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APPLICATION OF EL PASO ELECTRIC COMPANY TO CHANGE RATES	§ § §	BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS
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Cross-Rebuttal Testimony and Exhibits

of

**JEFFRY POLLOCK**

On Behalf of

**Freeport-McMoRan, Inc.**

November 19, 2021



**J . P O L L O C K**  
**I N C O R P O R A T E D**

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**EXHIBIT LIST**

<b>Exhibit</b>	<b>Description</b>
<b>JP-R1</b>	Estimated Avoided Generation Capacity Costs
<b>JP-R2</b>	Settlement Agreement
<b>JP-R3</b>	Excerpt From EPE's Loads & Resources Table: 2021-2040
<b>JP-R4</b>	EPE Response to CEP 14-8

## GLOSSARY OF ACRONYMS

Term	Definition
A&G	Administrative and General
AED-4CP	Average and Excess Four Coincident Peak
C&I	Commercial and Industrial
CCOSS	Class Cost-of-Service Study
CEP	City of El Paso
CONE	Cost of New Entry
CT	Combustion Turbine
EIA	U.S. Energy Information Administration
EPE	El Paso Electric Company
FMI	Freeport-McMoRan, Inc.
IRP	Integrated Resource Plan
kW	Kilowatt
MISO	Midcontinent Independent System Operator
MW	Megawatt
NARUC	National Association of Regulatory Utility Commissioners
NMPRC	New Mexico Public Regulation Commission
O&M	Operation and Maintenance
OPUC	Office of Public Utility Counsel
PPA	Purchased Power Agreement
SPP	Southwest Power Pool
Staff	Staff of the Public Utility Commission of Texas

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**AFFIDAVIT OF JEFFRY POLLOCK**

State of Missouri     )  
                                  )     SS  
County of St. Louis    )

Jeffry Pollock, being first duly sworn, on his oath states:

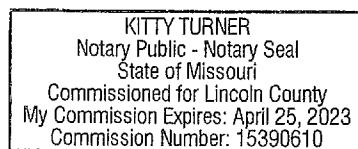
1. My name is Jeffry Pollock. I am President of J. Pollock, Incorporated, 12647 Olive Blvd., Suite 585, St. Louis, Missouri 63141. We have been retained by Freeport-McMoRan, Inc. to testify in this proceeding on its behalf;


2. Attached hereto and made a part hereof for all purposes is my Cross-Rebuttal Testimony and Exhibits which have been prepared in written form for introduction into evidence in SOAH Docket No. 473-21-2606 and Public Utility Commission of Texas Docket No. 52195; and,

3. I hereby swear and affirm that my answers contained in the testimony are true and correct.

  
Jeffry Pollock

Subscribed and sworn to before me this 19<sup>th</sup> day of November 2021.



  
Kitty Turner, Notary Public  
Commission #: 15390610

My Commission expires on April 25, 2023.

**CROSS-REBUTTAL TESTIMONY OF JEFFRY POLLOCK**

**Introduction and Summary**

1    **Q**     PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2    A     Jeffry Pollock, 12647 Olive Blvd., Suite 585, St. Louis, MO 63141.

3    **Q**     ARE YOU THE SAME JEFFRY POLLOCK WHO PREVIOUSLY SUBMITTED  
4           DIRECT TESTIMONY IN THIS PROCEEDING ON BEHALF OF FREEPORT-  
5           MCMORAN, INC. (FMI)?

6    A     Yes.

7    **Q**     WHAT IS THE PURPOSE OF YOUR CROSS-REBUTTAL TESTIMONY?

8    A     My Cross-Rebuttal Testimony addresses recommendations made by Clarence L.  
9           Johnson on behalf of the City of El Paso (CEP), Evan D. Evans on behalf of the Office  
10          of Public Utility Counsel (OPUC), and Adrian Narvaez on behalf of the Staff of the  
11          Public Utility Commission of Texas (Staff).

12   **Q**     DOES THE FACT THAT YOU ARE NOT ADDRESSING EVERY PROPOSAL  
13          RAISED BY THESE AND OTHER PARTIES CONSTITUTE AN ENDORSEMENT OF  
14          THEIR RECOMMENDATIONS?

15   A     No.

16   **Q**     ARE YOU SPONSORING ANY EXHIBITS WITH YOUR CROSS-REBUTTAL  
17          TESTIMONY?

18   A     Yes. I am sponsoring Exhibits JP-R1 through JP-R4. These exhibits were prepared  
19          by me or under my supervision and direction.

1     **Q     PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.**

2     **A     My findings and recommendations are as follows:**

3             *Rate 38*

- 4             •     Mr. Johnson asserts that Rate 38 is not cost-effective because it would provide  
5                   a benefit to interruptible customers that exceeds EPE's avoided generation  
6                   capacity cost. Notwithstanding that his own estimate of EPE's avoided  
7                   generation capacity cost is drastically understated, the application of an  
8                   avoided cost standard to evaluate the reasonableness of an interruptible rate  
9                   is inapt because it assumes that EPE can add capacity resources to replace  
10                  interruptible load.
- 11            •     Under a Settlement Agreement entered into by and between EPE, Chaparral  
12                  Community Coalition for Health and the Environment, and Sierra Club in  
13                  August 2021, EPE agreed to a four-year moratorium on the construction of any  
14                  additional EPE-owned generation capacity to meet native demand.
- 15            •     The moratorium, coupled with EPE's own projections that reveal a significant  
16                  capacity deficit over the next four years, means that interruptible power may  
17                  be EPE's best option for maintaining system reliability for at least the next four  
18                  years.
- 19            •     Because of EPE's projected capacity deficiency, every effort should be made  
20                  to encourage more interruptible service. Increasing the Rate 38 Demand  
21                  charge, as Mr. Johnson is proposing, would be counterproductive to this  
22                  objective. Accordingly, the Commission should adopt EPE's proposal to both  
23                  expand the amount of interruptible service and its proposed Rate 38 Demand  
24                  charge.

25            *Adjustments to the Class Cost-of-Service Study (CCOSS)*

- 26            •     Mr. Evans' proposal to include Rate 38 energy sales in deriving the E1 Energy  
27                  Allocator is based on a false premise that Rate 38 customers are not paying  
28                  their share of non-fuel operation and maintenance (O&M) expenses. EPE is  
29                  proposing to set the Rate 38 Energy charge at the same level as the Rate 25  
30                  Energy charge. Therefore, there is no subsidy. Further, modifying the E1  
31                  Energy Allocator would defeat the purpose of EPE's CCOSS, which is to  
32                  determine the cost of providing firm service (whereas Rate 38 provides non-  
33                  firm service).
- 34            •     Mr. Johnson misunderstands the nature of imputed capacity costs on an  
35                  energy basis. These costs reflect the capacity value provided by the Macho  
36                  Springs and Newman solar purchased power agreements (PPAs); that is,



1 imputed capacity is a demand-related cost just like the costs associated with  
2 EPE's generation capacity. Accordingly, imputed capacity costs should be  
3 allocated to rate classes using the same methodology (AED-4CP) that is used  
4 to allocate EPE's other generation capacity costs.

