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PUBLIC UTILITY COMMISSION OF TEXAS

APPLICATION OF

EL PASO ELECTRIC COMPANY

TO CHANGE RATES

DECEMBER 2024

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DOCKET NO. 57568

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

EL PASO ELECTRIC COMPANY'S PETITION AND STATEMENT OF INTENT TO CHANGE RATES

TO THE HONORABLE PUBLIC UTILITY COMMISSION OF TEXAS AND MUNICIPAL REGULATORY AUTHORITIES:

El Paso Electric Company ("EPE" or "Company") files this Petition and Statement of Intent to change its base rates. EPE asks that the Public Utility Commission of Texas ("PUC" or "Commission") and municipal regulatory authorities approve a $129.018 million Texas jurisdiction retail increase in base (non-fuel) and other miscellaneous revenues based on a test-year ended September 30, 2024. The net increase to base revenues is $85.666 million after accounting for the revenues EPE is already recovering through its Distribution Cost Recovery Factor (DCRF) and its Generation Cost Recovery Rider (GCRR). That is, the proposed increase in annual Texas retail revenues will be offset by setting EPE's current DCRF and GCRR to zero, a reduction of $43.353 million. EPE's request results in an average percent increase in base rates of 13.65 percent. EPE is also updating the Advanced Metering Surcharge and the Retiring Plant Rider Factor in this case. These two changes will combine for an increase of $7.3 million.

EPE is proposing several significant tariff additions and revisions. EPE is proposing changes to its tariffed provisions associated with distributed generation ("DG") to add tariffs for high load factor customers and for a peak time rebate option for residential customers. EPE is also proposing revisions to certain other tariffs (Line Extension Policy, Rate 26 and Rule 20) to address increasing customer loads and new large load service requests. EPE is also seeking approval of its Green Energy Plus tariff, a tariff already approved by the City of El Paso that allows an existing customer to enter an agreement for provision of service for part or all of their requirements from renewable facilities. EPE is also proposing to replace its current fixed fuel factor, which is based on a formula, with a fuel adjustment factor that adjusts monthly. Finally, EPE requests an update to the Retiring Plant Rider to update costs for Newman Units 1 & 2 and Rio Grande 7 and to add operations and maintenance costs for Rio Grande 6.

To support its rate proposals, EPE has included schedules required by the Commission's Electric Utility Rate Filing Package for Generating Utilities ("Rate Filing Package" or "RFP") and supporting testimony.

EPE proposes that the new rates be made effective 35 days after this Statement of Intent is filed, or March 3, 2025. However, if the new rates are suspended for a period beyond 155 days after this Statement of Intent and RFP are filed, EPE requests that the final rates set in this proceeding relate back to and be made effective for consumption on and after the 155th day after the date this Statement of Intent and RFP are filed, which equates to consumption on and after July 1, 2025.[1]

EPE's requests are described in more detail below and in the accompanying RFP.

I. Authorized Representative for Service

EPE's authorized representative for the purpose of receiving service of documents is:

Tania Reichsfeld
Regulatory Case Manager
El Paso Electric Company
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II. Legal Counsel

EPE's authorized legal representatives are:

Rosanna Al-Hakeem
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[1] Rates can "relate back" in this fashion at EPE's request under Section 36.211(b) of the Public Utility Regulatory Act ("PURA").

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III. Parties and Jurisdiction

EPE is a Texas corporation registered with the Texas Secretary of State under filing number 1073400. EPE is an electric utility, a public utility, and a utility, as those terms are defined in PURA §§ 11.004(1) and 31.002(6). EPE provides retail service within its certificated area under certificate of convenience and necessity number 30050. The Commission has jurisdiction over this matter under PURA §§ 14.001 (general powers), 32.001 (original jurisdiction over rates, operations, and services), 36.101 through 36.111 (procedures for utility-proposed rate changes), and 36.211 (relation back of rates for non-ERCOT utilities, of which EPE is one).

The Commission has exclusive original jurisdiction over this application for service to environs customers. Contemporaneously with this filing, EPE has filed a Statement of Intent to change rates with those municipalities that retain original jurisdiction over EPE's rates. These municipalities are El Paso, Anthony, Clint, Horizon City, San Elizario, Socorro, Vinton, and Van Horn.

EPE's business address is 100 N. Stanton Street, El Paso, Texas 79901. EPE serves approximately 356,883 retail customers in Texas. This application affects all of those customers. EPE also serves retail customers in southern New Mexico, where it is regulated by the New Mexico Public Regulation Commission. The Federal Energy Regulatory Commission ("FERC") regulates EPE's wholesale electric operations.

IV. Notice

EPE will provide notice in accordance with PURA § 36.103, 16 TEX. ADMIN. CODE ("TAC") § 22.51(a), and 16 TAC § 25.235(b). The proposed notice is provided in RFP Schedule T and is Exhibit A to this application.

V. Rate Filing Package

Under 16 TAC § 22.243(b), EPE is filing its RFP, which complies in all material respects with the Commission's requirements. EPE's RFP does not include Schedule S. Schedule S is a report by the utility's certified public accountant on a review covering the test year. In Docket No. 56851,[2] the Commission approved EPE's request for a waiver of the requirement to file Schedule S or perform the related audit, subject to assurances by EPE for this rate case filing regarding EPE's audited financial statements; the most-recent FERC audit; and rate case expenses for Docket No. 56851.

VI. Executive Summary of Filing[3]

The Direct Testimony of George Novela, who is EPE's Senior Director of Regulatory Policy and Rates, gives an overview of this filing; introduces all of EPE's witnesses; and provides the subject matters of their testimonies.

EPE's application consists of a base rate (including miscellaneous revenues) request, which includes requests to change tariffs and to add new tariffs. EPE is not seeking to reconcile its fuel and purchased power costs in this filing.

The test year for the base rate case is October 1, 2023, through September 30, 2024. Under PURA § 36.112(b)(1) and the corresponding Commission rule in 16 TAC § 25.246(b)(2)(A), EPE elects to have its revenue requirement based on the information submitted for the test year of October 1, 2023, through September 30, 2024, with known and measurable adjustments as permitted by PURA § 36.112(e). EPE is **not** electing to determine its revenue requirement based on the updated test year approach allowed by PURA § 36.112(b)(2) and its

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[2] *Application of El Paso Electric Company for Waiver of Certain Rate Filing Package Schedules in Its Next Rate Application*, Docket No. 56851, Order (December 12, 2024).

[3] This section of the petition is the executive summary required by page 4 of the Commission RFP instructions.

corresponding rule 16 TAC § 25.246(b)(2)(B). The complete set of proposed tariff schedules is presented in Schedule Q-8.8 of EPE's RFP.

EPE's Witnesses

EPE's RFP includes the testimony of 21 witnesses. Those witnesses and their subject areas are:

1. George Novela, EPE's Senior Director of Regulatory Policy and Rates,, provides an overview of EPE's filing and introduces EPE's other witnesses. Mr. Novela addresses EPE's compliance with PURA and Commission rules as well as previous Commission orders. He also highlights EPE's proposals for new rate offerings.
2. Cynthia S. Prieto, EPE's Vice President and Controller, addresses EPE's plant in service and accumulated depreciation and amortization in rate base, together with related adjustments. She sponsors EPE's total Company rate base and discusses schedules and pro-forma adjustments to other base rate items. In addition, she presents EPE's general and intangible plant capital additions, depreciation expense, and the Palo Verde Generating Station ("PVGS") revaluation. Ms. Prieto also addresses COVID-19 expenses, the uncollectible expense adjustment and the impact of the FERC Transmission Formula Rate final order on Texas retail customers. Finally, she discusses EPE's compliance with regulatory commitments resulting from EPE's merger with Sun Jupiter Holdings LLC ("Sun Jupiter"), an indirect wholly-owned subsidiary of IIF US Holding 2 LP.
3. Richard Gonzalez, EPE's Treasurer, discusses EPE's capital structure and cost of capital, financing plans, and the importance of maintaining EPE's bond ratings. Mr. Gonzalez also presents the funding necessary for EPE's Nuclear Decommissioning Trust.
4. Steven Sierra, EPE's Director of Financial Accounting, discusses accounting rules and PURA compliance; summarizes EPE's total Company revenue requirement; and specifies the Texas rate increase. He sponsors and describes pro-forma adjustments that EPE has made to cost of service (expenses and revenues) Test Year costs. Mr. Sierra also sponsors and discusses schedules related to payroll, pensions and benefits, short-term assets, and accounting information. Mr. Sierra affirms that EPE's RFP schedules have been prepared from EPE's books and records, which are

maintained in accordance with the FERC Uniform System of Accounts as required by the Commission.

5. Jennifer E. Nelson, Assistant Vice President of Concentric Energy Advisors, Inc., presents and supports the Return on Equity ("ROE") rate necessary for EPE to provide a reasonable return to its equity investors. Ms. Nelson also assesses the reasonableness of EPE's capital structure. As Ms. Nelson testifies, the recommended ROE of 10.7 % considers a variety of factors that affect the required return.
6. Joe Weiss, Assistant Vice President of Concentric Energy Advisors, Inc., presents and supports the lead-lag study used to determine the Company's cash working capital requirements.
7. Julissa Reza, EPE's Manager of Regulatory Accounting, sponsors and discusses schedules and pro-forma adjustments related to regulatory assets and fuel and purchased power.
8. Lori Glander, Vice President, Decommissioning Services at TLG Services, Inc., presents the most recent decommissioning cost analysis, which provides the estimated costs associated with the shutdown of PVGS Units 1, 2, and 3 beginning in 2045. Ms. Glander summarizes the result of the updated analysis and identifies major changes from the previous estimate.
9. Ellen Lapson, Founder and Principal at Lapson Advisory, presents the cost of capital.
10. John J. Spanos, President with Gannett Fleming Valuation and Rate Consultants, LLC, presents and supports the depreciation study and depreciation rates for all of EPE's assets.
11. Tamera Henderson, Director of Tax with EPE, addresses the federal and state income taxes included in EPE's requested cost of service and rate base. Ms. Henderson addresses the calculation of income tax expense on a standalone basis and explains that the Company began normalizing state income tax expense in accordance with the settlement agreement approved by the Commission in the Company's Docket No. 44941 base rate case. She also addresses taxes other than income taxes.
12. Victor Martinez, EPE's Director of Energy Resources, discusses EPE's selection of the Buena Vista Purchased Power Agreement ("PPA") and the portion of Newman Unit 6 that would otherwise be allocated to New Mexico as resources for serving

Texas retail customers. He addresses the costs and benefits from joining the Western Energy Imbalance Market and the capital addition for EPE's energy management system. Mr. Martinez also supports the Company's imputed capacity charge that should be assigned to two renewable generation PPAs. Finally, Mr. Martinez supports the reasonableness of PVGS capital additions together with the reasonableness of the PVGS Test Year O&M expenses.

13. David Rodriguez, EPE's Vice President, Energy Supply and Distribution Operations, describes EPE's local generation and supports recovery of the costs of new investments in that fleet and the costs to operate and maintain it. He demonstrates that all costs related to EPE's capital additions for its local generation from January 2021 through the end of the Test Year are reasonable, necessary, prudent, and used and useful for safe, reliable, and efficient service to Texas customers. Mr. Rodriguez also addresses the reasonableness and prudence of the costs of other capital additions and improvements for the local generation fleet as well as the O&M expenses and practices that EPE employs to manage its local generation resources.
14. Ellen Smith, Senior Marketing Director with FTI Consulting, provides an overview of recent power plant construction cost trends and also supports the reasonableness of the construction costs for the Newman Unit 6 facility.
15. Cary Harbor, Senior Vice President Site Operations with Arizona Public Service Company, supports PVGS O&M expenses and capital projects that have been placed in service since EPE's prior rate case through the Test Year in this proceeding. He also discusses the efficient capital cost management approach taken at PVGS.
16. Leslie Chagnon, EPE's Senior Director-Distribution Design and Construction Maintenance, presents the distribution plant additions placed in service since the 2021 base rate case through the end of the Test Year. She demonstrates that all costs related to EPE's distribution plant additions are reasonable, necessary, prudent, and used and useful for safe, reliable, and efficient service to Texas customers. She also sponsors O&M expenses for distribution and proposed revisions to the Company's Line Extension Policy and Rule 20 of EPE's Rules and Regulations section of EPE's tariffs.
17. Alexander Aboytes, EPE's Director of Distribution Construction and Maintenance , presents the transmission and substation plant additions placed in service since the

2021 base rate case through the end of the Test Year. He demonstrates that all costs related to EPE's transmission and substation plant additions are reasonable, necessary, prudent, and used and useful for safe, reliable, and efficient service to Texas customers. He also sponsors O&M expenses for transmission.

18. Enedina Soto, Manager of EPE's Economic Research Department, provides EPE's historical and forecasted sales and demand data in support of EPE's rate request. She describes the load research function and its role in gathering the energy and demand data necessary for assigning costs to rate classes, including the development of allocation factors and describes how the usage characteristics of distributed generation customers are different than those of typical residential customers, which supports Mr. Carrasco's proposed change to the rate structure applicable to distributed generation customers. Ms. Soto also supports EPE's system loss study and the proposed weather normalization adjustment.
19. Adrian Hernandez, a Principal Rate Analyst for EPE, describes EPE's cost of service model and presents the Texas jurisdictional cost of service and class cost of service studies that support EPE's revenue requirement request and rate design proposals. Mr. Hernandez also addresses adjustments to other operating and fuel revenues and develops the requested revenue requirement baselines for purposes of future TCRF, DCRF, GCRR, and PCRF application filings.
20. Rene Gonzalez, Supervisor of Rates and Regulatory for EPE, addresses adjustments to base rate revenues for annualized billing determinants, including adjustments for weather and energy efficiency savings. Mr. Gonzalez also supports EPE's lamp lighting cost of service and rate design and discusses revisions to EPE's miscellaneous service charges. In addition, Mr. Gonzalez addresses the reconciliation of the recovery of costs under both the DCRF and the GCRR.
21. Manuel Carrasco, Manager of Rate Research for EPE, addresses EPE's rate design proposals based on the proposed revenue distribution. Mr. Carrasco also provides an evaluation of the impact of EPE's rate proposals on certain customers, the request for a peak time rebate pilot program, and discusses revisions to EPE's rate schedules.

a. Recent EPE Rate Case History

EPE's most recent base rate case was Docket No. 52195. That case was filed June 1, 2021, and reflected a calendar year 2020 test year. Docket No. 52195 was resolved through a settlement reflected in the Commission's September 15, 2022, final order. EPE received a base rate increase of $5.149 million, along with a number of riders, such as the Retiring Plant Rider, COVID-19 Rider, and Rate Case Expense Rider. With certain explicit adjustments, which EPE has reflected in this application, all of EPE's additions to plant in service through December 31, 2020, were found to be used and useful and prudent and included in rate base.

The rate case immediately preceding Docket No. 52195 was Docket No. 46831.[4] EPE filed its Docket No. 46831 rate case in February 2017, using a test year of October 2015 through September 2016. The case was resolved through a settlement that was approved by the Commission's December 18, 2017, final order. EPE received an overall increase of $14.5 million in Texas base rates.

Since EPE's most recent rate proceeding, the Commission has approved for EPE a DCRF (Docket No. 56425[5]) and a GCRR (Docket No. 54659[6]). A GCRR update is pending, with interim rates currently in effect (Docket No. 56225[7]). EPE is currently collecting revenues of approximately $43.353 million annually under its current DCRF and updated GCRR.

b. Rate Change Request

EPE seeks a $129.018 million Texas jurisdiction retail increase in base (non-fuel) and other miscellaneous revenues based on a test-year ended September 30, 2024. The net increase to annual Texas base rate and miscellaneous revenues is $85.666 million after accounting for the $43.353 million in revenues EPE is already recovering through its DCRF and GCRR but will no longer collect once the DCRF and GCRR are set at zero in this case. EPE's request results in an average percent increase in base rates of 13.65 percent. This request is based upon EPE's costs to

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[4] *Application of El Paso Electric Company to Change Rates*, Docket No. 46831, Order (Dec. 18, 2017)..

[5] *Application of El Paso Electric Company to Amend its Distribution Cost Recovery Factor*, Docket No. 56425, Order (June 13, 2024).

[6] *Application of El Paso Electric Company for Generation Cost Recovery Rider*, Docket No. 54659, Order (Dec. 1, 2023).

[7] *Application of El Paso Electric Company to Update its Generation Cost Recovery Rider*, Docket No. 56225, (pending).

render service during the October 2023 through September 2024 test year and is necessary to support the investments EPE has made since its last rate case. As described above, EPE requests that, if rates are suspended beyond March 3, 2025, then new rates be effective for consumption on and after that date. This rate request affects all of EPE's Texas retail customers. The requested changes are reflected in the proposed revisions to the tariffs in RFP Schedule Q-8.8.

Some of the key elements in EPE's base rate request include the following:

Revenue Requirement

1. The requested overall rate of return on rate base of 8.363 percent reflects equity capitalization of 56.4 percent and a return on equity of 10.7 percent.
2. EPE's total company rate base is $3,630.312 million, reflecting new investment in utility plant in service of $1,550.330 million from January 2021 (the month following the end of the test year in Docket No. 52195) through the September 30, 2024, end of the test year in this case.
3. The increase in net plant after reflecting increases in accumulated depreciation and other plant adjustments is approximately $993.927 million.
4. EPE is seeking to recover the costs of a new generation unit, Newman Unit 6, as well as investments in other capital additions made from January 2021 through September 2024, with appropriate recognition of the fresh start accounting for its investment in PVGS as of February 1996.
5. EPE has invested $559.795 million in distribution plant since January 1, 2021.
6. EPE has invested $180.858 million in its transmission system since January 1, 2021.
7. EPE has invested $190.030 million in general and intangible plant since January 1, 2021.
8. EPE has invested $134.242 million in PVGS since January 1, 2021.
9. EPE has invested $485.404 million in its local gas-fired generation units since January 1, 2021, including the new generation unit, Newman Unit 6.
10. EPE is not requesting that any construction work in progress be included in rate base.
11. EPE is requesting two post-test year adjustments for plant in service that reduce plant in service.

12. EPE is requesting an authorized rate of return that uses a 10.7 percent return on common equity. This return is necessary to reflect the risks of EPE's business and to allow EPE to raise capital on reasonable terms.

13. EPE is presenting a new depreciation study that changes the depreciation rates approved via the settlement in EPE's last rate case in Docket No. 52195.

14. EPE has updated the information on the costs to decommission PVGS, together with the reasonable annual expense in its cost of service necessary for EPE to fund its share of that decommissioning.

15. A substantial portion of the distribution plant that EPE seeks to include in rate base was previously presented and approved for recovery through EPE's DCRF. EPE's DCRF, approved in Docket No. 56425, involved distribution capital placed into service from January 1, 2021, through December 30, 2022. EPE requests that these distribution investments be included in rate base; that the DCRF be zeroed out and new baseline established; and that it be reconciled.

