Agreement – Retiring-Plant Rider

76. The signatories agreed for El Paso Electric's net investment and costs associated with three retiring generation plants—Rio Grande Unit 7 and Newman Units 1 and 2—to be removed from its base rates and recovered through a separate rider that is in addition to the revenue requirement approved in this Order.

77. The signatories agreed for the retiring-plant rider to be in an amount of $5,935,946 per year based on a return on equity of 9.35% and the agreed depreciation rates as set forth in exhibit 1 to the agreement.

78. The signatories agreed for the retiring-plant rider to continue in effect so long as there is continued electric service provided from each unit, including contingent service for reliability purposes, to Texas ratepayers. The signatories agreed that as each unit ceases to provide service to customers, the rider will be adjusted to reflect the removal of the unit from service.

79. The signatories agreed that the retiring-plant rider would relate back to November 3, 2021.

80. The signatories agreed on El Paso Electric being required to file supporting evidence in its next base-rate proceeding regarding the retirement dates chosen by El Paso Electric for the three retiring generation plants. The signatories agreed that these retirement dates would be subject to challenge by Commission Staff and intervenors in that docket.

81. The signatories agreed that any over-recovery by El Paso Electric because of an incorrect retirement date for Rio Grande Unit 7 or Newman Units 1 or 2 would be subject to a refund to be provided to ratepayers in accordance with the cost allocation and rate design approved in this Order.

82. Any over-recovery by El Paso Electric because of an incorrect retirement date is subject to a refund to ratepayers in accordance with the cost allocation and rate design approved in this Order.

83. The signatories agreed that, except to adjust the charges in the retiring-plant rider as each unit discontinues electric service to Texas ratepayers, any necessary updates to the rider to reflect changing costs would occur in a future base-rate proceeding.

84. The signatories agreed that the treatment of any undepreciated capital remaining after discontinuing cost recovery through the retiring-plant rider for any applicable generation unit would be addressed in a future base-rate proceeding.

85. The establishment and treatment of the retiring-plant rider as described in this Order is appropriate.

Rate-Case Expenses

86. The signatories agreed to remove rate-case expenses in the amount of $4,087,168 from base rates.

87. The signatories agreed for El Paso Electric's rate-case expenses in this proceeding in the amount of $4,267,270 to be recovered through a separate rider over a four-year period. This amount is not included in the agreed base-rate revenue requirement.

88. The amount of $4,267,270 includes El Paso Electric's reasonable and necessary rate-case expenses incurred in this proceeding through March 31, 2022, including reimbursement for the City of El Paso's expenses, after an agreed disallowance of $3,275.

89. The rate-case expenses reflected in the $4,267,270 amount are reasonable and necessary.

90. The signatories agreed for the rate-case expense 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.

91. The signatories agreed for rate-case expenses incurred after March 31, 2022 to be considered in El Paso Electric's next base-rate proceeding.

92. The signatories agreed that, for the purposes of rate-case expenses in this proceeding, the term *incurred* means when the underlying service that resulted in the rate-case expense was performed.

93. It is appropriate to defer the review of any additional rate-case expenses incurred in this proceeding by El Paso Electric or the City of El Paso after March 31, 2022 to El Paso Electric's next base-rate proceeding.

94. The signatories agreed that, if the Commission's order in Docket No. 52040[3] modified any of the expenses from that proceeding included in the rate-case expense rider, El Paso Electric would make a compliance filing to adjust the rider in accordance with the Commission's order in Docket No. 52040.

Excess Deferred Income Taxes

95. The signatories agreed to return excess deferred income taxes (EDIT) in a total-company amount of $24,091,867 ($3,106,666 unprotected and $20,985,201 stub-period protected) to Texas customers over a four-year period through a credit rider. The credit rider will return $4,717,101 per year on a Texas retail basis (i.e., $6,098,168 after grossing up for taxes).

96. The signatories agreed for the EDIT credit 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. However, the signatories agreed that the amount that would otherwise be returned to customers in the fourth year, and all previous years (if necessary), would be used first as an offset against the relate-back surcharge as provided in the agreement, with any remaining amount being returned in the amortization.

97. The signatories agreed to revise the EDIT credit rider if the Internal Revenue Service determines that amounts included in the rider violate tax normalization requirements.

98. The treatment of the EDIT credit, as described in this Order, is appropriate.

Relate-Back Surcharge

99. The signatories agreed to offset the amount of any relate-back surcharge applicable to the base rates and the retiring-plant rider on a rate class-by-rate class basis with the EDIT credit that would otherwise be refunded to customers in the rate class.

100. Using the EDIT credit to offset any relate-back surcharge is appropriate.

101. The signatories agreed that any EDIT credit remaining after the offset against the relate-back surcharge would be refunded in the amortization.

---

[3] *Application of El Paso Electric Company for Advanced Metering System (AMS) Deployment Plan, AMS Surcharge, and Non-Standard Metering Service Fees*, Docket No. 52040 (pending).

102. Refunding in the amortization any EDIT credit remaining after the offset against the relate-back surcharge is appropriate.

103. The signatories agreed that, if any customer still owed a relate-back balance to El Paso Electric after using the EDIT credit as an offset, the customer would be surcharged over a 12-month period to recover that balance.

104. Surcharging any net relate-back balance owed over a 12-month period is appropriate.

105. The signatories agreed that, if a rate class is due a net refund under the relate-back rider and the retiring-plant rider, the refund would be made to the customer as a credit over a 12-month period.

106. Refunding any net refund under the relate-back rider as a credit over a 12-month period is appropriate.

107. El Paso Electric agreed to file a schedule showing its calculation of the relate-back rates and the corresponding offset of the EDIT credit in a separate docket.

108. El Paso Electric agreed to include, as part of the schedule calculating the relate-back rates and the EDIT credit offset, its proposed tariffs for any refunds or surcharges resulting from the relate-back tariff, including any necessary adjustment to the EDIT credit rider.

109. It is appropriate for the Commission to require El Paso Electric to file in a separate docket a schedule calculating the relate-back rates and the EDIT credit offset and to include its proposed tariffs for any resulting refunds or surcharges or necessary adjustments to the EDIT credit rider.

110. The treatment of the relate-back surcharge, as described in this Order, is appropriate.

El Paso Electric's Existing DCRF and TCRF

111. The signatories agreed for El Paso Electric's existing DCRF and TCRF to be set to zero.

112. Under the rates approved in this Order, El Paso Electric's existing DCRF and TCRF are set to zero.

113. The signatories agreed that no refund is necessary for El Paso Electric's collections under its TCRF through December 31, 2020.

114. The signatories agreed that no refund is necessary for El Paso Electric's collections under its DCRF.

115. It is appropriate for there to be no refund for El Paso Electric's collections under its TCRF through December 31, 2020 or for its collections under its DCRF.

Baseline Values for DCRF, TCRF, and GCRR Filings

116. The signatories agreed on a baseline for future DCRF filings. The agreed baseline is set forth in exhibit 2 to the agreement.

117. The signatories agreed on a baseline for future TCRF filings. The agreed baseline is set forth in exhibit 3 to the agreement.

118. The signatories agreed on a baseline for future GCRR filings. The agreed baseline is set forth in exhibit 4 to the agreement.

119. The agreed GCRR baseline includes a jurisdictional allocator in accordance with the treatment of Newman Unit 6 as a system resource.

120. The DCRF, TCRF, and GCRR baselines—as set forth in exhibits 2, 3, and 4 to the agreement, respectively—are appropriate.

Rate Design

121. The signatories agreed on the rate design and allocations between the rate classes set forth in exhibits 5 and 6 to the agreement.

122. The rate design and allocations set forth in exhibits 5 and 6 to the agreement are reasonable and appropriate.

Tariffs

123. The signatories agreed on the tariffs and rates set forth in exhibit 7 attached to the agreement.

124. The tariffs and rates set forth in exhibit 7 attached to the agreement incorporate the base-rate revenue increase approved by this Order.

125. The tariffs and rates set forth in exhibit 7 attached to the agreement accurately reflect the rates approved by this Order.

126. The tariffs and rates set forth in exhibit 7 attached to the agreement are just and reasonable.

Additional Ring-Fencing Provisions

127. El Paso Electric agreed that its debt would not be secured by non-El Paso Electric assets.

128. El Paso Electric agreed that, except for access to the utility money pool and use of shared assets governed by the Commission's affiliate rules, El Paso Electric would not commingle its assets with those of Sun Jupiter Holdings, LLC or IIF US Holding 2 LP.

129. The two additional ring-fencing provisions as set forth in this Order are appropriate.

Collaboration Regarding Distributed Generation

130. In paragraph 9 of attachment A to the Commission's order filed in Docket No. 46831 on December 18, 2017, El Paso Electric committed to collaborating with interested stakeholders before proposing any modification of the rate design agreed to in that proceeding for customers who have distributed generation.

131. El Paso Electric agreed to begin the collaboration described in paragraph 9 of attachment A to the Commission's order filed in Docket No. 46831 on December 18, 2017 within 90 days of the date of this Order.

Federal Tax Refund Factor

132. El Paso Electric withdrew its request to amend its schedule related to the federal tax refund factor. Therefore, the schedule expires on the effective date of the base rates approved in this Order.

Interim Rates

133. In SOAH Order No. 17 filed on July 21, 2022, the SOAH ALJ approved the agreed tariffs, effective August 1, 2022, subject to refund or surcharge to the extent that the interim rates differ from the rates approved in this Order.

Informal Disposition

134. More than 15 days have passed since the completion of notice provided in this docket.

135. The only parties to this proceeding are El Paso Electric; Commission Staff; OPUC; the City of El Paso; TIEC; Freeport-McMoRan; the Texas Cotton Ginners' Association; the University of Texas at El Paso; Vinton Steel; Walmart; W. Silver; the United States

Department of Defense and all other Federal Executive Agencies; the Rate 41 Group; and Local 960.

136. All parties either agreed to or do not oppose the terms of the agreement, although 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 from each of its members were not obtained.

137. No hearing is needed.

138. This decision is not adverse to any party.

II. Conclusions of Law

The Commission makes the following conclusions of law.

1. El Paso Electric is a public utility as that term is defined in PURA[4] § 11.004(1) and an electric utility as that term is defined in PURA § 31.002(6).

2. The Commission exercises regulatory authority over El Paso Electric and jurisdiction over the subject matter of this application under PURA §§ 14.001, 32.001, 36.001 through 36.211, and 39.552.

3. The Commission has jurisdiction over an appeal from municipalities' rate proceedings under PURA § 33.051.

4. SOAH exercised jurisdiction over this proceeding under PURA § 14.053 and Texas Government Code § 2003.049.

5. This docket was processed in accordance with the requirements of PURA, the Administrative Procedure Act,[5] and Commission rules.

6. El Paso Electric provided notice of the application in compliance with PURA § 36.103 and 16 TAC § 22.51(a) and filed affidavits attesting to the completion of notice in compliance with 16 TAC § 22.51(d).

---

[4] Public Utility Regulatory Act, Tex. Util. Code §§ 11.001–66.016.

[5] Tex. Gov't Code §§ 2001.001–.903.

7. Notice of the hearing on the merits was given in compliance with Texas Government Code §§ 2001.051 and 2001.052.

8. Because El Paso Electric did not elect to update information submitted for its test year, the requirements of PURA § 36.112(b)(2) and 16 TAC § 25.246(b)(2) and (3) do not apply.

9. The rates approved by this Order are just and reasonable under PURA § 36.003(a).

10. The rates approved by this Order are not unreasonably preferential, prejudicial, or discriminatory and are sufficient, equitable, and consistent in application to each customer class under PURA § 36.003(b) and 16 TAC § 25.234(a).

11. In accordance with PURA § 36.051, the revenue produced by the rates approved by this Order permits El Paso Electric a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public in excess of its reasonable and necessary operating expenses.

12. The rates approved by this Order comply with PURA § 36.053 with regard to invested capital.

13. The depreciation rates set forth in exhibit 5 to the agreement comply with the requirements of PURA § 36.056 and 16 TAC § 25.231(b)(1)(B).

14. Because El Paso Electric did not incur any affiliate expenses during the test year, the requirements under PURA § 36.058 do not apply.

15. The rates approved by this Order include only expenses that are reasonable and necessary to provide service to the public under 16 TAC § 25.231(b).

16. The rates approved by this Order do not include any expenses prohibited from recovery under PURA §§ 36.061(a) and 36.062 and 16 TAC § 25.231(b)(2).

17. The adjustments to El Paso Electric's test-year data are known and measurable under 16 TAC § 25.231(a) and (c)(2)(F) and 16 TAC § 25.246(b)(5).