- 5 • Mr. Johnson's proposal to reallocate the portion of administrative & general  
6 (A&G) expense Account Nos. 920, 923 and 930.2 designated as "general"  
7 using net plant rather than labor ratios is contrary to the practices of other  
8 Texas utilities. Contrary to his assertion, Mr. Johnson's proposal would over-  
9 weight production because EPE already allocates a portion of these expenses  
10 using both plant and production labor ratios. The Commission should reject  
11 Mr. Johnson's proposal.
- 12 • The Commission should reject Mr. Evans' proposal to spread uncollectible  
13 expense to all classes based on sales revenues. EPE does not incur  
14 uncollectible expense from the Other Public Authorities and Large Commercial  
15 and Industrial (C&I) classes. Accordingly, EPE does not allocate uncollectible  
16 expenses to these classes. Thus, Mr. Evans' proposal is contrary to cost  
17 causation because uncollectible expense is not a characteristic specific to  
18 serving the Other Public Authorities and Large C&I customers. Cost causation  
19 means allocating costs to rate classes based on the specific characteristics  
20 that cause the utility to incur the costs. Other Public Authorities and Large C&I  
21 customers do not cause EPE to incur uncollectible expense.

#### 22 Cost Revenue Allocation

- 23 • Mr. Narvaez appears to support EPE's proposed class revenue allocation,  
24 which applies gradualism to a few *targeted* rate classes. This is in contrast to  
25 Mr. Johnson and Mr. Evans who propose gradualism constraints that would  
26 apply to *all* firm rate classes.
- 27 • The Commission has not applied gradualism in the manner proposed by Mr.  
28 Narvaez, Mr. Johnson and Mr. Evans in recent cases.
- 29 • Should the Commission decide to change its approach to gradualism in this  
30 case, the constraints should apply to all rate classes, including *both* firm and  
31 non-firm service.

**Rate 38**

1    **Q       WHY DOES CEP WITNESS CLARENCE JOHNSON OPPOSE EPE’S PROPOSED**  
2       **RATE 38?**

3    A       Mr. Johnson asserts that EPE’s proposed interruptible rate is not cost-effective  
4           because the size of the interruptible credit — which reflects the differential between  
5           the firm Demand charge and the Rate 38 Demand charge — would exceed EPE’s  
6           avoided generation capacity cost.<sup>1</sup>

7    **Q       DO YOU AGREE WITH MR. JOHNSON’S ASSESSMENT?**

8    A       No. First, Mr. Johnson primarily relied on a single source to quantify what he believes  
9           to be EPE’s avoided generation capacity costs. Had Mr. Johnson considered other  
10          sources, he would have realized that his estimate is too low. Second, Mr. Johnson  
11          asserts that the avoided cost standard has been firmly established in prior Commission  
12          decisions. However, the decisions cited by Mr. Johnson were issued over 30 years  
13          ago. Circumstances have changed dramatically since these 30-year old decisions  
14          were issued.

15   **Q       WHY DO YOU ASSERT THAT MR. JOHNSON’S ESTIMATE OF AVOIDED**  
16       **GENERATION CAPACITY COSTS IS TOO LOW?**

17   A       First, citing the U.S. Energy Information Administration (EIA), Mr. Johnson assumed  
18          that the overnight cost to construct a combustion turbine (CT) in the El Paso region  
19          would be \$594 per kilowatt (kW).<sup>2</sup> Further, this estimate is in 2020 dollars. However,

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<sup>1</sup> Direct Testimony of Clarence L. Johnson at 47.

<sup>2</sup> *Id.* at Schedule CJ-7.

1 this is not the only CT technology that would be available to EPE. An alternative would  
2 include a more efficient Aeroderivative CT. The EIA estimates that the overnight cost  
3 of an aeroderivative CT would be \$981 per kW in 2020 dollars. Second, Mr. Johnson  
4 failed to adjust the overnight construction costs from 2020 dollars to the rate year.

5 **Q HAVE YOU ANALYZED THE ESTIMATED AVOIDED GENERATION CAPACITY**  
6 **COST USING INFORMATION FROM OTHER SOURCES?**

7 **A** Yes. **Exhibit JP-R1** provides a more comprehensive analysis of avoided generation  
8 capacity costs. Column 1 shows the derivation of avoided generation capacity cost  
9 using an aeroderivative CT. The corresponding fixed O&M expense is \$16.38 per kW-  
10 year in 2020 dollars. Adjusting these values for inflation and applying the levelized  
11 fixed charge rate of 7.39% (the same as used by Mr. Johnson and by EPE) would  
12 result in a levelized cost of \$93.45 per kW-year. Adjusting the latter by reserves and  
13 transmission losses would result in an incremental production capacity cost of \$109.87  
14 per kW-year, which is only slightly below EPE's projected avoided cost.

15 Second, various wholesale markets use a CT as a proxy for determining cost  
16 of new entry (CONE). For example, the Midcontinent Independent System Operator  
17 (MISO) and the Southwest Power Pool (SPP) recently published CONE prices were  
18 \$97.34 and \$85.61 per kW-year, respectively. Applying the reserve margin and  
19 transmission losses would result in avoided generation capacity costs of \$114.44 and  
20 \$100.65 per kW-year, respectively, for MISO and SPP.

1 Q WHAT CONCLUSION CAN BE DRAWN FROM YOUR MORE EXTENSIVE  
2 ANALYSIS OF AVOIDED GENERATION CAPACITY COSTS?

3 A EPE's estimated avoided generation capacity cost is in excess of \$100 per kW-year  
4 — not less than \$60 per kW-year as estimated by Mr. Johnson for transmission voltage  
5 customers.

6 Q ARE THE 1977 AND 1988 DECISIONS CITED BY MR. JOHNSON RELEVANT TO  
7 EVALUATING THE REASONABLENESS OF RATE 38 IN THIS PROCEEDING?

8 A No. First, neither decision referenced by Mr. Johnson was specifically directed to EPE.  
9 Second, circumstances have changed in the more than 30 years since these decisions  
10 were issued. For example, each decision pre-dates both electricity restructuring in  
11 ERCOT and the Commission's recent investigations and concerns about resource  
12 adequacy in the aftermath of Winter Storm Uri. Third, the avoided cost standard  
13 assumes that the utility in question has an ability to increase generation capacity to  
14 replace interruptible load. However, this is not a viable alternative for EPE.

15 Q WHY IS CONSTRUCTING NEW GENERATION TO REPLACE INTERRUPTIBLE  
16 LOAD NOT VIABLE FOR EPE?

17 A EPE has agreed to a four-year moratorium on the construction of any additional EPE-  
18 owned generation capacity to meet increased demand. The moratorium is required  
19 under a Settlement Agreement entered into by and between EPE, Chaparral  
20 Community Coalition for Health and the Environment, and Sierra Club in August 2021.  
21 A copy of the Agreement is provided in **Exhibit JP-R2**.

