shown on Schedule CTC-11, EPE had an average non-nuclear fuel related RCF outstanding balance of $140,450,000 based on the period January 2019 through June 2021. As provided in response to OPUC RFI No. 3-3, the monthly balances of short-term debt during this period did not fall below $52 million and were as high as $278 million. Therefore, it is reasonable to include a short-term debt component in the capital structure as the Company regularly uses short-term debt to finance construction and other general corporate expenses.[109]

Q. WHAT SHOULD BE THE TEST AS TO WHETHER SHORT-TERM DEBT SHOULD BE A COMPONENT OF A UTILITY'S CAPITAL STRUCTURE?

A. To the extent a utility regularly uses short-term debt to finance any of its operations, it should be considered. With respect to EPE, the short-term debt from the RCF is not only used on a regular basis, but also represents approximately 5% of its financing activities.[110] In fact, EPE has increased its limit for borrowing from the RCF from $350 million to $400 million, for which it requests additional credit facility fees from ratepayers.[111] Given that ratepayers are paying for EPE's privilege to borrow from the RCF, ratepayers should also receive the benefits of a lower overall cost of capital.

Q. WHAT IS EPE'S RATIONALE FOR EXCLUDING THE RCF SHORT-TERM DEBT FROM ITS CAPITAL STRUCTURE?

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[109] *Id.*, p. 105.

[110] Schedule CTC-11.

[111] Direct Testimony of Lisa D. Budtke, p. 5.

A. Based on the Direct Testimony of EPE Witness Ms. Budtke, EPE excluded the RCF short-term debt from its capital structure and overall debt costs because "…it is used to fund EPE's (1) nuclear fuel financing obligations in the most cost effective and efficient manner and (2) construction work in progress, both of which are excluded from rate base."[112] However, on page 17 of her Direct Testimony, Ms. Budtke also refers to the need for the RCF in order to "…maintain liquidity as well as to meet short-term funding requirements…"[113] This statement would imply that general funding requirements are potential uses of the short-term debt, and not just expenses that are not included in EPE's requested revenue requirement.

Q. DO OTHER REGULATORY JURISDICTIONS INCLUDE SHORT-TERM DEBT AS A COMPONENT OF THE RATE OF RETURN ADOPTED FOR REGULATED UTILITIES?

A. Yes. Examples of other public utility commissions that consider a short-term debt component when determining the authorized rate of return include the following:

- Northern States Power Company – North Dakota – PU-21-381
- Atmos Energy Corporation – Virginia – PUR-2018-00014
- Oklahoma Gas and Electric – Arkansas – Docket No. 16-052-U

Q. DO YOU BELIEVE THAT IT IS MORE IMPORTANT TO CONSIDER THE INCLUSION OF SHORT-TERM DEBT AS A COMPONENT OF CAPITAL STRUCTURE IN THIS PROCEEDING THAN IT WAS IN PRIOR EPE RATE APPLICATIONS?

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[112] *Id.,* p. 9.

[113] *Id.,* p.17.

A. Yes. Because of the change in EPE's ownership, the Company no longer must compete in the capital markets for equity. There is only one owner, Sun Jupiter Holding LLC ("Sun Jupiter"), and according to EPE witness Ms. Budtke, Sun Jupiter has and will provide equity infusions as necessary to maintain a minimum 51% equity capitalization.[114] With the ability to provide swings in the capital structure via equity infusions from one owner, the Commission should consider all forms of financing when determining an appropriate weighted average cost of capital.

Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE USE OF SHORT-TERM DEBT IN THE CAPITAL STRUCTURE FOR EPE?

A. As shown on Schedule CTC-11, I recommend that the average short-term debt balance from January 2019 through June 2021 for the non-nuclear fuel related component of the RCF be included in the approved capital structure for EPE. I recommend that the cost of such short-term debt be based on the weighted average interest paid by EPE on that debt for the same period. By including a short-term debt component of $140.45 million at an average cost of 2.227%, results in a weighted average cost of capital of 7.76%, (all other components remaining as filed).[115] This compares to EPE's proposed weighted average cost of capital of $7.985%.[116]

Q. HAVE YOU PROVIDED AN ALTERNATIVE COMPUTATION THAT DOES NOT SPECIFICALLY INCLUDE SHORT-TERM DEBT AS A COMPONENT OF THE CAPITAL STRUCTURE?

114 *Id.*, p. 8.

115 Schedule CTC-11.

116 RFP, Schedule K-1.

A. Yes. Also shown on Schedule CTC-11 is an alternative computation of a weighted average cost of capital that uses the capital structure as proposed by EPE. As an alternative to specifically identifying the average outstanding short-term debt, the Commission could adjust the cost of debt to reflect the weighted average cost for long-term and short-term debt. This alternative calculation results in a weighted average cost of capital of 7.82%.[117]

VII. ATTENDANT IMPACTS TO TAXES

Q. HAVE YOU INCLUDED THE ATTENDANT IMPACTS TO TAXES BASED ON YOUR RECOMMENDED ADJUSTMENTS TO EPE'S PROPOSED TOTAL COMPANY REVENUE REQUIREMENT?

A. I have included the impacts to taxes other than income, and federal income taxes based on my recommended adjustments and the Company's proposed calculation of these revenue requirement components. The final computation should be performed by the Company once the Commission has made its decision concerning each of the recommended adjustments.

Q. PLEASE EXPLAIN THE ADJUSTMENTS INCLUDED IN YOUR RECOMMENDED REVENUE REQUIREMENT THAT RELATE TO EACH OF THE ATTENDANT IMPACTS.

A. With respect to taxes other than income, my recommended adjustments to base wage and salary expense and incentive compensation impacted the amount of Federal Insurance Contribution Act ("FICA") taxes proposed by the Company. Using the Company's

[117] Schedule CTC-11.

calculation provided in the Rate Filing Package, WP/A-3, Adjustment No. 16, I reduced EPE's proposed level of FICA for the total Company by $649,213[118] With respect to revenue related taxes and uncollectibles, I computed the impact of my recommended adjustments to revenue requirements on each type of expense using the Company's methodology as provided in the Rate Filing Package, WP/A-3, Adjustment No. 17 and Adjustment No. 2.[119] For federal income taxes, I used the calculation provided by the Company on Schedule G-7.8 in the RFP and substituted my recommended rate base, rate of return, and amortization of protected excess deferred federal income taxes. My calculation resulted in a decrease of $1,101,759[120] to EPE's proposed adjusted test year federal income taxes on a total company basis of $30,572,124.[121] I applied the same adjusted calculations to determine the attendant impacts to state income taxes which resulted in a reduction to state income taxes of $69,914.[122]

VIII. REFUND OF EXCESS ACCUMULATED DEFERRED FEDERAL INCOME TAXES ("EADFIT")

Q. WHAT IS THE COMPANY'S PROPOSAL WITH RESPECT TO THE REFUND OF THE EADFIT RESULTING FROM THE PASSAGE OF THE TAX CUTS AND JOBS ACT ("TCJA") OF 2017?

A. The Company is proposing to amortize the balance of unprotected EADFIT and eligible

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[118] Schedule CTC-10; *see also* Cannady Non-Confidential Workpapers, Tab "Adj 16 Payroll Tax pg. 2."

[119] Schedule CTC-12.

[120] Schedule CTC-13.

[121] Rate Filing Package, Schedule G-7.8.

[122] Cannady Non-Confidential Workpapers, Tab "WP A-3."

protected EADFIT through 2021 over a period of four years using a tax specific rate tariff.[123] Based on the Company's proposed classifications of protected and unprotected EADFIT balances and its Errata No. 2, the Company is proposing to refund to ratepayers an annual amount of $100,519.[124]

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED METHODOLOGY?

A. No. I disagree with EPE's classification of its EADFIT as either protected EADFIT or unprotected EADFIT with respect to which EADFIT balances are subject to the amortization periods mandated by the IRS normalization rules. EPE has misclassified several of the EADFIT balances as "protected" with a much longer amortization period required for protected EADFIT balances under IRS normalization rules. Conversely, if these EADFIT balances are appropriately classified as unprotected, the amount of the annual refunds during EPE's proposed four-year period are significantly increased.

Q. WHAT IS THE DETERMINING FACTOR AS TO WHETHER AN EADFIT BALANCE IS CLASSIFIED AS PROTECTED OR UNPROTECTED?

A. The IRS has mandated that all EADFIT resulting from the book/tax timing differences due to accelerating the depreciation of utility assets when preparing federal income tax returns is considered protected and subject to the IRS normalization rules.[125] Aside from that, some utilities have classified certain other EADFIT categories either based on interpretations of IRS directives[126] or based on analyses that showed that these additional

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[123] Direct Testimony of Cynthia S. Prieto, p. 28.

[124] *El Paso Electric Company's Errata No. 2 to its Application,* Attachment 1, p. 1.

[125] Internal Revenue Code, Section 167(1), 168(f)(2), and 168(l)(9).

[126] Internal Revenue Service Notice 87-82.

EADFIT categories were primarily comprised of timing differences related to the depreciation of utility assets (e.g., Contributions-in-Aid-of-Construction ("CIAC")).[127] However, classifying EADFIT categories that are related to plant activities, but not specifically identified for "protected" treatment under the IRS normalization rules, should not be interpreted as meeting the IRS definition of protected.

Q. WHICH OF THE EADFIT CATEGORIES DO YOU RECOMMEND BE CLASSIFIED AS UNPROTECTED EADFIT THAT EPE HAS CLASSIFIED AS PROTECTED EADFIT?

A. Based on the classifications provided by EPE on Schedule G-7.9(a) of the RFP, there are three categories of EADFIT that EPE has classified as protected EADFIT that should be classified as unprotected EADFIT for purposes of determining the way these amounts should be refunded to ratepayers. These are:

- Capitalized Costs and Interest
- Repair Allowance
- Section 174 R&D

Although each of the categories are related to plant, they are not covered by the IRS normalization rules as protected EADFIT. In other words, the method by which these categories can be refunded to ratepayers (or collected in the case of an excess deferred income tax asset) is not mandated by the IRS normalization rules, but rather can be determined by the regulator. I recommend that these balances be fully amortized via EPE's proposed separate tax rider to be effective over a four-year period.

[127] See Attachment P, *Application of Oncor Electric Delivery Company LLC For Authority to Decrease Rates Based on The Tax Cuts and Jobs Act Of 2017,* Docket No. 48325, Response to Alliance of Cities RFI No. 1-5.

Q. WHAT IS THE AMOUNT OF UNPROTECTED EADFIT THAT YOU RECOMMEND BE REFUNDED THROUGH EPE'S PROPOSED TAX RIDER?

A. By reclassifying the above EADFIT balances as unprotected, the annual amount for refund to ratepayers via EPE's proposed tax rider would be $6,686,016 before adding the gross-up for taxes.[128] Using the tax gross-up factor of 1.361935[129] results in a total annul refund of $9,105,919.[130] This compares to the Company's proposed annual refund of $100,519.[131]

Q. DO YOU HAVE ANY ADDITIONAL RECOMMENDATIONS WITH RESPECT TO EPE'S PROPOSAL TO ALLOW THE TAX RIDER TO AUTOMATICALLY ADJUST FOR ANY CHANGES IN THE FEDERAL CORPORATE TAX RATE?

A. Yes. EPE requests that the Commission authorize the Company to automatically put tax increases into rates via EPE's proposed tax rider as quickly as it can without regulatory oversight.[132] This is certainly unfair to ratepayers who will see the impacts of tax rate increases immediately, while refunds from federal tax reductions have taken years to implement. When the federal government has adopted changes in the corporate federal income tax rate in the past, utility companies across the country have not typically been authorized to automatically make such changes in their rates prior to state commission review and approval. The most recent example of this is the rate treatment approved for

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[128] Cannady Non-Confidential Workpapers, Tab "WP1a Excess TCJA for Rider."

[129] *El Paso Electric Company's Errata No. 2 to its Application,* Attachment 1, p. 1 [$100,519/$73,806 = $1.361935].

[130] The calculation is based on the EADFIT amounts provided by EPE. Any changes to these balances as of the test year end would need to be reflected in the tax rider calculation.

[131] *El Paso Electric Company's Errata No. 2 to its Application,* Attachment 1, p. 1.

[132] Direct Testimony of Manuel Carrasco, pp. 81-82.

EPE by the Commission with respect to the passage of the TCJA.[133] In that case, the effects of the TCJA were not yet known, but the Commission prescribed a detailed methodology by which certain impacts would be treated. However, the regulatory treatment regarding the excess deferred income taxes would be determined in the next base rate case.[134] In 1986, the passage of the Tax Reform Act of 1986 significantly lowered the corporate federal income tax rate and, similar to the TCJA, resulted in excess deferred federal income tax balances to be refunded to ratepayers.[135] Rate impacts from the 1986 change were also evaluated on an utility-by-utility basis with prior approval by their respective regulators before changes in rates were passed onto ratepayers. Such prior Commission review and approval should continue to be required before sweeping changes in the calculation of the federal income taxes and associated excess deferred federal income taxes are authorized.

