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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 EIGHTEENTH REQUEST FOR INFORMATION
QUESTION NOS. CEP 18-1 THROUGH CEP 18-8

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CEP 18-1:

Please reference the Rebuttal Testimony of Cynthia Prieto at pages 8-9-10 and 18 relating to Excess Deferred Income Taxes, (EDIT).

EDIT: Did EPE verify that its NOL Carryforward-Federal is not protected using a “with and without” analysis? If so, please provide that “with and without” analysis.

RESPONSE:

The Company did not perform a formal “with and without” analysis on its NOL Carryforward. EPE classified the NOL Carryforwards as protected because it was generated in 2015 and 2016 as a result of the bonus depreciation taken in those years when the Montana Generating Units were placed in service. After review of the bonus depreciation taken in 2015 and 2016 compared to the NOL generated in those years, it was clear that the NOL was generated by the additional bonus depreciation. As a result, no formal with and without analysis was deemed necessary.

Preparer: Tamera Henderson

Title: Manager – Tax

Sponsor: Cynthia S. Prieto

Title: Vice President – Controller

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CEP 18-2:

Please reference the Rebuttal Testimony of Cynthia Prieto at pages 8-9-10 and 18 relating to Excess Deferred Income Taxes, (EDIT).

EDIT: Does EPE agree that a federal NOL Carryforward EDIT should be considered the result of accelerated tax depreciation if it is confirmed using the “with and without” analysis, and therefor protected? If not, please provide documentation supporting EPE’s position.

RESPONSE:

Reference El Paso Electric Company’s the response to CEP 18-1.

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CEP 18-3:

Please reference the Rebuttal Testimony of Cynthia Prieto at pages 8-9-10 and 18 relating to Excess Deferred Income Taxes, (EDIT).

EDIT: Please explain if and how EPE considers Capitalized Costs and Interest to be related to accelerated tax depreciation.

RESPONSE:

Capitalized Costs and Interest are tax adjustments to the book basis of capitalized plant balances. Although not specifically identified as protected in Internal Revenue Service guidance, basis differences including capitalized costs and interest, CIAC, repair allowances and section 174 R&D are depreciated using the same method and life of the related plant balances; therefore, they are subject to accelerated tax depreciation, a requirement of protected excess ADIT. As explained in the testimony of El Paso Electric Company ("EPE") witness Cynthia S. Prieto, EPE grouped all plant-related excess ADIT balances together and calculated the amortization using the Average Rate Assumption Method ("ARAM"). EPE classified these basis differences as protected to be conservative and avoid a potential normalization violation.

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CEP 18-4:

Please reference the Rebuttal Testimony of Cynthia Prieto at pages 8-9-10 and 18 relating to Excess Deferred Income Taxes, (EDIT).

EDIT: Please explain if and how EPE considers CIAC to be related to accelerated tax depreciation.

RESPONSE:

Please refer to El Paso Electric Company's response to CEP 18-3.

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CEP 18-5:

Please reference the Rebuttal Testimony of Cynthia Prieto at pages 8-9-10 and 18 relating to Excess Deferred Income Taxes, (EDIT).

EDIT: Please explain if and how EPE considers NOL Carryforward-State to be related to accelerated tax depreciation.

RESPONSE:

Please refer to El Paso Electric Company's response to CEP 18-3.

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CEP 18-6:

Please reference the Rebuttal Testimony of Cynthia Prieto at pages 8-9-10 and 18 relating to Excess Deferred Income Taxes, (EDIT).

EDIT: Please explain if and how EPE considers Repair Allowance to be related to accelerated tax depreciation.

RESPONSE:

Please refer to El Paso Electric Company's response to CEP 18-3.

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CEP 18-7:

Please reference the Rebuttal Testimony of Cynthia Prieto at pages 8-9-10 and 18 relating to Excess Deferred Income Taxes, (EDIT).

EDIT: Please explain if and how EPE considers Section 174 R&D to be related to accelerated tax depreciation.

RESPONSE:

Please refer to El Paso Electric Company's response to CEP 18-3.

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CEP 18-8:

Please reference the Rebuttal Testimony of Cynthia Prieto at pages 8-9-10 and 18 relating to Excess Deferred Income Taxes, (EDIT).

Is Ms. Prieto aware of Electric utilities in Texas that have flowed back unprotected EDIT on a more rapid basis than the ARAM method?

- a. If the answer is yes, please provide the names of the utilities and the Public Utility Commission of Texas Docket numbers that approved such flowback.
- b. If the answer is no, please identify what research Ms. Prieto conducted in order to know what actions have been taken by other utilities in Texas.

RESPONSE:

Ms. Prieto did not review the treatment of excess ADIT by other Texas utilities. However, as stated in El Paso Electric Company's responses to CEP 18-1 and CEP 18-3, EPE believes that plant-related excess ADIT is properly classified as protected and should be amortized using ARAM.

Preparer: Tamera Henderson

Title: Manager – Tax

Sponsor: Cynthia S. Prieto

Title: Vice President – Controller