18. Under PURA § 33.023(b), El Paso Electric is required to reimburse the City of El Paso for its reasonable rate-case expenses incurred in this proceeding.

19. The rates approved by this Order are effective for consumption on and after November 3, 2021 under PURA § 36.211(b) and 16 TAC § 25.246(d)(1).

20. Under 16 TAC § 22.125(e), the interim rates approved in SOAH Order No. 17 filed on July 21, 2022 are subject to refund or surcharge to the extent they differ from the rates approved in this Order.

21. This proceeding meets the requirements for informal disposition in 16 TAC § 22.35.

III. Ordering Paragraphs

In accordance with these findings of fact and conclusions of law, the Commission issues the following orders.

1. 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.

2. The final rates approved by this Order are effective for consumption on or after November 3, 2021, except that the COVID-19 rider and its four-year amortization and the EDIT credit rider and its four-year amortization do not relate back and are effective with the first billing cycle after the date of this Order.

3. Within 20 days of the date of this Order, El Paso Electric must file a clean record copy of the tariffs approved in this Order, with the approved effective dates, with Central Records to be marked *Approved* and filed in the Commission's tariff books.

4. Within 60 days of this Order, El Paso Electric must file a schedule showing its calculation of the relate back of rates to November 3, 2021, and the corresponding offset to the EDIT credit rider. El Paso Electric must file the schedule in *Compliance Docket for the Final Order in Docket No. 52195 (Application of El Paso Electric Company to Change Rates)*, Docket No. 53997. In its filing, El Paso Electric must include its proposed tariffs for any refunds or surcharges resulting from the relate back, including any necessary adjustment to the EDIT credit rider.

5. The Commission authorizes El Paso Electric to establish a regulatory asset to record any rate-case expenses associated with this proceeding that El Paso Electric and the City of El Paso incurred after March 31, 2022. The Commission does not authorize El Paso Electric

to accrue any return on this regulatory asset. In El Paso Electric's next base-rate proceeding, El Paso Electric and the City of El Paso must seek Commission review of any rate-case expenses recorded in this regulatory asset.

6. If the final order in Docket No. 52040 modifies any of the expenses included in the rate-case expense rider, El Paso Electric must make a filing in a separate docket to adjust the rider to reflect the Commission's final order within 30 days of the date that the Commission's final order in Docket No. 52040 is final under Texas Government Code § 2001.144.

7. By March 31 of each year, El Paso Electric must file for approval of a true-up of the previous 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 Docket No. 50664 on March 26, 2020.

8. The Commission approves the depreciation rates for the asset categories set forth in exhibit 1 attached to the agreement.

9. The Commission approves the TCRF baseline values set forth in exhibit 2 attached to the agreement.

10. The Commission approves the DCRF baseline values set forth in exhibit 3 attached to the agreement.

11. The Commission approves the GCRR baseline values set forth in exhibit 4 attached to the agreement.

12. El Paso Electric must allocate the revenue requirement approved by this Order between the rate classes in the manner set forth in exhibit 5 attached to the agreement.

13. The retiring-plant rider approved in this Order must be adjusted as each of following units discontinues electric service to Texas ratepayers: Rio Grande Unit 7 and Newman Units 1 and 2.

14. El Paso Electric must offset the amount of any relate-back surcharge applicable to the base rates and the retiring-plant rider on a rate class-by-rate class basis with the EDIT credit that

would otherwise be refunded to customers in the rate class. Any EDIT credit remaining after the offset against the relate-back surcharge must be refunded in the amortization.

15. If a customer owes a relate-back balance to El Paso Electric after the EDIT credit is used as an offset, the customer must be surcharged over a 12-month period to recover that balance.

16. If a rate class is due a net refund under the relate-back rider and the retiring-plant rider, the refund must be made to the customer as a credit over a 12-month period.

17. El Paso Electric's debt must not be secured by non-El Paso Electric assets.

18. Except for access to the utility money pool and use of shared assets governed by the Commission's affiliate rules, El Paso Electric must not commingle its assets with those of Sun Jupiter Holdings, LLC or IIF US Holding 2 LP.

19. 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.

20. In its next base-rate proceeding, El Paso Electric must file supporting evidence regarding its chosen retirement dates for retiring generation plants Rio Grande Unit 7 and Newman Units 1 and 2.

21. El Paso Electric must refund to ratepayers any over-recovery that is caused by an incorrect retirement date for Rio Grande Unit 7 or Newman Units 1 or 2 in accordance with the cost allocation and rate design approved in this Order.

22. Entry of this Order does not indicate the Commission's endorsement or approval of any principle or methodology that may underlie the agreement and must not be regarded as precedential as to the appropriateness of any principle or methodology underlying the agreement.

23. The Commission denies all other motions and any other requests for general or specific relief that have not been expressly granted.

Signed at Austin, Texas the 15th day of September 2022.

PUBLIC UTILITY COMMISSION OF TEXAS

PETER M. LAKE, CHAIRMAN

WILL MCADAMS, COMMISSIONER

LORI COBOS, COMMISSIONER

JIMMY GLOTFELTY, COMMISSIONER

KATHLEEN JACKSON, COMMISSIONER

W2013
q:\cadm\orders\final\52000\52195 fo.docx

		57568 Estimated Expenses	Expenses through November 30, 2024	Remaining Estimated Expenses
Consultants				
Accounting	1	$ 295,000	$ 39,746	$ 255,254
Engineering	2	100,000	34,704	65,296
Legal	3	1,600,000	209,411	1,390,589
Other	4	225,000	118,941	106,059
Company				
Employee	5	2,000	-	2,000
Other	6	38,000	-	38,000
Municipals	7	805,000	-	805,000
Total		$ 3,065,000	$ 402,802	$ 2,662,198

Discipline	Vendor Name		57568 Estimated Expenses	202403	202404	202405	202406	202407	202408	202409	202410	202411	Expenses paid to date through November 30, 2024	Remaining Estimated Expenses
NON-PAYROLL EMPLOYEE EXPENSES		5	**$ 2,000.00**										**$ -**	**$ 2,000.00**
			2,000.00										-	
OFFICE SUPPLIES		6	**$ 2,000.00**										$ -	**$ 2,000.00**
			2,000.00										-	
SUBCONTRACTOR CHARGES		6	**$ 5,000.00**										**$ -**	**$ 5,000.00**
			5,000.00										-	
OUTSIDE SVCS-CONSULTING			**$ 620,000.00**										**$ 193,391.25**	**$ 426,608.75**
	Concentric Energy Advisors, Inc (Nelson, Weiss)	1	$ 275,000.00						1,120.00	18,542.50	13,631.25	6,452.50	39,746.25	
	Gannett Fleming Valuation LLC (Spanos)	2	$ 60,000.00						870.00		23,785.00		24,655.00	
	TLG Services, Inc (Glander)	2	$ 20,000.00					8,339.50		1,709.50			10,049.00	
	Lapson Advisory (Lapson)	1	$ 20,000.00										-	
	FTI Consulting (Smith)	2	$ 20,000.00										-	
	PwC (Rate Training, affidavit)	4	$ 75,000.00									65,426.00	65,426.00	
	UI	4	$ 150,000.00									53,515.00	53,515.00	
DEFERRED LEGAL EXPENSES		3	**$ 1,600,000.00**										**$ 209,411.00**	**$ 1,390,589.00**
	Duggins Wren Mann & Romero, LLP		1,600,000.00	$2,988.50	$4,870.50	$7,851.00	$36,774.50	$30,761.00	$30,409.50	$17,692.00	$11,671.00	$66,393.00	209,411.00	
ADVERTISING		6	**$ 31,000.00**										**$ -**	**$ 31,000.00**
	El Diario de El Paso		$ 10,000.00										-	
	El Paso Times		$ 15,000.00										-	
	Hudspeth County Herald		$ 3,000.00										-	
	Van Horn Advocate		$ 3,000.00										-	
MUNICIPALS		7	**$ 805,000.00**										$ -	**$ 805,000.00**
	CEP		$ 795,000.00										-	
	Coalition of Cities		7,500.00										-	
	San Elizario		2,500.00										-	
Total DN 57568			**$ 3,065,000.00**										**$ 402,802.25**	**$ 2,662,197.75**

PUBLIC

Exhibits GN-5 & GN-6 are CONFIDENTIAL and/or HIGHLY SENSITIVE PROTECTED MATERIALS attachments.

DOCKET NO. 57568

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

AFFIDAVIT OF BRET J. SLOCUM
CONCERNING EL PASO ELECTRIC COMPANY LEGAL EXPENSES

STATE OF TEXAS	§
	§
COUNTY OF TRAVIS	§

BEFORE ME, the undersigned authority, on this day personally appeared Bret J. Slocum, who being by me first duly sworn, on oath, deposed and said the following:

My name is Bret J. Slocum. I am over the age of twenty-one years, am of sound mind, have personal knowledge of the statements made herein, and the facts are true and correct. I am competent to make this Affidavit.

1. I am a partner at the law firm of Duggins Wren Mann & Romero, LLP. I have practiced law for over forty years, including many cases before the Public Utility Commission of Texas (PUCT).
2. The purpose of this affidavit is to support the reasonableness of the cost of the legal services procured by El Paso Electric (EPE) to support EPE's applications in the proceedings listed in Schedule G-14, which are the rate proceedings for which EPE requests cost recovery as a rate case expense.
3. The PUCT's rule concerning rate case expenses, 16 Tex. Admin. Code § 25.245, lists a number of considerations for evaluating the reasonableness of rate case expenses, such as the nature, extent, and difficulty of the work, the time and labor required and expended,

the fees, the nature and scope of the proceeding, including the size of the utility and number and type of consumers served, the amount of money or value of property or interest at stake, the novelty or complexity of the issues addressed, the amount and complexity of discovery, the occurrence and length of a hearing, and whether the specific issue or issues rate-case expenses as a whole were excessive. In light of the description of these expenses presented below in this affidavit and in the invoices, DWMR's billings were consistent with the standards set forth by the Commission in 16 Tex. Admin. Code § 25.245 for recovery of rate case expenses.

4. Attached to this testimony of George Novela are copies of the pertinent monthly billings from my firm to EPE for work done on the proceedings for which EPE is seeking recovery in this proceeding. The billings provide detail of what task was being addressed for the time billed, and therefore, indicate the time billed for any specific issue or issues in each of the proceedings, which would also indicate the amount of rate-case expenses reasonably associated with each issue. The billings also delineate any other expenses DWMR incurred and were billed to EPE.

5. I have reviewed the billings at the time they were sent to EPE. The billings were for time spent working on EPE's behalf in each of the designated proceedings. The billings do not contain any duplicate charges or charges that were reimbursed in another manner.

6. EPE is a vertically integrated utility that served approximately 356,883 customers in Texas, and the proceedings before the PUCT for which EPE seeks reimbursement concern matters involving many millons of dollars, and in some instances hundreds of millions of dollars. The DWMR attorneys were required to perform high-level, complex work. The nature of utility law requires a legal team that not only has specialized legal knowledge and

experience in administrative law, but substantive knowledge of complex utility questions, such as cost of service analysis, transmission and generation, and financial matters.

7. I am generally familiar with what other attorneys with comparable experience charge for the type of work involved in a proceeding before the Public Utility Commission of Texas. The hourly rates charged contained in these billings are within the range of what others with comparable experience and expertise charge on an hourly basis.

8. Given the level of complexity of the proceedings and the issues involved, the time charges for the various tasks were reasonable, and the total of the time spent on EPE's filings were reasonable. The time spent on the various tasks included on these invoices were directly in support of EPE's request in each of the proceedings and were reasonable and necessary. The hourly rates for the services were reasonable, cost-competitive, and appropriate.

9. In summary, I believe the rate case expenses EPE incurred for professional legal services are reasonable.

Bret J. Slocum

Bret J. Slocum

SUBSCRIBED AND SWORN TO BEFORE ME, a Notary Public, in and for the State of Texas, this 21st day of January 2025.

MICHELE R. BARKER
Notary Public, State of Texas
Comm. Expires 8/21/28
Notary ID 12105349

Michele Barker

Notary Public in and for the State of Texas

PUC DOCKET NO. 57568

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

AFFIDAVIT OF LORI A. GLANDER

STATE OF ~~CONNECTICUT~~ New York §
§
COUNTY OF Orange §

BEFORE ME, the undersigned authority, on this day personally appeared Lori A. Glander, who being by me first duly sworn, on oath, deposed and said the following:

My name is Lori A. Glander. I am over the age of twenty-one years and am of sound mind and competent to testify to the matters stated herein. I have personal knowledge of the facts set forth in this affidavit, and they are true and correct.