16. A substantial portion of the local generation plant that EPE seeks to include in rate base is EPE's investment in Newman Unit 6, which was previously presented and authorized for recovery on an interim basis through EPE's updated GCRR in Docket No. 56225. EPE requests that EPE's investment in Newman Unit 6 be included in rate base; that the GCRR be zeroed out and new baseline established; and that it be reconciled.

17. EPE is also updating the Advanced Metering Surcharge, to reflect savings that are included in test-year costs, and the Retiring Plant Rider Factor in this case. These two changes will combine for an increase of $7.3 million, which is an additional increase of 1.16%.

Rate Design

1. For both jurisdictional and class cost allocations, EPE proposes to allocate generation costs in a different manner than it has in the past. For EPE's baseload generation, which are the PVGS units, EPE proposes to allocate costs using a 12 coincident peak, average and excess (12CP A&E) method to better reflect that those units are used throughout the year as baseload generation. For EPE's units

that are used as peaking units, which would be the Montana Units and Rio Grande Unit No. 9, EPE proposes using 4 coincident (4CP) to reflect the use of those units for service of EPE's peak load. EPE also proposes allocating Newman Unit 6 on a class basis using 4CP, but because that unit is used exclusively to serve EPE's Texas load, Newman Unit No. 6 is directly assigned to Texas load for jurisdictional allocation purposes. For the balance of EPE's generation, EPE proposes to continue to use the 4CP A&E method of allocation of cost.

2. For most customer classes, the primary changes proposed by EPE are to the charges and not the structure of the rates. The revenue requirement for all existing rate classes is set at EPE's full cost to provide service, including the customer charge. Based on revenue produced under existing rates and EPE's allocated cost of service for each class, most rate classes will see an increase in base rates and total rates (including fuel), while four classes will see a decrease.

3. EPE also proposes to make a several changes that will apply across all or a number of tariffs, as applicable. First, EPE proposes redefining the on-peak period of a day to a five-hour period from 2:00 P.M. through 7:00 P.M. Second, the bill protection provision in several rate schedules is changed to describe an all-encompassing limitation on the number of customers that can receive such bill protection. EPE's experience with this bill protection proved to be administratively burdensome, and therefore, EPE proposes to set a monthly aggregate limit for all tariffs combined of the first 100 new customers to enroll in an Alternative Time of Day Rate option of any rate schedule. Third, for any rate schedules that include a primary voltage rate, EPE is proposing to implement a Reserved Distribution Capacity Service Charge for customers that requests an additional service primary voltage feed and related distribution facilities as a back-up to their initial service feed facilities to ensure a continuous supply of power (i.e., back-up feeder). Fourth, EPE proposes to replace the Fixed Fuel Factor with a Fuel Adjustment Factor that adjusts monthly to account for under- or over-collections in preceding months. There would also be a corresponding change of the reference to the Rate Schedule No. 98 Fixed Fuel Factor to a reference to the "Fuel Adjustment Factor."

4. EPE requests an update to the Retiring Plant Rider Factor to update the costs for the three generating units currently included and adding the O&M costs of a fourth unit, Rio Grande Unit No. 6.

5. While the primary change to each rate class is the change of the rates, there are several other modifications that EPE proposes. Among those, some of the more notable are:

    a. For Residential Service, EPE is proposing to reduce the number of months included in the summer season from the current six months to the four summer peak months, June through September. EPE is also proposing to increase the pricing differential between the on-peak and off-peak periods energy charges and between the first and second blocks in the summer energy charges.
    b. EPE proposes eliminating the minimum bill charge for customers with distributed generation (DG) that are not grandfathered. Instead of a minimum bill, EPE proposes that the customers be subject to a demand charge, which EPE believes will better capture the costs they impose on the system.

c. New Services

EPE is proposing one new rate offering. EPE is proposing adding a tariff for a peak time rebate program for residential customers.

d. Applicability and Effect of Merger

In Docket No. 49849,[8] the Commission approved the acquisition of 100 percent of EPE's outstanding shares of common stock by Sun Jupiter. This transaction closed on July 29, 2020. In the final order approving the transaction, there were some regulatory commitments that have implications for rate-making. EPE witness Prieto addresses these commitments.

e. Items to Be Included in Executive Summary per Docket No. 49849

The Docket No. 49849 final order requires that, if EPE requests cost recovery for certain items in rates, then EPE must describe them in the executive summary of the RFP. Below are

[8] *Joint Report and Application of El Paso Electric Company, Sun Jupiter Holdings LLC, and IIF US Holding 2 LP for Regulatory Approvals Under PURA §§ 14.101, 39.262, and 39.915*, Docket No. 49849, Order (Jan. 28, 2020).

those items for which EPE seeks cost recovery and their descriptions, in compliance with that final order and also as addressed in the Direct Testimony of EPE witness Cynthia Prieto:

- Charitable Giving (FoF 56b): EPE maintained charitable contributions following the closing of the transaction at EPE's average annual charitable giving level for the three-year period ended December 2018 as required by its commitment. See Direct Testimony of EPE witness Prieto at page 59-60.
- Entry Level Training Programs (FoF 56d): Though paused in 2024 due to staffing shortages, EPE has otherwise continued, and will continue in 2025, its entry-level training focused on engineering, management, and finance skills for the local labor force in collaboration with The University of Texas at El Paso (UTEP), El Paso Community College, and New Mexico State University (NMSU). The cost for this program is less than $100,000 annually. See Direct Testimony of EPE witness Prieto at page 60.
- Apprenticeship Programs (FoF 56e): As described in the Direct Testimony of EPE witness Prieto (page 61), EPE had apprenticeship programs during the Test Year. Wages incurred in the Test Year were $350,000 for GRID interns, $4.5 million for apprentices, $20,000 for the Western Tech Line Worker Certification program, and $90,000 for the Doña Ana Community College Line Worker Certification Program, all of which are included in EPE's requested revenue requirement in this proceeding.
- Supplier diversity (FoF 56f): EPE's suppliers include vendors classified as small businesses, women-owned, veteran-owned, and minority-owned, and EPE spent $104.5 million with these vendors in the Test Year. Total costs incurred in the Test Year for the supplier diversity program were less than $10,000, which are included in the costs requested in this case. See Direct Testimony of EPE witness Prieto at page 63-64.
- New Technology Programs (FoF 56g). As described in the Direct Testimony of EPE witness Prieto (page 64), during the Test Year EPE collaborated with NMSU on an application to the United States Department of Energy for a "Connected Communities" grant and initiated discussions with UTEP on a potential

collaboration around electrification. EPE did not incur any costs for this effort, so it is not seeking any recovery for these programs in this proceeding.

f. Number and Classes of Ratepayers Affected

EPE has approximately 356,883 Texas retail customers, all of whom will be affected by the relief requested in this Petition. Two exhibits to this Petition show the rate impacts of EPE's request using the information required by the Commission's RFP instructions for an executive summary. First, Exhibit B is a comparison of present class revenues and the proposed class revenues at an equalized rate of return for both base rate revenues and total revenues. Second, Exhibit C is a bill comparison of the current and proposed rates for the residential and small commercial classes at the 100, 200, 300, 400, 500, 600, 700, 800, 900, 1000, 1500, 2000, 2500, and 3000 kilowatt-hour usage levels.

g. Proposed Tariff/Rate Schedule Revisions

The complete set of EPE's proposed tariff schedules is presented in Schedule Q-8.8 of EPE's RFP.

Rate Case Expenses

EPE seeks recovery in this docket of the reasonable rate case expenses that it and any intervening municipalities incur in this case. EPE also requests recovery in this case of the rate case expenses a number of past rate-making proceedings in which the Commission's final order deferred recovery until EPE's next base rate proceeding. EPE is requesting recovery of its actual rate case expenses, amortized over two years, through a surcharge mechanism. EPE has excluded the costs it incurred for Docket No. 56851, EPE's request for a waiver of RFP Schedule S. EPE witness Novela addresses EPE's request for recovery of rate case expenses, and exhibits to his testimony include the relevant billings for attorney and consultant fees, as well as supporting affidavits from Bret J. Slocum, in support of the attorney fees, and EPE's consultants, in support of their respective billings.

VII. Request for Waivers of RFP Requirements

As mentioned above, in Docket No. 56851 the Commission approved EPE's request for a waiver of the requirement to file RFP Schedule S and perform the related audit, which is a report by the independent certified public accountant on its review of the test year. Otherwise, EPE

does not believe any waivers to the RFP requirements are necessary. [9] EPE is not seeking to reconcile fuel and purchased power costs in this case. While EPE is requesting a fuel factor change in this case, the basis for the change does not rely on any reconciliation or forecasted fuel cost schedules. Consequently, EPE has indicated on those schedules or parts of schedules that request fuel reconciliation period information or forecasted fuel costs that the requested information is not applicable, consistent with the instructions to the RFP.

If it is determined that a waiver is necessary for such schedules, then EPE requests a waiver on the basis that it is not asking to reconcile fuel and purchased power costs, nor is it requesting to revise its fuel factor based on forecasted fuel costs.

VIII. Confidentiality and Protective Order

Schedule W of the Commission's RFP instructions requires that the utility prepare a confidentiality agreement using the format specified therein. However, that confidentiality agreement was developed many years ago, and Commission-approved protective orders have evolved since then. To conform to the Commission's more recent and established practice, EPE proposes to use the Commission's current standard protective order in this docket.

IX. Conclusion and Prayer for Relief

For the reasons set out in this application, Petition, and Statement of Intent, and the accompanying RFP schedules and testimony, EPE requests that this Commission grant EPE's application and change its base rates in accordance with the requests contained herein, and for such other relief which EPE has shown is justified.

Respectfully submitted,

Rosanna Al-Hakeem
State Bar No. 24097285
El Paso Electric Company
P.O. Box 982

[9] Pursuant to Conclusion of Law No. 5 in the June 12, 2015, Notice of Approval in Docket No. 44571, *Application of El Paso Electric Company for Waiver of Certain Rate Filing Package Schedules in Its 2015 Rate Application*, RFP Schedule N is not required to be included in a base rate filing. Therefore, a waiver of that schedule is not necessary because energy efficiency costs are no longer included in base rates.

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ATTORNEYS FOR
EL PASO ELECTRIC COMPANY

NOTICE OF EL PASO ELECTRIC COMPANY'S PETITION TO CHANGE RATES

El Paso Electric Company (EPE or Company) publishes this notice that on January 27, 2025, it filed with the Public Utility Commission of Texas (Commission) its Petition and Statement of Intent and Application to Change Rates. This filing has been assigned Commission Docket No. 57538. This filing was also made with those municipal authorities in EPE's Texas service territory that have original jurisdiction over EPE's electric rates and have requested a copy of the filing.

EPE is proposing to change its rates for electric service provided to its approximately 357,000 Texas retail customers. All such customers, all classes of customers, and all areas in Texas in which EPE serves will be affected by this change in rates.

STATEMENT OF INTENT TO CHANGE RATES

EPE's request to increase its base rates is based on the financial results for a 12-month test year ending on September 30, 2024. The effect of EPE's proposed rate changes would be to increase its adjusted test year base rate and miscellaneous revenues by $129.0 million. The $129.0 million increase is composed of a miscellaneous revenue decrease of $997.0 thousand netted against other base rate revenue increase of $128.0 million. EPE's proposed revenue increase will be offset by a $43.4 million decrease in annualized Generation Cost Recovery Rider (GCRR) and Distribution Cost Recovery Factor (DCRF) revenues. Thus, the net proposed Texas retail revenue increase is $85.7 million, an increase of 13.65% over adjusted Texas retail test year base rate revenues exclusive of fuel and rider revenues. EPE is also updating the Advanced Metering Surcharge and the Retiring Plant Rider Factor in this case. These two changes will combine for an increase of $7.3 million, which is an additional increase of 1.16%. In addition, EPE is seeking recovery of reasonable rate-case expenses, including expenses paid to reimburse intervening municipalities, that it incurs in this case.

The impact of the rate change on various customer classes will vary from the overall impact described in this notice. The typical Residential Service customer using an average of 658 kilowatt-hours of energy per month will see an average monthly bill increase of $22.39, or 23.23%, under the proposed rates in this proceeding versus current standard rates.

The following table shows the effect of the proposed base revenue increase on existing rate classes:

EL PASO ELECTRIC COMPANY
NOTICE OF EL PASO ELECTRIC COMPANY'S PETITION TO CHANGE RATES

EPE Texas Proposed Base Rate Increase				
Retail Customer Class	Change in Base Revenue ($)	Average Change of Base Charges in Bill (%) [1]	Change in Total Charges ($)	Average Change of Total Charges in Bill (%) [2]
Schedule 01 - Residential Service	$ 79,068,697	25.01%	$ 83,794,440	23.67%
Schedule 02 - Small General Service	1,832,332	3.67%	3,025,949	5.37%
Schedule 07 - Outdoor Recreational Lighting Service	12,980	1.47%	23,606	2.41%
Schedule 08 - Government Street Lighting Service	(798,288)	-18.40%	(794,336)	-16.91%
Schedule 09 - Traffic Signal Service	(2,078)	-2.00%	(262)	-0.21%
Schedule 11 - Municipal Pumping Service	97,512	0.95%	147,198	1.23%
Schedule 15 - Electrolytic Refining Service	450,935	22.35%	465,598	17.70%
Schedule 22 - Irrigation Service	800	0.20%	7,683	1.78%
Schedule 24 - General Service	(4,347,461)	-3.12%	(3,374,662)	-2.16%
Schedule 25 - Large Power Service	4,737,097	11.69%	5,019,700	10.59%
Schedule 26 - Petroleum Refinery Service	843,511	5.12%	935,695	4.68%
Schedule 28 - Area Lighting Service	549,313	19.45%	555,943	18.45%
Schedule 30 - Electric Furnace Schedule	436,301	32.15%	447,697	16.57%
Schedule 31 - Military Reservation Service	1,357,564	9.11%	1,169,283	8.12%
Schedule 34 - Cotton Gin Service	(2,596)	-1.83%	(2,353)	-1.54%
Schedule 41 - City and County Service	914,553	3.87%	1,110,145	4.20%
Rider WH - Water Heating Service	39,564	7.89%	40,489	7.52%
Texas Jurisdictional Service	$ 85,190,735	13.65%	$ 92,571,813	13.18%
Schedule 38 - Noticed Interruptible (Non-Firm)	479,603	13.53%	481,737	13.53%
Texas Jurisdictional Service	$ 85,670,339	13.65%	$ 93,053,550	13.18%

[1] The Average Change of Base Charges in Bill is relative to revenue from current base rates, generation cost recovery rate, and the distribution cost recovery factor.

[2] The Average Change of Total Charges in Bill is relative to the change in base revenue in the note 1 above plus revenue from allocated fuel costs, the energy efficiency cost recovery factor, the military base discount and associated recovery factor, and interim rate riders (i.e., rate case expense surcharge, COVID-19 cost recovery surcharge, proposed revised AMS surcharge, and proposed revised retiring plant rider).

EPE has proposed that the effective date of its rate change be March 3, 2025, 35 days after the filing of the Petition and Statement of Intent. The proposed effective date is subject to suspension and extension by actions that may be taken by the Commission and other regulatory authorities. EPE has also requested that, if the effective date of the rate change is suspended, then new rates relate back to and be effective for consumption on and after July 1, 2025.

TARIFF REVISIONS

The Company is proposing a variety of rate structure modifications that will provide more accurate price signals to customers. These proposed modifications include moving customer charges to full cost of service, collecting all the customer related costs in the customer charge. Aligning the recovery of demand-related costs with demand charges while limiting seasonal demand charges to collect no more than 100% of the demand related costs. Modifying the summer on-peak period and off-peak period price differentials for TOD rates to reflect EPE's incremental capacity cost and provide more effective incentives to consumers to shift load or reduce peak consumption during the entire summer period.

In addition, in order to facilitate future Purchased Power Capacity Cost Recovery Factor (PCRF), Transmission Cost Recovery Factor (TCRF), DCRF, and GCRR filings under 16 Texas Administrative Code §§ 25.238, 25.239, 25.243, and 25.248 respectively, EPE requests that the Commission (1) set the Company's current DCRF and GCRR to zero and (2) establish in this docket the baseline values consisting of the inputs to the calculations that will be used to calculate PCRF, TCRF, DCRF, and GCRR in future dockets.

CONTACT INFORMATION

Persons who wish to intervene in or comment upon these proceedings should notify the Public Utility Commission of Texas (Commission) as soon as possible, as an intervention deadline will be imposed. A request to intervene or for further information should be mailed to the Public Utility Commission of Texas, P.O. Box 13326, Austin, Texas 78711-3326. Further information may also be obtained by calling the Public Utility Commission at (512) 936-7120 or (888) 782-8477. Hearing- and speech-impaired individuals with text telephones (TTY) may contact the Commission at (512) 936-7136. The deadline for intervention in the proceeding is 45 days after the date the application was filed with the Commission. A request to intervene or for further information should refer to Docket No. 57538. The 45th day after EPE filed its application is March 13, 2025.

The preferred method for you to file your request for intervention or comments on the application is electronically, and you will be required to serve the request on other parties by email. Therefore, please include your own email address on the intervention request. Electronic filing via

the "PUC Filer" on the Commission's website, which includes links to instructions, can be found at https://interchange.puc.texas.gov/filer. Instructions for using the PUC Filer are available at the following web address:

http://www.puc.texas.gov/industry/filings/New_PUC_Web_Filer_Presentation.pdf.

Once you obtain a tracking sheet associated with your filing from the PUC Filer, you may email the tracking sheet and the document you wish to file to centralrecords@puc.texas.gov. For assistance with your electronic filing, please contact the Commission's Help Desk at (512) 936-7100 or helpdesk@puc.texas.gov. You can review materials filed in this docket on the PUC Interchange at http://interchange.puc.texas.gov/.