IX. TESTIMONY SUMMARY

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS TO THE COMMISSION.

A. I recommend that the Commission:

1. Remove all revenue requirement components related to the continued operations of Newman Unit 1, Newman Unit 2 and Rio Grande Unit 7 from base rates and allow EPE to collect the appropriate costs via a RET Rate Rider that would be effective only during the time these plants are used and useful in providing electric service to Texas retail customers;

2. Remove from rate base the capitalized NQDC benefits expense as provided by EPE;

[133] *See Application of El Paso Electric Company to Change Rates,* PUCT Docket No. 46831, Order, FOFs 23-29 (December 18, 2017).

[134] *Id.*

[135] Tax Reform Act of 1986, Public Law 99-514 enacted by the 99th United States Congress, October 22, 1986.

3. Remove the fuel oil inventory balance from rate base as it is no longer used and useful in providing electric service to ratepayers;

4. Adjust paid in lieu of PTO payroll amounts based on a four-year average;

5. Require EPE to re-compute the Company's STI compensation adjustment to address the following:

   a. Adjust the STI compensation by employee to reflect the lower of actual payment or 100% of target payment;

   b. Remove the EPE percentage of STI payments that were directly based on financial performance metrics; and

   c. Remove the amount based on operational performance metrics that would not occur without the financial based trigger.

6. Adjust the Company's budgeted O&M expense ratio to the actual O&M expense ratio for the period January through June 2021;

7. Remove the non-recurring expense for the Newman Station fuel oil spill clean-up;

8. Include the average balance of short-term debt from January 2019 through June 2021 as a component of capital structure, with a cost of 2.227%;

9. Reclassify three of the EADFIT categories as unprotected EADFIT when determining the refund calculation to be included in EPE's proposed four-year tax rider;

10. Reject EPE's proposal to provide for an automatic flow through of a federal corporate income tax change via the proposed tax rider.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes. However, I reserve the right to amend and supplement my testimony based on the receipt of EPE's pending responses to OPUC's 11th and 12th RFIs.

SCHEDULES

SOAH DOCKET NO. 473-21-2606
PUC DOCKET NO. 52195
EL PASO ELECTRIC COMPANY
SUMMARY OF RECOMMENDED ADJUSTMENTS TO TOTAL COMPANY REVENUE REQUIREMENTS
TEST YEAR ENDED DECEMBER 31, 2020

	EPE Proposed Revenue Requirement (1)	OPUC Recommended Increase in Revenue Requirements	OPUC Recommended Revenue Requirement	
OPERATING REVENUE	$ 967,939,397	$ (22,781,753)	$ 945,157,644	
OPERATING EXPENSES				
OPERATION & MAINTENANCE EXPENSE				
FUEL AND PURCHASED POWER EXPENSE	199,907,597	-	199,907,597	
OTHER OPERATION & MAINTENANCE	315,770,140	(9,696,727)	306,073,413	
TOTAL OPERATION & MAINTENANCE EXPENSE	515,677,737	(9,696,727)	505,981,010	(2)
REGULATORY DEBTS AND CREDITS	5,020,299	-	5,020,299	(2)
DECOMMISSIONING AND ACRETION EXPENSE	138,103	-	138,103	(2)
DEPRECIATION AND AMORTIZATION EXPENSE	126,643,809	(1,412,814)	125,230,995	(2)
TAXES OTHER THAN INCOME	76,885,126	(1,182,741)	75,702,385	(2)
INCOME TAX - CURRENT				
FEDERAL	25,284,127	(1,100,182)	24,183,945	(2)
STATE	3,248,082	(69,914)	3,178,168	(2)
TOTAL CURRENT	28,532,209	(1,170,096)	27,362,113	
INCOME TAX - DEFERRED				
FEDERAL	7,143,532	(1,577)	5,286,420	(2)
STATE	1,257,522	0	1,257,522	(2)
TOTAL DEFERRED	8,401,054	(1,577)	6,543,942	
AMORTIZATION OF ITC	(1,855,535)	-	(1,855,535)	(2)
NET OPERATING INCOME	$ 208,496,595	$ (7,462,262)	$ 201,034,333	(3)
RATE BASE	$ 2,611,024,794	$ (21,825,734)	$ 2,589,199,060	(3)
RATE OF RETURN	7.985%		7.76%	(3)

Sources:
(1)Rate Filing Package, Schedule A
(2)Cannady Non-Confidential Workpapers, Tab "WP A-3
(3)Schecule CTC-2

Schedule CTC-2

SOAH DOCKET NO. 473-21-2606
PUC DOCKET NO. 52195
EL PASO ELECTRIC COMPANY
SUMMARY OF RECOMMENDED ADJUSTMENTS TO RATE BASE - TOTAL COMPANY
TEST YEAR ENDED DECEMBER 31, 2020

		EPE Adjusted Electric (1)	OPUC Recommended Adjustment		OPUC Adjusted Electric
	RATE BASE SUMMARY				
1	PLANT IN SERVICE	$ 4,690,486,072	$ (72,132,715)	(2)	$ 4,618,353,357
2	ACCUMULATED DEPRECIATION / AMORTIZATION	(1,576,214,988)	57,949,191	(3)	(1,518,265,797)
3	NET PLANT	3,114,271,084	(14,183,524)		3,100,087,560
4	WORKING CASH	(3,405,792)	(1,449,022)	(4)	(4,854,814)
5	FUEL INVENTORY	1,749,819	(652,096)	(5)	1,097,723
6	MATERIALS AND SUPPLIES	61,541,055	-		61,541,055
7	PREPAYMENTS	18,668,836	-		18,668,836
8	COAL RECLAMATION ASSET	-			
9	REGULATORY ASSETS	18,546,445	-		18,546,445
10	ACCUMULATED DEFERRED INCOME TAXES	132,493,290	(5,541,093)	(6)	126,952,197
11	TAX REGULATORY ASSETS	16,071,228	-		16,071,228
12	MISCELLANEOUS DEFERRED DEBITS	4,753,137	-		4,753,137
13	TOTAL ADDITIONS TO RATE BASE	250,418,018	(7,642,210)		242,775,808
14	CUSTOMER DEPOSITS	(8,321,655)	-		(8,321,655)
15	REGULATORY LIABILITIES	-			-
16	TAX REGULATORY LIABILITIES	(283,625,229)	-		(283,625,229)
17	CUSTOMER ADVANCES	(31,754,536)	-		(31,754,536)
18	ACCUMULATED DEFERRED INCOME TAXES	(429,962,888)	-		(429,962,888)
19	TOTAL DEDUCTIONS FROM RATE BASE	(753,664,308)	-		(753,664,308)
12	**RATE BASE**	**$ 2,611,024,794**	**$ (21,825,734)**		**$ 2,589,199,060**
13	RATE OF RETURN	7.985%			7.76%
14	RETURN ON RATE BASE	$ 208,496,597	$ (7,462,264)		$ 201,034,333

Sources:
(1) Rate Filing Package, Schedule B-1
(2) Schedule CTC-3
(3) Schedule CTC-3A
(4) Cannady Non-Confidential Workpapers, Tab "C2 Adj to Exhibit DSD-2"
(5) Schedule CTC-4
(6) Schedule CTC-5

Schedule CTC-3

SOAH DOCKET NO. 473-21-2606
PUC DOCKET NO. 52195
EL PASO ELECTRIC COMPANY
SUMMARY OF RECOMMENDED ADJUSTMENTS TO PLANT IN SERVICE
TEST YEAR ENDED DECEMBER 31, 2020

	OPUC Recommended Adjustment to Remove Retiring Plant	OPUC Recommended Adjustment to Remove Capitalized NQDC Benefits Expense	OPUC Recommended Adjustment to Remove Capitalized STI	Total Recommended Adjustment to Plant in Service
Gross Plant In Service	$ (69,554,809.00)	$ (2,041,715)	$ (536,191)	$ (72,132,715)
Accumulated Depreciation	57,949,191	Note 1	-	57,949,191
Net Plant in Service	$ (11,605,618)	$ (2,041,715)	$ (536,191)	$ (14,183,524)

Sources:
(1) Schedule CTC-3A
(2) Schedule CTC-3C
(3) Confidential Schedule CTC-7B

Note 1 - An adjustment could be made to accumulated reserve for depreciation with an accounting of the capitalized amounts by FERC account by year.

Schedule CTC-3A

SOAH DOCKET NO. 473-21-2606
PUC DOCKET NO. 52195
EL PASO ELECTRIC COMPANY
RECOMMENDED ADJUSTMENT TO REMOVE RETIRING PLANT FROM BASE RATES
TEST YEAR ENDED DECEMBER 31, 2020

	Newman Unit 1 Net Plant in Service (1)	Newman Unit 2 Net Plant in Service	Rio Grande Unit 7 Net Plant in Service	Total OPUC Recommended Adjustment to Net Plant in Service (2)
Adjustment to Gross Plant to Remove Retiring Plant from Base Rates	$ 28,596,963	$ 26,142,835	$ 14,815,011	69,554,809
Adjustment to Remove Accumulated Depreciation for Retiring Plants	(25,063,423)	(20,521,950)	(12,363,818)	(57,949,191)
Total Recommended Adjustment to Net Plant in Service	$ 3,533,540	$ 5,620,885	$ 2,451,193	$ 11,605,618
Annual Depreciation Expense	735,342	551,410	126,062	1,412,814
Depreciation Recovered through 2022	1,470,684	1,102,820	252,124	2,825,628
Undepreciated Plant at 2022	$ 2,062,856	$ 4,518,065	$ 2,199,069	$ 8,779,990

Source:
EPE Response to Commission Staff RFI No. 7-5

SOAH DOCKET NO. 473-21-2606
PUC DOCKET NO. 52195
EL PASO ELECTRIC COMPANY
COMPUTATION OF 2022 RETIRING PLANT RATE RIDER
TEST YEAR ENDED DECEMBER 31, 2020

	Newman Unit 1 Components	Newman Unit 2 Components	Rio Grande 7 Components	Total Company Rate Rider Components
Gross Plant in Service at December 31, 2020	$ 28,596,963 (1)	26,142,835 (1)	14,815,011 (1)	69,554,809
Accumulated Depreciation at April 2021	(25,063,423) (1)	(20,521,950) (1)	(12,363,818) (1)	(57,949,191)
Net Plant in Service	3,533,540	5,620,885	2,451,193	11,605,618
Pre Tax Rate of return	9.13% (2)	9.13% (2)	9.13% (2)	
Return Plus Income Taxes	322,609	513,182	223,792	1,059,584
O&M Expense	2,691,379 (1)	708,653 (1)	1,984,850 (1)	5,384,882
Deprecation Expense	735,342 (1)	551,410 (1)	126,062 (1)	1,412,814
Taxes Other Than Income	24,503 (1)	9,848 (1)	54,628 (1)	88,979
Total Operating Expense	3,451,224	1,269,911	2,165,540	6,886,675
Total RET Rate Rider Revenue Requirements	$ 3,773,833.4	$ 1,783,093.4	$ 2,389,332.0	$ 7,946,258.8

Pre-Tax Rate of Return	Capital Ratio (3)	Component Costs (3)	Weighted Avg Cost (3)	Pre-Tax Cost (3)
Long Term Debt	45.11%	5.58%	2.52%	2.52%
Short Term Debt	5.01%	2.23%	0.11%	0.11%
Common Equity	49.88%	10.30%	5.1374%	6.5030%
Total Capital	100.00%		7.76%	9.1299%

Sources:
(1) SCH CTC-3A
(2) Pre-Tax RPR
(3) SCH CTC-11

Schedule CTC-3C

SOAH DOCKET NO. 473-21-2606
PUC DOCKET NO. 52195
EL PASO ELECTRIC COMPANY
RECOMMENDED ADJUSTMENT TO REMOVE CAPITALIZED NQDC BENEFITS EXPENSE
TEST YEAR ENDED DECEMBER 31, 2020

	OPUC Recommended Adjustment to Plant in Service
Remove Capitalized NQDC Benefits Expense 2016-2020	$ (2,041,715)

Source:
EPE Response to Staff RFI No. 12-1

Schedule CTC-4

SOAH DOCKET NO. 473-21-2606
PUC DOCKET NO. 52195
EL PASO ELECTRIC COMPANY
RECOMMENDED ADJUSTMENT TO REMOVE THE FUEL OIL INVENTORY RELATED TO THE NEWMAN STATION
TEST YEAR ENDED DECEMBER 31, 2020

	Estimated Breakdown of EPE Fuel Inventory - Total Company		OPUC Recommended Adjustment to Fuel Inventory- Total Company	OPUC Recommended Fuel Inventory - Total Company
Thirteen Month Average - Fuel Oil Inventory	$ 652,096	(1)	$ (652,096)	$ -
Thirteen Month Average - Gas Inventory	198,037	(1)	-	$ 198,037
Thirteen Month Average - Diesel Inventory	851,623	(1)	-	$ 851,623
Total Fuel Inventory	$ 1,701,756	(2)	$ (652,096)	$ 1,049,660