I am Vice President, Decommissioning with TLG Services, LLC and was retained as a consultant in Docket No. 57568 on behalf of El Paso Electric Company.

For work I performed in Docket No. 57568, the rates that I and my TLG colleagues charged is at or below the normal hourly billing rate for the firm and are charged to all clients, be they rate-regulated or competitive entities, for the types of services we provided in Docket No. 57568. To the best of my knowledge, the hourly rate for the work we performed related to Docket No. 57568 is comparable to the hourly billing rates currently charged by other consultants of similar experience and expertise to other Texas utilities for similar services.

Further affiant sayeth not.

Lori A. Glander
Lori A. Glander

SUBSCRIBED AND SWORN TO BEFORE ME, a Notary Public, in and for the State of ~~Connecticut~~ New York, this 23 day of January 2025.

Karen DeLuca
Notary Public in and for the State of Connecticut

KAREN DELUCA
Notary Public, State of New York
Qualified in Orange County
Reg # 01DE6324632
Commission Expires May 11, 2027

My commission expires:

May 11, 2027

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

AFFIDAVIT OF ELLEN SMITH

STATE OF VERMONT	§
	§
COUNTY OF RUTLAND	§

BEFORE ME, the undersigned authority, on this day personally appeared Ellen Smith, who being by me first duly sworn, on oath, deposed and said the following:

My name is Ellen Smith. I am over the age of twenty-one years and am of sound mind and competent to testify as to the matters stated herein. I have personal knowledge of the facts set forth in this affidavit, and they are true and correct.

I am employed as Senior Managing Director by FTI Consulting, Inc., and I was retained as a consultant in Docket No. 57568 on behalf of El Paso Electric Company (EPE).

For work I have performed and will perform on EPE's behalf in Docket No. 57568, the rate that I have charged and will charge is at or below the normal hourly billing rate for the firm and is charged to all clients, be they rate-regulated or competitive entities, for the types of services I have provided and will provide. To the best of my knowledge, my hourly rate for the work I have performed and will perform for EPE related to Docket No. 57568 is comparable to the hourly billing rates currently charged by other consultants of similar experience and expertise to other Texas utilities for similar services.

Further affiant sayeth not.

Ellen Smith

Ellen Smith

SUBSCRIBED AND SWORN TO BEFORE ME, a Notary Public in and for the State of Vermont, on this 21 day of JANUARY 2025.

Monika Legayada

Notary Public in and for the State of Vermont

Notary Public - State of Vermont

MONIKA PAJOR LEGAYADA
Commission No. 157-0014897
My Commission Expires 1/31/2025

My commission expires:

DOCKET NO. 57568

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

AFFIDAVIT REGARDING FEES CHARGED TO EL PASO ELECTRIC COMPANY

COMMONWEALTH OF MASSACHUSETTS §
§
COUNTY OF MIDDLESEX §

BEFORE ME, the undersigned authority, on this day personally appeared Jennifer Nelson, who being by me first duly sworn, on oath, deposed and said the following:

My name is Jennifer Nelson. I am over the age of twenty-one years and am of sound mind and competent to testify as to the matters stated herein. I have personal knowledge of the facts set forth in this affidavit, and they are true and correct.

I am a regulatory consultant with Concentric Energy Advisors. I was retained to provide advisory services relating to return on equity and capital structure in Docket No. 57568 on behalf of El Paso Electric Company (EPE).

For work I have performed and will perform on EPE's behalf in Docket No. 57568, the rate that I have charged and will charge is at or below the normal hourly billing rate for the firm and is charged to all clients, be they rate-regulated or competitive entities, for the types of services I have provided and will provide. To the best of my knowledge, my hourly rate for the work I have performed and will perform for EPE related to Docket No. 57568 is comparable to the hourly billing rates currently charged by other consultants of similar experience and expertise to other Texas utilities for similar services.

Further affiant sayeth not.

Jennifer Nelson

SUBSCRIBED AND SWORN TO BEFORE ME, a Notary Public, in and for the Commonwealth of Massachusetts, this 30th day of January 2025.

W Preston

Notary Public in and for the Commonwealth of Massachusetts

WENDY L. PRESTON
MY COMMISSION EXPIRES APRIL 13, 2029
NOTARY PUBLIC COMMONWEALTH OF MASSACHUSETTS

My commission expires:
April 13, 2029

SOAH DOCKET NO. 473-25-______
PUC DOCKET NO. 5______

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

AFFIDAVIT OF JOHN J. SPANOS

COMMONWEALTH OF PENNSYLVANIA §
§
COUNTY OF CUMBERLAND §

BEFORE ME, the undersigned authority, on this day personally appeared John J. Spanos, who being by me first duly sworn, on oath, deposed and said the following:

My name is John J. Spanos. I am over the age of twenty-one years and am of sound mind and competent to testify as to the matters stated herein. I have personal knowledge of the facts set forth in this affidavit, and they are true and correct.

I am President of Gannett Fleming Valuation and Rate Consultants, LLC and I was retained as a consultant in Docket No. 5______ on behalf of El Paso Electric Company (EPE).

For work I performed in Docket No. 5______, the rate that I charged is at or below the normal hourly billing rate for the firm and are charged to all clients, be they rate-regulated or competitive entities, for the types of services I provided in Docket No. 5______. To the best of my knowledge, my hourly rate for the work I performed related to Docket No. 5______ is comparable to the hourly billing rates currently charged by other consultants of similar experience and expertise to other Texas utilities for similar services.

Further affiant sayeth not.

John J. Spanos
John J. Spanos

SUBSCRIBED AND SWORN TO BEFORE ME, a Notary Public, in and for the Commonwealth of Pennsylvania, this 16th day of January 2025.

Notary Public in and for the Commonwealth of Pennsylvania

My commission expires:

February 20, 2027

Commonwealth of Pennsylvania - Notary Seal
Cheryl Ann Rutter, Notary Public
Cumberland County
My commission expires February 20, 2027
Commission number 1143028
Member, Pennsylvania Association of Notaries

SOAH DOCKET NO. 473-25-_____
PUC DOCKET NO. 5_____

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

AFFIDAVIT OF JOSEPH S. WEISS

STATE OF MISSOURI §
§
COUNTY OF ST. LOUIS §

BEFORE ME, the undersigned authority, on this day personally appeared Joseph S. Weiss, who being by me first duly sworn, on oath, deposed and said the following:

My name is Joseph S. Weiss. I am over the age of twenty-one years and am of sound mind and competent to testify as to the matters stated herein. I have personal knowledge of the facts set forth in this affidavit, and they are true and correct.

I am a Vice President with Concentric Energy Advisors, Inc., and I was retained as a consultant in Docket No. 5_____ on behalf of El Paso Electric Company (EPE).

For work I performed in Docket No. 5_____, the rate that I charged is at or below the normal hourly billing rate for the firm and are charged to all clients, be they rate-regulated or competitive entities, for the types of services I provided in Docket No. 5_____. To the best of my knowledge, my hourly rate for the work I performed related to Docket No. 5_____ is comparable to the hourly billing rates currently charged by other consultants of similar experience and expertise to other Texas utilities for similar services.

Further affiant sayeth not.

Joseph S. Weiss
Joseph S. Weiss

SUBSCRIBED AND SWORN TO BEFORE ME, a Notary Public, in and for the State of Missouri, this 14 day of January 2025.

Brian L. Wiedermann
Notary Public in and for the State of Missouri

My commission expires:

8/14/2026

BRIAN L. WIEDERMANN
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI
MY COMMISSION EXPIRES AUGUST 14, 2026
ST. LOUIS COUNTY
COMMISSION #14394748

DOCKET NO. 57568

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

AFFIDAVIT REGARDING FEES CHARGED TO EL PASO ELECTRIC COMPANY

STATE OF NEW YORK	§
	§
COUNTY OF NEW YORK	§

BEFORE ME, the undersigned authority, on this day personally appeared Ellen Lapson, who being by me first duly sworn, on oath, deposed and said the following:

My name is Ellen Lapson. I am over the age of twenty-one years and am of sound mind and competent to testify as to the matters stated herein. I have personal knowledge of the facts set forth in this affidavit, and they are true and correct.

I am the founder of Lapson Advisory and a Chartered Financial Analyst. I was retained to provide advisory services relating to capital structure, debt leverage, and credit ratings in Docket No. 57568 on behalf of El Paso Electric Company (EPE).

For work I have performed and will perform on EPE's behalf in Docket No. 57568, the rate that I have charged and will charge is at or below the normal hourly billing rate for the firm and is charged to all clients, be they rate-regulated or competitive entities, for the types of services I have provided and will provide. To the best of my knowledge, my hourly rate for the work I have performed and will perform for EPE related to Docket No. 57568 is comparable to the hourly billing rates currently charged by other consultants of similar experience and expertise to other Texas utilities for similar services.

Further affiant sayeth not.

Ellen Lapson

Ellen Lapson, CFA

SUBSCRIBED AND SWORN TO BEFORE ME, a Notary Public, in and for the State of New York, this 24 day of January 2025.

Notary Public in and for the State of New York

JIMMY MA
Notary Public, State of New York
No. 01MA6116017
Qualified in New York County
Commission Expires Sept. 20, 2028

My commission expires:

September 20 2028

DOCKET NO. 57568

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

DIRECT TESTIMONY

OF

STEVEN A. SIERRA

FOR

EL PASO ELECTRIC COMPANY

JANUARY 2025

EXECUTIVE SUMMARY

Steven A. Sierra is Director-Financial Accounting for El Paso Electric Company (the "Company" or "EPE"). He supports the establishment and maintenance of the Company's accounting principles, practices, and procedures for the maintenance of its fiscal records and the preparation of its financial reports.

Mr. Sierra sponsors the Company's overall cost of service, summarizes EPE's revenue requirement in Table SAS-1, and describes the pro-forma adjustments that EPE has made to its Test Year in this case, the 12-month period from October 1, 2023, through September 30, 2024. These adjustments are to cost of service (expenses and revenues). He sponsors pro-forma adjustments for certain cost of service items including Salaries and Wages, Pensions and Benefits, Palo Verde Generating Station ("PVGS") operations and maintenance ("O&M") expenses, Property Insurance, Injuries and Damages, and Miscellaneous Generation O&M. Exhibit SAS-2 to his testimony is a list of EPE's pro-forma adjustments presented in this case. He also sponsors or co-sponsors and discusses certain of the A (cost of service), B (rate base and return), F (description of company), G (accounting information), H (production O&M expenses), and J (financial statements) schedules. In addition to the pro-forma cost of service adjustments noted above, he also sponsors or co-sponsors certain pro-forma rate base adjustments for Working Capital (non-working cash) and Cash Working Capital. Exhibit SAS-1 to his testimony is a list of schedules sponsored and co-sponsored by Mr. Sierra. Mr. Sierra also affirms that EPE's rate filing package schedules have been prepared from EPE's books and records, which are maintained as the Public Utility Commission of Texas ("Commission") requires.

In his testimony, he specifically discusses:

- Overall Cost of Service;
- Summary of EPE's Pro-Forma Adjustments to Cost of Service, including Sponsored Pro-Forma Cost of Service Adjustments for Salaries and Wages, Pensions and Benefits, PVGS O&M, Property Insurance, Injuries and Damages, and Miscellaneous Generation O&M;
- Employee Compensation and Benefits;
- Sponsored Pro-Forma Rate Base Adjustments for Working Capital (non-working cash) and Cash Working Capital; and
- Impact of Federal Energy Regulatory Commission ("FERC") Order No. 898.

TABLE OF CONTENTS

EXHIBITS

I. Introduction and Qualifications

Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

Q2. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by El Paso Electric Company ("EPE" or the "Company") as Director-Financial Accounting.

Q3. DESCRIBE BRIEFLY YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I graduated from The University of Texas at El Paso with a Bachelor of Business Administration in Accounting, and a Master of Accountancy. I am a Certified Public Accountant in the State of Texas and a member of the Texas Society of Certified Public Accountants and the American Institute of Certified Public Accountants. In addition, I received a graduate certificate from New Mexico State University in Public Utility Regulation & Economics and have attended professional development seminars sponsored by the American Gas Association and Edison Electric Institute.

Upon graduation, I was employed in El Paso as a staff accountant at Desert View Homes from 2010-2011, and at Hunt Companies, Inc. from 2011-2012, where my primary responsibilities included the preparation of internal financial statements. I joined El Paso Electric Company in 2012 and have held various positions in the Energy Accounting, Financial Accounting and Financial Planning & Analysis departments. My responsibilities in the various roles at EPE have included the preparation and analysis of internal and external financial statements, the preparation of financial statements for the Company's benefit plans and overseeing the Company's annual budget and forecasting processes. In March 2022, I accepted my current position of Director-Financial Accounting.