The key findings (paragraph Nos. 3.1 through 3.3) of this Agreement are as follows:

- With the exception of Newman Unit 6, EPE agreed (1) that it will *never* construct any new fossil fuel generation units at the Newman Generating Station and (2) to **a four-year moratorium** on EPE's construction of any additional EPE-owned fossil fuel-fired units to meet EPE's Native System Demand.
- EPE also agreed to file abandonment applications for Newman Unit Nos. 1 or 2 and Rio Grande Generation Station Unit No. 7 no later than by the start of commercial operation of Newman Unit No. 6 with the New Mexico Public Regulatory Commission (NMPRC).

The commitment not to construct additional generation is especially problematic because EPE is projecting to be capacity deficient over the next four years.

**Q WHAT IS THE EXTENT OF EPE'S PROJECTED CAPACITY DEFICIENCY?**

**A Exhibit JP-R3** is an excerpt from EPE's Load & Resources Table as filed with the NMPRC in accordance with EPE's 2021 Integrated Resource Plan (IRP). The excerpt covers the period 2022 through 2027. EPE's projected reserve margins are shown on line 10.

As can be seen, EPE is projecting reserve margins ranging from 3.5% to 7.1% during this period. EPE's planning reserve margin is 15%. However, even if EPE were to reduce its planning reserve margin to between 10% and 13% in future years as currently anticipated, it would still have a significant capacity deficit.<sup>3</sup>

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<sup>3</sup> El Paso Electric Company's Integrated Resource Plan for Period 2021-2040, Case No. 21-00242-UT, *2021 Integrated Resource Plan*, Attachment D-4, Table ES-1 (Sept. 16, 2021).

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1 Q HOW WOULD EPE'S PROJECTED RESERVE MARGINS BE AFFECTED IF ALL  
2 OF THE INTERRUPTIBLE LOAD WERE TO CONVERT TO FIRM SERVICE?

3 A The reserve margins shown on line 10 assume 56 megawatts (MW) of interruptible  
4 capacity. If that capacity were to opt for firm service because the risk of interruption is  
5 perceived to be greater than the benefit, EPE's projected reserve margins would fall  
6 to between 1% and 4.6% during the 2022 through 2027 time period (line 11). Further,  
7 these projections assume that EPE can add fossil fuel capacity in 2027, after the  
8 current moratorium has expired.

9 Q WHAT CONCLUSIONS CAN BE DRAWN FROM EXHIBIT JP-R3?

10 A Clearly, EPE needs more, not less, interruptible load to keep the lights on in the City  
11 of El Paso and surrounding areas. Absent a viable option to install additional  
12 generation capacity in the near term, it is unreasonable to limit the compensation to  
13 interruptible customers to estimates of avoided generation capacity costs.

14 Q WHAT DO YOU RECOMMEND?

15 A EPE's proposed interruptible credits should be approved to ensure that EPE retains  
16 — and hopefully grows — the amount of interruptible load necessary to maintain a  
17 reasonable planning reserve margin for the next four years.

### **Proposed Adjustments to the CCOSS**

18 Q WHAT CCOSS ISSUES ARE YOU ADDRESSING?

19 A Mr. Johnson and Mr. Evans are proposing specific adjustments to EPE's CCOSS. The  
20 adjustments include:

- Rate 38 sales would be included in determining the E1 Energy Allocator;<sup>4</sup>
- Imputed capacity costs would be allocated on an energy, rather than a demand, basis;<sup>5</sup> and
- A&G expenses booked to FERC Account Nos. 920, 923 and 930.2 would be allocated on net plant rather than labor expense.<sup>6</sup>

As discussed below, none of these recommendations are well supported, and the Commission should reject them.

Further, despite clear precedent to the contrary, both Mr. Johnson and Mr. Evans support EPE's proposal to use a 4CP load-factor weighting in applying the AED-4CP method. I discuss the reasons why the Commission has consistently approved the use of a 1CP load-factor weighting in my direct testimony (at pages 9 - 12).

E1 Energy Allocator

**Q WHY DOES MR. EVANS RECOMMEND THAT INTERRUPTIBLE ENERGY SALES UNDER RATE 38 SHOULD BE INCLUDED IN ALLOCATING ENERGY-RELATED COSTS IN EPE'S CCROSS?**

**A** Mr. Evans asserts that excluding interruptible sales from the E1 Energy Allocator shifts the responsibility for non-fuel energy-related generation O&M entirely onto firm customers and causes residential service and other firm customers to subsidize the interruptible sales.<sup>7</sup>

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<sup>4</sup> Direct Testimony and Workpapers of Evan D. Evans at 25.

<sup>5</sup> Direct Testimony of Clarence L. Johnson at 6.

<sup>6</sup> *Id.* at 33.

<sup>7</sup> Direct Testimony and Workpapers of Evans D. Evans at 24.

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1    **Q     IS MR. EVANS' ASSERTION CORRECT?**

2    A     No. EPE's CCOSS is purposely designed to determine the cost to provide firm service.  
3           Thus, interruptible sales, revenues, and loads were properly removed in EPE's  
4           CCOSS.<sup>8</sup> The Rate 38 revenues, however, were credited back to the firm rate classes;  
5           that is, the contributions to fixed and variable costs by Rate 38 customers were used  
6           to lower the cost of providing firm service.

7    **Q     WOULD RATE 38 SUBSIDIZE FIRM SERVICE RATES AS MR. EVANS CLAIMS?**

8    A     No. Rate 38 is designed independently from the CCOSS. Specifically, the Rate 38  
9           Demand charge reflects the lower cost to provide interruptible service, while the Rate  
10          38 Energy charge is based on the same cost-based Energy charge applicable to  
11          Rate 25. In summary, there is no subsidy, despite Mr. Evans' claims to the contrary.

12          Imputed Capacity Cost

13   **Q     MR. JOHNSON ASSERTS THAT IMPUTED CAPACITY COST SHOULD BE**  
14   **SPREAD ON AN ENERGY, RATHER THAN DEMAND, BASIS. IS THIS**  
15   **RECOMMENDATION CONSISTENT WITH COST CAUSATION?**

16   A     No. Mr. Johnson offers no explanation for his recommendation other than these costs  
17          were allocated on an energy basis in a prior case and his assertion that energy is a  
18          better representation of cost causation for solar generation.<sup>9</sup>

19                  Mr. Johnson clearly misunderstands the nature of imputed capacity costs.  
20                  Specifically, the reason for imputing capacity costs to the Macho Springs and Newman

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<sup>8</sup> The only exception is that EPE included interruptible sales in the E2 Energy Allocator. This error was addressed in my direct testimony at page 21.

<sup>9</sup> Direct Testimony of Clarence L. Johnson at 23-24.