Sources:
Calculated from Rate Filing Package, Schedule E-2.3

Schedule CTC-5

SOAH DOCKET NO. 473-21-2606
PUC DOCKET NO. 52195
EL PASO ELECTRIC COMPANY
RECOMMENDED ADJUSTMENT TO ACCUMULATED DEFERRED INCOME TAXES
TEST YEAR ENDED DECEMBER 31, 2020

	EPE Proposed ADIT - Total Company (1)	OPUC Recommended Adjustment to ADIT - Total Company	OPUC Recommended ADIT - Total Company
AOCI Amortization of Debt Costs	$ 3,495,073	$ -	$ 3,495,073
AOCI Decommissioning Costs	-	-	-
AOCI Retirement Plans	10,873,997	(2,420,506)	8,453,491 (2)
Capitalized Construction Interest	21,082,985	-	21,082,985
Contributions in Aid of Construction	9,933,109	-	9,933,109
Coal Reclamation Costs	-	-	-
Decommissioning Costs	-	-	-
Deferred Fuel FERC	-	-	-
Deferred Fuel NM	-	-	-
Deferred Fuel TX	-	-	-
Depreciation Differences	1,154,170	-	1,154,170
Excess Deferred Taxes - Federal	66,762,981	-	66,762,981
ITC	-	-	-
NOL Carryforward - AZ	32,577	-	32,577
NOL Carryforward - Federal	915,842	-	915,842
NOL Carryforward - NM	253,354	-	253,354
Other	1,764,864	-	1,764,864
Other Employee Benefits	4,679,875	(511,507)	4,168,368 (3)
Research and Development Credit	359,621	-	359,621
Retirement Plans	11,142,677	(2,609,080)	8,533,597 (2)
SFAS 143 - Asset Retirement Obligation	-	-	-
Strategic Cost	-	-	-
Taxes Other Than Income Taxes	42,204	-	42,204
Unbilled Revenue	-	-	-
	132,493,329	(5,541,093)	126,952,236
Allowance for Borrowed Funds Used During Construction - CWIP	-	-	-
Allowance for Equity Funds used During Construction	-	-	-
Allowance for Equity Funds used During Construction - CWIP	-	-	-
Decommissioning Costs	-	-	-
Depreciation Differences	(350,181,856)	-	(350,181,856)
Repair Allowance	(56,530,548)	-	(56,530,548)
Section 174 R&D	(12,063,894)	-	(12,063,894)
	(418,776,298)	-	(418,776,298)
Allowance for Equity Funds used During Construction	-	-	-
Allowance for Equity Funds used During Construction - CWIP	-	-	-
Amortization of Debt Costs	(2,942,224)	-	(2,942,224)
Decommissioning Costs	-	-	-
Deferred Fuel FERC	-	-	-
Deferred Fuel NM	-	-	-
Deferred Fuel TX	-	-	-
Excess Deferred Taxes - Fed	(3,472,230)	-	(3,472,230)
Excess Deferred Taxes - State	(3,374,957)	-	(3,374,957)
Other	(2,654,619)	-	(2,654,619)
Taxes Other Than Federal Income Taxes	1,257,400	-	1,257,400
	(11,186,630)	-	(11,186,630)
Total Accumulated Deferred Income Taxes - Total Company	$ (297,469,599)	$ (5,541,093)	$ (303,010,691)

Sources:
(1) Rate Filing Package, WP B-1 Adj 04 Accumulated Deferred Income Taxes
(2) Cannady Non-Confidential Workpapers - Docket No. 52195, Tab "RET ADIT"
(3) Cannady Non-Confidential Workpapers - Docket No. 52195, Tab "WP G-7.4(b)"

Schedule CTC-6

SOAH DOCKET NO. 473-21-2606
PUC DOCKET NO. 52195
EL PASO ELECTRIC COMPANY
RECOMMENDED ADJUSTMENT TO OPERATING EXPENSES FOR RETIRING PLANTS
TEST YEAR ENDED DECEMBER 31, 2020

		Newman Unit 1 Expense	Newman Unit 2 Expense	Rio Grande Unit 7 Expense	Total OPUC Recommended Adjustment to Operating Expense
	Steam Power Generation - Operation				
5020	Steam Expenses	4,300	-	449,369	453,669
5050	Electric Expenses	174	-	-	174
5060	Misc. Steam Power Expenses	67,986	41,881	-	109,867
5070	Rents	89,929	-	-	89,929
	Total Operation Expense	162,389	41,881	449,369	653,639
	Steam Power Generation - Maintenance				
5100	Maint Supv & Engineering	-	-	789	789
5110	Maintenance of Structures	-	191	-	191
5120	Maintenance of Boiler Plant	935,265	331,543	655,348	1,922,156
5130	Maintenance of Electric Plant	1,471,826	290,332	569,943	2,332,101
5140	Maintenance of Misc. Steam Plt	10,959	166	37,399	48,524
	Total Maintenance Expense	2,418,050	622,232	1,263,479	4,303,761
	Administrative and General				
9200	Admin and General Salaries	107	61	46	214
9210	Office Supplies and Expense	23	13	10	46
9250	Injuries and Damages	1,244	603	1,647	3,494
9260	Employee Benefits	109,566	43,863	270,299	423,728
	Total Admin and Gen Expense	110,940	44,540	272,002	427,482
	Total O&M Expense Related to Retiring Plants	$ 2,691,379	$ 708,653	$ 1,984,850	5,384,882
					-
4030	Depreciation Expense	735,342	551,410	126,062	1,412,814
4081	Taxes Other than Income	24,503	9,848	54,628	88,979
					-
Total Adjustment to Expense for Retiring Plants		$ 3,451,224	$ 1,269,911	$ 2,165,540	$ 6,886,675

Source:
EPE Response to Commission Staff RFI No. 7-5

SOAH DOCKET NO. 473-21-2606
PUC DOCKET NO. 52195
EL PASO ELECTRIC COMPANY
TOTAL ADJUSTMENT TO PAYROLL AND STI COMPENSATION EXPENSE
TEST YEAR ENDED DECEMBER 31, 2020

EPE Adjusted Payroll and STI Compensation Expense (1)	$ 86,460,825
OPUC Recommended Adjustment to Payroll Expense (2)	(250,814)
OPUC Recommended Adjustment to STI Compensation Expense (3)	(1,597,778)
Total OPUC Recommended Adjustment to Payroll and STI Compensation Expense	(1,848,592)
OPUC Recommended Payroll and STI Compensation Expense	$ 84,612,233

Sources:
(1) Rate Filing Package, WP A-3 Adj 03 Salaries
(2) Schedule CTC-7A
(3) Confidential Schedule CTC-7B

Schedule CTC-7A

SOAH DOCKET NO. 473-21-2606
PUC DOCKET NO. 52195
EL PASO ELECTRIC COMPANY
RECOMMENDED ADJUSTMENT TO PAYROLL EXPENSE
TEST YEAR ENDED DECEMBER 31, 2020

	EPE Proposed Total Company Payroll	OPUC Recommended Adjustment	OPUC Recommended Adjusted Total Company Payroll
EPE Requested Annualized Base Payroll	$ 101,211,052 (1)	-	$ 101,211,052
EPE Overtime Payroll	8,034,426 (1)	-	8,034,426
EPE Proposed Level of Payments in Lieu of Paid Time Off	728,596 (1)	(26,584)	702,012 (2)
Total Annualized Payroll	109,974,074	(26,584)	109,947,490
Expense Ratio	74.95% (1)		74.74% (2)
Adjusted Payroll Expense	$ 82,425,568	$ (250,814)	$ 82,174,754

Sources:
(1) Rate Filing Package, WP A-3, Adj 3, Salaries
(2) Cannady Non-Confidential Workpapers - Docket No. 52195, Tab "C2 Adj 3 Salaries."

This page contains

Confidential Material

Schedule CTC-7C

SOAH DOCKET NO. 473-21-2606
PUC DOCKET NO. 52195
EL PASO ELECTRIC COMPANY
RECOMMENDED ADJUSTMENT TO PAYROLL AND STI BY FERC ACCOUNT
TEST YEAR ENDED DECEMBER 31, 2020

FERC Account	EPE Proposed Adjustment to Payroll and STI (1)	OPUC Recommended Adjustment to Payroll and STI by FERC Account
500000	$ (11,707)	$ (51,199)
501000	-	-
502000	(12,275)	(53,683)
505000	(5,583)	(24,416)
506000	(5,116)	(22,374)
507000	-	-
510000	(11,360)	(49,681)
511000	(1,798)	(7,863)
512000	(7,458)	(32,616)
513000	(9,992)	(43,699)
514000	(1,844)	(8,064)
517000	-	-
518000	-	-
519000	-	-
520000	-	-
523000	-	-
524000	(942)	(4,120)
525000	-	-
528000	-	-
529000	-	-
530000	-	-
531000	-	-
532000	-	-
546000	(5,025)	(21,976)
547000	-	-
548000	-	-
549000	(3,547)	(15,512)
550000	-	-
551000	(926)	(4,050)
552000	(338)	(1,478)
553000	(6,340)	(27,727)
554000	(668)	(2,921)
555000	-	-
556000	-	-
556000	-	-
560000	(11,282)	(49,340)
561100	(636)	(2,781)
561200	(3,954)	(17,292)
561300	(4,887)	(21,373)
561400	(3,235)	(14,148)
561500	(2,983)	(13,046)
561600	-	-
561700	-	-
561800	-	-
562000	(172)	(752)
563000	(809)	(3,538)
565000	-	-
566000	(22,157)	(96,900)
567000	-	-
568000	-	-
569000	-	-
569100	-	-
569200	-	-
569300	-	-
569400	-	-
570000	(4)	(17)
571000	(3,616)	(15,814)
573000	(40)	(175)
580000	(4,962)	(21,701)
581000	-	-
582000	(4,231)	(18,504)
583000	(3,485)	(15,241)
584000	(224)	(980)
585000	-	-
586000	(8,948)	(39,133)
587000	(2,438)	(10,662)
588000	(26,489)	(115,846)
589000	-	-
590000	(254)	(1,111)
591000	(6)	(26)
592000	(6,343)	(27,740)
593000	(11,426)	(49,970)
594000	(1,975)	(8,637)
595000	(8)	(35)
596000	(883)	(3,862)
597000	(998)	(4,365)
598000	(233)	(1,019)
901000	-	-
902000	(9,108)	(39,833)
903000	(34,513)	(150,938)
904000	-	-
905000	-	-
908000	-	-
909000	-	-
912000	-	-
920000	(166,333)	(727,434)
921000	-	-
923000	-	-
923000	-	-
924000	-	-
924000	-	-
925000	-	-
925000	-	-
926000	-	-
926000	-	-
928000	-	-
928000	-	-
930100	-	-
930200	-	-
930200	-	-
931000	-	-
935000	(1,143)	(4,999)
	$ (422,694)	$ (1,848,592) (2)

Sources:
(1) Rate Filing Package, WP A-3 Adj 03 Salaries, Tab "Adj 3 Payroll Detail P3-6"
(3) Schedule CTC-7

Schedule CTC-8

SOAH DOCKET NO. 473-21-2606
PUC DOCKET NO. 52195
EL PASO ELECTRIC COMPANY
RECOMMENDED ADJUSTMENT TO EMPLOYEE BENEFITS EXPENSE
TEST YEAR ENDED DECEMBER 31, 2020

	EPE Proposed Total Company Benefits		OPUC Recommended Adjustment		OPUC Recommended Total Company Benefits
Other Post Employment Benefits	(6,602,296)	(1)	(220,000)	(4)	(6,822,296)
401 K Savings Plan	3,673,406	(1)	(53,199)	(5)	3,620,207
Retirement Income Plan					
Retirement Plan	635,307	(2)	-		635,307
SERP	1,033,409	(2)	(1,033,409)		-
Excess Benefit Plan	937,304	(2)	(937,304)		-
Dental Insurance	187,131	(1)	-		187,131
Long & Short Term Disability	332,920	(1)	-		332,920
Medical Expense	10,411,329	(1)	-		10,411,329
Life Insurance	118,075	(1)	-		118,075
Other Employee Benefits					
Employee Appreciation/Awards	134,661	(3)	(134,661)		-
Company Sponsored Events for Employees	114,994	(3)	(114,994)		-
Tuition Reimbursement	92,449	(3)	-		92,449
Parking	61,566	(3)	(61,566)		-
Professional Fees	30,515	(3)			30,515
Electric Vehicle	11,117	(3)	(11,117)		-
Other (Reconciling)	(166,682)		166,682		-
Total Employee Benefits Expense	$ 11,005,205	(1)	$ (2,399,568)		$ 8,605,637

Source
(1) Rate Filing Package, WP A/A-3/B1 Adjustment No. 4
(2) Calculated from EPE Response to Commission Staff RFI No. 1-22 and WP A/A-3/B1 Adjustment No. 4
(3)EPE Response to OPUC RFI No. 2-12
(4) EPE Response to CEP RFI No. 3-15
(5) Cannady Non-Confidential Workpapers, Tab "C2 Adj to 401K."