Q4. WHAT ARE YOUR PRINCIPAL AREAS OF RESPONSIBILITY?

A. I serve under the general direction of the Vice President-Controller, and I support the establishment and maintenance of the Company's accounting principles, practices, and procedures for the maintenance of its fiscal records and the preparation of its financial reports.

II. Purpose of Testimony

Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to support the Company's overall cost of service analysis. I sponsor and describe the pro-forma adjustments that EPE has made to its Test Year costs, and I sponsor certain schedules filed as part of this case.

I describe and support EPE's requested expenses and related adjustments for Salaries and Wages, Pensions and Benefits, PVGS O&M, Property Insurance, Injuries and Damages, and Miscellaneous Generation O&M, and the pro-forma rate base adjustments for Working Capital (non-working cash) and Cash Working Capital that I sponsor or co-sponsor in this case.

My testimony also demonstrates that the Test Year costs for employee compensation and benefits requested in this case are consistent with a recent market study and are therefore presumed reasonable in accordance with Public Utility Regulatory Act ("PURA") § 36.067.

Lastly, I note that the presentation of amounts in this case follow the FERC Uniform System of Accounts in effect during the Test Year, prior to the effective date of FERC Order No. 898.

Q6. WHY ARE YOU THE APPROPRIATE PERSON TO SPONSOR THESE TOPICS?

A. In my role as Director of Financial Accounting, I have knowledge regarding the Company's financial and accounting records including the expenses it incurs while providing service to customers. I oversee the Company's financial accounting and financial reporting departments, and therefore, have knowledge and experience in the areas of compensation, pension, and other post-employment benefits ("OPEB"). My job duties and responsibilities as Director of Financial Accounting also qualify me to provide testimony regarding the Company's overall cost of service.

Q7. WHAT TEST YEAR IS THE COMPANY USING IN THIS FILING?

A. This filing uses the 12 months ended September 30, 2024, as the Test Year.

Q8. WHAT SCHEDULES OF THE RATE-FILING PACKAGE ("RFP") DO YOU SPONSOR OR CO-SPONSOR IN THIS PROCEEDING?

A. Exhibit SAS-1 indicates the schedules that I am sponsoring or co-sponsoring with other witnesses.

Q9. WERE THE SCHEDULES AND EXHIBITS YOU ARE SPONSORING OR CO-SPONSORING PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION?

A. Yes, they were. A summary of the schedules sponsored or co-sponsored by me in this case is included in Section IX below.

III. Overall Cost of Service

Q10. WHAT IS THE PROPOSED INCREASE IN REVENUE REQUIREMENTS AND TEXAS BASE RATES?

A. EPE is proposing to increase revenue requirements by $84,669,007 based on a Test Year ended September 30, 2024. EPE is proposing an increase in base rates of $129,018,322 after resetting to zero the existing Generation Cost Recovery Rider ("GCRR") and Distribution Cost Recovery Factor ("DCRF") riders that are charging customers a combined $43,352,609 annually and reflecting a proposed reduction in miscellaneous service revenues of $996,706. As a result, the net increase in base rate revenues in this application is $85,665,713, or 13.65%, over the combined current non-fuel base rate, GCRR, and DCRF revenues.

Q11. PLEASE SUMMARIZE THE TOTAL COMPANY BASE RATE REVENUES, COST OF SERVICE, RATE BASE, AND RETURN AMOUNTS THAT EPE IS REQUESTING IN THIS PROCEEDING.

A. The following table, SAS-1, summarizes EPE's revenue requirements and the increase in base rates on a total Company basis and on a Texas jurisdictional basis:

	TABLE SAS-1		
	Description	Total Company Revenue Requirement	Texas Jurisdictional Revenue Requirement
1	Total Rate Base	$3,630,311,616	$2,733,746,541
2	Weighted Average Cost of Capital	8.363%	8.363%
3	Return on Rate Base	303,604,837	228,624,234
4	Fuel and Purchased Power[1]	248,246,527	182,113,982
5	Operation & Maintenance (O&M)	336,513,269	246,018,803
6	Regulatory Debits and Credits	1,143,166	-
7	Depreciation & Amortization	201,516,320	139,636,359
8	Decommissioning and Accretion	4,315,875	3,291,269
9	Amortization of Unrecovered Plant	2,384,762	1,202,522
10	Taxes other Than Income	94,642,418	84,882,654
11	Federal Income Taxes	53,163,887	40,041,615
12	State Income Taxes	11,398,296	8,544,961
13	Total Cost of Service	1,256,929,358	934,356,399
14	Less: Other Operating Revenues[2]	101,834,867	42,462,287
15	Less: Fuel Revenues and Sales for Resale[1]	243,709,483	178,599,049
16	Adjusted Base Rate Revenue Requirement	911,385,008	713,295,063
17	Less: As Adjusted Base Revenues[3]	770,685,095	627,629,349
18	Base Rate Revenue Deficiency	140,699,913	85,665,713
19	Percent Increase (line 18/line 17)	18.26%	13.65%
20	Revenue Requirement Deficiency	139,703,207	84,669,007
21	Add back proposed reduction in Misc. Service Revenues	996,706	996,706
22	Base Rate Revenue Deficiency	140,699,913	85,665,713
23	Plus: GCRR Revenues	22,600,848	22,600,848
24	Plus: DCRF Revenues	20,751,761	20,751,761
25	Total Base Rate Revenue Increase	$184,052,522	$129,018,322

[1] Includes amounts from off-system sales of $163,129,318 on a total Company basis, and $126,931,261 on a Texas jurisdictional basis.
[2] Includes revenues from interruptible rates of $3,739,942 on a total Company basis, and $3,544,335 on a Texas jurisdictional basis.
[3] Includes current GCRR and DCRF revenues shown on lines 23 and 24, respectively, which will all be moved out of the separate riders and into base rates in this case

EPE witnesses Cynthia Prieto and Adrian Hernandez discuss total rate base and the allocation of total Company revenue requirements to the Texas jurisdiction, respectively, in their testimonies.

Q12. CAN YOU DESCRIBE THE BASE RATE REVENUE REQUIREMENT IN EPE'S MOST RECENT RATE CASE?

A. Yes. EPE's current base rates were established by the Commission in Docket No. 52195 (the "2021 Rate Case"), which was a settled case that increased overall base rates by $5.419 million. The settlement agreement in the 2021 Rate Case also provides that EPE's additions to plant, except for the disallowances described in the final order in that case, from September 30, 2016, through December 31, 2020, were deemed used and useful and prudent and were included in rate base. The Commission adopted the settlement agreement in its Final Order in Docket No. 52195 dated September 15, 2022.

Q13. WHAT CIRCUMSTANCES HAVE CREATED THE NEED FOR THIS RATE FILING?

A. EPE witness George Novela describes the reasons for this rate filing in his direct testimony, including growth in rate base and the need for EPE to recover a return on and a return of its investment in new plant. As discussed in the testimony of Mr. Novela and EPE witness Manuel Carrasco, EPE has reflected rate base additions to production and to distribution plant in service in its GCRR and DCRF, respectively. However, these rate riders have not reflected plant additions to transmission, intangible and general plant or changes in O&M expenses. While rate base has indeed grown since EPE's last general rate case, it is worth noting that non-fuel O&M expenses have remained relatively flat, and are well below inflation-adjusted amounts, since the Test Year in the 2021 Rate Case (Docket No. 52195). See Graph SAS-1 below for a summary of non-fuel O&M costs over this period.[1] Please refer to the testimony of EPE witness Novela for additional discussion on the Company's management of its O&M costs since its last general rate case.

/

/

/

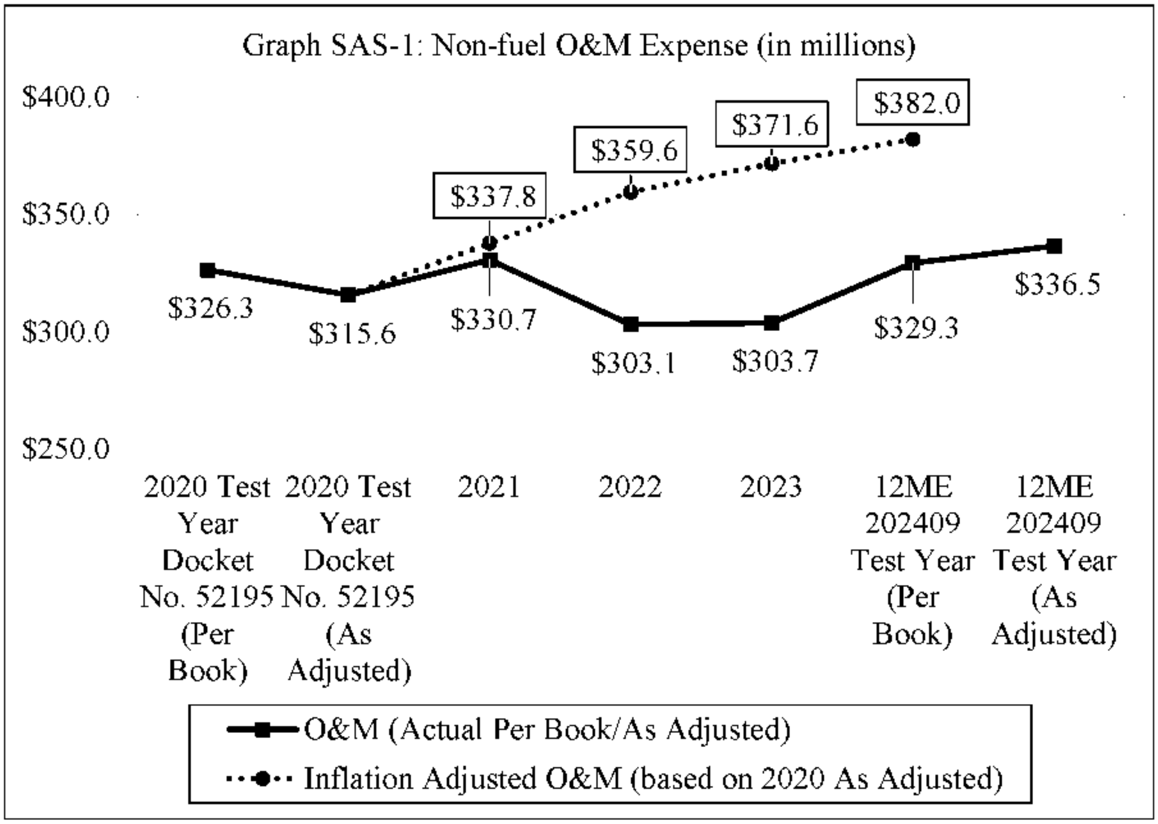
//

/

/

/

[1] 2020 Per Book, 2021, 2022 and 2023 data in Graph SAS-1 ties to FERC Form 1 Page 323, excluding fuel and purchased power accounts 501, 509, 518, 547 and 555, and amounts recorded to account 502 for environmental consumables. Inflation-adjusted data is based on the US Consumer Price Index (1982-84 = 100) from the US Bureau of Labor Statistics.



IV. Summary of Pro-Forma Adjustments

Q14. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

A. The purpose of this section of my testimony is to list and describe the Company's pro-forma adjustments to the cost of service. EPE witness Prieto in her direct testimony sponsors the Company's rate base and the pro-forma adjustments to rate base not addressed in my testimony.

Q15. HAVE YOU PREPARED AN EXHIBIT SUMMARIZING THE PRO-FORMA ADJUSTMENTS THAT YOU DISCUSS?

A. Yes, I have. Exhibit SAS-2 is a list of the Company's pro-forma adjustments listed and described below. The adjustments to the cost of service are also shown on Schedule A-3 and associated work papers of EPE's RFP required by Commission rules.

A. Adjustments to the Cost of Service

Q16. HAS THE COMPANY MADE ADJUSTMENTS TO IT'S TEST YEAR COST OF SERVICE?

A. Yes. Several adjustments have been made to the Test Year per book amounts to adjust those values to reflect known and measurable changes.

Q17. CAN YOU GENERALLY DESCRIBE THE ADJUSTMENTS INCLUDED IN SCHEDULE A-3?

A. Yes. Generally, the adjustments are revisions to the Test Year revenues and expenses for known and measurable changes at the time of filing. These changes are expected to occur either before or during the time that any final rates will be ordered into effect.

The resulting adjusted revenues and expenses are those that, if used as the basis for setting rates for the prospective period following the ordering of final rates in effect, will give the Company a reasonable opportunity to recover its reasonable and necessary expenses, as is required by PURA § 36.051.