EL PASO ELECTRIC COMPANY
Comparison of
Texas Retail Class Revenue Under Present Rates, Equalized Rates of Return and Proposed Rates

Retail Customer Class	Present Revenue			Proposed Revenue at Equalized Rate of Return		
	Base	Fuel	Total	Base	Fuel	Total
Schedule 01 - Residential Service	$ 316,191,801	$ 19,875,871	$ 336,067,672	$ 395,260,498	$ 19,875,871	$ 415,136,369
Schedule 02 - Small General Service	49,947,843	3,154,462	53,102,305	51,780,175	3,154,462	54,934,637
Schedule 07 - Outdoor Recreational Lighting Service	883,319	44,952	928,271	896,299	44,952	941,251
Schedule 08 - Government Street Lighting Service	4,338,206	286,258	4,624,464	3,539,918	286,258	3,826,176
Schedule 09 - Traffic Signal Service	104,089	16,080	120,169	102,011	16,080	118,090
Schedule 11 - Municipal Pumping Service	10,307,541	1,378,950	11,686,491	10,405,053	1,378,950	11,784,004
Schedule 15 - Electrolytic Refining Service	2,017,580	573,895	2,591,475	2,468,515	573,895	3,042,410
Schedule 22 - Irrigation Service	395,112	21,495	416,607	395,912	21,495	417,407
Schedule 24 - General Service	139,514,005	11,805,468	151,319,474	135,166,544	11,805,468	146,972,013
Schedule 25 - Large Power Service	40,533,991	5,703,615	46,237,606	45,271,089	5,703,615	50,974,703
Schedule 26 - Petroleum Refinery Service	16,483,616	3,198,087	19,681,703	17,327,127	3,198,087	20,525,214
Schedule 28 - Area Lighting Service	2,823,722	158,872	2,982,594	3,373,035	158,872	3,531,907
Schedule 30 - Electric Furnace Schedule	1,357,275	1,316,681	2,673,956	1,793,576	1,316,681	3,110,257
Schedule 31 - Military Reservation Service	14,899,010	2,314,910	17,213,920	16,256,574	2,314,910	18,571,484
Schedule 34 - Cotton Gin Service	141,513	8,823	150,336	138,917	8,823	147,740
Schedule 41 - City and County Service	23,644,914	1,780,945	25,425,859	24,559,467	1,780,945	26,340,412
Rider WH - Water Heating Service	501,476	28,424	529,900	541,040	28,424	569,464
Total Retail Sales Revenue	$ 624,085,014	$ 51,667,788	$ 675,752,802	$ 709,275,750	$ 51,667,788	$ 760,943,538
Non-Firm	3,544,335		3,544,335	4,023,938		4,023,938
Other Sales for Resale		126,931,261	126,931,261		126,931,261	126,931,261
Other Revenue	43,458,993		43,458,993	42,462,287		42,462,287
Total Retail Revenue	$ 671,088,343	$ 178,599,049	$ 849,687,392	$ 755,761,975	$ 178,599,049	$ 934,361,024

EL PASO ELECTRIC COMPANY
Executive Summary
Bill Comparisons for Current and Proposed Rates

Residential Class *

Total kWh	Current Bill Total	Proposed Bill Total	Difference Total	Difference Total %
-	$11.33	$16.49	$5.16	45.54%
100	$24.16	$31.85	$7.69	31.83%
200	$36.96	$47.18	$10.22	27.65%
300	$49.78	$62.53	$12.75	25.61%
400	$62.64	$77.97	$15.33	24.47%
500	$75.68	$93.72	$18.04	23.84%
600	$88.76	$109.57	$20.81	23.45%
Average 658	**$96.37**	**$118.76**	**$22.39**	**23.23%**
700	$101.87	$125.41	$23.54	23.11%
800	$115.01	$141.25	$26.24	22.82%
900	$128.16	$157.11	$28.95	22.59%
1,000	$141.33	$172.97	$31.64	22.39%
1,500	$207.08	$252.19	$45.11	21.78%
2,000	$272.86	$331.43	$58.57	21.47%
2,500	$338.63	$410.66	$72.03	21.27%
3,000	$404.40	$489.90	$85.50	21.14%

* Schedule No. 01 - Residential Service, Standard Service Rate Option

Small Commercial Class **

Total kWh	Current Bill Total	Proposed Bill Total	Difference Total	Difference Total %
-	$17.48	$23.57	$6.09	34.84%
100	$30.73	$37.07	$6.34	20.63%
200	$43.99	$50.55	$6.56	14.91%
300	$57.25	$64.04	$6.79	11.86%
400	$70.51	$77.54	$7.03	9.97%
500	$83.75	$91.02	$7.27	8.68%
600	$97.02	$104.52	$7.50	7.73%
700	$110.28	$118.01	$7.73	7.01%
800	$123.53	$131.50	$7.97	6.45%
900	$136.78	$144.98	$8.20	6.00%
1,000	$150.06	$158.48	$8.42	5.61%
1,500	$216.32	$225.90	$9.58	4.43%
2,000	$282.60	$293.35	$10.75	3.80%
2,500	$348.88	$360.79	$11.91	3.41%
3,000	$415.16	$428.25	$13.09	3.15%

** Schedule No. 02 - Small General Service, Standard Service Rate Option

DOCKET NO. 57568

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

DIRECT TESTIMONY

OF

GEORGE NOVELA

FOR

EL PASO ELECTRIC COMPANY

JANUARY 2025

EXECUTIVE SUMMARY

George Novela is the Senior Director of Regulatory Policy and Rates for El Paso Electric Company ("EPE" or "Company"). His responsibilities include direction of EPE's Rates Department and the Load Research and Data Analytics Department. Mr. Novela is EPE's policy witness in this base rate case. In his testimony, he provides an overview of the Company, its management, and its Texas rate case filing. Additionally, Mr. Novela introduces EPE's other witnesses and summarizes the Company's requests for relief in this docket.

He then describes the Commission Orders that are applicable to this proceeding and explains how EPE has complied with those orders, as well as how EPE has complied with applicable provisions of the Public Utility Regulatory Act and the Commission rules. He discusses the Texas jurisdictional revenue requirement deficiency $84.669 million, which, after adding back the proposed reduction in miscellaneous service charges of $0.997 million and eliminating the existing Generation Cost Recovery Rider and Distribution Cost Recovery Factor riders $43.353 million, results in a requested base rate increase of $129.018 million. As a result, the net increase in base rate revenues in this application is $85.666 million or 13.65% over the combined current non-fuel base rate, Generation Cost Recovery Rider and Distribution Cost Recovery Factor revenues. He discusses EPE's requested Texas base (i.e., non-fuel) rate changes, and the proposed distribution of the requested revenue requirement increase among rate classes.

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I. Introduction and Qualifications

Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is George Novela. My business address is 100 North Stanton Street, El Paso, Texas 79901.

Q2. HOW ARE YOU EMPLOYED?

A. I am employed by El Paso Electric Company ("EPE" or "Company") as Senior Director of Regulatory Policy and Rates.

Q3. PLEASE SUMMARIZE YOUR BUSINESS AND EDUCATIONAL BACKGROUND.

A. I graduated from The University of Texas at El Paso with a Bachelor of Business Administration in Economics in 2006, a Master of Science in Economics in 2008, and a Master of Business Administration in Finance in 2012. I received a Graduate Certificate in Public Utility Regulation & Economics from New Mexico State University in 2014.

Prior to working at EPE, I worked as the Research Coordinator for the City of El Paso's Department of Economic Development from 2007 to 2008. My duties included calculating incentive packages for new and expanding businesses, producing impact studies, and coordinating recruitment efforts with various public and private stakeholders.

In 2008, I began working for EPE as a Load Research Specialist, where I specialized in analyzing EPE's large customers. I was promoted to Senior Economist in 2011, where my responsibilities included the development of the long-term energy, demand, and customer forecasts used for planning purposes. In 2014, I worked briefly for EPE's Energy Efficiency Department as a Program Coordinator, where I oversaw energy efficiency initiatives for residential customers in both Texas and New Mexico. In 2014, I was promoted to Manager of Economic Research, where I oversaw the Company's long-term forecasting and load research programs. I was promoted to Director of Economic and Rate Research in 2021, where I managed and directed the activities of the Rates Department and Load Research and Data Analytics Department and was promoted to Senior Director of Regulatory Policy and Rates earlier this year.

In addition, I occasionally teach undergraduate courses in Macroeconomics and Microeconomics at El Paso Community College.

Q4. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES WITH EPE.

A. As the Senior Director of Regulatory Policy and Rates, I oversee and direct activities of EPE's Rates Department and Load Research and Data Analytics Department. The Rates Department responsibilities include jurisdictional and class cost of service studies, rate design analysis, and the development of EPE's retail rate schedules and charges. Load Research and Data Analytics responsibilities include the preparation of long-term customer, energy, and load forecasts, rates functions, preparation of weather normalization, analysis of load research data, the preparation of load research studies and reports. As the Senior Director of Regulatory Policy and Rates, I also lead and have direct participation in several regulatory filings made by EPE with the Public Utility Commission of Texas ("PUCT" or "Commission").

Q5. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE UTILITY REGULATORY BODIES?

A. Yes, I have testified before the PUCT and the New Mexico Public Regulation Commission.

II. Purpose of Testimony and Overview of Filing

Q6. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. First, I provide an overview of EPE's Texas base rate case filing and EPE's management and introduce EPE's other witnesses in this case. Based on the Company's overall total Company revenue requirement and the Texas jurisdictional revenue requirement deficiency that necessitates EPE's request in this case, I discuss EPE's proposed distribution of the base revenue requirement increase across retail rate classes. I discuss EPE's use of certain provisions of the Public Utility Regulatory Act[1] ("PURA") related to EPE's case and regulatory lag, and I also describe the Company's compliance with prior Commission orders relevant to this case and with other regulatory requirements.

[1] Tex Util. Code §§ 11.001-66.016

Q7. WHAT RATE CASE SCHEDULES FROM THE COMMISSION'S RATE-FILING PACKAGE ARE YOU SPONSORING?

A. The schedules I sponsor or co-sponsor are listed in Exhibit GN-1.

Q8. WERE THE SCHEDULES AND EXHIBITS YOU ARE SPONSORING OR CO-SPONSORING PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION?

A. Yes, they were.

Q9. WHAT IS THE OVERALL AMOUNT OF THE TEXAS BASE RATE-CASE INCREASE?

A. EPE's Texas jurisdictional cost of service demonstrates the need for a $84.669 million increase in revenue requirements based on a Test Year ended September 30, 2024. EPE currently has a Generation Cost Recovery Rider ("GCRR") and a Distribution Cost Recovery Factor ("DCRF") approved by the Commission through which it is collecting annualized revenues of $43.353 million that will be reset (eliminated) in this case. In addition, EPE is proposing a $0.997 million reduction in miscellaneous service revenues. After reflecting the resetting of the GCRR and DCRF baselines and adding back the proposed reduction for miscellaneous revenues, EPE is proposing to increase base (non-fuel) rates by $129.018 million. As a result, the net increase in base rate revenues in this application is $85.666 million. The net increase, reflecting current GCRR and DCRF revenues, will be 13.65% over current non-fuel base revenue. Including adjusted fuel and proposed other operating revenues, EPE's requested revenue requirement increase net of GCRR and DCRF represents an increase of 9.96%.

Q10. WHAT CIRCUMSTANCES HAVE CREATED THE NEED FOR THIS RATE FILING?

A. EPE has made significant investments to maintain safe and reliable service for customers and to support new and existing loads during a period of increasing customer growth, increasing residential usage per customer, and extreme weather. Since December 31, 2020, which was the end of the Test Year in the Company's 2021 base rate case, EPE has

invested approximately $1.55 billion in new electric plant to meet customer and load growth and to maintain and improve its electric system. EPE's investment in new plant has included new generation and transmission and distribution capacity. The Company also has invested substantial sums in existing generation, distribution, transmission, and general and intangible plant improvements. These investments are highlighted by an investment of over $740.654 million in transmission and distribution facilities, $134.242 million of Palo Verde Generating Station ("PVGS" or "Palo Verde") investment, approximately $485.404 million in steam and other production investments, and investment of over $190.030 million in general and intangible plant.

Q11. ARE THERE ANY PARTICULAR ASPECTS OF EPE'S APPLICATION THAT YOU WOULD LIKE TO EMPHASIZE?

A. Yes. There are several.

- First, while a substantial portion of EPE's investment in distribution and generation plant is currently reflected in EPE's DCRF and GCRR, those investments will be shifted to base rates for recovery in this proceeding and the current DCRF and GCRR will be reset to zero.
- In addition to resetting the baselines for use in future DCRF and GCRR proceedings, EPE also seeks to set a baseline for a potential Transmission Cost Recovery Factor ("TCRF") and a Purchased Power Capacity Cost Recovery Factor ("PCRF") in the future, to address ratemaking for EPE's investment in transmission plant and purchased power capacity purchases.
- EPE seeks approval to recover 100% of its total capital investment in Newman Unit 6 given that the unit has been, and will continue to be, exclusively used to serve Texas customers.
- EPE is proposing notable tariff additions and revisions. More specifically, EPE is making significant changes to its tariff provisions associated with distributed generation ("DG") and adding a tariff for a peak time rebate program for residential customers. EPE is also proposing revisions to certain specified tariffs (line extension policy, rates 24 and 25, and rule 20) to address increasing customer loads and new large load service requests. EPE is also proposing for approval of its Green Energy

Plus tariff, which provisions are based on a currently effective tariff approved by the City of El Paso that allows an existing customer to enter an agreement for provision of service for part or all of their requirements from renewable facilities. Finally, EPE requests an update to the Retiring Plant Rider Factor.

- EPE is also proposing to replace its current fixed fuel factor tariff, which is based on a formula that is adjusted only as the result of a Commission proceeding with a fuel adjustment factor that adjusts monthly to reflect previous under- or over-recoveries to better match fuel costs with the collections under the factor.

Q12. YOU REFERRED TO THE COMPANY'S LAST BASE RATE CASE. WHEN WAS THE COMPANY'S LAST BASE RATE CASE FILED, AND WHAT WAS THE RESULT?

A. The Company's last rate case, Docket No. 52195, was filed on June 1, 2021, based on a Test Year ended December 31, 2020. The case was resolved by uncontested settlement in September 2022, with a net base rate increase of $5.149 million, after accounting for zeroed out revenues that the Company was already recovering through its DCRF and TCRF. The authorized $5.149 million net increase in base rates and miscellaneous service charges was effective for electricity consumed on or after November 3, 2021. I discuss the 2021 base rate case and settlement in more detail later in my testimony.

Q13. PURA § 36.112 ALLOWS EPE TO ELECT ONE OF TWO METHODS FOR THE COMMISSION TO DETERMINE EPE'S REVENUE REQUIREMENT. ONE METHOD IS A HISTORICAL TEST YEAR, AND THE OTHER METHOD IS A HISTORICAL TEST YEAR INCLUDING ESTIMATED INFORMATION. WHICH METHOD HAS EPE ELECTED TO USE FOR THIS RATE CASE?

A. EPE has elected to determine its revenue requirement based on information submitted for a Historical Test Year, which is the method allowed by PURA § 36.112(b)(1). EPE will not utilize the estimated and updated method allowed by PURA § 36.112(b)(2).

Q14. PURA § 36.211 ALLOWS EPE, IN ITS STATEMENT OF INTENT, TO REQUEST THAT THE FINAL RATES SET IN THIS CASE BE MADE EFFECTIVE ON AND

AFTER THE 155TH DAY AFTER THE RATE-FILING PACKAGE IS FILED. IS THAT EPE'S REQUEST IN THIS CASE?

A. Yes, EPE requests that the revenue requirement and rates approved in this case be effective for consumption on and after the 155th day after the date its rate-filing package is filed if the Commission or a local regulatory authority suspends implementation of rates beyond 155 days. This request is included in EPE's Statement of Intent. Based on the filing date for this case of January 27, 2025, EPE's relate back date is July 1, 2025.

Q15. ARE THERE OTHER PURA PROVISIONS RELATED TO RATEMAKING THAT EPE IS PROPOSING TO IMPLEMENT IN THIS CASE?

A. Yes. PURA §§ 36.210 and 36.214 allow an electric utility outside of the Electric Reliability Council of Texas territory to periodically update its recovery of distribution and generation costs. These provisions are implemented in 16 TAC §§ 25.243 and 25.248, respectively, and authorize the utility to implement a DCRF and a GCRR for purposes of cost recovery. As I mentioned, EPE currently has both a DCRF and a GCRR. In this proceeding, EPE requests that the investments currently supporting those factors be approved for cost recovery through base rates and the DCRF and GCRR be reset to zero.

In addition, PURA § 36.209 allows EPE, as an electric utility outside of ERCOT's territory, to apply for a rider to recover investment in transmission costs. The PUCT has implemented this provision in its rules (16 TAC § 25.239) by allowing a utility to seek a TCRF. EPE does not currently utilize a TCRF.

PURA § 36.205 also allows EPE to apply for a rider to recover purchased power capacity costs. This provision is implemented in 16 TAC § 25.243 providing the Purchased Power Capacity Cost Recovery Factor as a mechanism by which an electric utility may seek to recover certain reasonable and necessary purchased power capacity costs, outside of a base-rate proceeding, incurred in the course of providing reliable electric service to ratepayers. The rule allows a utility to apply to establish a purchased power capacity cost recovery factor (PCRF) rider with the requirement that it be adjusted once a year to reflect appropriate costs, changes in demand, over- and under-recoveries, and changes in revenues resulting from load growth. Reconciliation of costs recovered

through the PCRF occur at least every two years, in conjunction with a fuel reconciliation proceeding. EPE does not currently utilize a PCRF.

Q16. WHAT IS EPE REQUESTING IN THIS CASE RELATED TO THESE PROVISIONS?

A. EPE is requesting that the Commission re-establish "baseline" revenue requirement allocators and amounts for EPE's transmission, distribution, and generation functions as defined in the respective rules. These baselines will enable EPE to calculate and request cost recovery factors in the future to reflect increased transmission, distribution, and generation costs relative to the baseline amounts authorized in this rate case. EPE witness Adrian Hernandez discusses and supports these baseline amounts in more detail in his testimony. Mr. Hernandez also identifies certain rate case costs and allocation factors necessary for the calculation of a PCRF in the future.

Q17. IS EPE PROPOSING TO ESTABLISH A TCRF, DCRF, GCRR, OR PCRF IN THIS CASE?

A. No. Total DCRF and GCRR related revenues as adjusted for the Test Year are included in EPE's total adjusted operating revenues and the requested revenue requirement associated with distribution and generation functions are reflected in base rates proposed in this case. Following a final order in this case, the existing DCRF and GCRR rates would be reset to zero. EPE is not proposing a TCRF or PCRF tariff or rate for approval in this proceeding. However, EPE does seek to establish the appropriate baselines for these cost recovery mechanisms so that EPE may employ them after this case as appropriate.

Q18. WHAT OTHER EPE WITNESSES ARE TESTIFYING IN THIS CASE?