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1 solar PPAs is to explicitly recognize that these resources provide firm capacity to EPE.  
2 For example, in **Exhibit JP-R3**, the capacity value of the solar PPAs is specifically  
3 reflected on line 2.1.

4 Thus, imputed capacity costs are, by definition, demand-related costs. They  
5 are no different than the demand-related costs associated with EPE's other generation  
6 capacity and should be allocated on a demand basis.

7 **Q IS ENERGY A BETTER REPRESENTATION OF COST CAUSATION FOR SOLAR**  
8 **GENERATION?**

9 A No. Solar generation operates only during the daytime hours. Further, the maximum  
10 output typically occurs during the mid-afternoon; that is, the capacity provided by a  
11 solar facility, and thus the imputed capacity costs, is more closely correlated with  
12 meeting system peak demand than meeting year-round energy requirements. Thus,  
13 the imputed solar capacity costs are appropriately treated the same as all other  
14 generation capacity costs. That stated, the remaining solar costs would be allocated  
15 and recovered on an energy basis.

16 **Q WHAT DO YOU RECOMMEND?**

17 A Imputed capacity costs are properly allocated using the same demand allocation factor  
18 as applied to all EPE-owned generation capacity.

19 *A&G Expense Account Nos. 920, 923 and 930.2*

20 **Q WHY DOES MR. JOHNSON OPPOSE EPE'S ALLOCATION OF A&G EXPENSES**  
21 **BOOKED TO FERC ACCOUNT NOS. 920, 923, AND 930.2?**

22 A Mr. Johnson opposes EPE's use of a labor allocator to allocate the portion of A&G

1 Account Nos. 920, 923, and 930.2 designated as “general.” While conceding that the  
2 use of a labor allocator for these accounts is not unusual, he asserts that the labor  
3 allocator fails to produce “balanced results.”<sup>10</sup>

4 **Q DO YOU AGREE WITH MR. JOHNSON’S ASSERTION THAT THE USE OF A**  
5 **LABOR ALLOCATOR APPLIED TO THESE EXPENSES WOULD FAIL TO**  
6 **PRODUCE A BALANCED RESULT?**

7 **A** No. First, Mr. Johnson ignores the fact that EPE has proposed, without explanation,  
8 to classify all nuclear O&M expense entirely to energy.<sup>11</sup> This proposal would clearly  
9 shift more production costs to Large C&I customers, whom Mr. Johnson asserts are  
10 benefiting from EPE’s labor allocator.

11 Second, Mr. Johnson ignores that a portion of the expenses in these Accounts  
12 are directly allocated relative to previously allocated production plant and/or production  
13 and transmission labor expenses. Thus, Mr. Johnson’s recommendation would  
14 effectively double-count the weighting placed on production-related costs. Such a  
15 result would clearly be imbalanced.

16 Finally, EPE’s practice is in stark contrast to the practices of other Texas  
17 utilities who allocate the entirety of these expenses on previously allocated labor  
18 expenses.

19 **Q WHAT DO YOU RECOMMEND?**

20 **A** The Commission should reject Mr. Johnson’s proposed change in the allocation of  
21 FERC Account Nos. 920, 923 and 930.2 and adopt EPE’s proposed labor allocator.

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<sup>10</sup> *Id.* at 31.

<sup>11</sup> As discussed on pages 28-30 of my direct testimony, EPE’s proposal is not consistent with the guidance provided in the NARUC Electric Utility Cost Allocation Manual.

1        Uncollectible Expense

2        **Q        HOW IS EPE PROPOSING TO ALLOCATE UNCOLLECTIBLE EXPENSE?**

3        A        EPE is proposing to allocate uncollectible expense based on firm sales revenues from  
4                all customer classes except Other Public Authority and Large C&I.

5        **Q        WHY DOES MR. EVANS OPPOSE EPE'S ALLOCATION OF UNCOLLECTIBLE**  
6                **EXPENSE?**

7        A        Mr. Evans asserts that uncollectible expense cannot be specifically associated with  
8                any group of paying customers because the expense is associated with customers  
9                that are no longer known to be served by EPE. He recommends allocating these  
10              expenses to all customer classes, including the Other Public Authority and Large C&I  
11              classes on the basis of each customer class's revenues.<sup>12</sup>

12       **Q        DOES MR. EVANS' OPPOSITION HAVE ANYTHING TO DO WITH COST**  
13              **CAUSATION?**

14       A        No. Cost causation means allocating costs to the customer classes who *cause* the  
15              utility to incur each specific cost. The proper application of cost-causation principles  
16              requires identifying the characteristics of each customer class and determining  
17              whether a particular characteristic is cost causative.

18                      For example, if a utility incurs costs to meet peak demand during the summer  
19              months, it is appropriate to measure each customer class's power demand coincident  
20              with the four summer month system peaks in determining how these costs should be  
21              allocated. In other words, costs are allocable to customer classes based on test-year

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<sup>12</sup> Direct Testimony and Workpapers of Evan D. Evans at 31.

1 characteristics. These characteristics include coincident demand, average demand,  
2 class peak demand, delivery voltage, load factor, and the number of active customers  
3 and their associated revenues.

4 **Q IS UNCOLLECTIBLE EXPENSE A CHARACTERISTIC OF ALL CUSTOMER**  
5 **CLASSES?**

6 A No. The incurrence of uncollectible (or bad debt) expense is a characteristic specific  
7 to some, but not all, customer classes. EPE excludes Other Public Authority and the  
8 Large C&I classes because it does not typically experience uncollectible expense as  
9 demonstrated by its accounts receivable aging schedule that estimates bad debts.<sup>13</sup>  
10 Further, EPE considers Large C&I customers as fully collectible based on payment  
11 history and, therefore, are not considered for risk in the monthly uncollectible cost  
12 calculation.<sup>14</sup>

13 **Q IS MR. EVANS' OBSERVATION THAT THE CUSTOMERS FOR WHOM EPE**  
14 **INCURRED BAD DEBT EXPENSE ARE NO LONGER RECEIVING SERVICE**  
15 **RELEVANT IN APPLYING COST-CAUSATION PRINCIPLES?**

16 A No. Contrary to Mr. Evans' assertion, costs are not allocated to classes based on the  
17 number of customers who have been disconnected and/or are no longer receiving  
18 service. Thus, it is irrelevant that customers who failed to pay their bills in the past  
19 may no longer be receiving electricity service. What is relevant is that new customers  
20 were added during the test year and, based on past experience, some of these new

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<sup>13</sup> Direct Testimony of Adrian Hernandez at 15.

<sup>14</sup> EPE Response to CEP 14-8, which is attached as **Exhibit JP-R4**.

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1 customers will potentially be unable to pay their electricity bills at some time in the  
2 future.