Q18. YOU STATED THAT ADJUSTMENTS WERE MADE FOR KNOWN AND MEASURABLE CHANGES. WHAT AUTHORITY DO YOU RELY ON TO MAKE KNOWN AND MEASURABLE CHANGES?

A. I rely on 16 TAC § 25.231(a) and (b), which state:

> (a) Components of the cost of service. Except as provided for in subsection (c)(2) of this section, relating to invested capital; rate base, and §23.23(b) [sic] of this title, (relating to Rate Design), rates are to be based upon an electric utility's cost of rendering service to the public during a historical test year, adjusted for known and measurable changes. The two components of the cost of service are allowable expenses and return on invested capital.
>
> (b) Allowable expenses. Only those expenses which are reasonable and necessary to provide service to the public shall be included in allowable expenses. In computing an electric utility's allowable expenses, only the electric utility's historical test year

expenses as adjusted for known and measurable changes will be considered, except as provided for in any section of these rules dealing with fuel expenses.

I followed the above criteria to prepare the adjustments included in Schedule A-3 for known and measurable changes to historical Test Year cost of service data.

Q19. HOW DID YOU DETERMINE THE KNOWN AND MEASURABLE CHANGES THAT SHOULD BE TAKEN INTO ACCOUNT IN THIS PROCEEDING?

A. I reviewed the Company's financial records and determined other adjustments based on my general knowledge of Company operations. Additionally, employees from other departments who have subject matter knowledge about their respective areas provided support for known and measurable changes to Test Year cost of service data.

Q20. IS EPE PROPOSING TO MOVE THE RECOVERY OF THE COSTS OF ANY ITEM FROM BASE RATES TO FUEL?

A. No.

Q21. WHO IS SPONSORING THE ADJUSTMENTS INCLUDED IN SCHEDULE A-3?

A. The sponsors for each of the adjustments discussed below are noted, including those adjustments that I sponsor.

1. Revenues and Uncollectibles (Adjustment No. 1)

Q22. WHAT ADJUSTMENTS WERE MADE TO TEST YEAR REVENUES AND UNCOLLECTIBLE EXPENSE?

A. Test Year actual revenues were adjusted for known and measurable changes in customers and sales to reflect conditions at the end of the Test Year. EPE witness Rene Gonzalez sponsors the calculation of annualized revenues at current rates presented in the adjustment. EPE witness Enedina Soto sponsors the weather adjustment to kilowatt-hour ("kWh") sales. EPE witness Prieto sponsors the uncollectible accounts expense which is based on a calculated uncollectible accounts expense rate applied to the adjusted retail operating revenues. Proposed Revenues are the requested revenue requirement as shown in Schedule A.

Adjustments to Operation and Maintenance Expenses

Q23. WHAT WERE THE ADJUSTMENTS MADE TO TEST YEAR O&M EXPENSES?

A. Several adjustments were made to Test Year O&M expenses to provide information on the expected expenses to be incurred when rates are in effect as a result of this proceeding. The purpose of these adjustments is to reflect Test Year actual expenses adjusted for known and measurable changes as described below.

2. Fuel and Purchased Power Expense (Adjustment No. 2)

Q24. WHAT ADJUSTMENTS WERE MADE FOR FUEL AND PURCHASED POWER EXPENSES?

A. The Test Year fuel expenses were adjusted to reflect Test Year adjusted kWh sales and for out-of-period adjustments. Test Year purchased power expenses were adjusted to remove an out-of-period adjustment and annualize capacity costs. These adjustments are sponsored by EPE witness Julissa Reza.

3. Salaries and Wages (Adjustment No. 3)

Q25. WHAT ADJUSTMENTS WERE MADE FOR SALARIES AND WAGES FOR EPE EMPLOYEES?

A. This adjustment, which I sponsor, is to reflect the level of salaries and wages for the Test Year with adjustments to reflect known and measurable changes that results in a net increase of $1,709,295 to per book salaries and wages expense. As discussed further below in Section V of my testimony, EPE is adjusting its request for salaries and wages to reflect the 4.0% contractual union wage increase effective March 3, 2025, and a 3.77% increase for non-union wages that will be effective in February 2025. The adjustment for the February 2025 non-union wage increase is based on a simple average of the non-union increase received by EPE employees the prior three years. The following table, SAS-2, summarizes EPE's non-union merit increases for the years 2021-2023, including the budgeted increase for 2024, and includes the contractual increases for union employees for the years 2021-2026.

Table SAS-2

Non-Union

Base Year	Avg. Merit Increase %	Budgeted Merit Increase %	Effective Date
2021 Merit	3.0%	3.0%	Dec 2021 (Non-Officers), Jan 2022 (Officers)
2022 Merit	4.4%	3.0%	January 2023
2023 Merit	3.9%	3.0%	February 2024
Avg.	3.77%		
2024 Merit		4.0%	February 2025

Union

Base Year	Contractual Merit Increase %	Contractual Effective Date
2021 Merit	3.2%	September 3, 2022
2022 Merit	8.0%	March 3, 2023
2023 Merit	5.0%	March 3, 2024
2024 Merit	4.0%	March 3, 2025
2025 Merit	4.0%	March 3, 2026 (not included in cost of service)
2026 Merit	3.0%	March 3, 2027 (not included in cost of service)

4. Pensions and Benefits (Adjustment No. 4)

Q26. WHAT ADJUSTMENTS WERE MADE FOR PENSIONS AND BENEFITS?

A. This adjustment, which I sponsor, adjusts per book pension and benefits expense to reflect known and measurable changes, including the inclusion of target-level incentive compensation from the Company's long-term incentive plan for non-officers, in accordance with PURA § 36.067, and the annualization of the most current actuarial estimates of expenses for the pension and OPEB plans in accordance with generally accepted accounting principles ("GAAP").

5. Decommissioning Expense (Adjustment No. 5)

Q27. WHAT ADJUSTMENTS WERE MADE FOR DECOMMISSIONING EXPENSE?

A. The following adjustments were made to Test Year expenses:

1. Test Year per book PVGS Asset Retirement Obligation ("ARO") accretion expense was removed and replaced by the Company's requested decommissioning trust annual funding; and
2. EPE is requesting the ARO accretion expense for local fossil fuel plants.

These adjustments are sponsored by EPE witness Richard Gonzalez.

6. PVGS O&M (Adjustment No. 6)

Q28. WHAT IS THE PURPOSE OF THE PVGS O&M ADJUSTMENT?

A. The purpose of this adjustment, which I sponsor, is the following:

1. EPE removes the out-of-period January 2023 through September 2023 portion of the 2023 A&G true-up adjustment for EPE's share of the O&M costs that was recorded in the Test Year. Each year, the owners of PVGS are billed by the operating agent, APS, based, in part, on estimates of certain costs. When actual costs are known, they are compared to the costs billed and the difference is either charged or refunded to the owners as a true-up. The increase of $221,951 for the Test Year portion of the 2023 A&G true-up is necessary to reflect the actual cost of O&M services billed to EPE by APS to operate the plant during the Test Year.
2. EPE adds an increase in Property Insurance and Injuries and Damages costs of $888,173 to reflect current or budgeted premium costs incurred by APS as operating agent.

The net adjustment to PVGS O&M was an increase of $1,110,124. EPE witnesses Victor Martinez and Cary Harbor support the cost of PVGS operation in their testimonies.

7. Meals and Entertainment (Adjustment No. 7)

Q29. WAS AN ADJUSTMENT MADE FOR MEALS AND ENTERTAINMENT?

A. Yes. EPE witness Prieto sponsors this adjustment to Test Year costs for meals and entertainment.

8. Outside Services (Adjustment No. 8)

Q30. WAS AN ADJUSTMENT MADE FOR OUTSIDE SERVICES?

A. Yes. EPE witness Prieto sponsors this adjustment and discusses the reasonableness of outside service expenses in her testimony.

9. Property Insurance (Adjustment No. 9)

Q31. WHAT ADJUSTMENT WAS MADE FOR PROPERTY INSURANCE EXPENSE?

A. The purpose of this adjustment, which I sponsor, is to increase per book property insurance costs by $114,152 based on the most recent premiums for each policy which were in effect before the end of the Test Year.

10. Injuries and Damages (Adjustment No. 10)

Q32. WHAT ADJUSTMENT WAS MADE FOR INJURIES AND DAMAGES COVERAGE?

A. The purpose of this adjustment, which I sponsor, is to reflect the cost of various liability insurance and workers' compensation insurance policies based on the most recent premiums for each policy. Because the major component of workers' compensation is allocated to expense and capital based on labor, the Company applied the O&M payroll expense ratio to the gross adjusted workers' compensation costs to arrive at the expense requested. The different policies have different terms, but overall, the costs used in this adjustment reflect annualized premiums at the end of the Test Year. Test Year actual expenses for recurring administrative costs were adjusted from these amounts. The result of this adjustment was a reduction in per book expenses of $98,892.

This reduction is primarily due to the change in indirect labor capitalization partially offset by an increase in premiums for Excess Liability coverage. The Company also has a "tail" Director and Officers ("D&O") policy to maintain the same terms and conditions and limits as the D&O policy effective prior to the merger for six years, with a total premium of $1,471,565, or a $245,261 annual cost. The Company is not including the cost of the tail policy in the requested cost of service.

11. Regulatory Asset Amortization (Adjustment No. 11)

Q33. WAS AN ADJUSTMENT MADE FOR REGULATORY ASSET AMORTIZATION?

A. Yes. This adjustment is co-sponsored by EPE witnesses Reza and Prieto and is primarily related to costs not recovered in base rates.

12. Regulatory Commission Expense (Adjustment No. 12)

Q34. WAS AN ADJUSTMENT MADE FOR REGULATORY COMMISSION EXPENSES?

A. Yes. EPE witness Reza sponsors EPE's proposal for the recovery of costs to prepare, file, and litigate cases filed with the Commission.

13. Miscellaneous Generation O&M (Adjustment No. 13)

Q35. WHAT ADJUSTMENT WAS MADE FOR MISCELLANEOUS GENERATION O&M EXPENSE?

A. I sponsor Adjustment No. 13, which annualizes the non-fuel and non-payroll operation and maintenance costs of Newman Unit 6 which was placed into service on December 27, 2023. The net adjustment to miscellaneous generation O&M was an increase to per book costs of $857,344. EPE witness David Rodriguez supports the cost of generation operations in his testimony.

14. Depreciation Expense (Adjustment No. 14)

Q36. WAS AN ADJUSTMENT MADE FOR DEPRECIATION AND AMORTIZATION EXPENSE?

A. Yes. Adjustment No. 14 presents the adjustment to depreciation and amortization expense and is sponsored by EPE witness Prieto.

15. Property Taxes (Adjustment No. 15)

Q37. WHAT ADJUSTMENT WAS MADE FOR PROPERTY TAXES?

A. This adjustment presents property taxes adjusted to reflect the requested plant balances. EPE witness Tamera Henderson sponsors this adjustment in her testimony.

16. Payroll Taxes (Adjustment No. 16)

Q38. WHAT ADJUSTMENT WAS MADE FOR PAYROLL TAXES?

A. Payroll taxes have been adjusted to reflect the requested amount of salaries and wages in Adjustment 3. EPE witness Henderson sponsors this adjustment.

17. Revenue-Related Taxes (Adjustment No. 17)

Q39. WHAT ADJUSTMENT WAS MADE FOR REVENUE RELATED TAXES?

A. This adjustment reflects the change in revenue resulting from the annualization of revenues in Adjustment No. 1 and the change in revenue to reflect the requested revenue requirements. EPE witness Henderson sponsors this adjustment.

18. State Income Taxes (Adjustment No. 18)

Q40. WHAT ADJUSTMENT WAS MADE FOR NEW MEXICO AND ARIZONA STATE INCOME TAXES?

A. This adjustment shows the change in New Mexico and Arizona state income taxes, respectively. EPE witness Henderson sponsors this adjustment.

19. Texas State Margin Tax (Adjustment No. 19)

Q41. WHAT ADJUSTMENT WAS MADE FOR TEXAS STATE MARGIN TAXES?

A. This adjustment reflects the change in Texas state margin taxes. EPE witness Henderson sponsors this adjustment.

20. Federal Income Taxes (Adjustment No. 20)

Q42. WHAT ADJUSTMENT WAS MADE FOR FEDERAL INCOME TAXES?

A. This adjustment reflects the change in federal income taxes as a result of the various adjustments made to the requested cost of service and the requested return on rate base. EPE witness Henderson sponsors this adjustment.