A. The other witnesses and their subject areas are as follows:

- Cynthia S. Prieto, EPE's Vice President and Controller, addresses EPE's plant in service and accumulated depreciation and amortization in rate base, together with related adjustments. She sponsors EPE's total Company rate base and discusses schedules and pro-forma adjustments to other base rate items. In addition, she presents EPE's general and intangible plant capital additions, depreciation expense,

and PVGS revaluation. She also addresses COVID-19 expenses, the uncollectible expense adjustment and the impact of the FERC Transmission Formula Rate final order on Texas retail customers. Finally, she also discusses EPE's compliance with regulatory commitments resulting from EPE's merger with Sun Jupiter Holdings LLC ("Sun Jupiter"), an indirect subsidiary of IIF US Holding 2 LP ("IIF")

- Richard Gonzalez, EPE's Treasurer, discusses EPE's capital structure and cost of capital, financing plans, and the importance of maintaining EPE's bond ratings. Mr. Gonzalez also presents the funding necessary for EPE's Nuclear Decommissioning Trust ("NDT").
- Steven Sierra, EPE's Director of Financial Accounting, discusses accounting rules and PURA compliance; summarizes EPE's total Company revenue requirement; and specifies the Texas rate increase. He sponsors and describes pro-forma adjustments that EPE has made to cost of service (expenses and revenues) Test Year costs. Mr. Sierra also sponsors and discusses schedules related to payroll, pensions and benefits, short-term assets, and accounting information. Mr. Sierra affirms that EPE's rate filing package schedules have been prepared from EPE's books and records, which are maintained in accordance with the FERC Uniform System of Accounts as required by the Commission.
- Jennifer E. Nelson, Assistant Vice President of Concentric Energy Advisors, Inc., presents and supports the Return on Equity ("ROE") rate necessary for EPE to provide a reasonable return to its equity investors. Ms. Nelson also assesses the reasonableness of EPE's capital structure. As Ms. Nelson testifies, the recommended ROE of 10.7 % considers a variety of factors that affect the required return.
- Joe Weiss, Assistant Vice President of Concentric Energy Advisors, Inc., presents and supports the lead-lag study used to determine the Company's cash working capital requirements.
- Julissa Reza, EPE's Manager of Regulatory Accounting, sponsors and discusses schedules and pro-forma adjustments related to regulatory assets, and fuel and purchased power.
- Lori Glander, Vice President, Decommissioning Services at TLG Services, Inc., presents the most recent decommissioning cost analysis, which provides the estimated

costs associated with the shutdown of PVGS Units 1, 2, and 3 beginning in 2045. Ms. Glander summarizes the result of the updated analysis and identifies major changes from the previous estimate.

- Ellen Lapson, Founder and Principal at Lapson Advisory, presents the cost of capital.
- John J. Spanos, President with Gannett Fleming Valuation and Rate Consultants, LLC, presents and supports the depreciation study and depreciation rates for all of EPE's assets.
- Tamera Henderson, Director of Tax with EPE, addresses the federal and state income taxes included in EPE's requested cost of service and rate base. Ms. Henderson addresses the calculation of income tax expense on a standalone basis and explains that the Company began normalizing state income tax expense in accordance with the settlement agreement approved by the Commission in the Company's Docket No. 44941 base rate case. She also addresses taxes other than income taxes.
- Victor Martinez, EPE's Director of Energy Resources, discusses EPE's selection of the Buena Vista Purchased Power Agreement and the portion of Newman Unit 6 that would otherwise be allocated to New Mexico as resources for serving Texas retail customers. He addresses the costs and benefits from joining the Western Energy Imbalance Market ("EIM") and the capital addition for EPE's energy management system ("EMS"). Mr. Martinez also supports the Company's imputed capacity charge that should be assigned to two renewable generation purchased power agreements.
- David Rodriguez, EPE's Vice President, Energy Supply and Distribution Operations, describes EPE's local generation and supports recovery of the costs of new investments in that fleet and the costs to operate and maintain it. Mr. Rodriguez also addresses the reasonableness and prudence of the costs of other capital additions and improvements for the local generation fleet, including the addition of the Newman Unit 6 facility, as well as the O&M expenses and practices that EPE employs to manage its local generation resources.
- Ellen Smith, Senior Marketing Director with FTI Consulting, provides an overview of recent constructions cost trends and costs and supports the construction costs for the Newman Unit 6 facility.

- Cary Harbor, Senior Vice President Site Operations with Arizona Public Service Company, supports PVGS O&M expenses and capital projects that have been placed in service since EPE's prior rate case through the Test Year in this proceeding. He also discusses the efficient capital cost management approach taken at Palo Verde.
- Leslie Chagnon, EPE's Senior Director-Distribution Design and Construction Maintenance, presents the distribution plant additions placed in service since the 2021 base rate case through the 2024 Test Year. She demonstrates that all costs related to EPE's distribution plant additions are reasonable, necessary, prudent, and used and useful, for safe, reliable, and efficient service to Texas customers. She also sponsors O&M expenses for distribution and proposed revisions to the Company's Line Extension Policy and Rule 20 of EPE's Rules and Regulations section of EPE's tariffs.
- Alexander Aboytes, EPE's Director-Distribution Construction & Maintenance, presents the transmission and substation plant additions placed in service since the 2021 base rate case through the 2024 Test Year. He demonstrates that all costs related to EPE's transmission and substation plant additions are reasonable, necessary, prudent, and used and useful for safe, reliable, and efficient service to Texas customers. He also sponsors O&M expenses for transmission.
- Enedina Soto, Manager of EPE's Economic Research Department, provides EPE's historical and forecasted sales and demand data in support of EPE's rate request. She describes the load research function and its role in gathering the energy and demand data necessary for assigning costs to rate classes, including the development of allocation factors and describing how distributed generation customers usage characteristics are different than typical residential customers, which supports Mr. Carrasco's proposed change to the rate structure applicable to distributed generation customers. Ms. Soto also supports EPE's system loss study and the proposed weather normalization adjustment.
- Adrian Hernandez, a Principal Rate Analyst for EPE, describes EPE's cost of service model and presents the Texas jurisdictional cost of service and class cost of service studies that support EPE's revenue requirement request and rate design proposals. Mr. Hernandez also addresses adjustments to other operating and fuel revenues and

develops the requested revenue requirement baselines for purposes of future TCRF, DCRF, GCRR, and PCRF application filings.

- Rene Gonzalez, Supervisor of Rates and Regulatory for EPE, addresses adjustments to base rate revenues for annualized billing determinants, including adjustments for weather and energy efficiency savings. Mr. Gonzalez also supports EPE's lamp lighting cost of service and rate design and discusses revisions to EPE's miscellaneous service charges. In addition, Mr. Gonzalez addresses the reconciliation of the recovery of costs under both the DCRF and the GCRR
- Manuel Carrasco, Manager of Rate Research for EPE, addresses EPE's rate design proposals based on my recommendation that all classes be at full cost of service. Mr. Carrasco also provides an evaluation of the impact of EPE's rate proposals on certain customers, the request for a peak time rebate pilot program, and discusses revisions to EPE's rate schedules.

III. Overview of EPE

Q19. PLEASE DESCRIBE EL PASO ELECTRIC COMPANY.

A. EPE is a vertically integrated utility providing bundled service to approximately 465,865 retail customers (approximately 356,883 in Texas) in a 10,000 square mile area of the upper Rio Grande valley in west Texas and southern New Mexico. Its service territory extends from Hatch, New Mexico, to Van Horn, Texas, and includes two interconnections to Ciudad Juárez, Mexico, and the Comisión Federal de Electricidad, Mexico's national electric utility. The Company also serves Rio Grande Electric Cooperative as a full requirements wholesale customer subject to FERC jurisdiction.

EPE provides service to customers in the following incorporated cities, towns, and villages in Texas: El Paso, Anthony, Clint, Horizon City, Socorro, San Elizario, Vinton, and Van Horn. Additionally, it serves customers in unincorporated areas of El Paso County and portions of the unincorporated areas of Culberson and Hudspeth Counties. EPE's retail customer mix in Texas is approximately 88.6% residential, 9.9% small commercial/industrial, less than 1% large commercial/industrial, and 1.5% other public authorities. EPE also serves several military installations, including the Fort Bliss army post.

A. Senior Leadership Team

Q20. PLEASE DESCRIBE EPE'S MANAGEMENT DURING THE TEST YEAR.

A. Quality of management has been and continues to be an important objective for the Company. The Company has a strong executive team in place that is well equipped to manage the Company and handle issues that EPE will face in the future. In July 2020, the Board of Directors named Kelly A. Tomblin as Chief Executive Officer ("CEO") of EPE, and she assumed that position in September 2020. Ms. Tomblin brings more than 30 years of knowledge and experience in the energy industry, in both competitive and vertically integrated markets throughout the United States, the Caribbean, the United Kingdom, and Latin America. She has experience in the generation, transmission, and distribution sectors as well as renewable development, energy services, and sales. Before joining EPE, Ms. Tomblin, a winner of the S&P Platts Global CEO of the Year award, served as Chief Executive Officer of INTREN, L.L.C., a leading utility solutions provider with 14 regional offices throughout the United States. Ms. Tomblin has an MBA from New York University's Leonard Stern School of Business and a Juris Doctorate and Bachelor of Science in Journalism with a public relations concentration from West Virginia University. Ms. Tomblin has assembled the following Executive Leadership Team with diverse experience and backgrounds to lead EPE as it faces new challenges and issues going forward.

- **David Rodriguez** is EPE's Vice President of Energy Supply. Mr. Rodriguez oversees the Company's Power Generation and Power Marketing functions. Mr. Rodriguez has been with EPE since 2003 and has had increasing levels of responsibility during his career at the Company. Mr. Rodriguez is a native El Pasoan and holds a Bachelor of Arts degree in Management and a Master of Business Administration with a concentration in Finance, both from the University of Texas at El Paso.

- **Lisa Budtke**, Chief Financial Officer, has been with EPE since 2010. Ms. Budtke brings almost 30 years of knowledge and experience and oversees EPE's Financial Accounting, Regulatory Accounting, Tax, Cash Management, Financial Planning & Analysis, Financial Systems, Claims & Risk, Internal Audit, and Information Technology groups. Ms. Budtke holds a Bachelor of Accountancy from New Mexico State University and a Master of Business Administration from the University of Phoenix.

- **Cynthia Henry**, Vice President and General Counsel, has been with EPE since 2013. Prior to joining EPE, Ms. Henry worked for Xcel Energy in Denver, Colorado, as the Manager of FERC Compliance. She holds a Bachelor of Arts degree from Brown University, a Juris Doctor from the University of Texas at Austin, a Master of Law from the University of London, and an Executive MBA from IE and Brown University.

- **David C. Hawkins**, Vice President of Operations Support, has been with EPE since 2002. He oversees operation of El Paso Electric's electric grid; planning activities of the transmission system; the FERC interconnection process for generation and transmission projects to EPE's system; environmental compliance with all regulatory agencies; business improvement solutions on an enterprise level; activities related to the acquisition/disposal of land and land rights for construction of generation, substation, transmission, and distribution facilities. Mr. Hawkins holds a Master of Science degree and a Bachelor of Science degree in Electrical Engineering from New Mexico State University.

- **Cheryl Mele**, Vice President, Customer and Employee Services, is responsible for leading the customer operations and technology, human resources, organizational development, and corporate communications groups. Ms. Mele joined El Paso Electric in 2021. Her career in energy also includes Austin Energy, where she was the Deputy General Manager and Chief Operating Officer, and ERCOT, where she was Senior Vice President and Chief Operating Officer. Ms. Mele has a BS in mechanical engineering from Union College in Schenectady, New York, is a registered professional engineer, and completed the utility executive program at the University of Idaho.

- **James A. Schichtl**, EPE's Vice President of Regulatory Operations and Resource Strategy, has been with EPE since 2012. Mr. Schichtl oversees EPE's Economic & Rate Research, Economic Forecasting, Regulatory Case Management, Market Development and Resource Strategy, and Energy Efficiency groups. Prior to rejoining EPE in 2012, he served as a regulatory analyst and manager in several regulatory functions with Southern California Edison Company for 18 years. Mr. Schichtl is a native El Pasoan and hold a Bachelor of Science Degree in Mechanical Engineering from the University of Texas at El Paso, where he also studied economics and econometrics.

- **Jessica Christianson**, Vice President of Sustainability and Energy Solutions, has been with EPE since 2013. She oversees EPE's Energy Solutions, Economic Development, and Business Development teams. The energy solutions and business development teams oversee the planning,

design, and delivery of strategic growth initiatives in the areas of clean and renewable energy development, emerging technology, and beneficial electrification. She holds a Master of Science degree in Environmental Engineering, Master and Bachelor of Science degrees in Crop and Soil Science, and a Graduate Certificate in Public Utility Regulation and Economics from New Mexico State University.

- **Omar A. Gallegos**, Vice President of Energy Delivery, is responsible for T&D planning, engineering, construction, and maintenance. This includes long-term planning, and project management of infrastructure construction projections including the interconnection of energy resources. He is also responsible for customer service connections. Finally, he is responsible for the maintenance of Transmission and Distribution ("T&D") infrastructure and facilities to provide safe and reliable service for our customers and community. Mr. Gallegos has been with EPE since 2009. Omar holds a Bachelor of Science in Mechanical Engineering and a Master of Business Administration from the University of Texas at El Paso. He also obtained a Graduate Certificate in Public Utility Regulation and Economics from New Mexico State University and also completed the Executive Course from the University of Idaho Energy in 2019.

- **Cynthia S. Prieto**, Vice President-Controller, has been with EPE since 2006. Ms. Prieto leads the Company's accounting, tax and financial systems functions as the Company's Principal Accounting Officer. Prior to joining El Paso Electric, she served as the Controller of Continental National Bank and as a Senior Manager at KPMG LLP. Ms. Prieto holds a Bachelor of Business Administration Degree with a concentration in Accounting from the University of New Mexico.

The combination of experience and diverse backgrounds of the Company executives provides EPE with a strong management team well equipped to handle issues facing EPE.

B. Quality of Management and EPE's Quality of Service

Q21. YOU SAY THAT THE MANAGEMENT TEAM IS WELL EQUIPPED TO HANDLE ISSUES FACING EPE. COULD YOU GIVE SOME EXAMPLES OF ISSUES EPE FACES AND HOW EPE HAS ADDRESSED ISSUES IN THE PAST?

A. Certainly.

One particularly notable accomplishment is that EPE has effectively and reliably served its customers during unprecedented periods of extreme weather. Since the last base rate case, EPE has served its customers during periods of extreme windstorms and extreme hot weather. In fact, 2023 is considered the hottest year on record with numerous heat records being broken.

Figure GN-1 below shows the total cooling degree days during the period of 1950 through 2024 for EPE's Texas service territory. In this period, 2023 recorded the highest number of cooling degree days at or over 100°F, totaling 3,537, an increase of 21.7% above its 10-year-average. This warming trend continued in 2024 with above average temperatures. In 2024, there were 3,221 cooling degree days through September compared to 3,270 for the same period in 2023 and a ten-year average of 2,756.

Figure GN- 1: Total Cooling Degree Days (CDDs)

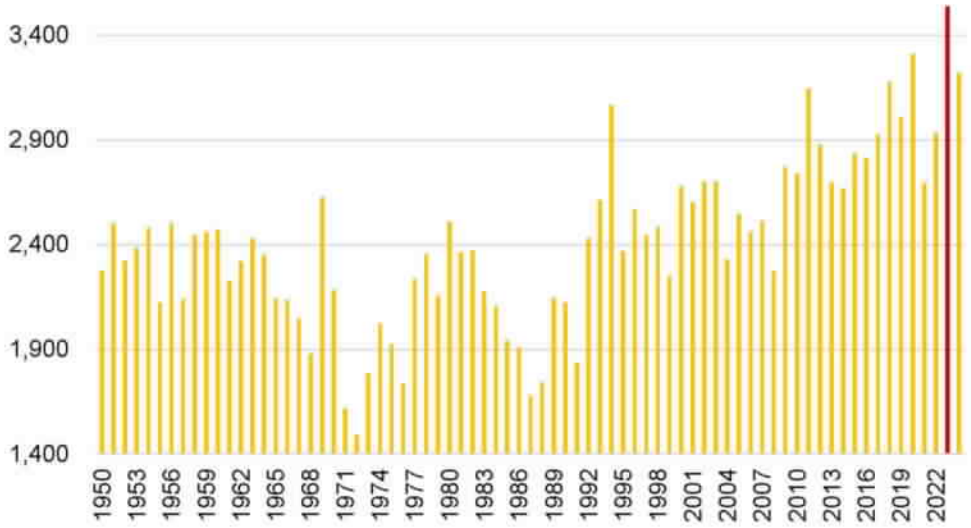
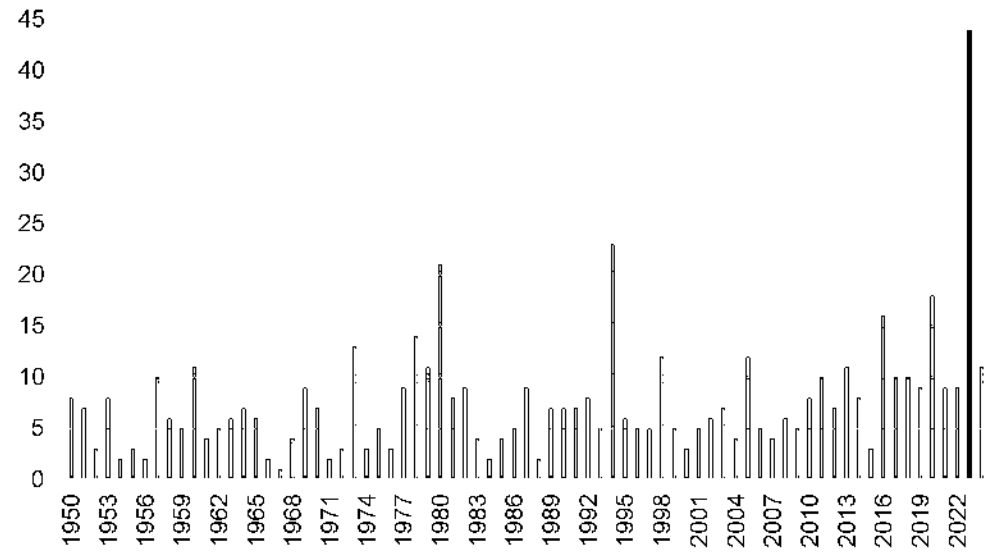


Figure GN-2 below illustrates the longest streak of consecutive days with temperatures at or above 100°F, covering the same period 1950-2024. In 2023, there was a record-breaking streak of 44 consecutive days at or over 100°F, which was 21 days longer than the previous high of 23 consecutive days observed in 1994.

Figure GN-2: Consecutive Days at/or Over 100°F



Q22. HOW DID EPE'S LOCAL GENERATION PERFORM DURING THIS RECENT EXTREME WEATHER?

A. Local generation performed very well. EPE monitors the performance of these units using two key indicators: (1) net heat rate and (2) equivalent availability factor ("EAF"). Both net heat rate and EAF are industry-accepted measurements of generating unit performance. As an indicator of performance, EAF takes into account all events that affect availability, rather than focusing on a single type of event. EAF provides a clear indication of overall unit availability for a given period. Since EPE's last base rate case, EPE has continued to achieve consistently high levels of availability during the summer peak periods (June through September), when availability matters the most to EPE's customers and when EPE sees the most extreme hot weather as well. For a detailed discussion on EAF as well as the associated EAF results please see the Direct Testimony of EPE witness David Rodriguez.

Q23. YOU MENTIONED THE PERFORMANCE OF EPE'S OPERATIONS AREAS DURING CHALLENGING TIMES. HOW HAS EPE'S DISTRIBUTION SYSTEM PERFORMED?

A. As a result of decisions leading to adequate investment and maintenance, EPE's distribution system has performed in an exemplary manner relative to other utilities in

Texas. This includes very limited distribution-level power interruptions during the 2023 extreme hot weather described above. EPE regularly appears at the top of Texas utilities for the lowest outage duration and frequency, which EPE witness Leslie Chagnon discusses in her testimony.