SOAH DOCKET NO. 473-21-2606
PUC DOCKET NO. 52195
EL PASO ELECTRIC COMPANY
RECOMMENDED ADJUSTMENT TO REMOVE TEST YEAR EXPENSE FOR FUEL OIL CLEAN UP
TEST YEAR ENDED DECEMBER 31, 2020

	Texas Jurisdiction
EPE Fuel Oil Clean Costs Incurred at Newman Generating Facility	$ 27,445
OPUC Recommended Removal of Test Year Clean Up Costs	-
OPUC Recommended Adjustment	$ (27,445)

Source:
EPE Response to CEP RFI No. 11-3

Schedule CTC-10

SOAH DOCKET NO. 473-21-2606
PUC DOCKET NO. 52195
EL PASO ELECTRIC COMPANY
RECOMMENDED ADJUSTMENT TO PAYROLL TAXES
TEST YEAR ENDED DECEMBER 31, 2020

	EPE Proposed - Total Company (1)	OPUC Recommended Adjustment	OPUC Recommended - Total Company (2)
Proposed Adjustment to Payroll Taxes for Salaries and STI Adjustments	$ (1,320,856)	$ (649,213)	$ (1,970,069)
Proposed Adjustment to Payroll Taxes for PVGS Prior Period	192,444	-	$ 192,444
Total Adjustment to Payroll Taxes	$ (1,128,412)	$ (649,213)	$ (1,777,625)

Sources:
(1) Rate Filing Package, Schedule A-03
(2) Cannady Non-Confidential Workpapers, Tab "Adj 16 payroll Tax Pg.2"

Schedule CTC-11

SOAH DOCKET NO. 473-21-2606
PUC DOCKET NO. 52195
EL PASO ELECTRIC COMPANY
RECOMMENDED CAPITAL STRUCTURE
TEST YEAR ENDED DECEMBER 31, 2020

EPE PROPOSED WEIGHTED AVERAGE COST OF CAPITAL

	EPE Reported Capital Structure at 12/31/2020 (1)	EPE Proposed Percentage of Total Capital Structure (1)	EPE Proposed Cost (1)	EPE Proposed Weighted Average Cost of Capital (1)
Common Equity	$ 1,397,187,639	51.000%	10.300%	5.253%
Preferred Equity	-	0.000%	0.000%	0.000%
Long-Term Debt	1,263,573,544	49.000%	5.576%	2.732%
Short-Term Debt	-	0.000%	0.000%	0.000%
Total Capitalization	$ 2,660,761,183	100.00%		7.985%

OPUC RECOMMENDED WEIGHTED AVERAGE COST OF CAPITAL

	OPUC Recommended Capital Structure with Short-Term Debt (2)	Percentage of Total Capital Structure	OPUC Recommended Cost Adjustment to Include Short-Term Debt	OPUC Recommended WACC with Short-Term Debt
Common Equity	$ 1,397,187,639	49.878%	10.300%	5.137%
Preferred Equity	-	0.000%	0.000%	0.000%
Long-Term Debt	1,263,573,544	45.108%	5.576%	2.515%
Short-Term Debt	140,450,000	5.014%	2.227%	0.112%
Total Capitalization	$ 2,801,211,183	100.00%		7.76%

ALTERNATIVE WEIGHTED AVERAGE COST OF CAPITAL

	OPUC Recommended Capital Structure at 6/30/21 (3)	Percentage of Total Capital Structure	OPUC Recommended Cost Adjustment to Include Short-Term Debt (2)	OPUC Recommended WACC with Short-Term Debt
Common Equity	$ 1,397,187,639	51.000%	10.300%	5.253%
Preferred Equity	-	0.000%	0.000%	0.000%
Long-Term Debt	1,263,573,544	49.000%	5.241%	2.568%
Short-Term Debt	-	0.000%	0.000%	0.000%
Total Capitalization	$ 2,660,761,183	100.00%		7.82%

CALCULATION OF WEIGHTED DEBT COSTS

OPUC Recommended Levels of Long-Term and Short-Term Debt	Weighted Costs	Long-Term and Short-Term Debt Costs
$ 1,263,573,544	5.576%	$ 70,456,861
140,450,000	2.227%	3,128,497
$ 1,404,023,544	5.241%	$ 73,585,358

Sources:
(1)Rate Filing Package, Schedule K-1.
(2) Calculated from EPE Response to OPUC RFI No. 3-3, Cannady Non-Confidential Workpapers, Tab "C2 AdjOPUC 3-3 Attachment 1"

SOAH DOCKET NO. 473-21-2606
PUC DOCKET NO. 52195
EL PASO ELECTRIC COMPANY
RECOMMENDED ADJUSTMENT TO REVENUE RELATED TAXES AND UNCOLLECTIBLE EXPENSE
TEST YEAR ENDED DECEMBER 31, 2020

	Texas Occupational and Street Rental		
	EPE (1)	OPUC (2)	Difference
Recommended Revenue Increase	$ 40,061,227	$ 32,598,965	$ (7,462,262)
Associated Increase in Federal Income Taxes	11,213,627	9,124,849	(2,088,778)
Revenue Increase Before Revenue Related Taxes	51,274,854	41,723,814	(9,551,040)
Revenue Related Tax Factor	1.04926388	1.04926388	1.04926388
Total Revenue Increase	53,800,852	43,779,291	(10,021,562)
Effective Tax Rate	0.02999281	0.02999281	
Adjustment to Revenue Related Tax Before COVID Adjustment	1,613,639	1,313,064	(300,575)
COVID-19 Adjustment	3,961	3,961	-
Total Adjustment to Revenue Related Taxes	$ 1,617,599	$ 1,317,024	$ (300,575)

	Texas Gross Receipts		
	EPE (1)	OPUC	Difference
Recommended Revenue Increase	$ 40,061,227	$ 32,598,965	$ (7,462,262)
Associated Increase in Federal Income Taxes	11,213,627	9,124,849	(2,088,778)
Revenue Increase Before Revenue Related Taxes	51,274,854	41,723,814	(9,551,040)
Revenue Related Tax Factor	1.04926388	1.04926388	1.04926388
Total Revenue Increase	53,800,852	43,779,291	(10,021,562)
Effective Tax Rate	0.01200843	0.01200843	-
Adjustment to Revenue Related Tax Before COVID Adjustment	646,064	525,721	(120,343)
COVID-19 Adjustment	1,586	1,586	-
Total Adjustment to Revenue Related Taxes	$ 647,650	$ 527,307	$ (120,343)

	Texas Commission Assessment		
	EPE (1)	OPUC	Difference
Recommended Revenue Increase	$ 40,061,227	$ 32,598,965	$ (7,462,262)
Associated Increase in Federal Income Taxes	11,213,627	9,124,849	(2,088,778)
Revenue Increase Before Revenue Related Taxes	51,274,854	41,723,814	(9,551,040)
Revenue Related Tax Factor	1.04926388	1.04926388	1.04926388
Total Revenue Increase	53,800,852	43,779,291	(10,021,562)
Effective Tax Rate	0.00118595	0.00118595	-
Adjustment to Revenue Related Tax Before COVID Adjustment	63,805	51,920	(11,885)
COVID-19 Adjustment	157	157	-
Total Adjustment to Revenue Related Taxes	$ 63,962.12	$ 52,077.05	$ (11,885.07)

	New Mexico Occupational and Street Rental		
	EPE (1)	OPUC	Difference
Recommended Revenue Increase	$ 40,061,227	$ 32,598,965	$ (7,462,262)
Associated Increase in Federal Income Taxes	11,213,627	9,124,849	(2,088,778)
Revenue Increase Before Revenue Related Taxes	51,274,854	41,723,814	(9,551,040)
Revenue Related Tax Factor	1.04926388	1.04926388	1.04926388
Total Revenue Increase	53,800,852	43,779,291	(10,021,562)
Effective Tax Rate	0.00010635	0.00010635	-
Adjustment to Revenue Related Tax Before COVID Adjustment	5,722	4,656	(1,066)
COVID-19 Adjustment	14	14	-
Total Adjustment to Revenue Related Taxes	$ 5,736	$ 4,670	$ (1,066)

	New Mexico Commission Assessment		
	EPE (1)	OPUC	Difference
Recommended Revenue Increase	$ 40,061,227	$ 32,598,965	$ (7,462,262)
Associated Increase in Federal Income Taxes	11,213,627	9,124,849	(2,088,778)
Revenue Increase Before Revenue Related Taxes	51,274,854	41,723,814	(9,551,040)
Revenue Related Tax Factor	1.04926388	1.04926388	1.04926388
Total Revenue Increase	53,800,852	43,779,291	(10,021,562)
Effective Tax Rate	0.00106570	0.00106570	-
Adjustment to Revenue Related Tax Before COVID Adjustment	57,336	46,656	(10,680)
COVID-19 Adjustment	140	140	-
Total Adjustment to Revenue Related Taxes	$ 57,476	$ 46,796	$ (10,680)

	Uncollectible Adjustment for Revenue Deficiency		
	EPE (3)	OPUC	Difference
Recommended Revenue Increase	$ 40,061,227	$ 32,598,965	$ (7,462,262)
Associated Increase in Federal Income Taxes	11,213,627	9,124,849	(2,088,778)
Revenue Increase Before Revenue Related Taxes	51,274,854	41,723,814	(9,551,040)
Revenue Related Tax Factor	1.04926388	1.04926388	1.04926388
Total Revenue Increase	53,800,852	43,779,291	(10,021,562)
Effective Tax Rate	0.00259200	0.00259200	-
Adjustment to Revenue Related Tax Before COVID Adjustment	139,452	113,476	(25,976)
COVID-19 Adjustment	54,958	44,693	(10,265)
Total Adjustment to Revenue Related Taxes	$ 194,410	$ 158,169	$ (36,241)

Sources:
(1) Rate Filing Package, WP A-3 Adj 17 Revenue Related Taxes
(2) Based on Net Income on Schedule CTC-1
(3) Rate Filing Package, WP A-03, Adjustment No. 1 - Revenues and Uncollectibles

SOAH DOCKET NO. 473-21-2606
PUC DOCKET NO. 52195
EL PASO ELECTRIC COMPANY
RECOMMENDED ADJUSTMENT TO FEDERAL INCOME TAXES - METHOD 1
TEST YEAR ENDED DECEMBER 31, 2020

Line No.	Description	Test Year Actual	EPE Requested - Total Company	OPUC Adjusted- Total Company
		(1)	(1)	
1	Return	$ 169,374,532	$ 208,496,597	$ 201,034,333 (2)
	Deduct:			
2	Interest	73,404,646	71,339,464	68,015,985 (3)
3	Amortization of Investment Tax Credits	1,619,640	1,855,535	1,855,535
4	Amortization of Excess Deferred Income Taxes	317,127	4,924,480	4,925,725 (4)
5	Other Employee Benefits	4,369,029	-	
6	Other Permanent Differences	229,376	229,376	229,376
7	Research and Development Credit	880,590	880,590	880,590
	Add:			
8	AEFUDC Depreciation	1,308,686	5,355,154	5,355,154
9	Business Meals not Deductible	50,271	50,271	50,271
10	Amortization of Excess ADSIT	1,262,020	1,064,602	1,064,602
11	Other Adjustments	0	-	
12	Other Permanent Differences	-	-	
13	Taxable Component of Return	$ 91,175,101	$ 135,737,179	$ 131,597,149
14	Tax Factor	26.5822785%	26.5822785%	26.5822785%
15	Federal Income Taxes Before Adjustments	$ 24,236,419	$ 36,082,035	$ 34,981,521
	Deduct:			
16	Amortization of Investment Tax Credits	$ 1,619,640	$ 1,855,535	$ 1,855,535
17	Amortization of Excess Deferred Income Taxes	317,127	4,924,480	4,925,725 (4)
18	Other	17	-	
	Add:			
19	Other		205,502	205,502
20	Amortization od Excess ADSIT	1,262,020	1,064,602	1,064,602
21	Total Federal Income Taxes (Operating)*	$ 23,561,655	$ 30,572,124	$ 29,470,365
	Difference			$ (1,101,759)

ATTACHMENTS

NewGen Strategies & Solutions

Connie Cannady
Executive Consultant
ccannady@newgenstrategies.net

With over thirty-five years of financial and managerial consulting experience, Connie Cannady is an expert in the areas of utility regulation and franchising of utility services, both at the local and state level. Prior to joining NewGen Strategies and Solutions, Ms. Cannady was the Founder and President of C2 Consulting Services, Inc., a woman-owned business enterprise. Ms. Cannady's previous experience also includes serving as a Manager at Reed-Stowe & Co. Inc.; Manager of Accounting and Control for the Information Services Division of Blue Cross of California; Senior Consultant for Touché Ross & Co. (now Deloitte); and Management Auditor for the U.S. General Accounting Office.