3 **Q WOULD ALLOCATING UNCOLLECTIBLE EXPENSE TO RATE CLASSES FOR**  
4 **WHOM EPE HAS INCURRED BAD DEBT EXPENSE IN THE PAST BE**  
5 **CONSISTENT WITH COST CAUSATION?**

6 A Yes. Bad debt expense is a demonstrable characteristic of specific customer classes.  
7 Cost causation identifies the characteristics of each specific customer class that cause  
8 the utility to incur costs. Some of these customers may still be receiving service, while  
9 other customers may have either discontinued service or commenced service at some  
10 time during and/or after the test year. To focus solely on the customers who actually  
11 caused the bad debts and are no longer active customers would misapply cost  
12 causation.

13 **Q IS ALLOCATING UNCOLLECTIBLE EXPENSE ON A REVENUE BASIS**  
14 **CONSISTENT WITH COST CAUSATION?**

15 A No. Socializing uncollectible expense under the guise that it is a system-wide cost of  
16 doing business is not consistent with cost causation. Uncollectible expense is a  
17 consequence of doing business with specific customer classes. Further, the level of  
18 uncollectible expense is not related to class revenue, because a utility does not incur  
19 bad debts equally from all customer classes. Uncollectible expense can be readily  
20 tracked. Costs that are incurred to provide service to certain classes should be borne  
21 by those classes, not shifted to other classes. There is no cost-causation reason to  
22 allocate uncollectible expense to retail classes on sales revenue.

1 Q IS ALLOCATING UNCOLLECTIBLE EXPENSE TO SPECIFIC CUSTOMER  
2 CLASSES AN ACCEPTED REGULATORY PRACTICE?

3 A Yes. Utilities can generally determine the amount of uncollectible expense by  
4 customer class. According to the National Association of Regulatory Utility  
5 Commissioners (NARUC) Electric Utility Cost Allocation Manual:

6 Customer-related costs (Accounts 901-917) include the costs of billing and  
7 collection, providing service information, and advertising and promotion of  
8 utility services. By their nature, it is difficult to determine the "cause" of these  
9 costs by any particular function of the utility's operation or by particular classes  
10 of their customers. ***An exception would be Account 904, Uncollectible***  
11 ***Accounts. Many utilities monitor the uncollectible account levels by tariff***  
12 ***schedule. Therefore, it may be appropriate to directly assign***  
13 ***uncollectible accounts expense to specific customer classes.***<sup>15</sup> (emphasis  
14 added)

15 Q SHOULD MR. EVANS' PROPOSED ALLOCATION OF UNCOLLECTIBLE  
16 EXPENSE BE ADOPTED?

17 A No. Like other expenses, uncollectible expense is a specific characteristic of, and a  
18 cost of serving some, but not all, customer classes. Cost causation means identifying  
19 the classes for whom EPE experiences bad debts. EPE does not incur bad debt  
20 expenses from Other Public Authority and Large C&I classes. Accordingly, spreading  
21 uncollectible expense to these classes would not be consistent with cost-causation  
22 principles. Thus, Mr. Evans' recommendation would be inequitable because it would  
23 shift uncollectible expense to customer classes with little or no bad debt.

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<sup>15</sup> National Association of Regulatory Utility Commissioners, *Electric Utility Cost Allocation Manual* at 102 (Jan. 1992).

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1           Therefore, the Commission should reject Mr. Evans' proposal to socialize  
2           uncollectible expense and adopt EPE's proposal to exclude certain classes from these  
3           expenses, which is consistent with cost causation.

**Class Revenue Allocation**

4    **Q     MR. JOHNSON AND MR. EVANS HAVE RECOMMENDED GRADUALISM**  
5           **CONSTRAINTS THAT WOULD LIMIT THE BASE RATE CHANGES ASSIGNED TO**  
6           **RATE CLASSES. HOW ARE THESE PROPOSALS DIFFERENT FROM THE**  
7           **TARGETED INCREASES RECOMMENDED BY EPE AND STAFF?**

8    **A**As discussed in my direct testimony (at pages 31-32), EPE imposed caps on the  
9           proposed base rate increases applicable to certain *targeted* rate classes. Based on  
10          its rate design model, it appears that Staff has adopted EPE's proposed targeted base  
11          rate increases. Under the EPE/Staff proposals, some rate classes would receive base  
12          rate increases in excess of 1.4 or 1.5 times the system average increase — some of  
13          these classes would experience rate shock.

14          The EPE/Staff proposals are in stark contrast to the gradualism constraints  
15          proposed by Mr. Johnson and Mr. Evans. First, Mr. Johnson and Mr. Evans are  
16          proposing gradualism constraints that would apply to *all* firm rate classes. Second,  
17          these constraints include both a ceiling (*i.e.*, 1.4 or 1.5 times the system average) and  
18          a floor (*i.e.*, 50% of the system average increase; no class receives a decrease).<sup>16</sup>

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<sup>16</sup> Direct Testimony of Clarence L. Johnson at 40-41; Direct Testimony and Workpapers of Evan D. Evans at 35-36.

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1    **Q     WHAT IS YOUR ASSESSMENT OF THE ALTERNATIVE RECOMMENDATIONS**  
2           **SUPPORTED BY MR. JOHNSON AND MR. EVANS?**

3    A     First, as discussed in my direct testimony (at page 34), the Commission has not  
4           applied gradualism in recent litigated cases, except to limit base rate increases to 43%.  
5           Second, Mr. Johnson failed to apply his recommended 1.4 times cap on the base rate  
6           increase to Rate 38. For this reason alone, Mr. Johnson's proposal should be rejected.  
7           However, if the Commission changes its approach to gradualism, the same  
8           gradualism constraints should be applied to all rate classes — both firm and non-firm  
9           service — to avoid undue discrimination.

**Conclusion**

10   **Q     WHAT ADDITIONAL FINDINGS SHOULD THE COMMISSION MAKE REGARDING**  
11           **RATE 38?**

12   A     The Commission should reject Mr. Johnson's avoided cost standard and find that EPE  
13           needs additional interruptible power to maintain reliable service within the City of El  
14           Paso and surrounding areas. The Commission should also find that EPE has correctly  
15           priced Rate 38.

16   **Q     WHAT ADDITIONAL FINDING SHOULD THE COMMISSION MAKE REGARDING**  
17           **THE CHANGES TO EPE'S CCOSS RECOMMENDED BY MR. JOHNSON AND MR.**  
18           **EVANS?**

19   A     The Commission should reject the proposal by Mr. Evans to include Rate 38 sales in  
20           determining the E1 Energy Allocator and find that EPE's removal of Rate 38 from the  
21           CCOSS is appropriate in determining the cost to provide firm service.



1           The Commission should also reject Mr. Johnson's proposal to allocate imputed  
2           capacity costs on an energy, rather than a demand, basis, as well as his proposal to  
3           allocate A&G expense Account Nos. 920, 923, and 930.2 on a net plant, rather than a  
4           labor, basis.

5           Finally, the Commission should reject the proposal by Mr. Evans to spread  
6           uncollectible expense to all customer classes, including those classes that do not  
7           cause the expense to be incurred, and adopt EPE's proposed allocation.