EPE's distribution system has also dependably served its customers during periods of major windstorms. EPE witnessed such a storm on February 26, 2023 where wind speeds surpassed hurricane levels. This weather event is also further discussed in the testimony of EPE witness Chagnon.

Q24. HOW HAS EPE'S MANAGEMENT TEAM MANAGED COSTS SINCE THE LAST BASE RATE CASE?

A. The high quality of EPE's management and their accomplishments is exemplified by recent trends in operation and maintenance expenses ("O&M"). Since EPE's last rate case, 2021 Rate Case Docket No. 52195, EPE's management has shepherded the Company through a period of required, high infrastructure growth while maintaining relatively flat O&M. Please see the direct testimony of EPE witness Steven Sierra for EPE's detailed O&M expense trend for the past several years.

Q25. CAN YOU ELABORATE ON THE GROWTH IN EPE'S CAPITAL PLANT ADDITIONS SINCE ITS LAST RATE CASE?

A. Yes. EPE witness Cynthia Prieto includes a list of all plant additions that EPE made from January 1, 2021, through September 30, 2024. Total company plant additions, for this period, were approximately $1.55 billion. The allocation of the net plant balance at the end of the Test Year to the Texas jurisdiction is discussed by EPE witness Hernandez EPE continues to see significant growth on its system coming from strong customer growth and increasing usage per customer from its residential customers. As a result, EPE has deployed plant additions to production and to distribution plant in service in its GCRR, the addition of Newman Unit 6, and DCRF. However, these rate riders have not reflected the significant capital additions to transmission, intangible and general plant or changes in operation. As discussed by EPE witnesses Sierra and Richard Gonzales and supported by EPE expert witnesses Jennifer Nelson and Ellen Lapson, the growth in

capital investment and the need for EPE to recover its investment and a return on its investment are driving the need for this case. As described above, while rate base has indeed grown since EPE's last general rate case, non-fuel O&M expenses have remained relatively flat under the guidance of EPE's executive leadership team.

Q26. CAN YOU BRIEFLY SUMMARIZE THE LOAD GROWTH EPE AND ITS MANAGEMENT HAS FACED SINCE ITS LAST BASE RATE CASE?

A. Yes. EPE recently has faced historic levels of volatility and higher year-over-year native system peak growth. Please see Table GN-1 below for recent trends in native system load growth. It should be noted that before 2020 the highest year-over-year peak ever seen by EPE on its system was 98 MW. As can be seen from the table below, over the past five years that previous year-over-year record has almost doubled more than once.

Table GN-1

YEAR	MW	MW Growth	Percentage Growth
2020	2,173	188	9.5%
2021	2,051	-122	-5.6%
2022	2,201	150	7.3%
2023	2,384	183	8.3%
2024	2,316	-68	-2.9%

Q27. DO YOU HAVE ANY OTHER EXAMPLES WHERE EPES MANAGEMENT TEAM RECENTLY MAINTAINED OR IMPROVED SYSTEM RELIABILITY WHILE ECONOMICALLY BENEFITING ITS CUSTOMERS?

A. In response to the evolution of the market in the Western Interconnection, EPE recently joined the western Energy Imbalance Market ("EIM") on April 5, 2023. The market optimizes regulation of customer load requirements and variable output from renewable resources by utilizing the most efficient regional generating resources, including renewables, made available for EIM dispatch. In doing so, the EIM facilitates greater integration of renewable resources and mitigates their curtailment by making these resources available for EIM entities to purchase. Many of EPE's trading partners in the

Western Electricity Coordinating Council have joined the EIM and use it as their primary tool for making short-term purchases and sales. Joining the EIM has allowed EPE to continue to take advantage of the market in the west, which directly benefits EPE's customers in terms of reliability and cost. In fact, the findings of fact 20-25 in the Final Order in Docket No. 54142, EPE's most recent fuel reconciliation case, described EPE's participation in the EIM very positively. It highlighted that participation in the EIM is expected to increase reliability and positively impact customers because 100% of the revenues on off-system sales into the EIM are credited to fuel costs. EPE witness Victor Martinez describes further the benefits EPEs customers are seeing as a result of EPE joining the EIM.

Q28. COULD YOU GIVE SOME EXAMPLES OF WHAT EPE AND ITS MANAGEMENT TEAM IS DOING TO BETTER UNDERSTAND CUSTOMER RESPONSIVENESS TO RATE PROGRAMS DESIGNED TO SHIFT LOAD, LOWER COSTS AND MITIGATE BILL IMPACTS?

A. Yes. Electrification and the expected expansion of electric vehicles are widely considered to be driving an evolution of the utility industry. Customers and communities in EPE's service area are purchasing EVs in increasing numbers. Taking a proactive role in preparing for transportation electrification now--while EV adoption remains relatively low--is important for EPE to ensure that EV adoption in the future is integrated efficiently with the grid to enable the Company to support customer decisions in favor of transportation electrification. EPE recently received Commission approval of its Texas electric vehicle ready pilot programs and tariffs. Collecting this type of information will be crucial to better plan and help shift native system load in a manner that better utilizes EPE's infrastructure and in turn helps reduce costs for its customers.

Q29. HAS EPE ENDEAVORED TO MAKE TARIFF OFFERINGS THAT MEET EVOLVING EXPECTATIONS OF CUSTOMER?

A. Yes. EPE was among the first utilities in the state to offer a Community Solar tariff to its customers and recently obtained Commission approval of a stipulated plan to expand its existing Community Solar program by an additional 10 MW. In addition, EPE recently

filed to create its first ever Business Solar program that would offer 50 MW of solar capacity to its larger customers.

Similarly, EPE's Commission-approved electric vehicle charging rate was one of the first of its kind in Texas. EPE is actively increasing its offerings to its customers in the electric vehicle space to give them more opportunity to take part in transportation electrification.

EPE has also worked to increase the availability and use by customers of time-variant rates. This has included efforts to increase the number of customers served in Time-of-day ("TOD") rates. In May of 2024 EPE filed its application for approval to implement a Time Varying Rate ("TVR") Rate Pilot Program. The proposed pilot will help evaluate how EPE's customers respond to price signals and the extent to which they reduce peak hours usage or shift their usage to off-peak hours due to these price signals. The data gathered through the pilot will inform the creation of a successful company-wide rate design in the future that both helps EPE's customers to have the opportunity to realize bill savings and allows EPE to defer or avoid generation, transmission and distribution capacity investments, saving ratepayer funds and leading to lower electric rates in the future than would otherwise be needed.

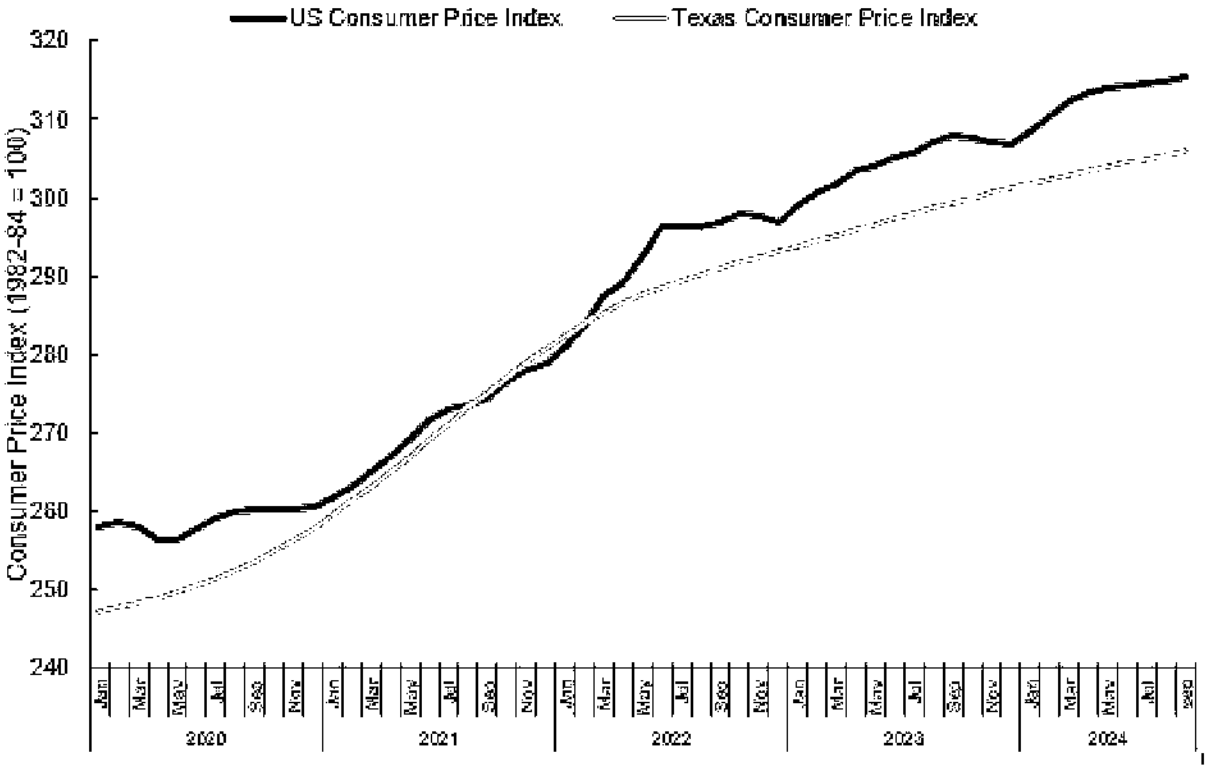
Q30. PLEASE DESCRIBE THE RECENT INFLATIONARY PRESSURES WITNESSED NATIONALLY AND AT THE STATE LEVEL AND EXPLAIN HOW EPE'S RATES COMPARE TO THEM.

A. Inflation has been a defining economic issue since 2020, shaped by a range of global and domestic factors. The pandemic's disruptions to supply chains, combined with fiscal stimulus measures and a surge in consumer demand, have created persistent upward pressure on prices. As the economy adjusted to these changes, inflationary pressures have impacted most sectors, driving up costs for consumers across goods and services. EPE and its management team, like other utilities and sectors, have experienced global supply chain issues such as longer lead times for material, parts, and equipment orders. These issues have driven up pricing globally, and EPE was not immune to these pricing pressures.

Prices for essential goods and services have risen significantly since 2020. Year-over-year (YoY) growth in the U.S. Consumer Price Index (CPI) peaked in June 2022, reflecting a 9.1% YoY increase, before gradually declining in the following months. Texas CPI followed a similar pattern, peaking at the start of 2022 with an increase of 8.9% YoY in January. Currently, both the U.S. and Texas CPIs have stabilized, showing more moderate growth rates as inflationary pressures have eased, showing a 2.4% YoY increase in September 2024 nationally and a 2.2% YoY increase regionally.

Nationally, according to the U.S. Bureau of Labor Statistics, the U.S. CPI shows that prices have risen by **22.2%** from January 2020 through September 2024. Regionally, according to S&P Global, the Texas CPI shows that prices in Texas have increased by **23.7%** over the same period. In contrast, the base electricity prices for El Paso Electric's Texas customers have experienced only moderate increases during this period. From 2020 to 2024 in September, the average base cents per kWh for all Texas customers increased by **14.0%**, while the increase for residential customers was **15.3%**.

US Consumer Price Index and Texas Consumer Price Index, 2020 - 2024



Source: US Bureau of Labor Statistics and S&P Global.

Q31. IN ADDITION TO RATE OFFERINGS, IS EPE MANAGEMENT MODERNIZING ITS RESOURCE MIX TO OFFER CLEANER GENERATION TO ITS CUSTOMERS?

A. Yes. EPE has focused on an evolving clean generation profile for some time which was intensified under EPE's new ownership. The Company made the management decision to adopt bold carbon-free energy goals in late 2021. Central to this vison is the adoption of a commitment to 80% carbon-free energy by 2035 and the pursuit of 100% decarbonization of our generation portfolio by 2045. Later in my testimony, I highlight recent generation portfolio additions as well as planned resources in the near future that move EPE towards achieving these goals. Highlights include the addition of the Buena Vista 1 facility, which is a 100 MW solar, and 50 MW battery storage facility that became operational on July 11, 2023. In addition, EPE anticipates the addition of two Company-owned renewable resources to its generation portfolio: one is a Commission certified 150 MW solar energy system facility located in Fabens, Texas where 100 MWs will be a system resource, and 50 MW will be used for the Texas Business Solar program. The other project is a 100 MW solar PV generating facility coupled with 100 MW battery storage facility, the approval of which is pending before the Commission.

In addition to these resources, EPE added Newman Unit 6, a simple-cycle natural gas-fired combustion turbine, at its existing Newman Generating Station in El Paso, Texas. The turbine nameplate rating of the unit is approximately 231 MW. Although it is not a renewable resource, Unit 6 will bring additional fuel savings due to the unit's relatively lower heat rate and will provide capacity support for increasing levels of intermittent solar resources.

Q32. IN ADDITION TO THE RATE OFFERINGS ABOVE, HAS EPE RECENTLY INVESTED IN ANY OTHER NOTEWORTHY SOFTWARE DESIGNED TO IMPROVE THE CUSTOMER EXPERIENCE AND REDUCE CUSTOMER COSTS?

A. Yes. EPE witness Prieto describes in detail the Customer Cloud Service software project. This project was required to upgrade the Company's customer service software in 2020 for continued vendor product support. As a result of this required upgrade, several customer facing solutions were implemented, including a reporting database, a customer

web self-service portal, and a product called Opower, which helps customers reduce energy usage through home energy reports, behavioral load shaping, proactive alerts, and digital self-service. These offerings will help provide EPE's customers with more data regarding their usage, in near real-time, that can help them in turn better manage their usage to save money on their bills.

In addition, the Company recently upgraded its Energy Management System ("EMS") directly benefiting its customers. The upgrade maintains the reliability of the El Paso Electric Bulk Electric System which ensures the continuous supply of electricity to our customers. The upgrade will allow EPE to utilize renewable resources such as solar, wind, and battery storage in real time. This is essential due to the volatility of these resources. This upgrade also seamlessly integrates EIM behaviors into the EMS to maximize market benefits for customers. Please see the Direct Testimony of EPE witness Martinez for more detail regarding the customer benefits of the EMS upgrade.

IV. Texas Revenue Requirement and EPE's Request for Relief

Q33. WHAT IS THE TEST YEAR FOR EPE'S COST OF SERVICE FILING?

A. EPE's Test Year for this case is the twelve months ended September 30, 2024. EPE's Test Year is adjusted for known and measurable changes, annualization of various items, and normalization of federal and state income taxes.

Q34. WHAT IS EPE'S TEXAS REVENUE REQUIREMENT IN THIS CASE?

A. EPE's revenue requirement is itemized by categories of costs in the testimony of EPE witness Sierra. EPE's proposed Texas base rate (non-fuel) revenue requirement is $708.754 million. Current adjusted base rate revenues, excluding DCRF and GCRR, are $579.736 million, resulting in a base rate revenue deficiency of $129.018 million. EPE is proposing changes for miscellaneous services which will increase the base rate deficiency by an additional $0.997 million.

Q35. HOW DO THE CURRENTLY EXISTING DCRF AND GCRR RELATE TO THE AMOUNT OF THE REQUESTED BASE-RATE INCREASE?

A. EPE's jurisdictional cost of service analysis reflects capital additions and other changes occurring after the end of the Test Year in EPE's 2021 base rate case (December 31, 2020) to the end of the Test Year in the instant proceeding. As a result, it incorporates capital additions which had been included in the authorized DCRF and GCRR billing factors over the same period and extending on through to the end of the Test Year.

Q36. WHAT WOULD THE IMPACT ON CUSTOMERS BE IF EPE'S REQUESTED INCREASE IS GRANTED?

A. Ratemaking in this proceeding will move the DCRF and GCRR capital components into rate base for cost recovery prospectively, and these two cost recovery factors will be reset to zero. The net effect on customer billed revenue is EPE's calculated base revenue requirement increase of $129.018 million less the $43.353 million currently being recovered through the DCRF and GCRR, or $85.666 million. As a percentage of current non-fuel base revenue, this represents a 13.65% increase or 9.96% of total operating revenue (including fuel and purchased power).

Q37. IS THE COMPANY ALSO REQUESTING TO CHANGE ITS OVERALL REVENUE ALLOCATION AND RATE DESIGN?

A. Yes. EPE is proposing rate design changes which are presented by EPE witnesses Manuel Carrasco and Rene Gonzalez. Mr. Carrasco explains EPE's proposal for rate design that balances the magnitude of the rate increase required with the need to reduce subsidies between and within rate classes and moves customer classes closer to the full costs of serving them. Additionally, Mr. Carrasco proposes changes in certain customer classes, demand, and energy charges to reduce intra-class subsidies, incentivize energy conservation, and encourage reduced on-peak usage.

Q38. WHAT RELIEF IS EPE REQUESTING FROM THE COMMISSION IN THIS CASE?

A. EPE requests the following:

- recovery of the Texas jurisdictional base rate revenue requirement of $708.754 million, reflecting an increase of $84.669 million to be recovered through proposed changes to base rates and miscellaneous service charges;

- to include in rate base additional replacement and improvement capital additions to EPE's generation, transmission, and distribution facilities since the 2021 base rate case that are in service and used and useful in serving EPE's customers;
- to include in rate base EPE's new general and intangible plant;
- to include in base rates EPE's operating expenses reasonable and necessary to serve Texas customers;
- to approve the various tariff and rate design changes outlined by EPE witnesses Carrasco and Rene Gonzalez;
- to set baseline revenue requirements and factors for generation, transmission and distribution functions to enable future GCRR, TCRF, DCRF, and PCRF applications;
- to approve the replacement of the current fixed fuel factor with a fuel adjustment factor that adjusts monthly to reflect previous under- or over-recoveries so as to better match fuel costs with the collections under the factor;
- to include EPE's rate case expenses for recovery over a two-year period; and
- rates to be effective within 35 days of the date of EPE's statement of intent filing in this case, unless suspended by the Commission or local regulatory authority, subject to notice and appropriate hearing, for a period not longer than permitted under Texas law. If rates are suspended for a period beyond 155 days after the date that EPE's rate-filing package was filed in this proceeding, EPE requests that its authorized revenue requirement be made effective for consumption on or after the 155th day from filing.

Q39. IS THE COMPANY ALSO REQUESTING TO CHANGE THE JURISDICTIONAL ALLOCATION OF NEWMAN UNIT 6?

A. Yes. In October 2020, the Commission granted EPE's application to amend its certificate of convenience and necessity ("CCN") to construct, own and operate Newman Unit 6. The New Mexico Public Regulation Commission (NMPRC) later rejected certification of Newman 6; and as a result, that portion of Newman 6 that would have otherwise served New Mexico retail load has been serving and will continue to serve the growing Texas load. Newman Unit 6 is currently not in base rates. Rather, it is being recovered via the GCRR at approximately 80% of the invested capital costs of the facility, although it is

exclusively being used to serve Texas load. EPE is requesting in this filing that it be included in rate base. EPE is also seeking approval to recover 100% of its total capital investment in Newman Unit 6 given that the unit has been exclusively used to serve Texas customers.