EDUCATION

- Master of Public Affairs, University of Texas
- Bachelor of Arts in Political Science, Vanderbilt University

KEY EXPERTISE

- Expert Witness and Litigation Support
- Utility ROW Franchising and Compensation
- Regulatory Proceedings
- Cost Allocation Models

RELEVANT EXPERIENCE

Expert Witness and Litigation Support

Ms. Cannady serves as project manager and lead analyst for numerous regulatory proceedings for rates, assisting clients by providing expert testimony and litigation support regarding utility rate and regulatory issues before state and local regulatory bodies and courts. She frequently works with coalitions of cities served by investor-owned utilities and provides analyses and expert witness support related to the utilities' requests for rate increases. Ms. Cannady also provides support services to the U.S. Army Corp of Engineers concerning rate proceedings impacting utility rates at U.S. Army installations.

Her direct experience includes conducting analyses with respect to the reasonableness of various rate base issues, including the prudency of costs. Areas of analysis and provided testimony include:

- Reasonableness of certain rate based costs related to benefits and other operating reserves
- Calculation of Accumulated deferred income taxes
- Reasonableness of operations and maintenance expenses related to labor expense, benefits expense, including health and welfare, pension, deferred compensation, ESOPs and other savings plans, corporate overhead cost allocation methodologies, call center operations, bonuses and other long and short-term incentive pay programs, taxes other than income and federal income taxes.
- Reasonableness of affiliated transaction expenses
- Computation of fuel factors and purchase power factors to be used in the collection of power costs
- Reasonableness of certain advanced meter investments
- Reasonableness of requested inclusion of certain regulatory assets
- Analysis of the "used and useful" nature of requested plant additions
- Analysis of customer class cost allocation methodologies

Ms. Cannady's expert witness and litigation support clients include:

Connie Cannady
Executive Consultant

Maryland Public Service Commission

- U.S. Army Installations Served by Baltimore Gas & Electric; Case Nos. 9355 and 9406

New York Public Service Commission

- U.S. Army Installations Served by Orange & Rockland Utilities; Case Nos. 14-E-0493 and 14-G-0494

Public Utility Commission of Texas

- Cities Served by CenterPoint Energy Houston Electric; Dockets Nos. 48266, 45747and 12065
- Cities Served by Southwestern Electric Power Company (SWEPCO), Texas; Docket Nos. 37364, 39708, 40443, 40446
- Cities Served by AEP Texas Central Company, Texas; Docket No. 33309
- Cities Served by AEP Texas North Company, Texas; Docket Nos. 33310, 4202 and 4716
- Cities Served by Sharyland Utilities, Texas; State Office of Administrative Hearings (SOAH); Docket No. 473-99-2566, and Docket No.51611
- Cities Served by Texas-New Mexico Power Company, Texas; Docket Nos. 15560, 12900, 10200, 22636, 36025, 22745
- Cities served by Oncor Electric Delivery Company, Texas; Docket Nos. 48325, 48231, 5640
- Cities served by Entergy Texas; Docket No. 51381, 51381, 48371 and 4510
- Cities Served by General Telephone Company of the Southwest (Verizon); Docket Nos. 4300 and 5011
- Project No. 14400 - Integrated Resource Planning
- Office of Public Utility Counsel – AEP Texas, Inc. Docket No. 49494
- Office of Public Utility Counsel – SPS Docket No. 49831 and Docket No. 51802
- Office of Public Utility Counsel – SWEPCO Docket No. 51415
- Office of Public Utility Counsel – Entergy Texas, Inc. Docket No. 48371
- Office of Public Utility Counsel – Sharyland Utilities, LLC Docket No. 51611

North Carolina Utilities Commission

- Duke Energy Progress – Docket No. E-2 SUB 1142

Oklahoma Corporation Commission

- Arkansas Oklahoma Gas Corporation; Cause No. PUD 001346

Railroad Commission of Texas

- CenterPoint Energy Entex; Docket GUD Nos. 9654, 9902, 10038, 10182, 10432, 10567, and 10920
- Atmos Energy; Docket GUD Nos. 9670, 10000, 10170, 10174, 10359, 10580, and 10900
- Texas Gas Services, Docket GUD Nos. 10488, 10526, 10766 and 10928
- TXU Gas; Docket No. GUD 9400
- TXU Gas Transmission; Docket No. GUD 8935
- Lone Star Gas Company Gate Rate; Docket No. GUD 8664
- Lone Star Gas Company Gate Rate; Docket No. GUD 3543

Arizona Corporation Commission

- Arizona Public Service Company, Arizona; Docket No. U-1345-82-266.

New Mexico State Corporation Commission

- Continental Telephone Company of the West; Docket No. 942
- General Telephone Company of the Southwest; Docket No. 990

Colorado Public Utilities Commission

- Southern Colorado Power - Cost Allocation Study

Alabama Public Service Commission

- Alabama Power Company - Fuel Procurement Review

Indiana Regulatory Commission

- Northern Indiana Public Service Company – Cause No. 44733-TDSIC-2

FERC

- NESCOE, Docket No. ER18-1639 regarding Constellation Mystic Power, LLC

- Northern Indiana Public Service Company- Cause No. 44733-TDSIC-3
- Northern Indiana Public Service Company Cause No. 45159
- Indiana Michigan Power Company Cause Nos. 45325 and 45576

Cost Allocation Modeling

Ms. Cannady has conducted cost allocation modeling for municipal utility clients. She has developed a cost allocation model (CAM) for allocating all utility overhead as well as the city's general fund overhead to the functions of production, distribution and transmission. The objectives of these studies were to more accurately reflect the fully loaded transmission costs to be separated from distribution costs in deregulated utility markets. The CAM models also include functionalizing the aggregated capitalized interest so that the value of the utility assets can be more accurately reported. Ms. Cannady has also assisted municipal clients in developing a cost allocation model to be used by the city to allocate general fund costs to each of its enterprise operations, including the electric utility, water and wastewater, and solid waste. Finally, Ms. Cannady has reviewed the appropriateness of cost allocation methodologies used by utility operations when developing rates. Her cost allocation projects include:

- Develop CAM model for Garland Power & Light, Garland, Texas
- Develop CAM model for Water and Wastewater Operations - City of Garland, Texas
- Review of Overhead Cost Allocations – Lower Colorado River Authority
- Review of Cost Allocation for Maintenance Activities – San Jacinto River Authority
- Develop Indirect Cost Allocation Model – City of Greenville, Texas
- Develop Indirect Cost Allocation Model – City of Denton Texas
- Develop Indirect Cost Allocation Model – City of Terrell, Texas
- Develop Indirect Cost Allocation Model – City of Brenham, Texas

Franchising of Utility Service in Municipal Right-of-Way

Ms. Cannady has assisted numerous municipalities/counties in negotiating franchises that allow utility service providers to construct in the municipalities' rights-of-way. In addition, Ms. Cannady has assisted in reviewing the actual payments made by the utilities to determine the accuracy of such payments in accordance with franchise terms or state and federal laws. She has assisted municipalities/counties in Texas, California, Washington, New York, Missouri, Illinois, Massachusetts, Maine and Kentucky. The majority of the projects concern the payment of cable services, but many of the projects have also involved review of franchising terms and payments from natural gas utility operations, electric service operations and telecommunications services.

Right-of-Way Costs

Ms. Cannady has conducted analysis of the costs incurred by municipalities in allowing utilities to have ubiquitous access to the Right-of-Way. Her clients include:

- City of Durham, North Carolina
- City of Atlanta, Georgia
- City of Cheyenne, Wyoming
- City of Tucson, Arizona
- Texas Municipal League, Texas

Connie Cannady
Executive Consultant

WORKSHOPS AND PRESENTATIONS

Ms. Cannady is an instructor on behalf of Electric Utility Consultants, Inc. (EUCI), co-authoring and presenting witness preparation materials at multiple conferences and speaking on related topics at industry forums. Her experience includes:

NARUC Staff Subcommittee on Accounting & Finance

- *Expert Witness Techniques*

Electric Utility Consultants, Inc. (EUCI)

- *EUCI Witness Preparation Training Conferences* (six conferences in 2013, 2014, 2016, 2017 2018, and 2019

Government Finance Officers Association of Texas

- *Franchise Fees – Accuracy and Compliance*
- *Franchise Fees, Identifying the Issues*

Texas Association of Telecommunications Officers and Advisors

- *Effective Competition: A Case Study - The City of Denton*
- *Issues Regarding Cable Television Franchise Payments*
- *Customer Service Issues*

National Association of Telecommunications Officers and Advisors

- *Hooray for Competition*
- *Prime Real Estate: Managing the Public Rights-of-Way*

The ABC's of Energy Conference

- *Rate Making Issues*

Oklahoma Municipal League

- *Cable Rights*

Federal Bar Association

- *Basics of Cable Television Regulation*

Record of Testimony Submitted by Connie Cannady

Utility	Proceeding	Subject of Testimony	Before	Client	Date
1. Indiana Michigan Power Company	Cause No. 45576	Treatment of Requested Deferred Tax Asset and EDIT Refund, AMI Deployment Cost Recovery	Indiana Utility Regulatory Commission	Cities of Marion, Fort Wayne, and South Bend, Indiana	2021
2. Southwestern Public Service Company – Xcel Energy	Docket No. 51802	Cost recovery of production related assets for coal and wind facilities and incentive compensation for direct and service company employees	Public Utility Commission of Texas	Office of Public Utility Counsel	2021
3. SWEPCO	Docket No. 51415	Rate Base and Operating Income Issues	Public Utility Commission of Texas	Office of Public Utility Counsel	2021
4. Sharyland Utilities, LLC	Docket No. 51611	Revenue Requirements for Transmission Cost of Service	Public Utility Commission of Texas	Office of Public Utility Counsel	2021
5. Entergy Texas, Inc.	Docket No. 51381	Cost Components of New Generation Facility	Public Utility Commission of Texas	Office of Public Utility Counsel	2020
6. Time Warner Cable Texas et.al	Case No. 6:19-cv-345-ADA-JCM	Audit of Franchise Fees and PEG Fees (expert report filed)	US District Court – Western District of Texas	Cities Served by Time Warner Cable and Charter Communications d/b/a Spectrum	2020
7. Comcast Cable	Civil Action No. 4:19-CV-00458	Audit of Franchise Fees and PEG Fees (expert report and deposition)	US District Court - Southern District of Texas	Cities Served by Comcast Cable	2020
8. Texas Gas Services	GUD No. 10928	Revenue Requirements, labor and labor related expenses, storm reserve, impacts of TCJA	Railroad Commission of Texas	Cities Served by Texas Gas Utilities	2020
9. Southwestern Public Service Company – Xcel Energy	Docket No. 49831	Cost recovery of production related assets for coal and wind facilities and incentive compensation for direct and service company employees	Public Utility Commission of Texas	Office of Public Utility Counsel	2020
10. CenterPoint Energy Entex Beaumont/East Texas Division	GUD No. 10920	Treatment of labor related incentive compensation, pension and OPEB benefits, amortization of regulatory assets, and treatment of non-qualified pension benefits	Railroad Commission of Texas	East Texas Coalition of Cities	2020

Record of Testimony Submitted by Connie Cannady

11. Atmos West Texas Triangle Pipeline	GUD No. 10900	Treatment of labor related incentive compensation and excess deferred taxes from passage of TCJA	Railroad Commission of Texas	West Texas Cities	2019
12. Indiana Michigan Power Company	Cause No. 45235	Treatment of Tax Rate Change and EDIT Refund, Nuclear Decommissioning Fund, Recovery of Plant Investment, AMI Deployment	Indiana Utility Regulatory Commission	Cities of Marion and Fort Wayne, Indiana	2019
13. AEP Texas, Inc	Docket No. 49494	Revenue Requirements, labor and labor related expenses, storm reserve, impacts of TCJA	Public Utility Commission of Texas	Office of Public Utility Counsel	2019
14. Northern Indiana Public Service Company	Cause No. 45159	Treatment of Corporate Tax Rate Change and EDIT and Depreciation on Early Plant Retirement	Indiana Utility Regulatory Commission	U.S. Steel Corporation	2019
15. Constellation Mystic Power, LLC	Docket No. ER18-1639	Cash Working Capital, Overtime Expense, Incentive Pay, TCJA Impacts and True-Up Protocols	Federal Energy Regulatory Commission	New England States Committee on Electricity	2018
16. Entergy Texas, Inc.	Docket No. 48371	Post Test Year Adjustment, Storm Regulatory Assets, Retired Plant, Employee Benefits, Treatment of Excess Deferred Income Taxes	Public Utility Commission of Texas	Office of Public Utility Counsel	2018
17. Oncor Electric Service Company	Docket No. 48325	Proposed amortization of excess deferred income taxes, refund of income tax overcharges since January 1, 2018 and appropriate carrying charges	Public Utility Commission of Texas	Alliance of Oncor Cities	2018
18. Oncor Electric Service Company	Docket No. 48231	Proposed CIS Depreciation Rate and treatment of Corporate Tax Rate Change in Distribution Cost Recovery Tracker Rate	Public Utility Commission of Texas	Alliance of Oncor Cities	2018
19. CenterPoint Energy Houston Electric	Docket No. 48226	Treatment of Corporate Tax Rate Change in Distribution Cost Recovery Tracker Rate	Public Utility Commission of Texas	Texas Coast Utilities Coalition	2018
20. CenterPoint Energy Entex South Division	GUD No. 10669	Rate Base and Operating Income Issues, Affiliated Charges, Treatment	Railroad Commission of Texas	Alliance of CenterPoint Municipalities	2018