21. Miscellaneous General Expenses (Adjustment No. 21)

Q43. WAS AN ADJUSTMENT MADE FOR MISCELLANEOUS GENERAL EXPENSES?

A. Yes. This adjustment related to commitment fees for EPE's revolving credit facility is sponsored by EPE witness Richard Gonzalez.

22. Interest on Customer Deposits (Adjustment No. 22)

Q44. WAS AN ADJUSTMENT MADE FOR INTEREST ON CUSTOMER DEPOSITS?

A. Yes. This is an adjustment to Test Year interest expense on customer deposits and is sponsored by EPE witness Prieto.

23. NOT USED (Adjustment No. 23)

Q45. IS THERE AN ADJUSTMENT NO. 23 IN THIS CASE?

A. This numbered adjustment was not used in this case. The remaining adjustments were not renumbered.

24. Membership Dues (Adjustment No. 24)

Q46. WAS AN ADJUSTMENT MADE FOR MEMBERSHIP DUES?

A. Yes. This is an adjustment to Test Year costs to only include allowable membership dues and is sponsored by EPE witness Prieto.

25. Lobbying Expense (Adjustment No. 25)

Q47. WAS AN ADJUSTMENT MADE FOR LOBBYING EXPENSE?

A. Yes. This adjustment removes the salary, benefits, and payroll taxes associated with employees' lobbying activities from the requested cost of service. EPE witness Prieto sponsors this adjustment.

26. Recoverable Advertising and Contributions (Adjustment No. 26)

Q48. WHAT ADJUSTMENT WAS MADE FOR RECOVERABLE ADVERTISING AND CONTRIBUTIONS EXPENSE?

A. EPE witness Prieto sponsors this adjustment and supports the reasonableness of advertising, contributions, and donations in her testimony.

V. Employee Compensation and Benefits

Q49. IS THE COMPANY SEEKING RECOVERY OF COSTS RELATING TO EMPLOYEE COMPENSATION AND BENEFITS?

A. Yes. The Company is seeking recovery of the employee compensation and benefit costs included in Schedules G-1 through G-2.3, which are described in Section VIII below. In addition, I sponsor the salary and wage and benefit adjustments which are included in Workpaper A-3, Adjustment No. 3 – Salaries and Wages, and Adjustment No. 4 – Pensions and Benefits, respectively.

Q50. IS THE OVERALL LEVEL OF COMPENSATION AND BENEFIT EXPENSES THE COMPANY IS REQUESTING IN THIS PROCEEDING REASONABLE AND NECESSARY?

A. Yes. EPE's overall, combined compensation and benefit costs are reasonable and necessary. The total amount of compensation and benefits is market driven and EPE's overall level of compensation is not excessive when compared to other businesses with which EPE must compete to attract and retain required personnel. EPE administers its compensation and benefit plans in a cost effective and efficient manner. The Company provides compensation and benefits for employees at a reasonable cost, and EPE negotiates with vendors for competitive rates for both the Company and the employees.

Q51. DOES PURA PROVIDE A STANDARD FOR ASSESSING THE REASONABLENESS OF COMPENSATION AND BENEFIT EXPENSES?

A. Yes, the Texas Legislature recently amended PURA to provide a presumption of reasonableness and necessity for base salaries, wages, non-officer incentive compensation, and benefits when such expenses are consistent with market compensation studies issued within three years of a proceeding to establish rates. Specifically, PURA § 36.067(b) mandates that when establishing a utility's rates the Commission must "presume that employee compensation and benefits expenses are reasonable and necessary if the expenses are consistent with market compensation studies issued not earlier than three years before the initiation of the proceeding to establish the rates."

Q52. WHAT COMPENSATION AND BENEFIT EXPENSES ARE EXCLUDED FROM THE ABOVE STANDARD?

A. PURA § 36.067(a) defines "employee compensation and benefits" as "salaries, wages, incentive compensation, and benefits." However, the statute expressly excludes the following from the reasonableness presumption:

- pension and other postemployment benefits; or
- incentive compensation for an officer relating to attaining:
  - financial metrics; or
  - metrics adverse to customers' interests (as determined by the Commission).

Q53. DOES PURA § 36.067 CHANGE THE EVALUATION OF COMPENSATION AND BENEFIT EXPENSES?

A. Yes. Historically, the Commission has disallowed portions of utilities' incentive compensation plans when those plans involved some form of financially based performance goals. This led the parties in past rate cases to argue whether certain performance goals were financially based. The adopted legislation alleviates the contention surrounding the issue, draws a distinction between officer and non-officer incentive compensation, and bases the presumption of reasonableness on market competition. Copies of PURA § 36.067 and the accompanying house and senate bill analyses are attached to my testimony as Exhibit SAS-3.

Q54. DID THE COMPANY OBTAIN A MARKET COMPENSATION STUDY FOR ITS CURRENT EMPLOYEE COMPENSATION?

A. Yes. The Company hired Mercer, the world's largest and most comprehensive employee compensation resource, to perform a market compensation study, which was issued on December 30, 2024. A copy of the study is attached to my testimony as Exhibit SAS-4-HIGHLY SENSITIVE PROTECTED MATERIAL.

Q55. WHAT WERE THE FINDINGS OF THE MERCER MARKET COMPENSATION STUDY?

A. Mercer performed a comprehensive analysis and market pricing study encompassing 530 exempt non-union employees. The study benchmarked positions within the Company against the utility industry and the general industry market, as appropriate, and employed advanced statistical techniques for its compensation review. The study concluded that total cash compensation (i.e., base salary and incentive compensation) for EPE employees is most closely aligned with the 25th percentile of market. That is, EPE's overall total cash compensation is commensurate with the lowest quarter percentile of comparable companies.

Q56. BASED ON THE MERCER MARKET COMPENSATION STUDY, ARE THE COMPANY'S TOTAL CASH COMPENSATION LEVELS REASONABLE AND NECESSARY?

A. Yes. The Mercer Market Compensation Study shows that the Company's current total cash compensation costs for non-union employees are well below the market average for similarly situated jobs both in the electric utility industry and the job market as a whole.

Q57. IS IT IMPORTANT THAT THE COMPANY'S OVERALL COMPENSATION PACKAGES THAT IT OFFERS TO ITS EMPLOYEES BE COMPETITIVE WITH ITS PEERS IN THE UTILITY INDUSTRY AND A BROADER MARKET?

A. Yes, it is. The business of EPE requires that it attract, develop, and retain highly qualified talent with good professional skills. The nature of the Company's work is highly technical and requires a workforce rich in engineering, finance, and other professional and technical skills. Most of the Company's positions require not only a sound educational background, but also a number of years of training and development to become fully proficient in the work required. Therefore, the Company invests in programs such as the Doña Ana Community College Line Worker Certification Program and a new Line Worker Certification program with Western Technical College. It further engages in internship and training programs with educational partners such as The University of Texas – El Paso, New Mexico State University, and the El Paso Community College.

Our compensation and benefit plans are market based. We routinely compare total compensation for equivalent positions or levels of skill and responsibility to a defined comparator universe. This comparator universe is composed of companies based on the relevant labor market from which applicants are or could be recruited. Our comparators vary from those of a company specific group to those companies in our industry whose compensation data is reported in aggregate by third-party surveys. The Company remains current with its classification and compensation study of its workforce with the guidance of Mercer and Willis Towers Watson ("WTW") (market leaders in total rewards compensation competitiveness). As discussed below, the compensation levels from this analysis are routinely updated. The objectives include updating a relevant and market competitive classification and compensation program that allows for the attraction and retention of qualified individuals and opportunities for growth and development within a competitive salary structure framework.

EPE's overall compensation is certainly reasonable when compared to its peers. EPE's customers benefit from a unified strategy and approach to total compensation that helps to ensure it is attracting and retaining the talent the Company needs in a complex operational and service delivery business model. The Company's programs are designed to motivate and reward employees to achieve benefits for customers through reliability and customer service that are consistent with EPE's public service mandate to provide reliable and cost-effective electrical service.

Q58. HOW IS EMPLOYEE COMPENSATION DETERMINED?

A. The Company develops compensation for non-union employees by benchmarking jobs to comparable positions in EPE's service territory and within the utility industry through salary surveys, online salary comparison tools and other sources of information on compensation. For officers, the Company consults with WTW and utilizes its surveys and consultants to analyze and recommend officers' compensation. Officers' compensation is generally established at or near 50% of the market range in relation to comparable companies. This methodology results in reasonable compensation levels for officers of the Company.

The Company reviews benchmarking data from multiple sources such as Mercer, WTW, and other utility peers for compensation of exempt and non-exempt non-union employees. While there are a number of positions for which the Company competes for universal skill sets that are normally found at a local level (such as customer service representatives and field service representatives), the Company does compete with other utilities for many positions that require specialized experience or training in the electric utility industry (such as electrical engineers, power system engineers, and power plant managers). The Company seeks to establish salary ranges that are comparable to jobs in the electric utility industry for similarly sized utilities. The Company's salary structure is designed to ensure that the Company can hire, reward, and retain competent employees for each position in the Company.

Compensation for union employees, including contracted changes in compensation, is negotiated in a collective bargaining agreement ("CBA"). The current CBA became effective on March 3, 2023, and expires on March 3, 2028. In negotiating union wage levels, the Company follows a similar process of reviewing wages for similar jobs in El Paso and in the electric utility industry. The union contract provides for future wage increases for bargaining unit employees of 8.0% on March 3, 2023, 5.0% on March 3, 2024, 4.0% on March 3, 2025, and 2026, and 3.0% on March 3, 2027.

The Company adjusted salaries and wages to reflect the salary level as of September 30, 2024, for all employees. Salary levels at this date reflect the latest salaries for all EPE employees including union, nonunion, and officers' salary increases effective in February 2024. Additionally, EPE is adjusting its request for salaries and wages to reflect the 4.0% contractual union wage increase effective March 3, 2025, and a 3.77% increase for non-union wages that will be effective in February 2025. The non-union wage increase is based on a simple three-year average of the wage increases received by EPE employees each of the last three years (the actual non-union increases effective January and February 2022, January 2023 and February 2024 were 3.0%, 4.4% and 3.9%, respectively). Both union and non-union wage increases included in the requested cost of service will occur before the effective date of rates established in this proceeding. See Workpaper A-3, Adjustment No. 3 for these calculations.

Q59. WHAT IS EPE'S OVERALL APPROACH TO THE COMPENSATION PROGRAMS AND BENEFIT PLANS IT PROVIDES TO EXECUTIVE OFFICERS AND THE COSTS OF THOSE PROGRAMS AND PLANS?

A. EPE has designed compensation and supplemental benefits programs to be competitive with other similarly sized utilities in order to attract and retain qualified executive officers. These programs include base salary, short-term incentive pay, long-term incentives, and a supplemental pension restoration program. In total, EPE's programs are targeted at the

50th percentile of the market in order to be competitive with similar utilities, and they comply with industry best practices and are heavily performance-based. EPE's total package of direct compensation and supplemental benefits for executive officers in the aggregate is comparable in both design and cost to programs offered by comparable companies within the utility industry.

The Company's overall executive compensation and benefits are reasonable and necessary, consistent with market and commercial standards, and are designed to ensure that the Company can hire, reward, and retain competent executive officers.

Q60. HOW IS THE COMPENSATION OF EPE'S EXECUTIVE OFFICERS DETERMINED?

A. The Board of Directors People and Remuneration Committee ("PARCO") reviews and approves compensation for all executive officers. All members of the Board of Directors attend the PARCO meetings. The PARCO reviews the performance of the Chief Executive Officer ("CEO") at least annually. The CEO reviews other executive officers' performance and reports their evaluations to the PARCO. EPE's CEO also recommends to, and discusses with, the PARCO compensation elements for executive officers, although the PARCO approves actual compensation awarded.

Q61. IS THE COMPANY SEEKING RECOVERY OF FINANCIALLY BASED INCENTIVE COMPENSATION AMOUNTS INCLUDED IN THE COMPANY'S ANNUAL CASH BONUS PLAN OR LONG-TERM INCENTIVE PLAN?

A. In accordance with PURA § 36.067, all incentive compensation in the Company's annual cash bonus plan and long-term incentive plan for non-officers is included in EPE's request. The financially based portion of the Company's annual cash bonus plan and all long-term incentive plan costs for officers is excluded from the requested salaries, wages and benefits. The amount of the financially based annual cash bonus and all of the long-term incentive plan costs for officers is excluded from the calculation found in Workpaper A-3, Adjustment No. 3, page 2, column (e), line 10 and Adjustment No. 4, page 2, column (d), line 8, respectively.

Q62. WHAT BENEFIT PLANS ARE OFFERED TO EMPLOYEES?