8    **Q     WHAT ADDITIONAL FINDING SHOULD THE COMMISSION MAKE REGARDING**  
9    **CLASS REVENUE ALLOCATION?**

10   **A     The Commission should reject the class revenue allocations proposed by Staff, Mr.**  
11    **Johnson, and Mr. Evans.**

12   **Q     DOES THIS CONCLUDE YOUR CROSS-REBUTTAL TESTIMONY?**

13   **A     Yes.**

**EL PASO ELECTRIC COMPANY**  
**Estimated Avoided Generation Capacity Costs**  
**(\$/kW-Year)**

<u>Line</u>	<u>Description</u>	<u>EIA</u>	<u>MISO</u>	<u>SPP</u>
		(1)	(2)	(3)
1	Overnight Construction Cost (\$2020)	\$981.00		
2	Fixed O&M Expense (\$2020)	\$16.38		
3	Levelized Cost/CONE in 2022	\$93.45	\$97.34	\$85.61
4	15% Reserves	\$14.02	\$14.60	\$12.84
5	Transmission Loss Factor	1.0223	1.0223	1.0223
6	Incremental Production Capacity Cost at the Meter	<u>\$109.87</u>	<u>\$114.44</u>	<u>\$100.65</u>

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**Sources:** U.S. Energy Information Administration , Assumptions to the Annual Energy Outlook 2021: Electricity Market Module, Tables 3 and 4.

Southwest Power Pool – Open Access Transmission Tariff, Sixth Revised Volume No. 1 – Attachment AA Resource Adequacy, Section 14; Midcontinent Independent System Operator, Planning Resource Auction for Planning Year 2021-2022, Results Posting at 9 (Apr 15, 2021).

## **SETTLEMENT AGREEMENT**

This Settlement Agreement (“Agreement”) is made and entered into by and between El Paso Electric Company (“EPE”), Chaparral Community Coalition for Health and the Environment (“Chaparral Community Coalition”), and Sierra Club and institutionally and on behalf of any and all of their representatives individually (collectively “Protestants”). This Agreement is effective upon the latest date of the signatures below (the “Effective Date”).

EPE is proposing to modify the existing Newman Generating Station, located at 4900 Stan Roberts Sr. Avenue in El Paso, El Paso County, Texas, by constructing a new Mitsubishi 501G series natural gas 230-Megawatt simple cycle combustion turbine fired by pipeline quality natural gas, referred to as Newman Unit 6, along with ancillary equipment (“Project”), which are more completely described in EPE’s permit application (“Application”). To receive authorization for the Project, EPE filed air permit applications, including the Application, with the Texas Commission on Environmental Quality (“TCEQ”). Chaparral Community Coalition for Health and the Environment is an unincorporated neighborhood association based in Chaparral, New Mexico. Protestants have opposed the Application and TCEQ’s issuance of the air permits applied for by EPE and were granted party status in State Office of Administrative Hearings (“SOAH”) Docket No. 582-21-1740 (TCEQ Docket No. 2021-0314-AIR), which is pending at SOAH.

EPE and Protestants (collectively the “Parties” and individually a “Party”) wish to terminate all disputes and administrative challenges related to the authorization, construction, and operation of the Project and avoid further and future litigation regarding the construction and operation of Newman Unit 6, generally, and challenges to TCEQ approval of EPE’s air permit applications, including the Application.

With neither Party acknowledging fault, liability, or obligation, other than as described in this Agreement; and in consideration of the promises and covenants set forth in this Agreement; and for other good and valuable consideration, the sufficiency of which is hereby acknowledged, the Parties agree as follows:

### 1. INCORPORATION OF RECITALS

The above listed recitals and definitions are incorporated to this Agreement by reference.

### 2. OBLIGATIONS OF PROTESTANTS

#### 2.1. TCEQ Administrative Process

Protestants will immediately file with SOAH a withdrawal of their request for a contested case hearing and objection to issuance of the permit. The Protestants will also join in a motion to remand the Application back to the TCEQ for consideration of the Application by the TCEQ Executive Director as unopposed. Protestants will not file a motion for rehearing or otherwise seek further administrative or judicial review of any TCEQ decision to approve the Application and to issue the draft permit prepared by the Executive Director in this matter (“Permit”).

#### 2.2. Future Opposition

As of the Effective Date, Protestants will not challenge the construction or permitting of the Project in any administrative or judicial forum, including by seeking judicial review of TCEQ authorization of the Project or funding any third-party litigation involving any claims settled, released, and waived by this Agreement.

### 3. OBLIGATIONS OF EL PASO ELECTRIC

#### 3.1. Future Fossil Fuel Generation

With the exception of Newman Unit 6, EPE agrees that it will never construct any new fossil fuel generation units at Newman Generating Station. This restriction shall not apply to the conversions of existing generation units to operate on hydrogen fuel.

#### 3.2. Construction Moratorium

With the exception of Newman Unit 6, EPE agrees to a four-year moratorium on EPE's construction of any additional EPE-owned fossil fuel-fired units to meet EPE's Native System Demand. The four-year moratorium period begins on the date the Permit for the Project is issued.

3.2.1. During the moratorium period, EPE is not prohibited from soliciting and obtaining regulatory approval for additional EPE-owned fossil fuel-fired units.

3.2.2. The moratorium does not include construction of any customer-dedicated resource, i.e. a unit or units dedicated solely for the benefit of a single customer or group of customers that is not a system resource.

3.2.3. The moratorium does not include construction related to any existing units.

3.2.4. The moratorium does not include installation or use of any authorized temporary generation responsive to any emergency or reliability conditions.

#### 3.3. Abandonment of Existing Units

No later than the start of commercial operations date of Newman Unit 6, EPE will file abandonment applications for Newman Unit 1 or Newman Unit 2 and Rio Grande Generation Station Unit 7 with the New Mexico Public Regulation Commission and will use its best efforts in good faith to obtain approval thereof.

#### 3.4. Emission Reductions

Following issuance of the Draft Permit, EPE will immediately seek an alteration of the applicable permits to reduce the allowable tons per year of nitrogen oxides ("NOx") and carbon dioxide ("CO2") emissions from Newman Unit 6 by 40% from the proposed permit. Specifically, EPE will agree to the following allowable tons per year from Newman Unit 6:

3.4.1. 790,000 tons per year of CO2.

3.4.2. 72 tons per year of NOx.

3.4.3. If TCEQ declines to incorporate the limitations in Section 3.4.1 and 3.4.2 into the final permit for Newman Unit 6, EPE nevertheless commits to meeting those emission limitations at Newman Unit 6.

#### 3.5. Purchase of VOC Emission Credits

If and when a regional volatile organic compound ("VOC") credit market arises following a final nonattainment designation for El Paso County by the U.S. Environmental Protection Agency ("EPA"), EPE will commit \$500,000 to buy VOC emission offset credits to offset 110% of actual VOC emissions from Newman Unit 6.