Record of Testimony Submitted by Connie Cannady

		of Excess Deferred Income Taxes (Settled)			
21. Northern Indiana Public Service Company	Cause No. 44733-TDSIC-3	Treatment of Corporate Tax Rate Change and EDIT	Indiana Utility Regulatory Commission	U.S. Steel Corporation	2018
22. Duke Energy Progress	Docket No. E-2 SUB 1142	Cancelled Plant Prudency, Deferred Asset Treatment, Benefits	North Carolina Utilities Commission	U.S. Dept. of Defense and Other Federal Agencies	2017
23. Northern Indiana Public Service Company	Cause No. 44733-TDSIC-2	Tax Gross-Up Treatment in Investment Tracker	Indiana Utility Regulatory Commission	U.S. Steel Corporation	2017
24. Atmos Pipeline Texas	GUD No. 10580	Rate Base and Operating Income Issues, ADIT NOL	Railroad Commission of Texas	Atmos Cities Steering Committee	2017
25. CenterPoint Energy Entex Texas Gulf Division	GUD No. 10567	Rate Base and Operating Income Issues, Affiliated Charges	Railroad Commission of Texas	Gulf Coast Coalition of Cities	2017
26. CenterPoint Energy Houston Electric	Docket No. 45747	Allocation of Certain Corporate Costs included in DCRF rate adder	Public Utility Commission of Texas	Texas Coast Utilities Coalition	2016
27. CenterPoint Energy Entex	GUD No. 10432	Rate Base and Operating Income Issues, Affiliated Charges	Railroad Commission of Texas	Texas Coast Utilities Coalition	2015
28. Baltimore Gas and Electric	Case No. 9355	Rate Base and Operating Income Issues, Cost Allocation Issues	Maryland Public Service Commission	U.S. Dept. of Defense and Other Federal Agencies	2014
29. Atmos Energy	Docket No. 10359	Rate Base and Operating Income Issues	Railroad Commission of Texas	Atmos Cities Steering Committee	2014
30. SWEPCO	Docket No. 40443	Rate Base and Operating Income Issues	Public Utility Commission of Texas	Cities Served by SWEPCO	2012
31. CenterPoint Energy Entex	GUD No. 10182	Rate Base and Operating Income Issues	Railroad Commission of Texas Case Settled Before Hearing	East Texas Cities	2012
32. Atmos Energy	GUD No. 10174	Rate Base and Operating Income Issues	Railroad Commission of Texas	West Texas Cities Steering Committee	2012
33. Atmos Energy	GUD No. 10170	Rate Base and Operating Income Issues	Railroad Commission of Texas	Atmos Cities Steering Committee	2012
34. CenterPoint Energy Entex	GUD No. 10038	Rate Base and Operating Income Issues	Railroad Commission of Texas	Steering Committee of Cities Served by CenterPoint South Texas Division	2011

Record of Testimony Submitted by Connie Cannady

35. Atmos Energy	GUD No. 10000	Rate Base and Operating Income Issues	Railroad Commission of Texas	Atmos Cities Steering Committee	2010
36. Texas-New Mexico Power Company	Docket No. 38480	Rate Base and Operating Income Issues	Public Utility Commission of Texas	Cities Served by TNMP	2010
37. CenterPoint Energy Entex	GUD No. 9902	Labor Costs, Group Benefits, and Valorem Taxes	Railroad Commission of Texas	Gulf Coast Coalition of Cities Served by CenterPoint Houston Division	2009
38. AEP – Texas Central Company	Docket No. 33309	Labor Costs, Group Benefits, and Energy Efficiency Program Costs	Public Utility Commission of Texas	Cities Served by AEP Texas Central Company	2007
39. AEP – Texas North Company	Docket No. 33310	Labor Costs, Group Benefits, and Energy Efficiency Program Costs	Public Utility Commission of Texas	Cities Served by AEP Texas North Company	2007
40. Atmos Energy	Docket No. GUD 9670	Operations and Maintenance Expenses and Summary Schedules	Railroad Commission of Texas	Atmos Cities Steering Committee	2006
41. TXU Gas	Docket No. GUD 9400	Rate Base and Present Revenue Computation	Railroad Commission of Texas	Allied Coalition of Cities	2003
42. Texas-New Mexico Power Company	Docket No. 22745	Fuel Costs and Recovery	Public Utility Commission of Texas	Cities Served by TNMP	2001
43. Lone Star Gas Company	Docket No. GUD 8935	Purchased Gas Adjustment Clause	Railroad Commission of Texas Case Settled Before Hearing	Allied Coalition of Cities	1999
44. Garland Independent School District v. Lone Star Gas Company	Cause No. 97-00070-A	Natural Gas Billings based on Contractual Rates	Texas State District Court	Garland Independent School District	1997
45. Houston Lighting & Power Company	Docket No. 12065	Appropriate Rate Treatment of Fuel Inventories and Fuel Expense	Public Utility Commission of Texas	Gulf Coast Coalition of Cities	1994
46. Texas Electric Utilities Company	Docket No. 5640	Appropriate Rate Base to be Included in Rates	Public Utility Commission of Texas	Cities Steering Committee	1985

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

APPLICATION OF EL PASO ELECTRIC COMPANY TO CHANGE RATES	§ § §	BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS

EL PASO ELECTRIC COMPANY'S RESPONSE TO COMMISSION STAFF'S SEVENTH REQUEST FOR INFORMATION QUESTION NOS. STAFF 7-1 THROUGH STAFF 7-7

STAFF 7-4:

Please refer to the response to CEP 1-27. Please provide the referenced 2022 retirement dates for Rio Grande Unit 7 and Newman Units 1 and 2. Are the dates referenced in this response the dates certain for the retirement of each unit?

RESPONSE:

The planned retirement dates referenced in CEP 1-27 were December 2022 for all three units. Present plans are for Rio Grande Unit 7 and one of the Newman units to be retired in 2022 as previously planned.

El Paso Electric Company's ("EPE") 2021 Integrated Resource Plan ("IRP") is not yet finalized and is planned to be filed on September 16, 2021. The most current draft of the 2021 IRP indicates it may be beneficial to extend the retirement date for one of the Newman units by five years; however, the prudence of such an extension will be evaluated alongside other bids in future procurements for generation resources.

Preparer:	Omar Gallegos	Title:	Senior Director – Resource Planning Management
Sponsor:	David C. Hawkins	Title:	Vice President – Strategy and Sustainability

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

APPLICATION OF EL PASO ELECTRIC COMPANY TO CHANGE RATES	§ § §	BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS

EL PASO ELECTRIC COMPANY'S RESPONSE TO
COMMISSION STAFF'S SEVENTH REQUEST FOR INFORMATION
QUESTION NOS. STAFF 7-1 THROUGH STAFF 7-7

STAFF 7-5:

Please separately provide the gross plant balance for the Rio Grande Unit 7 and Newman Units 1 and 2 as well as the accumulated depreciation for each unit. For each of these units, please also provide all other costs by unit by FERC account that are reflected in EPE's requested cost of service including, but not limited to, operations and maintenance expense, depreciation expense, insurance expense, and non-reconcilable fuel expense.

RESPONSE:

Please see STAFF 7-5, Attachment 1 for a schedule showing the gross plant and accumulated depreciation balance at December 31, 2020, for Rio Grande Unit 7, Newman Unit 1 and Newman Unit 2. The attachment also includes costs by unit and FERC account that are reflected in El Paso Electric Company's cost of service, including operations and maintenance and depreciation expense. The schedule does not include any Common costs and are shown on a total company and Texas jurisdictional basis.

While the costs included in the Attachment reflect significant amounts for maintenance expense on units that are projected to retire at the end of 2022, similar amounts for maintenance will be incurred in the future on the facilities (units) that replace them (such as Newman Unit 6).

Please note that (1) insurance expense is recorded at the corporate and not at the plant level and (2) non-reconcilable fuel expense is not applicable at the generating unit level.

Preparer: Larry J. Hancock Title: Manager – Plant Accounting

Sponsor: Larry J. Hancock Title: Manager – Plant Accounting

SOAH Docket No. 473-21-2606
PUC Docket No. 52195
STAFF's 1st, Q. No. STAFF 7-5
Attachment 1
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El Paso Electric Company
Net Plant and Operating Costs for
Newman Units 1 & 2 and Rio Grande 7
As of and for the Year Ended December 31, 2020

Total Company Amounts

Account	Newman Unit 1	Newman Unit 2	Rio Grande Unit 7
101001 - ELECTRIC PLANT IN SERVICE	$ 28,596,963	$ 26,142,835	$ 14,815,011
108001 - ACCUM DEPRTN	(25,063,423)	(20,521,950)	(12,363,818)
Net Plant	**$ 3,533,540**	**$ 5,620,885**	**$ 2,451,193**
403000 - DEPRECIATION EXPENSE	$ 735,342	$ 551,410	$ 126,062
408100 - TAXES OTH INC TX-OPER	24,503	9,848	54,628
502000 - STEAM EXPENSES	4,300	-	449,369
505000 - ELECTRIC EXPENSES	174	-	-
506000 - MISC STEAM POWER EXP	67,986	41,881	-
507000 - RENTS	89,929	-	-
510000 - MAINT SUPERVISION & ENG	-	-	789
511000 - MAINT OF STRUCTURES	-	191	-
512000 - MAINT OF BOILER PLANT	935,265	331,543	655,348
513000 - MAINT OF ELECTRIC PLANT	1,471,826	290,332	569,943
514000 - MAINT OF MISC STEAM PLANT	10,959	166	37,399
920000 - ADMIN & GEN SALARIES	107	61	46
921000 - OFFICE SUPPLIES & EXP	23	13	10
925000 - INJURIES AND DAMAGES	1,244	603	1,647
926000 - EMPLOYEE PENSIONS & BEN	109,566	43,863	270,299
	$ 3,451,223	$ 1,269,911	$ 2,165,540

Texas Jurisdictional Portion

Account	Newman Unit 1	Newman Unit 2	Rio Grande Unit 7
101001 - ELECTRIC PLANT IN SERVICE	$ 23,209,581	$ 21,217,787	$ 12,024,011
108001 - ACCUM DEPRTN	(20,341,725)	(16,655,820)	(10,034,599)
Net Plant	**$ 2,867,856**	**$ 4,561,967**	**$ 1,989,413**
403000 - DEPRECIATION EXPENSE	$ 596,811	$ 447,530	$ 102,313
408100 - TAXES OTH INC TX-OPER	19,718	7,925	43,960
502000 - STEAM EXPENSES	3,385	-	364,680
505000 - ELECTRIC EXPENSES	137	-	-
506000 - MISC STEAM POWER EXP	55,178	33,991	-
507000 - RENTS	72,987	-	-
510000 - MAINT SUPERVISION & ENG	-	-	623
511000 - MAINT OF STRUCTURES	-	155	-
512000 - MAINT OF BOILER PLANT	736,192	260,974	515,856
513000 - MAINT OF ELECTRIC PLANT	1,158,544	228,534	448,629
514000 - MAINT OF MISC STEAM PLANT	8,626	131	29,438
920000 - ADMIN & GEN SALARIES	87	49	38
921000 - OFFICE SUPPLIES & EXP	19	11	8
925000 - INJURIES AND DAMAGES	1,010	490	1,336
926000 - EMPLOYEE PENSIONS & BEN	88,925	35,599	219,377
	$ 2,741,618	$ 1,015,388	$ 1,726,260

SSOAH DOCKET NO. 473-21-2606
PUC DOCKET NO. 52195

APPLICATION OF EL PASO ELECTRIC COMPANY TO CHANGE RATES	§ § §	BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS

EL PASO ELECTRIC COMPANY'S RESPONSE TO
COMMISSION STAFF'S TWELFTH REQUEST FOR INFORMATION
QUESTION NOS. STAFF 12-1 THROUGH STAFF 12-11

STAFF 12-1:

Payroll

Please provide the amount of non-qualified pension payments capitalized to plant in service by FERC account since Docket No 46831 test year end.

RESPONSE:

Please see STAFF 12-1, Attachment 1, for the amount of non-qualified pension payments capitalized to plant in service allocated by FERC account since the Docket No. 46831 test year end.