The Final Order in Docket No. 50277 at page 13, Ordering Paragraph 2 supports the statement that the PUCT certificated the entire Newman Unit 6.

"*The Commission amends El Paso Electric's certificate of convenience and necessity number 30050 to include the construction, ownership, and operation of Newman unit 6, an approximately 228-MW natural-gas-fired power generation unit to be located at the existing Newman generating station in northeast El Paso.*"

The Commission's preliminary order issued in Docket No. 54605 also supports the statement that PUCT certificated the entire Newman Unit 6. More specifically, Docket No. 54605, Preliminary Order at page 3, Section III, paragraph 1.

"*Therefore, the Commission concludes that it certificated the entire Newman unit 6 in Docket No. 50277. Jurisdictional allocation is a ratemaking issue to be addressed in a ratemaking proceeding.*"

Please see the Direct Testimony of EPE witness Rodriguez for a discussion of the Newman Unit 6 facility and the Direct Testimony EPE witness Martinez for a discussion of the need for 100% of Newman Unit 6 to reliably serve its Texas customers.

V. Compliance with Prior Commission Orders and Implications of Ongoing Proceedings

Q40. DO PRIOR COMMISSION ORDERS PLACE ANY OBLIGATIONS ON EPE WITH REGARD TO THIS FILING?

A. Yes, several prior Commission orders are relevant to this filing. The proceeding that most directly affects EPE's filing in this proceeding is EPE's last base rate proceeding, Docket No. 52195. In addition to the Order in Docket No. 49849, which concerns the purchase of EPE by Sun Jupiter, which EPE witness Prieto addresses, several other cases have implications for this docket. Docket No. 37690, *Application of El Paso Electric Company to Change Rates, to Reconcile Fuel Costs, to Establish Formula-Based Fuel Factors, and to Establish an Energy Efficiency Cost Recovery Factor,* provided for the

revaluation of the rate-base value of EPE's Palo Verde investment, which is addressed by EPE witness Prieto. The Orders in Docket No. 44800, 54403, and 55176 affect the treatment of the solar facilities that EPE owns to provide community solar and Texas Business Solar service. Finally, EPE's recently completed fuel reconciliation proceeding in Docket No. 54142 establishes the line loss factors EPE has used in this application. I address EPE's compliance with each of these orders.

Q41. PLEASE PROVIDE A BRIEF SUMMARY OF DOCKET NO. 52195.[2]

A. On June 1, 2021, the Company filed with the City of El Paso, other municipalities incorporated in its Texas service territory, and the PUCT in Docket No. 52195, a request for an annual increase in non-fuel base revenues of approximately $69.7 million. The requested net increase to base revenues was $41.8 million after accounting for $27.9 million in revenues that El Paso Electric was already recovering through its DCRF and its TCRF and excluding non-firm base revenue. On November 19, 2021, the Company filed its rebuttal testimony where it moved COVID-19 expenses and rate-case expenses out of base revenues and into separate riders and modified its original request down to $35.7, after accounting for zeroed-out revenues it was already recovering through its DCRF and TCRF and excluding non-firm base revenue.

On July 15, 2022, after extensive negotiation, the signatories to an uncontested settlement agreement filed a Joint Motion to Implement Uncontested Stipulation and Agreement (the "Unopposed Settlement") with the PUCT. No party opposed the settlement. On September 15, 2022, the PUCT approved the Settlement.

The PUCT Final Order provided for the following: (i) an annual non-fuel rate increase of $5.149 million, a return on equity of 9.35% for allowance for funds used during construction purposes and, as applicable, to other Commission proceedings or filings, and inclusion of all new plant in service in rate base; (ii) recovery of $4.1 million in rate case expenses through a separate surcharge; (iii) recovery of revenues associated with the relate-back of rates to consumption on and after November 3, 2021, through a separate surcharge, all as specified in the Unopposed Settlement; and

[2] *Application of El Paso Electric Company to Reconcile Fuel Costs,* Docket No. 54142, April 11, 2024.

(iv) Docket No. 52195 rate case expenses incurred after March 31, 2022, by EPE and municipalities that were parties to the case will be captured in a regulatory asset, recovery of which will be resolved in EPE's next base rate case. As to the last item, EPE has recorded a regulatory asset in the amount of $1.459 million for those qualifying rate case expenses, a breakout of which can be found in Schedule G-14.2. EPE is requesting full recovery of that regulatory asset in this proceeding.

In addition, the Unopposed Settlement, as implemented by the Final Order, imposed a number of other obligations, particularly concerning the treatment of Distributed Generation customers. EPE has complied with these requirements and had 4 formal meetings where we collaborated with interested stakeholders. A summary of the requirements resulting from the Final Order in Docket No. 52195 and how EPE has complied is presented in my Exhibit GN-2.

Q42. HAVE YOU INCLUDED THE DOCKET NO. 52195 FINAL ORDER WITH YOUR TESTIMONY?

A. Yes. It is included with my testimony as Exhibit GN-3.

Q43. DOES THE ORDER IN DOCKET NO. 44800, *APPLICATION OF EL PASO ELECTRIC COMPANY TO IMPLEMENT A VOLUNTARY COMMUNITY SOLAR PILOT PROGRAM IN TEXAS*, AFFECT EPE'S APPLICATION IN THIS PROCEEDING?

A. Yes. In settlement of that case in response to concerns expressed by the Commissioners, the Settlement Agreement, which the Commission approved, stated the following:

> All costs for construction and operation of this facility, including but not limited to capital costs, operations and maintenance costs, any joint and common costs reasonably allocated to the facility, and any advertising and educational costs regarding the facility, are to be recovered through the proposed Community Solar Program and will not be recovered from nonparticipating customers.

EPE has complied with this requirement. The Commission approved the tariff by Order signed September 1, 2016. No capital costs for the Community Solar facility have been included in this application, and no advertising or educational costs have been included in EPE's cost of service.

Q44. DOES THE ORDER IN DOCKET NO. 54403, *APPLICATION OF EL PASO ELECTRIC COMPANY FOR A 10 MW EXPANSION AND AUTHORITY TO MODIFY SCHEDULE NO. CS COMMUNITY SOLAR RATE, AFFECT EPE'S APPLICATION IN THIS PROCEEDING?*

A. Yes. In the final order in that case, the Commission ordered in Ordering Paragraph 2 the following:

> 2. In its next base rate proceeding. El Paso Electric must present or provide testimony and workpapers demonstrating that the costs related to the community solar expansion project have not been shifted to El Paso Electric customers who are not subscribers to the community solar program, and that El Paso Electric's community solar tariff has not implicated statutory prohibitions regarding the provision of discounted rates.

EPE has complied with this provision. No costs for the expansion have been shifted to other customers because the costs of that facility are being recovered only from subscribers to the Community Solar tariff. Furthermore, the tariff has not implicated the statutory prohibitions regarding the provision of discounted rates because the customers are not receiving any discount from the full costs assigned to them. No costs are being shifted to other customers, and they are bearing the full costs of the solar facilities dedicated to them.

Q45. DOES THE ORDER IN DOCKET NO. 55176, *APPLICATION OF EL PASO ELECTRIC COMPANY TO IMPLEMENT A VOLUNTARY TEXAS BUSINESS SOLAR PROGRAM IN TEXAS*, AFFECT EPE'S APPLICATION IN THIS PROCEEDING?

A. Yes. In Ordering Paragraphs 6 of the final order in that case, the Commission ordered:

> 6. In all future base-rate proceedings, El Paso Electric must separately identify the voluntary Texas business solar power program and the community solar program within its jurisdictional cost-of-service study in order to properly assign or allocate all costs related to the voluntary Texas business solar power program and the community

solar program and ensure they are not included in rates for non-participating customers and must bear the burden of proof to make such a showing regardless of whether the costs incurred were reasonable, necessary, or prudent.

EPE has complied with this provision. While the Texas business solar power program has not commenced, so there are no costs to be included, EPE has separately identified in its jurisdictional cost-of-service study the costs associated with EPE's Community Solar facility, as addressed by EPE witness Adrian Hernandez. I note that while another ordering paragraph, paragraph 5, of that order also places obligations on EPE in future rate cases with regard to showing that costs "...have not been shifted to nonparticipating customers," that paragraph only applies "...following the start of El Paso Electric's voluntary Texas business solar power program..."

Q46. PLEASE PROVIDE A BRIEF SUMMARY OF DOCKET NO. 54142.

A. Docket No. 54142 was EPE's 2022 application to reconcile its Texas jurisdictional fuel and fuel-related expenses and purchased power costs with its fuel revenues for the Reconciliation Period of April 2019 through March 2022, filed on September 23, 2022, and resolved by settlement for all but one issue with a final order issued by the Commission on April 11, 2024.

Q47. HOW DOES THE FUEL RECONCILIATION APPLICATION IN DOCKET NO. 54142 AFFECT EPE'S REQUEST IN THIS CASE?

A. The fuel reconciliation is generally a backward-looking application where historical fuel costs are reconciled with actual fuel revenues. However, the order in the fuel reconciliation includes two provisions that affect EPE's filing in this case. The first is the approval by the Commission of EPE's most recent system loss study, which provides loss adjustment factors and different service voltages. Under the Order in Docket No. 54142, the loss study is effective April 1, 2022, but EPE must either present that loss study for approval in this proceeding or present for approval a new loss study. The system loss study approved in Docket No. 54142 is included with Schedule O-6.3 in this case, and pursuant to the settlement and order in Docket No. 54142, EPE requests it be approved once again. The second provision from the last fuel reconciliation was the deferral of

EPE's rate case expenses associated with the fuel reconciliation proceeding for recovery in EPE's next base rate case, which is this proceeding. I address recovery of those costs later in my testimony.

Q48. ARE THE LOSS FACTORS PRODUCED IN THE APPROVED SYSTEM LOSS STUDY REFLECTED IN EPE'S CURRENT RATE CASE APPLICATION?

A. Yes, EPE witness Soto incorporates the results of this most current loss study in developing energy and demand statistics used in the calculation of jurisdictional and class allocation factors.

VI. Time Varying Rate Pilot Program

Q49. WHAT IS THE TVRPP?

A. With the deployment of advanced meters, EPE believed it was important to make a significant effort to design rates that would take full advantage of the capabilities of those meters with rates that could affect consumption patterns and reduce customer costs by lessening the utility's need to secure additional capacity. Every utility is unique due to their different geographies, economic conditions, weather patterns, customer demographic, etc., so it is important to understand how EPE's customers will behave in response to different Time Varying Rates (TVRs). Through an EPE-specific pilot, EPE will track its specific customers' response to price signals and their reduced peak hours usage or shift of their usage to off-peak hours. In order to achieve this purpose, the proposed pilot is designed based on scientific experimental design principles to ensure that the impacts estimated in the pilot can solely be attributed to the rates tested in the pilot in a statistically reliable way.

The primary purpose of the TVRPP is to evaluate how EPE's customers respond to price signals and the extent to which they reduce peak hours usage or shift their usage to off-peak hours due to these price signals. The data gathered through the pilot will be key data used by EPE to create a successful company-wide rate design in the future that both helps EPE's customers to have the opportunity to realize bill savings and allows EPE to defer or avoid generation, transmission and distribution capacity investments, saving ratepayer funds and leading to lower electric rates in the future than would otherwise be

needed.

Objectives of a future company-wide Time Varying Rate option will be: (1) to fully realize the benefits of Advanced Meter System, and support increased rate options to customers, (2) to mitigate peak demand growth and increase system load factor, and (3) to maximize efficiency and improve utilization of EPE's energy portfolio.

EPE's application for approval of the pilot program is pending at the Commission in Docket No. 56658.

Q50. DID EPE INCUR COSTS DURING THE TEST-YEAR FOR THE TVRPP?

A. Yes. The costs that EPE incurred during the test-year were $178,118, for The Brattle Group. EPE contracted Brattle in 2023 to design pilot rate options for a time-varying rate pilot.

Q51. WERE THE COSTS INCURRED DURING THE TEST-YEAR REASONABLE?

A. Yes. The Brattle Group is a well-respected organization in the electric utility arena. The Brattle Group team that is assisting with this effort has helped guide numerous utilities, like Puget Sound Energy, Long Island Power Authority, and Nova Scotia Power, through similar processes spanning several jurisdictions. EPE expects its customers to benefit from Brattle's experience, best practices and lessons learned gained from past similar projects to this one to facilitate a successful process and outcome. The Brattle Group advised on, assessed, and screened many variants of TVRs for possible inclusion in the pilot. Brattle also assisted EPE with the design of TVRs to be tested in the pilot; developing a bill impact analysis to inform how the TVRs to be tested may affect customer bills; and advising EPE on best practices for planning and deployment of the pilot.

Q52. WILL EPE CONTINUE TO INCUR COSTS FOR THE TVRPP?

A. Yes. It is expected that EPE will continue to incur costs relatively consistent with test-year costs for several years. While the Brattle study is completed, the pilot is expected to last for at least two additional years, beginning with promoting the program

in order to recruit participants, and then the operation of the program. EPE has contracted with the Hahn Agency for these subsequent parts of the pilot program.

VII. Compliance with Commission Requirements and PURA's Rate Setting Provisions in §§ 36.051 Through 36.064

Q53. HAS EPE PROVIDED ALL THE SCHEDULES AND WORKPAPERS TO COMPLY WITH THE COMMISSION'S REQUIREMENTS FOR BASE-RATE PROCEEDINGS?

A. Yes, EPE has made its filing consistent with the Commission's Electric Utility Rate Filing Package for Generating Utilities and the requirements of 16 TAC § 22.243. EPE has also pre-filed its supporting direct testimony, consistent with 16 TAC § 22.225(a)(6).

Q54. SUBCHAPTER B OF PURA CHAPTER 36 HAS NUMEROUS PROVISIONS ON THE COMPUTATION OF RATES. DOES EPE'S REQUEST SATISFY THOSE PROVISIONS?

A. Yes. EPE has adhered to the rate setting standards set out in Chapter 36 of PURA and the corresponding provisions in the Commission's "Cost of Service" rule, 16 TAC § 25.231, which requires that rates be set based on historical Test Year costs, adjusted for known and measurable changes. Rates established consistent with EPE's request should allow EPE the opportunity to recover a reasonable return on its used and useful invested capital, in excess of its reasonable and necessary operating expenses, consistent with the requirements of PURA § 36.051. Various EPE witnesses address the requirements of PURA and the Commission's substantive rules as those requirements apply to the costs they sponsor. Next, I address those provisions in the sequence in which they appear in PURA.

A. Just and Reasonable Rates (PURA § 36.003)

Q55. ARE THE RATES PROPOSED BY EPE FOR APPROVAL BY THE COMMISSION: (1) JUST AND REASONABLE; (2) NOT UNREASONABLY PREFERENTIAL, PREJUDICIAL, OR DISCRIMINATORY; AND (3) SUFFICIENT, EQUITABLE, AND CONSISTENT IN APPLICATION TO EACH CLASS OF CONSUMER?

A. Yes. EPE's proposed rates are designed based on standard rate design principles and accurately reflect the cost to provide service to EPE's customers. By utilizing rate class definitions that group customers in a reasonable and supportable manner, EPE's cost allocation fairly distributes costs based on causation. Rate differences between rate classes (interclass) and within classes (intraclass) also fairly reflect cost of service differences. Applying generally accepted and sound design principles equally across all customer groups ensures rates that are not unreasonably preferential or discriminatory. EPE's proposed rates are not extreme or excessive based on the services provided or in comparison with other investor-owned utilities in Texas.

In his text, *The Principles of Public Utility Rates*, James Bonbright identifies attributes of a sound rate structure related to cost and revenues, the most important of which are grouped into three primary criteria: Capital Attraction, Consumer Rationing, and Fairness to Ratepayers. I summarize Mr. Bonbright's descriptions here as guidelines for EPE's rates discussed later in my testimony and by EPE witness Carrasco.

1. The capital attraction criterion encompasses the revenue requirement objective, where sound rates are those that are effective in "yielding total revenue requirements under the fair return standard" while avoiding socially undesirable levels of rate base, product quality, and safety.
2. The consumer rationing objective emphasizes rates and structures designed to "discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships between the private and social costs incurred and benefits received."
3. Fairness to ratepayers encompasses the principle "that the burden of meeting total revenue requirements must be distributed fairly and without arbitrariness, capriciousness, and inequities" in order to avoid "undue discrimination." These attributes are characterized by rates which are subsidy-free and with "equals treated equally" and "unequals treated unequally."

EPE follows the principles described here, to the extent reasonably possible, to ensure that proposed rates are just and reasonable, not unreasonably preferential or discriminatory, and sufficient, equitable, and consistent.

B. Overall Revenues (PURA § 36.051)

Q56. WILL THE APPROVAL OF EPE'S RATE REQUEST PERMIT EPE A REASONABLE OPPORTUNITY TO EARN A REASONABLE RETURN ON ITS INVESTED CAPITAL IN EXCESS OF ITS REASONABLE AND NECESSARY OPERATING EXPENSES?

A. Yes, it will. EPE's request, based on the Test Year as adjusted for known and measurable changes, includes only reasonable and necessary operating expenses plus a reasonable return on invested capital, as explained by EPE witness Nelson. As discussed in detail by EPE witness Richard Gonzalez, if the Company's request is approved, the resulting rates will allow the Company a reasonable opportunity to earn a reasonable return on its invested capital in excess of its reasonable and necessary operating expenses.

C. Reasonable Return (PURA § 36.052)

Q57. IN DEVELOPING THE COMPANY'S RECOMMENDED RETURN, DID EPE CONSIDER THE FACTORS IN PURA § 36.052?

A. Yes, it did. EPE witness Richard Gonzalez sponsors the Company's overall cost of capital and capital structure, while EPE witness Nelson discusses and supports EPE's requested return on common equity. In addition, various EPE witnesses discuss the factors listed in this section, such as the efficiency of the utility's operations. The four factors in PURA are:

1. the efforts and achievements of the utility in conserving resources;
2. the quality of the utility's services, which is discussed by EPE witness Chagnon and Aboytes;
3. the efficiency of the utility's operations, which is discussed by EPE witnesses Rodriguez, Martinez, Chagnon and Aboytes; and
4. the quality of the utility's management as I discussed earlier in my testimony.

Q58. WHAT HAVE BEEN EPE'S "EFFORTS AND ACHIEVEMENTS IN CONSERVING RESOURCES?"