A. The Company offers a competitive package of benefits to employees. Providing employees with a comprehensive benefit package, which includes medical, dental, vision, life and disability insurance, is an important component of employee compensation. The Company provides the same benefits to both union and nonunion employees. In December 2024, Arthur J. Gallagher & Co. ("Gallagher") a leading insurance brokerage, risk management, and HR & benefits consulting company, evaluated the Company's benefit plans and concluded that EPE's comprehensive benefits package is reasonable and necessary, consistent with market standards, and is provided to ensure that the Company can hire, reward, and retain competent employees for each position in the Company. Gallagher also concluded that the Company's costs associated with these benefit plans are generally in line with benchmark standards when compared against industry standards and similar organizations. A copy of Gallagher's analysis of EPE's benefit plans is attached to my testimony as Exhibit SAS-5-HIGHLY SENSITIVE PROTECTED MATERIAL.

Q63. HAS EPE CHANGED ITS BENEFIT PLANS TO MANAGE COSTS?

A. Yes. EPE has continued to modify its benefit plans by implementing changes to help manage the Company's overall benefit expense. Since the 2021 Rate Case, a change was made to the retiree medical plan that has reduced OPEB expenses in this case. To continue its management of overall medical plan costs, EPE closed retiree health benefits to new employees hired or re-hired on or after January 1, 2023. In fact, the amount included in cost of service related to OPEB expense continues to be a credit to customers, or a reduction in expense of $7.1 million for the Adjusted Test Year Period. The plan amendment implementing this change has been provided in Workpaper G-2a.

Q64. WHAT COSTS ARE INCLUDED IN COST OF SERVICE FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS?

A. WTW, the Company's actuary, has prepared actuarial estimates of expenses for 2024 for the pension and OPEB plans in accordance with GAAP that are annualized and reflected in the pro forma adjustments in Workpaper A-3, Adjustment No. 4. The actuarial report is based upon the funded status of the plans at December 31, 2023, which allows WTW to compute an estimate of 2024 expenses for each plan. The expense summary report for fiscal year 2024 prepared by WTW is included in Schedule G-2.1 Attachment A, for the pension plan and Schedule G-2.2 Attachment A, for the OPEB. The Company consults with WTW for services related to its pension, medical, and retiree benefit plans and WTW prepares actuarial reports to determine the annual expense for pension and OPEB for financial reporting under GAAP and reporting under the Employment Retirement Income Security Act of 1974.

Q65. WHAT SUPPLEMENTAL PENSION BENEFITS ARE OFFERED TO EPE'S EXECUTIVE OFFICERS?

A. Two types of supplemental pension benefits are offered to EPE's executive officers: (i) the Supplemental Executive Retirement Plan ("SERP"), which is a consolidation of the Supplemental Retirement and Survivor Income Plan, Executive Retirement Agreements, and Directors' Retirement Plan, that were offered to executive officers and directors prior to and during EPE's emergence from bankruptcy in February 1996 and (ii) the Excess Benefit Plan, adopted in 2004, which provides supplemental pension benefits to EPE's executive officers, whose benefits in the retirement income plan are limited because of the benefit limitations imposed by the IRS.

Q66. COULD YOU PLEASE DESCRIBE THE COMPANY'S SERP?

A. The Company's SERP, a non-funded defined benefit plan, covers certain former employees and directors of the Company. The pension cost for the SERP is based on substantially the same actuarial methods and economic assumptions as those used for the retirement income plan that covers all EPE employees. The Company closed the SERP to new participants in 1996, after the plan's costs were approved by the bankruptcy court in conjunction with the reorganization plan and the Company's emergence from bankruptcy. The approval of the SERP benefit plans upon emergence from bankruptcy allowed for a smooth management transition and, as part of the Company's plan of reorganization, helped customers to benefit from the revaluation of EPE's generating assets as discussed by EPE witness Prieto. A copy of the actuarial report prepared by WTW for the SERP is included in Schedule G-2 Attachment A.

Q67. COULD YOU PLEASE DESCRIBE THE COMPANY'S EXCESS BENEFIT PLAN?

A. The Company's Excess Benefit Plan was adopted in 2004 and covers certain active and former employees. The Excess Benefit Plan seeks to supplement executive officers' pension benefits that are restricted due to IRS limitations, so as to provide benefits comparable to what other employees receive through the retirement income plan. Pension cost for the Excess Benefit Plan is based on substantially the same actuarial methods and economic assumptions as those used for EPE's retirement income plan.

Q68. IS IT COMMON FOR UTILITIES LIKE EPE TO OFFER PLANS LIKE EPE'S EXCESS BENEFIT PLAN?

A. Yes. Virtually all investor-owned public utilities offer "restorative" plans such as the Excess Benefit Plan offered by the Company. As previously discussed, EPE has designed compensation and supplemental benefits programs to be competitive with other similarly sized utilities in order to attract and retain qualified executive officers. Due to earnings limits imposed by the IRS on the Company's retirement income plan, these supplemental pension benefit plans allow the participants to earn a benefit proportional to their overall compensation. A copy of the actuarial report prepared by WTW for the Excess Benefit Plan is included in Schedule G-2 Attachment A.

Q69. WHY IS IT IMPORTANT FOR THE COMPANY TO OFFER AN EXECUTIVE RETIREMENT PACKAGE COMMENSURATE WITH THOSE OFFERED BY SIMILAR COMPANIES?

A. These supplemental pension benefit plans are just one component of our overall compensation and benefit plan. Our overall compensation and benefit program must be competitive in order for EPE to compete for the talent and personnel necessary to effectively operate our business. Absent the Excess Benefit Plan, EPE's executive officers would not be competitively compensated with regard to their retirement benefits.

Q70. HAS THE COMPANY MADE ANY ADJUSTMENTS TO ITS TEST YEAR PAYROLL AMOUNT?

A. Yes. As discussed above, salaries and wages requested in cost of service were annualized based on payroll data as of September 2024, and were adjusted to reflect the 4.0% contractual union wage increase effective March 3, 2025, and a 3.77% increase for non-union wages which represents a simple 3-year average increase and will be effective in February 2025. In addition, and as previously noted, the portion of the annual bonus related to financially based incentives for officers was removed from the requested cost of service. Both the annualized salaries and wages and the requested amounts of target-level annual bonus were then multiplied by the actual Test Year ratio of payroll expense to total payroll costs. The salaries and wages adjustment is reflected on Schedule A-3 and is calculated in Workpaper A-3, Adjustment No. 3.

Q71. HAS THE COMPANY MADE ANY ADJUSTMENTS TO ITS TEST YEAR PAYROLL TAX EXPENSE AMOUNT?

A. Yes. Payroll taxes were calculated by applying the rates and salary limits effective in 2024 to the adjusted salaries and wages requested in the cost of service as calculated in Workpaper A-3, Adjustment No. 3. Additionally, an adjustment for payroll taxes for PVGS was included in Adjustment No. 16 to remove amounts recorded in the Test Year that related to prior years. The payroll tax adjustment is reflected on Schedule G-9 and is calculated in Workpaper A-3, Adjustment No. 16.

Q72. HAS THE COMPANY MADE ANY ADJUSTMENTS TO ITS TEST YEAR PENSION AND BENEFIT AMOUNT?

A. Yes. The Company's pension and benefit adjustment calculation is included in Workpaper A-3, Adjustment No. 4. This adjustment reduces Test Year pension and benefits expense to reflect known and measurable costs as follows (line numbers referenced below refer to page 2 of Adjustment No. 4):

1. Costs for the OPEB, Pension, Excess and SERP Plans were adjusted to reflect the annualized 2024 actuarial expense as prepared by WTW (lines 1, 3, 4 and 5).
2. The 401(k) costs were adjusted to reflect the Company's current contribution levels (line 2).

3. The compensation cost for the officers' portion of the Company's long-term incentive program was removed from the Test Year expense (line 8).
4. Medical expenses were adjusted to reflect medical expense rebates received during the Test Year (line 9).
5. Other employee benefits were adjusted to remove the PTO accrual and PTO sell-back amounts since these amounts are included in salaries and wages in Adjustment No. 3 (line 11).
6. Costs for employee separation agreements were removed from Test Year costs (line 12).

VI. Sponsored Rate Base Adjustments

Q73. WHAT ADJUSTMENTS WERE MADE TO RATE BASE INCLUDED IN SCHEDULE B-1?

A. Several pro-forma adjustments were made to rate base to correctly reflect the investment the Company has made to serve customers in its service territory. A list of all pro-forma rate base adjustments is presented in the testimony of EPE witness Prieto. The pro-forma rate base adjustments that I sponsor or co-sponsor are listed and described below.

Non-cash Working Capital (Rate Base Adjustment No. 6)

Q74. WHAT ARE THE NON-CASH COMPONENTS OF WORKING CAPITAL?

A. Working capital, excluding the working cash allowance, is made up of 13-month average balances for fuel inventory, materials and supplies, and prepayments.

Working Cash Allowance (Rate Base Adjustment No. 8)

Q75. WHAT WORKING CASH ALLOWANCE IS INCLUDED IN WORKING CAPITAL?

A. The working cash allowance is calculated based on the lead-lag study sponsored by EPE witness Joseph Weiss. I co-sponsor this adjustment with EPE witness Weiss.

VII. FERC Order No. 898 Impacts

Q76. WHAT DOES THIS SECTION OF YOUR TESTIMONY ADDRESS?

A. In this section of my testimony, I address FERC Order No. 898 as it relates to the Company's general ledger.

Q77. WHAT IS FERC ORDER NO. 898?

A. FERC Order No. 898, issued on June 29, 2023, and effective on January 1, 2025, is a final rule that amends the FERC's Uniform System of Accounts for public utilities to: create new accounts for wind, solar, and other renewable generating assets; create a new functional class for energy storage accounts; codify the accounting treatment of renewable energy credits, now called Environmental Credits; and create new accounts within existing functions for computer hardware, software, and communication equipment. The relevant FERC forms will also be amended to accommodate these changes. The rule's goal is to improve the transparency of regulatory reporting for electric utilities.

Q78. HOW WILL FERC ORDER NO. 898 IMPACT THE COMPANY'S GENERAL LEDGER, AND WHEN WILL THE COMPANY COMPLY WITH THIS ORDER?

A. The Company has created new accounts on its general ledger system and will comply with new FERC reporting requirements effective January 1, 2025, beginning with the March 31, 2025, FERC Form 3-Q.

Q79. HOW DOES FERC ORDER NO. 898 IMPACT THE COMPANY'S REQUEST IN THIS RATE CASE?

A. The presentation of amounts in this case are in compliance with the FERC Uniform System of Accounts in effect during the Test Year. There are no impacts to the Company's request in this case resulting from FERC Order No. 898.

VIII. Summary of Schedules Sponsored

Q80. WHAT SCHEDULES FROM THE COMMISSION'S RFP ARE YOU SPONSORING?

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

Q81. WERE THE SCHEDULES AND EXHIBITS YOU ARE SPONSORING OR CO-SPONSORING PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION?

A. Yes, they were.

Q82. ARE THE CONTENTS OF THESE SCHEDULES AND EXHIBITS TRUE AND ACCURATE?

A. Yes, they are.

Q83. ON WHAT BASIS WERE THE RFP SCHEDULES PREPARED?

A. They were prepared from the books and records of EPE, and they are based on an October 1, 2023, through September 30, 2024, Test Year.

A. The A Schedules (Cost of Service Summary)

Q84. WHAT DOES SCHEDULE A, OVERALL COST OF SERVICE, ADDRESS?

A. Schedule A, which I co-sponsor, presents EPE's overall, system-wide cost of service, including such items as O&M expense, depreciation expense, taxes other than income taxes, income taxes, pro-forma adjustments, and return on rate base. It also includes fuel and purchased power information for the Test Year. This information is presented on a system-wide (total utility) basis, as EPE serves three jurisdictions (retail in Texas and New Mexico and wholesale under the FERC jurisdiction).

Q85. WHAT DOES SCHEDULE A-2, COST OF SERVICE DETAIL BY ACCOUNT, ADDRESS?

A. I sponsor Schedule A-2. The schedule provides the Company's Test Year cost of service detail by account in accordance with the RFP on a total-Company basis.

Q86. WHAT DOES SCHEDULE A-3, ADJUSTMENTS TO TEST YEAR, ADDRESS?

A. Schedule A-3 provides an explanation of each of the adjustments to EPE's Test Year amounts. Each of these adjustments is discussed in more detail later in my testimony.

Q87. WHAT DOES SCHEDULE A-4, DETAIL TEST YEAR END TRIAL BALANCE, ADDRESS?