3.5.1. If the EPA does not designate El Paso County as an ozone nonattainment area by the end of 2022 or a regional credit market fails to develop by the end of 2023, the \$500,000 shall be redirected by July 31, 2024, to other emission reduction or energy efficiency projects that shall be jointly selected by the Chaparral Community Coalition and EPE. If the Chaparral Community Coalition and EPE are unable to agree on emission reduction or energy efficiency projects by July 31, 2024, the selection of projects shall be decided through the Dispute Resolution provision in Section 12 below. Sierra Club expressly will not have decision-making authority for how the funds will be spent but may have an advisory role.

3.6. Community Project Fund

Upon issuance of the Permit for Newman Unit 6, EPE will provide \$400,000 to a charitable fund (preferably a 501(c)(3) non-profit organization) to be designated and administered by Chaparral Community Coalition as part of a community benefits agreement. The Chaparral Community Coalition will have authority to determine how the funds are spent but shall include pollution reduction or mitigation measures. Sierra Club expressly will not have decision-making authority for how the funds will be spent but may have an advisory role.

3.7. Information pertaining to Newman Unit 6

EPE will create and support a webpage for Newman Unit 6 posting quarterly emission reports filed with regulatory agencies.

3.8. Protestants' Attorney's Fees

Upon issuance of the permit for Newman Unit 6, EPE will provide \$40,000 to Protestants for reasonable attorney and expert fees and costs.

4. MULTIPLE ORIGINALS

This Agreement may be executed in any number of identical counterparts, each of which for all purposes is deemed an original, and all of which constitute collectively one agreement. The Parties agree that original signatures are not necessary for this Agreement.

5. AUTHORITY

Each of the undersigned representatives of EPE and Protestants represent that they have the actual and express authority to execute this Agreement for the above-named entities and persons, including representatives, and that by their signature they are binding that Party, its assigns, directors, officers, trustees, employees, representatives, and attorneys to the terms of this Agreement. EPE and Protestants further represent that they will fulfill all of the terms and conditions contained in this Agreement.

6. BINDING ON SUCCESSORS AND ASSIGNS

EPE and Protestants each acknowledge that this Agreement is binding on each of their successors and assigns.

7. FORCE MAJEURE

7.1. No Party shall be liable for any delay or failure of performance under this Agreement if such delay or failure results from a Force Majeure Event. For purposes of this Agreement, a "Force Majeure Event" shall mean an event that has been or will be caused by circumstances beyond the control of the Party that delays compliance with any obligation of this Agreement

or otherwise causes a violation of any obligation of this Agreement despite that Party's reasonable and prudent best efforts to fulfill such obligation. The requirement that the Party exercise "reasonable and prudent best efforts to fulfill such obligation" includes using reasonable and prudent best efforts to anticipate any potential Force Majeure Event and to address the effects of such event (i) as it is occurring and (ii) after it has occurred, such that the delay or violation and any adverse environmental effects of the delay or violation is minimized. "Force Majeure" does not include the party's financial inability to perform any obligation under this Agreement.

7.2. If any Party claims a Force Majeure Event, it shall give notice to the other Party within a reasonable time but, in any event, within 30 days after the date the Party-claimant knew or with due diligence should have known of the Event. If the Parties disagree regarding a claim of Force Majeure, the Parties shall attempt to resolve that dispute pursuant to Section 12 of this Agreement. In any such dispute, the Party seeking to invoke Force Majeure shall have the burdens of proof and persuasion to demonstrate that a Force Majeure Event occurred based on the standards set forth above.

7.3. Subject to the provisions of Sections 7.1 and 7.2 above, if a delay or violation is caused by a Force Majeure Event, such delay or violation shall not be considered a breach of this Agreement. The Parties by agreement or the Court by order may modify the obligations and extend the time periods under this Agreement to remedy breaches or delays caused by a Force Majeure Event.

## 8. NO ADMISSION OF LIABILITY

EPE and Protestants each acknowledge that this Agreement does not constitute an admission of liability by either Party or any recognition of the correctness of their respective positions.

## 9. NO PARTNERSHIP

This Agreement should not be construed as making EPE and Protestants partners or joint venturers.

## 10. ENTIRE AGREEMENT

This Agreement embodies and constitutes the entire understanding between EPE and Protestants with respect to the settlement contemplated in this Agreement. All prior contemporaneous agreements, understandings, representations, and statements, oral or written, are merged into this Agreement.

## 11. NOTICES

Any written notifications required under this Agreement shall be provided by (i) email or fax and (ii) certified mail, return receipt requested or nationally recognized overnight delivery service to the following:

For Sierra Club:  
Joshua Smith  
2101 Webster Street, Suite 1300  
Oakland, CA 94612  
Joshua.smith@sierraclub.org:

For Chaparral Community Coalition:  
Ida Garcia  
300-2 McCombs Road  
Personal Mail Box 187

Chaparral, New Mexico 88081  
ida88021@yahoo.com

For EPE:  
General Counsel  
El Paso Electric Company  
P.O. Box 982  
El Paso, TX 79960  
(with copies to EPE Regulatory Affairs, Operations and Environmental Department)

Notices shall be effective upon receipt or refusal. Any Party may update its own notification address(es) and information by providing such information in writing to the other Party.

## 12. DISPUTE RESOLUTION

In the event that a dispute arises among the Parties related to the terms or enforcement of the provisions of this Agreement, each shall make a good faith effort to settle such dispute by negotiation. In the event the Parties are unable to settle the dispute by negotiation, both shall make a good faith effort to settle the dispute by mediation (with the assistance of a mutually agreed upon mediator) without resorting to litigation. This Agreement has been made under and shall be interpreted and enforced by Texas law, and any causes of action related to this Agreement shall be maintained in Texas courts.

## 13. MISCELLANEOUS

13.1. If any provision of this Agreement is held to be unenforceable for any reason, it shall be adjusted rather than voided in order to achieve the intent of the Parties to the extent possible. In any event, the invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of the remainder of this Agreement.

13.2. It is expressly understood and agreed that this Agreement is solely for the benefit of the Parties, and nothing in this Agreement is intended or shall be construed to provide any rights or defenses to any other parties. This Agreement expressly does not create any rights in any entity or individual that is not a party to this agreement.

13.3. Headings in this Agreement are provided for convenience only and are not a substantive part of this Agreement.

13.4. This Agreement shall not be modified, altered, or discharged except by a written agreement signed by authorized representatives of the Parties.

13.5. Protestants shall not be liable to EPE for money damages in the event of a breach of their obligations under Section 2, above. If EPE believes Protestants have breached their obligations under Section 2, EPE will provide prompt notice of breach and a reasonable amount of time to cure any breach. The sole remedy for any breach shall be injunctive relief directing Protestants to fulfill the obligations in Section 2.