A. As a utility, EPE has acted responsibly when it comes to conserving resources. There are two areas in particular where this is evident. First, EPE has invested in newer generation

technology with the addition of highly efficient natural gas fired generating units over the last decade, which has modernized EPE's generating fleet and lowered its average heat rate. As described in the Direct Testimony of EPE witness Rodriguez, EPE continues to make efforts to improve the overall efficiency of its generating fleet and maintained consistent and reasonable levels of efficiency during the Test Year. From an environmental perspective, EPE has over 150 MW of renewable solar powered generation in its portfolio of generation resources either through contract or ownership, and EPE no longer relies on coal-fired generation as a resource. Second, not only has the Company successfully administered energy efficiency programs in compliance with PURA § 39.905, EPE has also consistently earned bonuses for its performance.

EPE has invested in newer generation technology with the addition of highly efficient natural gas fired generating units over the last decade, which has modernized EPE's generating fleet and lowered its average heat rate. As described in the Direct Testimony of EPE witness Rodriguez, EPE continues to make efforts to improve the overall efficiency of its generating fleet and has maintained consistent and reasonable levels of efficiency during the Test Year. From an environmental perspective, EPE has over 150 MW of renewable solar powered generation in its portfolio of generation resources either through contract or ownership, and EPE no longer relies on coal-fired generation as a resource.

EPE's recent resource portfolio additions include Newman Unit 6 and the Buena Vista facility. Newman Unit 6, which is a 231 MW gas-fired combustion turbine located on the Newman Power Station, began providing service to EPE customers on December 27, 2023. In addition, EPE added the Buena Vista 1 PPA, which is a solar and battery storage facility that became operational on July 11, 2023. EPE purchases energy from the 100 MW solar photovoltaic generating facility, which also includes a 50 MW battery energy storage system ("BESS") component that provides EPE with capacity. Buena Vista 1 PPA is a system resource that has provided energy to serve the needs of both EPE's Texas customers and its New Mexico customers.

EPE anticipates the addition of two Company-owned renewable resources to its generation portfolio: the Texas Solar One facility and the Newman Buffer Project. The Texas Solar One facility is a 150 MW solar energy system facility located in Fabens,

Texas. Of the 150 MW, 100 MWs will be a system resource, and 50 MW will be used for the Texas Business Solar program. The Texas Solar One facility is anticipated to become commercially operational in August 2025. EPE received regulatory approval of this facility through a CCN in April 2024. The Newman Buffer Project is a 100 MW solar PV generating facility coupled with 100 MW BESS located adjacent to the existing Newman Power Plant. EPE filed for regulatory approval of this resource through a CCN in December 2024. If approved, this Texas-dedicated resource is expected to become commercially operational in February 2027.

Q59. ARE THE COMPANY'S COMPONENTS OF INVESTED CAPITAL BASED ON THE ORIGINAL COST LESS DEPRECIATION OF PROPERTY USED BY AND USEFUL TO EPE IN PROVIDING SERVICE?

A. Yes. However, the rate base value for EPE's investment in Palo Verde has been written down to reflect its fresh start value resulting from EPE's emergence from bankruptcy in February 1996, as approved in Docket No. 37690 and as discussed by EPE witness Prieto.

D. Construction Work in Progress (PURA § 36.054)

Q60. HAS EPE INCLUDED ANY CONSTRUCTION WORK IN PROGRESS ("CWIP") IN ITS RATE BASE?

A. No, EPE is not requesting inclusion of CWIP in rate base in this application.

E. Separations and Allocations (PURA § 36.055)

Q61. HAVE THE COSTS OF FACILITIES, REVENUES, EXPENSES, TAXES, AND RESERVES BEEN SEPARATED AND ALLOCATED IN CONFORMANCE WITH COMMISSION RULES AND POLICIES?

A. Yes, these costs have been properly separated and allocated into the appropriate accounts and functions as well as among classes and jurisdictions. EPE witness Hernandez addresses the basis for the allocation of costs among EPE jurisdictions and rate classes in his testimony.

F. Depreciation, Amortization and Depletion (PURA § 36.056)

Q62. HAS EPE PROPOSED PROPER AND ADEQUATE RATES AND METHODS FOR DEPRECIATION, AMORTIZATION, AND DEPLETION FOR EACH CLASS OF ITS PROPERTY?

A. Yes. EPE witness John Spanos presents an updated depreciation study in support of EPE's requested depreciation rates. EPE's proposed depreciation expense is presented by EPE witness Prieto.

G. Net Income (PURA § 36.057)

Q63. DID EPE PROPERLY CALCULATE REVENUES AND EXPENSES IN DERIVING ITS NET INCOME?

A. Yes, it did. EPE witness Hernandez describes in detail the determination of adjusted Test Year revenue, including adjustments for weather normalization and energy efficiency savings. EPE witness Sierra details in his testimony EPE's adjustments to Test Year expenses and identifies other EPE witnesses who support the proposed adjustments.

H. Transactions with Affiliates (PURA § 36.058)

Q64. IS EPE INCLUDING IN ITS COST OF SERVICE ANY PAYMENTS TO AFFILIATES?

A. No, there are no affiliate costs in EPE's cost of service. During the Test Year, EPE did not incur any affiliate costs, and no affiliate costs are included in the adjustments to the Test Year. EPE had a pre-existing banking relationship with JP Morgan, which is ongoing. While JP Morgan is not technically an affiliate, pursuant to the Order in Docket No. 49849 EPE was nonetheless required to maintain an arm's-length relationship with JP Morgan. (FOF 70(b), Docket No. 49849).

I. Income Taxes (PURA §§ 36.059 and 36.060)

Q65. HAS EPE COMPUTED ITS FEDERAL INCOME TAXES IN ACCORDANCE WITH PURA §§ 36.059 (TREATMENT OF CERTAIN TAX BENEFITS SUCH AS LIBERALIZED DEPRECIATION) AND 36.060 (CONSOLIDATED INCOME TAX RETURNS)?

A. Yes, it has. EPE witness Tamera Henderson discusses the method and manner by which EPE's federal income taxes have been calculated. That testimony demonstrates the Company's compliance with the provisions of PURA §§ 36.059 and 36.060.

J.Legislative Advocacy Expenses (PURA §§ 36.061 and 36.062)

Q66. PURA §§ 36.061 AND 36.062 PROVIDE THAT LEGISLATIVE ADVOCACY EXPENSES ARE NOT TO BE INCLUDED IN COST OF SERVICE FOR RATEMAKING PURPOSES. DOES EPE'S PROPOSED COST OF SERVICE COMPLY WITH THESE PROVISIONS?

A. Yes, it does, as EPE witness Prieto explains. All expenditures on EPE's books made for the purpose of advocating a position to the public with respect to referenda, legislation, or ordinances, or for the purpose of advocating its position on such items before public officials, are excluded from cost of service. The excluded expenses include the costs of lobbyists, as well as the portion of the dues to Edison Electric Institute ("EEI") that are used for legislative advocacy purposes. The Company has also excluded dues to the Association of Electric Companies of Texas associated with lobbying activities as these amounts were charged below the line.

EPE excludes the portion of EEI expenditures classified as lobbying expenses by recording the annual percentage of lobbying expenses provided by EEI below the line. EPE records these expenses in non-operating expense accounts in accordance with the FERC Uniform System of Accounts.

K. Charitable or Civic Contributions (PURA § 36.061)

Q67. HAS EPE INCLUDED ANY CHARITABLE OR CIVIC CONTRIBUTIONS AND DONATIONS IN ITS PROPOSED COST OF SERVICE AS PERMITTED BY PURA§ 36.061?

A. Yes, it has, as permitted by PURA § 36.061. EPE witness Prieto discusses contributions and donations included in this filing, together with the pro forma adjustment to contributions, donations and advertising to limit these expenses to 0.3 of 1% of operating revenues.

L. Rate Case Expenses (PURA § 36.061)

Q68. IS EPE REQUESTING RECOVERY OF RATE CASE EXPENSES IN THIS FILING AS PERMITTED BY PURA § 36.061?

A. Yes, EPE seeks recovery in this docket of the reasonable rate case expenses that it and any intervening cities incur in this case. EPE is requesting recovery of its actual rate case expenses, amortized over two years, through a surcharge mechanism established in a compliance filing after this proceeding when the full costs are known. EPE is also seeking recovery of rate case expenses from several other rate-making proceedings to be included in the surcharge, as shown on Schedule G-14. The most notable of these previous proceedings are:

- Docket No. 52195, EPE's last base rate proceeding, which were incurred after March 31, 2022;[3]
- Docket No. 54142, EPE's last fuel reconciliation;[4]
- Docket No. 56425, EPE's 2024 DCRF proceeding;[5] And
- Docket No. 54659, EPE's 2023 GCRR proceeding.[6]

Q69. HAVE YOU PROVIDED AN EXHIBIT THAT SUMMARIZES THE RATE CASE EXPENSES FOR WHICH EPE IS REQUESTING RECOVERY IN THIS PROCEEDING?

A. Yes. My Exhibit GN-4 is a summary schedule of total rate case expenses by vendor within each discipline (legal, engineering, accounting, etc.) with subtotals for each month: estimated expenses, expenses incurred and paid to date, remaining estimated expenditures, and specific areas of work by vendor.

Q70. DO THE RATE CASE EXPENSES THAT EPE IS REQUESTING FOR RECOVERY THROUGH A RIDER INCLUDE ANY INTERNAL COSTS?

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[3] *See*, Docket No. 52195 at Findings of Fact No. 93 and Ordering Paragraph 5.

[4] See, Docket No. 54142, Finding of Facts No. 19 AQ to 19AS and Ordering Paragraphs 10 and 11.

[5] *Application of El Paso Electric Company to Amend its Distribution Cost Recovery Factor*, June 13, 2024, Ordering Paragraphs 4-6.

[6] *Application of El Paso Electric Company for Approval of a Generation Cost Recovery Rider Related to Newman Unit 6,* Nov. 30, 2023, Findings of Fact 53.

A. Yes. Internal costs are limited to meals and travel. Most rate case expenses that EPE is requesting are for external costs, such as for its outside counsel or for professional services.

Q71. HAVE YOU PROVIDED COPIES OF THE INVOICES FOR THE REQUESTED RATE CASE EXPENSES?

A. Yes. My Exhibit GN-5 includes copies of all invoices EPE has received for outside services used in preparation of this filing through November 30, 2024. EPE plans to file updates of this exhibit as this case progresses. My Exhibit GN-6 include copies of invoices EPE received for services related to the other rate-making proceedings for which EPE is requesting recovery, as shown on Schedule G-14.

Q72. ARE THESE RATE CASE EXPENSES REASONABLE AND NECESSARY?

A. Yes. All of these expenses were necessary for support of EPE's applications in these different proceedings. The invoices provide detailed information on the time spent on each of the tasks. In addition, my Exhibit GN-7 includes affidavits from each of the providers attesting to the reasonableness of the charges included in the billings.

M. Costs of Accidents/Equipment Failure/Negligence at Facilities Not Selling Power in the State of Texas (PURA § 36.062)

Q73. HAS EPE INCLUDED IN ITS COST OF SERVICE ANY PAYMENTS MADE TO COVER COSTS OF AN ACCIDENT, EQUIPMENT FAILURE, OR NEGLIGENCE AT A UTILITY FACILITY OWNED BY A PERSON OR GOVERNMENTAL BODY NOT SELLING POWER INSIDE THE STATE OF TEXAS, OTHER THAN A PAYMENT MADE UNDER INSURANCE OR RISK-SHARING ARRANGEMENTS EXECUTED BEFORE THE DATE OF LOSS?

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

N. Costs of Processing Refunds or Credits (PURA § 36.062(3))

Q74. HAS EPE INCLUDED IN ITS COST OF SERVICE ANY COST OF PROCESSING A REFUND OR CREDIT ASSOCIATED WITH BONDED RATES?

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

O. Profit or Loss from the Sale or Lease of Merchandise (PURA § 36.063)

Q75. DOES EPE'S COST OF SERVICE INCLUDE ANY PROFIT OR LOSS FROM THE SALE OR LEASE OF MERCHANDISE THAT IS NOT INTEGRAL TO PROVIDING UTILITY SERVICE?

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

P. Self-Insurance (PURA § 36.064)

Q76. DOES EPE SELF INSURE ANY PART OF ITS EXPOSURE TO POTENTIAL CATASTROPHIC PROPERTY LOSS THROUGH A RESERVE ACCOUNT FOR SELF-INSURANCE?

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

Q. Pensions and Other Post-employment Benefits (PURA § 36.065)

Q77. HAS THE COMPANY CALCULATED ITS PENSION AND OTHER POST-EMPLOYMENT BENEFITS EXPENSES IN ACCORDANCE WITH PURA § 36.065?

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

VIII. Proposed New Rate Offerings

Q78. WHAT NEW RATE OFFERINGS IS EPE PROPOSING IN THIS PROCEEDING?

A. As I noted previously, EPE is proposing several rate structure changes or new program offerings in this filing.

Q79. PLEASE DESCRIBE THE PEAK TIME REBATE PILOT PROGRAM.

A. This peak time rebate pilot program will serve to test an incentive-based approach at shifting load from on-peak to off-peak. A customer that participates will be given notice of an "event" day(s) and be given a credit if they participate in load shedding. The credit will vary based on the magnitude of the load the customer drops. This offering will complement EPE's time varying rate program that will start towards the end of 2025 and does not include a peak time rebate option. Please see the testimony of EPE witness Carrasco for more information regarding this proposed pilot.

Q80. PLEASE DESCRIBE THE GREEN TARIFF.

A. EPE is also proposing for approval its Green Energy Plus tariff, which is a tariff already approved by the City of El Paso that allows an existing customer to enter an agreement for provision of service for part or all of their requirements from renewable facilities.

Q81. PLEASE DESCRIBE THE CHANGES EPE IS REQUESTING TO MAKE TO THE RETIRING PLANT RIDER FACTOR.

A. The Retiring Plant Rider was a rider that was created in the settlement of EPE's last base rate proceeding, Docket No. 52195. At that time, there were several of EPE's older plants that EPE was planning to retire in the near future, Newman Units 1 and 2, and Rio Grande 7. In the settlement of that case, the costs for these plants were considered to have been removed from base-rates and placed into a rider that would be adjusted accordingly as each unit in the rider was retired. EPE continues to use the generation facilities currently in the existing retirement plant rider to serve customer load. EPE is requesting to add the Rio Grande Unit 6 facility's operation and maintenance expenses to the rider as well since it continues to operate and serve load but is not in base rates. EPE witness Rodriguez describes the facility in more detail and the need for its use over the coming years.

Q82. PLEASE DESCRIBE THE CHANGES EPE IS REQUESTING TO MAKE TO TARIFFED PROVISIONS ASSOCIATED WITH DG.

A. As described in the testimony of EPE witness Carrasco, EPE is proposing to remove the DG applicable "minimum bill" and replace it with a demand charge in the provisions of the Residential and Small General Service tariffs. We believe the removal of the fixed minimum fee will allow EPE to better align this rate option with cost causation principles that more precisely charge customers.

Q83. PLEASE DESCRIBE THE CHANGES EPE IS REQUESTING TO MAKE TO ITS LINE EXTENSION POLICY.

A. As described in the testimony of EPE witness Chagnon, EPE, like many other utilities around the country, has, in the past year, experienced a significant increase in the number of service requests from or related to large loads (i.e., loads approaching or exceeding one megawatt and in some instances exceeding 10 megawatts) from new and existing customers. The Company must ensure that it has the distribution and transmission capacity to serve these new customer requests along with the Company's existing and projected customer load. EPE witness Chagnon identifies four scenarios that the Company has been experiencing in this context and describes the Company's proposed solution to address each scenario. Three of the four scenarios will involve a proposed change to the company's line extension policy and the other scenario involves a revision to the Rate Schedules 24 and 25.

IX. Distribution of Proposed Revenue Requirement

Q84. PLEASE DISCUSS THE BACKGROUND FOR THIS SECTION OF YOUR TESTIMONY.

A. The bulk of EPE's application consists of the development of a total Company revenue requirement for the adjusted Test Year, and a related revenue requirement for EPE's Texas jurisdiction. EPE witness Hernandez describes the modeling and development of the Texas jurisdictional revenue requirement, based on total Company Test Year rate base and expenses adjusted for known and measurable changes. Comparison of this jurisdictional cost of service with annualized and adjusted Texas revenues provided by

EPE witness Rene Gonzalez in his testimony demonstrates the revenue requirement deficiency that is the basis for EPE's request in this rate case. EPE witness Hernandez then allocates this jurisdictional revenue requirement (after accounting for revenues produced by miscellaneous charges) to EPE's retail rate classes on a cost-of-service basis. This distribution of the requested revenue requirement provides full recovery of the system average rate of return ("ROR") equalized from each rate class.

Q85. CAN YOU DISCUSS THE COST-BASED DISTRIBUTION OF THE PROPOSED REVENUE REQUIREMENT BETWEEN RATE CLASSES?

A. Yes. Based on EPE's cost-based distribution of the requested revenue requirement, rate classes would experience increases and decreases in moving to full cost of service, relative to revenues produced under current rates. Rate class base (non-fuel) revenues and revenue deficiencies are developed by EPE witness Hernandez and included in Schedule P-1.04. The class average base revenue and total revenue impacts produced by EPE's full cost of service revenue distribution are summarized by witness Hernandez.

Based on the class cost of service analysis, thirteen of EPE's 17 rate groups would see base revenue increases and four groups would see rate reductions in moving fully to cost of service. The cost-based revenue requirement for each class is calculated to move all rate classes to full cost recovery, completing the gradual movement pursued by EPE in past cases and eliminating all inter-class subsidies. Under that revenue distribution, all rate groups would pay the full cost to EPE of providing service and contribute an equal rate of return component. EPE's cost-based allocation in this regard is consistent with Bonbright's "fairness to ratepayers" criterion of a sound rate structure I discussed above when describing just and reasonable rates. "Subsidy free" describes rates designed to recover no more or less than the cost of service from each rate group.

Q86. HAS EPE MODERATED THE MOVEMENT OF RATE CLASSES TOWARD UNITY IN ITS PREVIOUS RATE CASES?

A. Yes. In Docket No. 37690, EPE proposed to move classes towards cost, but limited the maximum increase for any rate class to twice the system average increase. The primary reason for this limitation was that it had been 15 years since EPE's previous rate case, and

the Company desired to move rate classes toward the system average ROR on a gradual basis. However, in that rate filing, EPE did assign the Governmental Street Lighting and Signal Service and the Municipal Pumping Service rate classes the maximum percentage increase, 27.29% and assigned the composite City and County Service rate class a larger-than-average percentage increase, 17.47%.

In Docket No. 40094[7], EPE proposed to continue the process of gradual movement towards cost-based rates. Rate changes by rate classes were proposed such that any class that required a base rate increase to achieve the proposed system average ROR was assigned an increase; and any rate class that required a base rate decrease to achieve proposed system average ROR was assigned a decrease. For most firm-service rate classes, in consideration of rate impacts, the increases or decreases were limited to eight percent. However, the increases and decreases assigned to the governmental rate classes and to the Water Heating Service class were not limited to eight percent but were instead proposed to move much closer to system average ROR.