Preparer:	Barbara J. Torres	Title:	Principal Plant Accountant
Sponsor:	Larry J. Hancock Cynthia S. Prieto	Title:	Manager-Plant Accounting Vice President – Controller

SOAH Docket No. 473-21-2606
PUC Docket No. 52195
STAFF's 12TH, Q. No. STAFF 12-1
Attachment 1
Page 1 of 1

EL PASO ELECTRIC COMPANY
NON-QUALIFIED PENSION PAYMENTS
CAPITALIZED TO PIS
FOR THE PERIODS OCT 2016 THROUGH DEC 2020

FERC Account	Non-Qualified Pension Payments Capitalized
303 - Misc intangible plant	$ 122,335
311 - Structures and Improvements	56,597
312 - Boiler plant equipment	55,094
313 - Engines/eng-driven generators	72,372
314 - Turbogenerator units	111,814
315 - Accessory electric equipment	22,713
316 - Misc power plant equipment	7,534
340 - Land and land rights	(149)
341 - Structures and improvements	(132,916)
342 - Fuel holders,producrs,accessr	16,303
343 - Prime movers	173,413
344 - Generators	68,171
345 - Accessory electric equipment	20,855
346 - Misc power plant equipment	135
350 - Land and land rights	70,135
352 - Structures and improvements	(1,683)
353 - Station equipment	64,053
354 - Towers and fixtures	12,006
355 - Poles and fixtures	133,981
356 - Overhead conductors, devices	19,095
359 - Roads and trails	4,504
360 - Land and land rights	7,425
361 - Structures and improvements	34,058
362 - Station equipment	287,498
364 - Poles, towers and fixtures	109,907
365 - Overhead conductors, devices	106,384
366 - Underground conduit	72,699
367 - Undergrnd conductors, devices	86,847
368 - Line transformers	184,596
369 - Services	28,034
370 - Meters	35,199
371 - Installs customer premise	6,541
373 - Street lighting,signal system	3,645
389 - Land and land rights	361
390 - Structures and improvements	42,886
391 - Office furniture, equipment	44,989
392 - Transportation equipment	41,764
394 - Tools, shop, garage equipment	8,619
395 - Laboratory equipment	5,075
396 - Power operated equipment	2,001
397 - Communication equipment	31,881
398 - Miscellaneous equipment	4,943
Total Capitalized since October 2016 and Closed to Rate Base as of December 2020.	$ 2,041,715

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APPLICATION OF EL PASO ELECTRIC COMPANY TO CHANGE RATES	§ § §	BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS

EL PASO ELECTRIC COMPANY'S RESPONSE TO
CITY OF EL PASO'S ELEVENTH REQUEST FOR INFORMATION
QUESTION NOS. CEP 11-1 THROUGH CEP 11-23

CEP 11-10:

Rate Base. What was the price EPE received for the removal?

RESPONSE:

As part of the 2021 RFP for Newman Generating Station Fuel Oil Removal, El Paso Electric Company ("EPE") received and selected a bid to remove the fuel oil at no cost to EPE, and the vendor will take ownership of the fuel.

Preparer: Jesus S. Gonzalez — Title: Manager – Day Ahead & Long-Term Trading

Sponsor: David C. Hawkins — Title: Vice President – Strategy & Sustainability

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PUC DOCKET NO. 52195

APPLICATION OF EL PASO ELECTRIC COMPANY TO CHANGE RATES	§ § §	BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS

EL PASO ELECTRIC COMPANY'S RESPONSE TO
OFFICE OF PUBLIC UTILITY COUNSEL'S SECOND REQUEST FOR INFORMATION
QUESTION NOS. OPUC 2-1 THROUGH OPUC 2-16

OPUC 2-14:

Please refer to the Rate Filing Package, WP/A-3, Adjustment No. 4, sponsored by Ms. Prieto. Please provide a reconciliation for the capitalization ratio used for benefits to the ratio used for payroll and incentive expense. Please include in your response an explanation as to why these two capitalization ratios are different.

RESPONSE:

The capitalization ratio used for benefits in WP/A-3, Adjustment No. 4 Employee Pension and Benefits, is 25.54% and is based on actual benefit costs capitalized for 2020 test year, while the capitalization ratio used for payroll and incentive expense in WP/A-3, Adjustment No. 3 Salaries and Wages, is 25.05% and is based on the 2021 budgeted payroll capitalization ratio.

Preparer:	En Li Tamera L. Henderson	Title:	Manager – Financial Accounting Manager – Tax
Sponsor:	Cynthia S. Prieto	Title:	Vice President – Controller

SOAH DOCKET NO. 473-21-2606
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APPLICATION OF EL PASO	§	BEFORE THE STATE OFFICE
ELECTRIC COMPANY TO CHANGE	§	OF
RATES	§	ADMINISTRATIVE HEARINGS

EL PASO ELECTRIC COMPANY'S RESPONSE TO
OFFICE OF PUBLIC UTILITY COUNSEL'S
EIGHTH REQUEST FOR INFORMATION
QUESTION NOS. OPUC 8-1 THROUGH OPUC 8-6

OPUC 8-3:

Please refer to EPE Response to OPUC RFI No. 2-14. Please provide the payroll capitalization ratios by month for the period January 2019 through the most recent month available.

RESPONSE:

Please refer to OPUC 8-3 Attachment 1, for the average payroll capitalization ratios for the calendar years 2017 to 2019 and the monthly ratios for 2020 and January through June 2021 based upon the information provided in Schedule G-1.3. The monthly payroll information for 2019 is not readily available.

Preparer: Magdalena Rodriguez Title: Supervisor – Payroll

Sponsor: Cynthia S. Prieto Title: Vice President – Controller

EL PASO ELECTRIC COMPANY

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Line No.	Month	Payroll Expensed (A)	Payroll Capitalized	Other (Expensed) Payroll (A)	Total Payroll	Capitalization Ratios
1	JANUARY 2020	$ 6,600,855	$ 2,187,918	$ 340,089	$ 9,128,863	23.97%
2	FEBRUARY	6,229,884	2,383,939	193,984	8,807,807	27.07%
3	MARCH	6,646,653	2,110,011	385,548	9,142,213	23.08%
4	APRIL	7,084,074	2,508,615	257,302	9,849,991	25.47%
5	MAY	7,160,205	2,570,579	291,251	10,022,036	25.65%
6	JUNE	7,367,801	2,412,922	311,391	10,092,114	23.91%
7	JULY	9,102,753	2,942,532	325,650	12,370,935	23.79%
8	AUGUST	7,338,259	2,509,821	7,150,724	16,998,804	14.76%
9	SEPTEMBER	7,609,399	2,523,807	1,757,755	11,890,961	21.22%
10	OCTOBER	6,879,165	2,857,630	166,366	9,903,161	28.86%
11	NOVEMBER	7,260,825	2,794,300	(22,858)	10,032,267	27.85%
12	DECEMBER	7,603,644	2,601,152	905,957	11,110,753	23.41%
13	Total Test Year	$ 86,883,519	$ 30,403,226	$ 12,063,160	$ 129,349,905	23.50%
14	JANUARY 2021	7,572,386	2,404,195	207,099	10,183,680	23.61%
15	FEBRUARY	6,865,254	2,458,257	183,337	9,506,848	25.86%
16	MARCH	8,040,116	2,386,957	231,119	10,658,193	22.40%
17	APRIL	7,287,786	2,694,243	292,021	10,274,049	26.22%
18	MAY	7,358,791	2,780,088	227,551	10,366,430	26.82%
19	JUNE	6,279,369	2,400,285	205,060	8,884,714	27.02%
20	YTD 2021	$ 43,403,702	$ 15,124,026	$ 1,346,186	$ 59,873,914	25.26%
21	Calendar Year 2019	$ 84,864,678	$29,388,043	$ 4,133,009	$118,385,730	24.82%
22	Calendar Year 2018	83,805,115	26,591,132	373,259	110,769,506	24.01%
23	Calendar Year 2017	80,652,379	24,471,034	675,091	105,798,504	23.13%

(A) All figures under Payroll Expense (column c) were recorded in operating FERC expense accounts, while figures under Other (Expensed) Payroll (column e) were recorded in non-operating FERC expense accounts.

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APPLICATION OF EL PASO ELECTRIC COMPANY TO CHANGE RATES	§ § §	BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS

EL PASO ELECTRIC COMPANY'S RESPONSE TO
OFFICE OF PUBLIC UTILITY COUNSEL'S SECOND REQUEST FOR INFORMATION
QUESTION NOS. OPUC 2-1 THROUGH OPUC 2-16

OPUC 2-9:

Please refer to the Direct Testimony of Ms. Prieto, page 7. Please provide the following information related to the STI compensation awarded to each employee during the test year:

a. Incentive plan used to compute the award;

b. Date of the annual award;

c. Total annual incentive compensation awarded to the employee during the test year;

d. Base salary amount and month on which the awarded incentive compensation was computed for the annual award;

e. Additional incentive compensation payments made at times other than at the annual award date and dates of such payments;

f. Annual target percentage for each employee;

g. Actual percentage awarded during the test year for each employee and confirmation on whether the pay was greater than 100% of target; and

h. Reconciliation of the amounts included in the adjusted test year to those awarded during the test year.

RESPONSE:

a. El Paso Electric Company's ("EPE") short-term incentive plan is the Annual Cash Bonus Plan ("ACBP"). The Plan document was provided in EPE's response to CEP 3-3, Attachment 1 - Confidential.

b. The payment for the 2020 ACBP was made on February 26, 2021, for current employees, and April 1, 2021, for retired Employees.

c. Please see OPUC 2-9, Attachment 1 - Confidential, Tab A, column (c).

d. Please see OPUC 2-9, Attachment 1 - Confidential, Tab A, column (d).

e. EPE discontinued the payment of Safety bonuses prior to 2021 and therefore these bonus payment amounts were not included in the calculation of the ACBP.

f. Please see OPUC 2-9, Attachment 1 - Confidential, Tab C, for the target percentage for each category by employee level.

g. Please see OPUC 2-9, Attachment 1 - Confidential, Tab A, columns (e), (h), (k), (n), (q), (t), and (w). All awards were paid at target for all employees.

h. Please see OPUC 2-9, Attachment 1, Tab B.

Preparer:	Magdalena Rodriguez	Title:	Supervisor – Payroll
Sponsor:	Cynthia S. Prieto	Title:	Vice President – Controller

PUBLIC

OPUC 2-9 Attachment 1 is a VOLUMINOUS and CONFIDENTIAL and/or HIGHLY SENSITIVE PROTECTED MATERIALS attachment.

Native File (confidential)

provided electronically

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APPLICATION OF EL PASO	§	BEFORE THE STATE OFFICE
ELECTRIC COMPANY TO CHANGE	§	OF
RATES	§	ADMINISTRATIVE HEARINGS

EL PASO ELECTRIC COMPANY'S RESPONSE TO
CITY OF EL PASO'S THIRD REQUEST FOR INFORMATION
QUESTION NOS. CEP 3-1 THROUGH CEP 3-32

CEP 3-3:

Incentive Compensation: To what extent is the payment of incentive compensation to employees at the discretion of El Paso Electric's management.

RESPONSE:

Incentive compensation is determined according to the guidelines and metrics stipulated in the short-term incentive compensation plan. Please see CEP 3-3, Attachment 1 - Confidential for the 2020 Annual Cash Bonus Plan document.

Preparer: Robert M. Almanzan — Title: Senior Director – Human Resources

Sponsor: Cynthia S. Prieto — Title: Vice President – Controller

EL PASO ELECTRIC COMPANY

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CEP 3-3 Attachment 1 is CONFIDENTIAL and/or HIGHLY SENSITIVE PROTECTED MATERIALS attachment.

Pages 90 thru 100 contain

Confidential Material

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APPLICATION OF EL PASO	§	BEFORE THE STATE OFFICE
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EL PASO ELECTRIC COMPANY'S RESPONSE TO
OFFICE OF PUBLIC UTILITY COUNSEL'S SECOND REQUEST FOR INFORMATION
QUESTION NOS. OPUC 2-1 THROUGH OPUC 2-16

OPUC 2-8:

Please refer to the Direct Testimony of Ms. Prieto, page 6. Please confirm or deny that the bargaining employees are eligible to receive incentive compensation from the Company's STI and LTI compensation plans. If confirm, please provide the amounts related to the STI compensation plan and the LTI compensation plan that are included in the proposed revenue requirement. In your response, please identify the average percentage of target that was paid to all bargaining employees.

RESPONSE:

Bargaining employees of El Paso Electric Company ("EPE") are eligible to receive incentive compensation from the Annual Cash Bonus Plan (STIP) but are not eligible for the LTI compensation plans. Please see EPE's response to OPUC 2-9, Attachment 1 for the amounts paid to all employees for the test year, which totaled $10,744,255. As discussed in WP A-3, Adjustment No. 3 – Salaries and Wages, the amount included in EPE's request for the Annual Cash Bonus was reduced by the financially-based incentive compensation and further reduced by the amount to be capitalized in the rate year. The amount included in EPE's request is $4,026,409. EPE does not separate bargaining employees in the calculation of the Annual Cash Bonus.