## 14. ACKNOWLEDGMENT

EPE and Protestants, by and on behalf of itself and its representatives, acknowledge that they have had adequate opportunity to retain and consult with legal counsel of their choosing to advise them with regard to this Agreement. The Parties expressly warrant and represent to each other that they have reviewed and fully discussed this Agreement with counsel and have satisfied themselves that they fully understand the terms, conditions, contents, and effects of this Agreement and make this Agreement knowingly, voluntarily, and without threat of duress after such consultation.

*[SIGNATURES BEGIN ON NEXT PAGE]*

IN WITNESS WHEREOF, EPE and Protestants have entered into this Agreement, and this Agreement is executed by EPE and Protestants as of the Effective Date.

EL PASO ELECTRIC COMPANY,  
A Texas corporation

By: 

Title: SVP - Operations

Date: 8/16/21

Chaparral Community Coalition for Health and  
the Environment, an unincorporated  
neighborhood association

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

SIERRA CLUB

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_



IN WITNESS WHEREOF, EPE and Protestants have entered into this Agreement, and this Agreement is executed by EPE and Protestants as of the Effective Date.

EL PASO ELECTRIC COMPANY,  
A Texas corporation

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Chaparral Community Coalition for Health and  
the Environment, an unincorporated  
neighborhood association

By: *Lola Garcia*

Title: *Chairperson*

Date: *08/14/21*

SIERRA CLUB

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

IN WITNESS WHEREOF, EPE and Protestants have entered into this Agreement, and this Agreement is executed by EPE and Protestants as of the Effective Date.

EL PASO ELECTRIC COMPANY,  
A Texas corporation

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Chaparral Community Coalition for Health and  
the Environment, an unincorporated  
neighborhood association

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

SIERRA CLUB  
By: \_\_\_\_\_

Title: STAFF ATTORNEY

Date: 8/15/2021

EL PASO ELECTRIC COMPANY  
Excerpt From EPE's Loads & Resources Table: 2021-2040  
Initial 2021 IRP

Line	Description	2022	2023	2024	2025	2026	2027
1.0	<b>GENERATION RESOURCES</b>						
1.1	RIO GRANDE	278	232	232	232	232	232
1.2	NEWMAN	729	811	811	811	811	494
1.3	COPPER	63	63	63	63	63	63
1.4	MONTANA	352	352	352	352	352	352
1.5	PALO VERDE	622	622	622	622	622	622
1.6	RENEWABLES	6	6	5	5	5	5
1.7	STORAGE	-	-	-	-	-	-
1.8	POSSIBLE EMERGING TECHNOLOGY EXPANSION	-	-	-	40	40	40
1.9	INTERRUPTIBLE	56	56	56	56	56	56
1.10	LINE LOSSES FROM OTHERS	8	8	8	8	8	8
1.0	<b>TOTAL GENERATION RESOURCES</b>	<b>2,114</b>	<b>2,150</b>	<b>2,149</b>	<b>2,189</b>	<b>2,189</b>	<b>1,872</b>
2.0	<b>RESOURCE PURCHASES</b>						
2.1	RENEWABLE PURCHASE	72	72	72	71	71	70
2.2	NEW RENEWABLE PURCHASE	43	42	42	42	42	41
2.3	NEW RENEWABLE/ BATTERY PURCHASE	75	75	74	74	74	73
2.4	NEW BATTERY PURCHASE	-	-	-	-	-	-
2.5	MARKET RESOURCE PURCHASE	-	-	-	-	-	-
2.0	<b>TOTAL RESOURCE PURCHASES</b>	<b>190</b>	<b>189</b>	<b>188</b>	<b>187</b>	<b>187</b>	<b>184</b>
3.0	<b>FUTURE RESOURCES</b>						
3.1	RENEWABLE	-	-	-	-	-	-
3.2	RENEWABLE/STORAGE	-	-	-	-	-	-
3.3	GAS GENERATION	-	-	-	-	-	328
3.0	<b>TOTAL RESOURCE PURCHASES</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>328</b>
4.0	<b>TOTAL NET RESOURCES (1.0 + 2.0 + 3.0)</b>	<b>2,304</b>	<b>2,339</b>	<b>2,337</b>	<b>2,376</b>	<b>2,376</b>	<b>2,384</b>
5.0	<b>SYSTEM DEMAND</b>						
5.1	NATIVE SYSTEM DEMAND	2,190	2,228	2,256	2,297	2,337	2,380
5.2	DISTRIBUTED GENERATION	(19)	(22)	(22)	(22)	(22)	(22)
5.3	ENERGY EFFICIENCY	(15)	(23)	(31)	(38)	(46)	(54)
6.0	<b>TOTAL SYSTEM DEMAND (5.1 + 5.2 + 5.3)</b>	<b>2,156</b>	<b>2,183</b>	<b>2,203</b>	<b>2,237</b>	<b>2,269</b>	<b>2,304</b>
7.0	MARGIN OVER TOTAL DEMAND (4.0 - 6.0)	148	156	134	139	107	80
8.0	PLANNING RESERVE 15% OF TOTAL DEMAND	323	327	330	336	340	346
9.0	MARGIN OVER RESERVE (7.0 - 8.0)	(175)	(171)	(196)	(197)	(233)	(266)
10.0	<b>RESERVE MARGIN</b>	<b>6.9%</b>	<b>7.1%</b>	<b>6.1%</b>	<b>6.2%</b>	<b>4.7%</b>	<b>3.5%</b>
11.0	<b>RESERVE MARGIN EXCLUDING INTERRUPTIBLE</b>	<b>4.3%</b>	<b>4.6%</b>	<b>3.5%</b>	<b>3.7%</b>	<b>2.2%</b>	<b>1.0%</b>

**Source:** New Mexico PRC Case No. 21-00242-UT,  
El Paso Electric Company's Integrated Resource Plan  
for the Period 2021-2040 (Sept 16, 2021).

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

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 FOURTEENTH REQUEST FOR INFORMATION  
QUESTION NOS. CEP 14-1 THROUGH CEP 14-16

CEP 14-8:

Please explain how the Company's CCOS proposes to address uncollectible cost associated with Large C&I customers.

RESPONSE:

Refer to pages 15 (lines 10 to 21) and 24 (lines 28 to 31) of El Paso Electric Company's ("EPE") witness Adrian Hernandez' direct testimony.

EPE's policy changed in June 2020 as part of the FASB issued Accounting Standards Update 2016-13, Financial Instruments-Credit Losses (Topic 326). The Large C&I (Commercial and Industrial) customers are considered fully collectible based on payment history and, therefore, are not considered for risk in the monthly uncollectible cost calculation. Should a Large C&I customer become indebted to EPE and be identified as risky, a separate provision for uncollectible cost will be considered ad hoc.

Preparer: Adrian Hernandez  
Mayte Luna

Title: Senior Rate Analyst – Rates  
Supervisor – Revenue Collection

Sponsor: Adrian Hernandez

Title: Senior Rate Analyst – Rates