EPE proposed gradual increases for several classes in Docket No. 44941,[8] notably the Residential Service rate class and lighting service rate classes, as well as the elimination of the City and County Service rate group. EPE proposed maximum base rate increases of two-times the system average increase in that case for several rate groups. That case was ultimately resolved by settlement, which adopted a modified revenue distribution with increases for those classes with most rates below cost of service. The settlement also retained the City and County Service rate group. The net result of gradual increases over time at a rate exceeding the system average increase has been to move rate groups continuously toward full cost.

In Docket No. 46831, filed in February 2017, EPE proposed moving classes closer to cost of service; however, given the magnitude of the requested increase, EPE proposed to moderate the increase for the Recreational Lighting Service and Residential classes. That case was ultimately resolved by settlement, which adopted a modified revenue distribution with increases for those classes.

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

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

In EPE's last proceeding, Docket No. 52195, EPE proposed to modify the cost-based revenue requirements for the Residential, Water Heating, Small General Service, General Service, and City/County rate groups. EPE initially capped the allocated revenue requirement increase to the Residential and Water Heating classes at 1.5 times the system average increase of 7.79% and limited the revenue requirement reductions for the other three classes at 50% of the cost-based reduction. The resulting revenue deficiency is then redistributed to all rate groups, including the moderated groups. That case was also ultimately resolved by settlement, which adopted a modified revenue distribution with increases for those classes.

Q87. WHY WAS IT APPROPRIATE TO MODERATE THE DISTRIBUTION OF REVENUES TO SOME CLASSES IN THE PAST RATHER THAN MOVING ALL CLASSES TO EQUALIZED RATES OF RETURN?

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

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

Q88. IS EPE PROPOSING TO CONTINUE TO MODERATE THE DISTRIBUTION OF REVENUES TO CLASSES IN THIS CASE, RELATIVE TO COST-BASED RATES?

A. No. EPE is proposing to not moderate the distribution of revenue in this rate case. It has become clear based on the long history of moderation steps from past rate cases described above, that proposed revenue allocation by rate class at full cost is needed. By designing rates that do not reflect the full costs of serving each rate class, particularly those classes that exhibit high consumption in the summer month, the incentive to reduce consumption was muffled since pricing signals were lacking the full cost component. This in turn may have contributed toward the declining system load factor that EPE continues to experience. The cost-based revenue requirement for each class is calculated to move all rate classes to full cost recovery, completing the gradual movement pursued by EPE in past cases and eliminating all inter-class subsidies. In this rate case, EPE is requesting that each rate class contribute 100% toward the cost of serving it. However, even at a full cost-based revenue requirement, only 1 class is over twice the system average increase of 13.727%. EPE witness Carrasco presents the proposed revenue allocation by rate class at full cost, which serve as the basis for EPE's proposed rate design, in his direct testimony.

X. Conclusion

Q89. PLEASE SUMMARIZE EPE'S REQUEST IN THIS CASE.

A. EPE requests that the Commission grant the relief I summarize in Section IV of my testimony. EPE's filed case supports an increase to EPE's Texas jurisdictional base rate revenue requirement of $85.666 million to be recovered through proposed changes to base rates and miscellaneous service charges. Revised rates designed to recover EPE's authorized Texas base revenue would reflect the inclusion in rate base of EPE's prudent and necessary capital additions made since the Test Year in the 2021 base rate case, and EPE's operating expenses that are reasonable and necessary to serve Texas customers. EPE is also requesting that the Commission approve baseline revenue requirements for transmission, distribution, and generation in order to enable future TCRF, DCRF, GCRR and PCRF applications should they be warranted.

EPE requests that the Commission approve EPE's proposed tariffs and rates, as reflected in Schedule Q-8.8, as just and reasonable, not unreasonably preferential or discriminatory, and sufficient, equitable, and consistent. The Company requests these rates to be effective within 35 days of the date of EPE's statement of intent filing in this

case, unless suspended by the Commission or local regulatory authority, subject to notice and appropriate hearing, for a period not longer than permitted under Texas law. If rates are suspended for a period beyond 155 days after the date that EPE's rate-filing package was filed in this proceeding, EPE requests that its authorized revenue requirement be made effective for consumption on or after the 155th day from filing.

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

Q90. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

SCHEDULES SPONSORED BY G. NOVELA

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

Requirement	Compliance
Use of approved Weighted Average Cost of Capital (WACC), Cost of Debt, ROE, and capital structure will apply in all Commission proceedings or Commission filings requiring application of EPE's weighted average cost of capital. Final Order (FOF 91-93, Ordering Paragraph 5)	EPE has reflected this in its AFUDC rate calculation and its DCRF and GCRR applications.
File supporting evidence in its next base-rate proceeding regarding the retirement dates chosen for the three retiring units	Testimony of D Rodriguez, p. 5-6.
El Paso Electric must begin the collaboration with interested stakeholders as described in paragraph 9 of attachment A to the Commission's order in Docket No. 46831 within 90 days of this Order	EPE complied by holding four meetings, the first occurring within 90 days.
The rate-case expenses associated with Docket No. 52195 incurred after March 31, 2022, were established as a regulatory asset, and EPE must seek review of the expenses in its next rate proceeding.	EPE complied by deferring such cost and seeking approval in this proceeding.
Use of approved depreciation rates.	EPE complied with this requirement. See Schedule D-1.

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

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

ORDER

This Order addresses the application of El Paso Electric Company for authority to change rates. The parties filed an unopposed agreement between themselves. The Commission approves the tariffs attached to the agreement as exhibit 7, including the rates in those tariffs, to the extent provided in this Order.

I. Findings of Fact

The Commission makes the following findings of fact.

Applicant

1. El Paso Electric is a Texas corporation registered with the Texas secretary of state under filing number 1073400.

2. El Paso Electric owns and operates for compensation in Texas facilities and equipment to produce, generate, transmit, distribute, and sell electricity within its certificated service area.

3. El Paso Electric is required under CCN number 30050 to provide service to the public and retail electric utility service within its certificated service area.

Application

4. On June 1, 2021, El Paso Electric filed an application requesting authority to change its Texas retail rates based on a historical test year of January 1, 2020 through December 31, 2020, adjusted for known and measurable changes.

5. El Paso Electric originally requested a base-rate, non-fuel revenue requirement of $573.8 million for its Texas retail jurisdiction, which represents an increase of $69.7 million.

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6. The requested net increase to base revenues is $41.8 million after accounting for $27.9 million in revenues that El Paso Electric is already recovering through its distribution cost recovery factor (DCRF) and its transmission cost recovery factor (TCRF) and excluding non-firm base revenue.

7. El Paso Electric requested that transmission and distribution investments previously approved for recovery through its DCRF and TCRF now be included in rate base, that the TCRF and DCRF be zeroed out, and that new baseline values be established for future TCRF, DCRF, and generation cost recovery rider (GCRR) filings.

8. El Paso Electric proposed an overall rate of return of 7.985% based on an equity ratio of 51%, a return on equity of 10.3%, and a cost of debt of 5.576%.

9. El Paso Electric requested to recover its rate-case expenses incurred in this docket over a four-year period to the extent those expenses could be finalized in this docket.

10. El Paso Electric requested inclusion in its rate base of all capital additions placed into service during the period of October 1, 2016 through December 31, 2020.

11. El Paso Electric requested approval of a set of proposed tariff schedules reflecting the increased rates.

12. El Paso Electric proposed to amend its existing tariff related to the federal tax refund factor to credit current excess deferred federal income taxes to customers and account for potential changes to the corporate tax rate before its next base-rate proceeding.

13. Based on a 2019 nuclear decommissioning study, El Paso Electric projected that no additional funding is necessary at this time for the Palo Verde nuclear station; therefore, El Paso Electric did not request to recover any costs for nuclear decommissioning in its application.

14. In SOAH Order No. 2 filed on June 29, 2021, the State Office of Administrative Hearings (SOAH) administrative law judges (ALJs) found the application sufficient.

15. In its rebuttal testimony filed on November 19, 2021, El Paso Electric moved COVID-19 expenses and rate-case expenses out of base revenues and into separate riders. El Paso Electric reduced its requested increase in Texas retail base-rate revenues to $35,693,538,

after accounting for zeroed out revenues it is already recovering through its DCRF and TCRF and excluding non-firm base revenue.

Effective Date of Proposed Rates

16. El Paso Electric proposed an effective date of July 6, 2021.

17. El Paso Electric requested that, if the new rates were suspended for a period beyond 155 days after El Paso Electric filed its application, then final rates would relate back and be made effective for consumption on and after the 155th day after the rate filing package was filed.

18. In SOAH Order No. 1 filed on June 11, 2021, the SOAH ALJ suspended the effective date of the proposed tariff changes for 150 days from El Paso Electric's originally proposed effective date (i.e., until December 3, 2021).

19. In SOAH Order No. 2 filed on June 29, 2021, the SOAH ALJs reset the effective date to May 31, 2022, as agreed to by the parties.

20. In SOAH Order No. 14 filed on March 18, 2022, the SOAH ALJs again reset the effective date, after suspension, to October 15, 2022, as agreed to by the parties.

21. The 155th day after the rate-filing package was filed is November 3, 2021.

Notice of the Application

22. Notice of El Paso Electric's application was published in English and Spanish once each week for four consecutive weeks in the *El Paso Times*, which is a newspaper having general circulation in El Paso, Hudspeth, and Culberson counties.

23. Notice of El Paso Electric's application was published in Spanish once each week for four consecutive weeks in *El Diario de El Paso*, which is a newspaper having general circulation in El Paso County.

24. El Paso Electric provided individual notice to its Texas retail customers by direct mailing, which was completed by August 25, 2021.

25. On June 1, 2021, El Paso Electric provided individual notice to each party in its last base-rate proceeding.[1]

26. On June 1, 2021, El Paso Electric hand-delivered the complete rate-filing package to Commission Staff and the Office of Public Utility Counsel (OPUC).

27. In an affidavit filed by El Paso Electric on September 23, 2021, Judith M. Parsons, senior regulatory case manager for El Paso Electric's regulatory services department, attested to the publication of notice of the application and to the provision of notice of the application to El Paso Electric's Texas retail customers, each party in El Paso Electric's last base-rate proceeding, Commission Staff, and OPUC.

28. In SOAH Order No. 2 filed on June 29, 2021, the SOAH ALJs found notice of the application sufficient.

Interventions

29. In SOAH Order No. 2 filed on June 29, 2021, the SOAH ALJs granted motions to intervene filed by OPUC; the City of El Paso; Texas Industrial Energy Consumers (TIEC); Freeport-McMoRan, Inc.; the Texas Cotton Ginners' Association; and the University of Texas at El Paso.

30. In SOAH Order No. 3 filed on August 4, 2021, the SOAH ALJs granted motions to intervene filed by Vinton Steel, LLC; Walmart Inc.; and W. Silver, Inc.

31. In SOAH Order No. 4 filed on August, 23, 2021, the SOAH ALJs granted motions to intervene filed by the United States Department of Defense and all other Federal Executive Agencies and the following entities collectively known as the Rate 41 Group: Ysleta Independent School District (ISD), El Paso ISD, Socorro ISD, Clint ISD, San Elizario ISD, Fabens ISD, Anthony ISD, Canutillo ISD, Tornillo ISD, El Paso County, the Housing Authority of the City of El Paso, El Paso County Housing Authority, the Region 19 Education Service Center, and the El Paso County Community College District.

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[1] *Application of El Paso Electric Company to Change Rates*, Docket No. 46831, Order (Dec. 18, 2017).

32. In SOAH Order No. 6 filed on October 14, 2021, the SOAH ALJ granted a motion to intervene filed by Local 960 of the International Brotherhood of Electrical Workers, AFL-CIO.

Municipal Proceedings and Appeals of Municipal Actions

33. On April 15, 2021, El Paso Electric emailed a notice of intent to change rates to all municipalities in its Texas service area that retain original jurisdiction over its rates and services.

34. On June 1, 2021, El Paso Electric emailed a copy of the application and statement of intent to change rates to each incorporated municipality in its Texas service area that retains original jurisdiction over its rates and services.

35. On June 1, 2021, El Paso Electric hand-delivered a copy of its complete rate-filing package to the El Paso city clerk and the El Paso city attorney and mailed a copy to the City of El Paso's outside counsel via FedEx overnight delivery.

36. In an affidavit filed by El Paso Electric on September 23, 2021, Ms. Parsons attested to the provision of notice of the application and statement of intent to all municipalities in El Paso Electric's Texas service area that retain original jurisdiction over the electric utility's rates and services.

37. On July 29, 2021, El Paso Electric appealed to the Commission the actions of the Village of Vinton.

38. On August 26, 2021, El Paso Electric appealed to the Commission the actions of the Town of Anthony.

39. On September 3, 2021, El Paso Electric appealed to the Commission the actions of the Town of Van Horn.

40. In SOAH Order No. 5 filed on September 13, 2021, the SOAH ALJs consolidated the appeals of the actions of the Village of Vinton, the Town of Anthony, and the Town of Van Horn.

41. On November 1, 2021, El Paso Electric appealed to the Commission the actions of the City of El Paso.

42. In SOAH Order No. 7 filed on November 10, 2021, the SOAH ALJs consolidated the appeal of the actions of the City of El Paso with the other appeals of municipal actions in this proceeding.

43. On December 10, 2021, El Paso Electric appealed to the Commission the actions of the following municipalities exercising original jurisdiction within their service territory: the Town of Horizon City, the Town of Clint, the City of San Elizario, and the City of Socorro.

44. In corrected SOAH Order No. 8 filed on December 17, 2021, the SOAH ALJs consolidated the appeals of the actions of the Town of Horizon City, the Town of Clint, the City of San Elizario, and the City of Socorro with the other appeals of municipal actions in this proceeding.

Referral to SOAH

45. On June 10, 2021, the Commission referred this proceeding to SOAH.

46. On June 28, 2021, the Commission filed a preliminary order.

47. The hearing on the merits convened on January 10, 11, 12, 13, 18, and 19, 2022. At the hearing, evidence was admitted, and testimony was taken.

48. In SOAH Order No. 10 filed on January 19, 2022, the SOAH ALJs abated the proceeding for discussions regarding an agreement between the parties.

49. The hearing on the merits reconvened on March 22, 2022.

50. In SOAH Order No. 15 filed on March 22, 2022, the SOAH ALJs abated the proceeding for discussions regarding an agreement between the parties.

51. On July 15, 2022, El Paso Electric and all the other parties filed an unopposed agreement between themselves.

52. The agreement states that all the signatories either agree to or do not oppose the terms of the agreement, and all of the parties to this proceeding are signatories.

53. The Rate 41 Group joined the agreement contingent on obtaining approval from each of its members. The Rate 41 Group reserved the right to withdraw from the agreement before a

final order was issued by the Commission if all necessary board approvals were not obtained.

54. On September 6, 2022, counsel for the Rate 41 Group made a filing with the Commission confirming that all necessary board approvals were obtained during the month of August 2022.

55. In SOAH Order No. 17 filed on July 21, 2022, the SOAH ALJ admitted evidence, dismissed the proceeding from SOAH's docket, and remanded the proceeding to the Commission.

Agreement – Base-Rate Revenues

56. The signatories agreed on a net base-rate revenue increase of $5.149 million in Texas base-rate and non-firm revenues, after accounting for zeroed out revenues that El Paso Electric is already recovering through its DCRF and TCRF, effective for electricity consumed on and after November 3, 2021.

57. The agreed base-rate revenue increase is reasonable.

Agreement – Invested Capital

58. The signatories agreed that in any future TCRF or base-rate proceeding, the original cost of $16.8 million for the Isleta transmission right-of-way will be reduced such that the net plant-in-service balance on a Texas retail basis as of December 31, 2022 will be $7.962 million.

59. The signatories agreed on a disallowance of $500,000 of the original cost on a total-company basis of the spare LMS 100 Turbine and spare LMS 100 Booster at the Montana Power Station.

60. The signatories agreed that, except for the disallowances described in this Order regarding the Isleta transmission right-of-way and the Montana Power Station, all of El Paso Electric's investment since September 30, 2016 through December 31, 2020, as presented in El Paso Electric's rate-filing package, is used and useful, was prudently incurred, and is properly included in rate base.

61. Except for the disallowances described in this Order regarding the Isleta transmission right-of-way and the Montana Power Station, all of El Paso Electric's investment since September 30, 2016 through December 31, 2020, as presented in El Paso Electric's rate-filing package, is used and useful, was prudently incurred, and is properly included in rate base.

Agreement - Depreciation

62. The signatories agreed for El Paso Electric to use the depreciation rates in attachment HG-3 of the direct testimony of Commission Staff witness Heidi Graham beginning with the effective date of November 3, 2021. Exhibit 1 to the agreement shows the agreed depreciation rates.

63. It is appropriate for El Paso Electric to use the agreed depreciation rates as set forth in exhibit 1 to the agreement.

Agreement – Return and Capital Structure

64. The signatories agreed on the following, effective November 3, 2021: a weighted average cost of capital of 7.501% based on a 5.576% cost of debt, an authorized return on equity of 9.35%, and a regulatory capital structure of 49% long-term debt and 51% equity.

65. Under the agreement, the agreed weighted average cost of capital, cost of debt, return on equity, and capital structure will apply when calculating El Paso Electric's allowance for funds used during construction and in proceedings where the weighted average cost of capital is required (e.g., TCRF, DCRF, and GCRR proceedings).

Agreement – Nuclear Decommissioning

66. The signatories agreed that no costs for nuclear decommissioning are included in El Paso Electric's cost of service.

Agreement – COVID-19 Costs

67. On March 6, 2020, the Commission filed in Project No. 50664 an order authorizing electric utilities to record as a regulatory asset expenses resulting from the effects of COVID-19, including but not limited to non-payment of qualified customer bills.[2]

68. The signatories agreed on a separate COVID-19 surcharge to recover $6,297,803 of deferred COVID-19 costs incurred through December 31, 2020 over a four-year period (i.e., $1,574,451 annually).

69. The signatories agreed that none of the costs included in the COVID-19 surcharge are included in the rate base or base-rate revenue requirement approved in this Order.

70. None of the costs included in the COVID-19 surcharge are included in the rate base or base-rate revenue requirement approved in this Order.

71. El Paso Electric agreed not to include any carrying costs, including but not limited to rate of return, on the unamortized amount of the regulatory asset recovered through the COVID-19 surcharge.

72. The signatories agreed for the COVID-19 rider and the four-year amortization not to relate back and instead to begin in the first billing cycle after the date of this Order.

73. El Paso Electric agreed to file for approval of a true-up of the previous year by March 31 of each year to account for any changes in the bad-debt amount and additional expenses related to COVID-19 that were incurred after the test year and were deferred under the Commission's order filed in Project No. 50664 on March 26, 2020.

74. It is appropriate for El Paso Electric to recover its regulatory asset of expenses resulting from the effects of COVID-19 through December 31, 2020 in a separate COVID-19 surcharge rider.

75. The treatment of the COVID-19 rider as described by this Order is appropriate.

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