For the 2020 Annual Cash Bonus, all amounts were paid at 100% of target in accordance with EPE's commitment in Docket No. 49849.

Preparer:	Magdalena Rodriguez	Title:	Supervisor – Payroll
Sponsor:	Cynthia S. Prieto	Title:	Vice President – Controller

SOAH DOCKET NO. 473-21-2606
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APPLICATION OF EL PASO ELECTRIC COMPANY TO CHANGE RATES	§ § §	BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS

EL PASO ELECTRIC COMPANY'S RESPONSE TO CITY OF EL PASO'S THIRD REQUEST FOR INFORMATION QUESTION NOS. CEP 3-1 THROUGH CEP 3-32

CEP 3-2:

Incentive Compensation: Please identify each Company incentive compensation plan which uses an Earnings Per Share ("EPS") modifier (or "trigger", or funding mechanism), and provide the following information for each:

a. What was the EPS modifier for the years 2016 through 2020?

b. Is an EPS modifier of (-0-) or a negative number possible?

c. How is the EPS modifier determined?

RESPONSE:

El Paso Electric Company does not use an earnings per share ("EPS") modifier in any of its incentive compensation plans. From 2016 through 2019, EPS was the financial performance measure used in the Annual Cash Bonus Plan (incentive compensation plan) representing 50% of the overall metric. For 2020, net income was the financial performance measure representing 50% of the overall metric. In all requested years, an Operational Performance metric measured by a combination of customer satisfaction, system reliability, and compliance goals is the other 50%.

Preparer: Robert M. Almanzan — Title: Senior Director – Human Resources

Sponsor: Cynthia S. Prieto — Title: Vice President – Controller

SOAH DOCKET NO. 473-21-2606
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APPLICATION OF EL PASO ELECTRIC COMPANY TO CHANGE RATES	§ § §	BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS

EL PASO ELECTRIC COMPANY'S RESPONSE TO COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION QUESTION NOS. STAFF 1-1 THROUGH STAFF 1-48

STAFF 1-22:

Payroll

Has the Company included any non-qualified pension payments in its request? If so, please provide by FERC account and identify as Company direct or affiliate allocated. Please provide the amounts expensed as well as the amounts capitalized.

RESPONSE:

The request includes amounts for El Paso Electric Company's ("Company") nonqualified pension costs in FERC account 926 as well as amounts charged to FERC account 107 that were closed to plant in service during the test year. Amounts recorded by the Company for its Excess Benefit Plan ("Excess") and Supplemental Retirement Plan ("SERP") are shown below. All requested amounts are Company direct costs. There were no affiliate pension costs allocated during the test year.

FERC Account	Excess	SERP	Total
926 - Employee Pensions and Benefits	$937,304	$1,033,409	$1,970,713
107 - Construction Work in Progress	82,225	7,602	89,827

Preparer:	Karen Baca	Title:	Senior Accountant – Technical Accounting
	En Li		Manager – Financial Accounting
Sponsor:	Cynthia S. Prieto	Title:	Vice President – Controller

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APPLICATION OF EL PASO ELECTRIC COMPANY TO CHANGE RATES	§ § §	BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS

EL PASO ELECTRIC COMPANY'S RESPONSE TO TEXAS INDUSTRIAL ENERGY CONSUMERS' SECOND REQUEST FOR INFORMATION QUESTION NOS. TIEC 2-1 THROUGH TIEC 2-4

TIEC 2-1:

Please refer to Schedule G-2, pages 2-3, regarding EPE's non-qualified retirement income plans.

a. Please provide separately the number of current officers, current employees, former officers (or their surviving beneficiaries), and former employees (or their surviving beneficiaries) receiving benefits under the Supplemental Executive Retirement Plan (SERP).

b. Please provide separately the number of current officers, current employees, former officers (or their surviving beneficiaries), and former employees (or their surviving beneficiaries) receiving benefits under the Excess Benefit Plan.

c. Please provide separately the number of current officers, current employees, former officers (or their surviving beneficiaries), and former employees (or their surviving beneficiaries) receiving benefits under the SERP and/or Excess Benefit Plan collectively (i.e. counting each individual officer/employee only once).

RESPONSE:

Data as of 12/31/20:

a. Supplemental Executive Retirement Plan (SERP)	
Current Officers	0
Current Employees	0
Former Officers (or their surviving beneficiaries)	17
Former Employees (or their surviving beneficiaries)	9

b. Excess Benefit Plan	
Current Officers[1]	13
Current Employees	0
Former Officers (or their surviving beneficiaries)[2,3]	19
Former Employees (or their surviving beneficiaries)	0

[1] Does not include one (1) officer who became eligible to participate 2/1/21
[2] Includes two former officers who have not yet commenced benefits due to age restrictions
[3] Does not include four (4) former officers who took lump sum distributions during 2020

c. SERP & Excess Benefit Plan, Collectively	
Current Officers	13
Current Employees	0
Former Officers (or their surviving beneficiaries)	36
Former Employees (or their surviving beneficiaries)	9

Preparer:	Robert M. Almanzán Karin Melson	Title:	Senior Director – Human Resources Manager – Human Resources Benefits
Sponsor:	Cynthia S. Prieto	Title:	Vice President – Controller

SOAH DOCKET NO. 473-21-2606
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APPLICATION OF EL PASO ELECTRIC COMPANY TO CHANGE RATES	§ § §	BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS

EL PASO ELECTRIC COMPANY'S RESPONSE TO
CITY OF EL PASO'S THIRD REQUEST FOR INFORMATION
QUESTION NOS. CEP 3-1 THROUGH CEP 3-32

CEP 3-15:

Retirement plans: Please quantify the savings which have been achieved or that are expected to be achieved from changes to Company's retirement plans or postretirement benefits.

RESPONSE:

Changes to the Post-65 Retiree Welfare Benefit Plan ("VEBA") (Bundling medical and pharmacy coverage under Humana) is expected to save approximately $220,000 in combined premiums during 2021. The expense related to the VEBA that is included in cost of service is based on an actuarially determined amount, not on premiums, therefore no adjustment was made to cost of service.

Preparer: Robert M. Almanzan — Title: Senior Director – Human Resources

Sponsor: Cynthia S. Prieto — Title: Vice President – Controller

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APPLICATION OF EL PASO ELECTRIC COMPANY TO CHANGE RATES	§ § §	BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS

EL PASO ELECTRIC COMPANY'S RESPONSE TO
CITY OF EL PASO'S ELEVENTH REQUEST FOR INFORMATION
QUESTION NOS. CEP 11-1 THROUGH CEP 11-23

CEP 11-3:

Rate Base. Identify the costs incurred in the test year for the fuel oil cleanup that was completed in March 2020?

RESPONSE:

El Paso Electric Company incurred fuel oil cleanup costs of $27,445 during the test year.

Preparer: Pedro Vega Title: Senior Accountant – Power Generation

Sponsor: J Kyle Olson Title: Manager – Power Generation Engineering

Request

Provide a schedule that shows all plant-related excess ADIT by temporary difference as of December 31, 2017 and the projected annual amortization for each temporary difference in a format similar to Exhibit BLC-3, which provides these amounts for non-plant related excess ADIT. On this schedule, separately identify each temporary difference the Company claims is protected and provide all support for the Company's claim that such temporary difference is protected.

Response

The following response was prepared by or under the direct supervision of Bonnie L. Clutter, the sponsoring witness for this response.

Please see Attachment 1 to this response for the plant-related excess ADFIT by temporary difference as of December 31, 2017, and the estimated annual amortization for 2018 through 2032.

Please see Attachments 2, 3, and 4 to this response for supporting documentation that certain temporary differences are protected under the Internal Revenue Code and Internal Revenue Service regulations.

ATTACHMENTS:

ATTACHMENT 1 – Plant-related excess ADFIT amortization 2018-2032, 1 page.
ATTACHMENT 2 - IRS Reg 1.167l_IRC Sec 168f2_168i9, 18 pages.
ATTACHMENT 3 – TCJA Sec 13001, 12 pages.
ATTACHMENT 4 – IRS Notice 87-82, 6 pages.

DOCKET 48325 ATTACHMENT 1
TO CITIES RFI SET NO. 1
QUESTION NO. 1-05

Oncor Electric Delivery Company LLC
Plant-related Excess ADFIT Amortization
2018 - 2032

		Balance at	Estimated Annual Amortization														
Temporary Difference	Note	12/31/2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Protected																	
Depreciation Difference	(1)	(1,037,681,748)	23,020,000	25,590,853	28,542,956	30,414,843	34,316,679	34,634,723	36,253,009	39,252,778	41,721,596	46,459,323	47,089,994	50,096,378	52,512,568	55,464,412	57,975,657
CIAC	(2)	47,294,289	(4,312,857)	(3,985,559)	(3,757,755)	(3,533,583)	(3,311,955)	(3,088,965)	(2,971,677)	(2,550,523)	(2,432,757)	(2,357,735)	(2,240,859)	(2,152,467)	(2,074,353)	(1,946,293)	(1,745,809)
CIAC - Relocations	(2)	7,502,132	(311,289)	(315,884)	(320,844)	(327,156)	(337,755)	(352,556)	(365,864)	(404,274)	(442,018)	(472,870)	(518,907)	(590,469)	(670,491)	(730,433)	(641,311)
Total		(982,885,327)	18,395,854	21,289,410	24,464,357	26,554,104	30,666,970	31,193,203	32,915,468	36,297,981	38,846,820	43,628,718	44,330,227	47,353,443	49,767,725	52,787,685	55,588,537
Non-protected																	
Audit Adjustments		(14,936,243)	690,608	696,435	701,984	708,308	714,421	721,877	733,702	746,857	769,206	773,683	771,961	728,819	755,927	997,338	916,138
AFUDC Debt		(17,687,408)	795,726	794,494	796,969	798,790	800,288	796,572	796,883	796,471	797,220	788,366	773,052	799,019	832,703	710,264	616,696
Casualty Losses		(10,431,191)	629,412	638,924	649,086	661,919	674,504	688,271	706,269	726,028	759,137	797,183	851,695	908,737	920,814	455,229	19,535
Software		(75,993,225)	5,505,238	5,505,354	5,505,478	5,505,634	5,505,787	5,505,955	5,506,174	5,506,414	5,506,816	5,509,237	5,509,687	5,382,991	5,549,034	2,646,305	395,269
Repair Expense		(126,567,477)	4,835,574	4,876,967	4,920,869	4,982,254	5,037,780	5,099,856	5,194,744	5,304,130	5,489,986	5,684,960	5,953,407	6,238,927	6,533,699	6,999,472	7,606,019
Mixed Service Cost		(51,344,331)	3,781,512	3,677,083	3,572,682	3,581,504	3,424,560	3,387,638	3,272,586	3,122,532	2,959,156	2,806,471	2,692,474	2,458,055	2,167,093	1,917,567	1,806,026
Tax Capitalized Interest		19,841,643	(2,418,157)	(2,268,283)	(2,023,335)	(1,756,980)	(1,531,965)	(1,433,514)	(1,305,629)	(1,148,458)	(1,093,053)	(933,740)	(591,002)	(444,672)	(384,726)	(302,461)	(167,452)
Other Differences		(290,448)	15,018	15,266	16,451	16,889	18,599	16,414	11,623	5,971	516	(2,132)	(5,585)	7,876	48,577	56,196	52,916
Total		(277,408,681)	13,834,931	13,936,241	14,140,184	14,498,317	14,643,975	14,783,070	14,916,351	15,059,946	15,188,986	15,424,028	15,955,689	16,079,751	16,423,121	13,479,910	11,245,145
Total Plant-related Excess ADFIT	(3)	(1,260,294,008)	32,230,785	35,225,651	38,604,541	41,052,421	45,310,945	45,976,272	47,831,819	51,357,927	54,035,806	59,052,746	60,285,917	63,433,194	66,190,846	66,267,595	66,833,683

(1) IRC Sections 167(l), 168(f)(2) and 168(i)(9) address the normalization requirements applicable to public utility property which require deferred accounting for book/tax differences due to using a different depreciation method or life for tax purposes than what is used for computing cost of service.
TCJA Sec 13001(d)(1) states that "A normalization method of accounting shall not be treated as being used with respect to any public utility property for purposes of section 167 or 168 of the Internal Revenue Code of 1986 if the taxpayer, in computing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, reduces the excess tax reserve more rapidly or to a greater extent than such reserve would be reduced under the average rate assumptio method."

(2) IRS Notice 87-82 states that CIAC property is subject to the normalization rules. According to Section V, the regulatory accounting for CIAC is equivilent to depreciating the CIAC property in its entirety in the year of CIAC receipt.

(3) The projected excess ADFIT amortization is based on book depreciation included in Oncor's rates for plant investment at 12/31/17. The projected amortization does not include any future retirements or removal costs.

WORKPAPERS

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