A. I sponsor Schedule A-4, which provides the Test Year end trial balances by FERC accounts.

Q88. WHAT DOES SCHEDULE A-5, UNADJUSTED O&M, ADDRESS?

A. I also sponsor Schedule A-5, which provides a detailed listing (by FERC account) of amounts included in unadjusted O&M expense.

B. The B Schedules (Rate Base and Return)

Q89. WHAT B SCHEDULES DO YOU SPONSOR?

A. I co-sponsor schedule B-2 (Accumulated Provision Balances), which provides the balances of accumulated provision accounts.

Q90. WHAT DOES SCHEDULE B-2, ACCUMULATED PROVISION BALANCES, ADDRESS?

A. Schedule B-2 provides the monthly balance of the provision for uncollectible accounts, the accumulated provision for pensions and benefits, accumulated miscellaneous operating provision, and accumulated provision for rate refund. For each of these provision accounts, the amount accrued each month, and the amount charged off each month in the Test Year and ending account balance are shown.

C. The F Schedule (Description of Company)

Q91. WHAT DOES SCHEDULE F, DESCRIPTION OF COMPANY, ADDRESS?

A. Schedule F, which I sponsor, provides a general description of the Company, including its service area and diversity of operations.

D. The G Schedules (Accounting Information)

Q92. WHAT DO THE G SCHEDULES ADDRESS?

A. The G Schedules that I sponsor address accounting information and expenses relating to employee compensation and benefits, and other administrative and business expenses. I sponsor the following schedules:

Schedule	Description
Schedule G-1	Payroll Information
Schedule G-1.1	Regular and Overtime Payroll
Schedule G-1.2	Regular Payroll by Category
Schedule G-1.3	Payroll Capitalized vs. Expensed
Schedule G-1.4	Payroll by Company
Schedule G-1.5	Number of Employees
Schedule G-1.6	Payments Other Than Standard Pay
Schedule G-2	General Employee Benefit Information
Schedule G-2.1	Pension Expense
Schedule G-2.2	Postretirement Benefits Other Than Pension
Schedule G-2.3	Administration Fees
Schedule G-15	Monthly O&M Expense

Payroll Information (G-1 Schedules)

Q93. WHAT INFORMATION IS IN SCHEDULE G-1, PAYROLL INFORMATION?

A. Schedule G-1 provides a narrative of EPE's payroll practices.

Q94. WHAT INFORMATION IS IN SCHEDULES G-1.1, REGULAR AND OVERTIME PAYROLL; G-1.2, REGULAR PAYROLL BY CATEGORY; AND G-1.3, PAYROLL CAPITALIZED VS. EXPENSED?

A. Schedules G-1.1, G-1.2, and G-1.3 provide gross payroll information for each month in the October 2023 – September 2024 Test Year as well as the three most recent calendar years before the Test Year – 2021, 2022, and 2023.

- Schedule G-1.1 provides total payroll costs segregated by regular, overtime and other payroll categories. The detail of other payroll costs is provided on Schedule G-1.6.
- Schedule G-1.2 provides the detail of regular payroll costs between union and non-union payroll costs.
- Schedule G-1.3 provides the detail of payroll costs that were expensed in O&M, capitalized, and expensed in non-operating (other expensed) accounts. As discussed

previously, payroll costs related to the merger were included in the other expensed column.

Q95. DESCRIBE SCHEDULE G-1.4, PAYROLL BY COMPANY.

A. Schedule G-1.4 does not apply to EPE. Schedule G-1.4 asks for gross payroll charged by the operator of a joint plant to other participants. While EPE owns a portion of PVGS, it was not the operator of the plant and did not disburse payroll to employees who work at the unit.

Q96. WHAT INFORMATION IS IN SCHEDULES G-1.5, NUMBER OF EMPLOYEES, AND G-1.6, PAYMENTS OTHER THAN STANDARD PAY?

A. These schedules provide employee information for each month in the Test Year as well as the three most recent calendar years before the Test Year – 2021, 2022, and 2023.

- Schedule G-1.5 provides an employee count for full-time employees, part-time employees, and total employees.
- Schedule G-1.6 reports all payments other than standard pay or overtime pay made to employees.

Employee Benefits (G-2 Schedules)

Q97. WHAT DO THE G-2 SCHEDULES CONTAIN?

A. The G-2 schedules contain employee benefit information, as well as pension and OPEB expense and administration fees.

Q98. DESCRIBE SCHEDULE G-2, GENERAL EMPLOYEE BENEFIT INFORMATION.

A. Schedule G-2, pages 1 to 4, describes all employee benefits paid by EPE during the Test Year. Schedule G-2, pages 5 and 6 include the claims, life insurance and other plan costs as required in pages 1 to 4. As explained above, plan documents and trust agreements for each plan are included in the G-2 Workpapers.

Q99. WHAT INFORMATION IS IN SCHEDULE G-2.1, PENSION EXPENSE?

A. Schedule G-2.1 provides information about EPE's pension expense and contributions to the pension fund.

Q100. DESCRIBE SCHEDULE G-2.2, POSTRETIREMENT BENEFITS OTHER THAN PENSION.

A. Schedule G-2.2 provides information about EPE's OPEB plan, contributions made to the fund and the net periodic benefit cost for the Test Year and the prior three years.

Q101. WHAT INFORMATION IS IN SCHEDULE G-2.3, ADMINISTRATION FEES?

A. Schedule G-2.3 describes employee benefit plan administration fees requested in EPE's cost of service. The monthly Test Year administration fees are included in Schedule G-2 on pages 5 and 6. Additionally, Workpaper G-2.3a (Confidential) and Workpaper G-2.3b (Highly Sensitive) contain copies of the administration contracts and monthly invoices.

Monthly O&M Expenses (Schedule G-15)

Q102. WHAT INFORMATION IS IN SCHEDULE G-15, MONTHLY O&M EXPENSE?

A. Schedule G-15 includes EPE's O&M expense for each account in the Uniform System of Accounts, with:

1. expense by month, as booked for the Test Year, and the total;
2. adjustments to the booked amount; and
3. total adjusted O&M expense.

The information that I sponsor on this schedule is the expense by month for the Test Year.

E. The H Schedules (Engineering Information)

Q103. WHICH H SCHEDULE DO YOU SPONSOR?

A. I co-sponsor schedule H-2 (Summary of Adjusted Test Year Production O&M Expenses).

Q104. WHAT DOES SCHEDULE H-2, SUMMARY OF ADJUSTED TEST YEAR PRODUCTION O&M EXPENSES, ADDRESS?

A. Schedule H-2 summarizes the nuclear, fossil fuel, and other power generation expenses by FERC account for the Test Year, by fuel type for all generating plants or units, including the Test Year adjustments and adjusted Test Year totals.

F. The J Schedules (Financial Statements)

Q105. PLEASE DESCRIBE SCHEDULE J, FINANCIAL STATEMENTS.

A. Schedule J contains financial statement information for the Company.

- Schedule J, pages 2 through 7, provides EPE's Balance Sheet and Retained Earnings at September 30, 2024, and 2023, as well as its Income Statement, Statement of Comprehensive Income and Statement of Cash Flows for the Test Year and twelve-month period immediately preceding the Test Year prepared on a FERC regulatory accounting basis. The Company has also provided EPE's financial statements in accordance with GAAP (e.g., Balance Sheet, Income Statement, Statement of Comprehensive Operations and Statement of Cash Flows) on pages 8 to 12. The Income Statement, Statement of Comprehensive Operations and Statement of Cash Flows cover the Test Year and twelve months immediately preceding the Test Year. Attachment A to Schedule J provides the Company's FERC Form 3-Q report for the period ending September 30, 2024, and Attachment B provides the Company's revised 2023 FERC Form 1 filing. Attachment C to Schedule J provides the Company's financial statements and footnotes on a GAAP basis as of December 31, 2023.

Schedule J-1 (Reconciliation – Total Company to Total Electric) and Schedule J-2 (Consolidated Financial Statements) reconcile the balance sheet and income statement presented on a Total Company basis in Schedule J with the same information presented on a Total Electric and Total Consolidated basis, respectively.

G. The R Schedules (Financial Information – Cooperatives)

Q106. WHAT INFORMATION IS REQUIRED TO BE PRESENTED IN THE R SCHEDULES?

A. The R schedules address generation and transmission cooperatives. These schedules are not applicable to EPE.

IX. Conclusion

Q107. PLEASE STATE YOUR CONCLUSIONS.

A. Since the 2021 Rate Case, the Company's non-fuel O&M expenses have remained relatively flat and are well below inflation-adjusted amounts, including overall combined compensation and benefit costs which remain reasonable and necessary. The total amount of EPE's requested compensation and benefits is market driven, consistent with other similarly situated businesses, administered in a cost-effective manner, and is consistent with the Company's recent market study and is therefore presumed reasonable in accordance with PURA § 36.067. Likewise, the Company's other O&M and administrative and general expenses presented or summarized in the pro-forma adjustments above are reasonable and necessary for the Company to support its operations.

The Company's financial statements are consistent with GAAP and FERC accounting requirements.

Q108. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

SCHEDULES SPONSORED OR CO-SPONSORED BY S. SIERRA

Schedule	Description	Sponsorship
A	OVERALL COST OF SERVICE	Co-Sponsor
A-2	COST OF SERVICE DETAIL BY ACCOUNT	Sponsor
A-3	ADJUSTMENTS TO TEST YEAR	Sponsor
A-4	DETAIL TEST-YEAR END TRIAL BALANCE	Sponsor
A-5	UNADJUSTED O&M	Sponsor
B-2	ACCUMULATED PROVISION BALANCES	Co-Sponsor
F	DESCRIPTION OF COMPANY	Sponsor
G-1	PAYROLL INFORMATION	Sponsor
G-1.1	REGULAR AND OVERTIME PAYROLL	Sponsor
G-1.2	REGULAR PAYROLL BY CATEGORY	Sponsor
G-1.3	PAYROLL CAPITALIZED VS. EXPENSED	Sponsor
G-1.4	PAYROLL BY COMPANY	Sponsor
G-1.5	NUMBER OF EMPLOYEES	Sponsor
G-1.6	PAYMENTS OTHER THAN STANDARD PAY	Sponsor
G-2	GENERAL EMPLOYEE BENEFIT INFORMATION	Sponsor
G-2.1	PENSION EXPENSE	Sponsor
G-2.2	POSTRETIREMENT BENEFITS OTHER THAN PENSION	Sponsor
G-2.3	ADMINISTRATION FEES	Sponsor
G-15	MONTHLY O&M EXPENSE	Sponsor
H-2	SUMMARY OF ADJUSTED TEST YEAR PRODUCTION O&M EXPENSES	Co-Sponsor
J	FINANCIAL STATEMENTS	Sponsor
J-1	RECONCILIATION - TOTAL COMPANY TO TOTAL ELECTRIC	Sponsor
J-2	CONSOLIDATED FINANCIAL STATEMENTS	Sponsor
R	GENERATION & TRANSMISSION COOPERATIVES	Sponsor

LIST OF PRO-FORMA ADJUSTMENTS TO COST OF SERVICE

Adjustment	Description	Sponsor
	Cost of Service Adjustments	
1	Revenues & Uncollectibles	Rene Gonzalez / C. Prieto
2	Fuel and Purchased Power Expense	J. Reza
3	Salaries & Wages	S. Sierra
4	Pensions & Benefits Expense	S. Sierra
5	Decommissioning Expense	Richard Gonzalez
6	Palo Verde O&M Expense	S. Sierra
7	Meals and Entertainment	C. Prieto
8	Outside Services	C. Prieto
9	Property Insurance Expense	S. Sierra
10	Injuries & Damages Expense	S. Sierra
11	Regulatory Asset Amortization	J. Reza / C. Prieto
12	Regulatory Commission Expense	J. Reza
13	Miscellaneous Generation O&M Expense	S. Sierra
14	Depreciation Expense	C. Prieto
15	Property Taxes	T. Henderson
16	Payroll Taxes	T. Henderson
17	Revenue Related Taxes	T. Henderson
18	State Income Taxes	T. Henderson
19	Texas State Margin Tax	T. Henderson
20	Federal Income Taxes	T. Henderson
21	Miscellaneous General Expense	Richard Gonzalez
22	Interest on Customer Deposits	C. Prieto
23	(NOT USED)	N/A
24	Memberships Dues Expense	C. Prieto
25	Lobbying Expense	C. Prieto
26	Recoverable Adv., Contr., & Donation Expenses	C. Prieto

S.B. No. 1016

AN ACT

relating to the consideration of employee compensation and benefits in establishing the rates of electric utilities.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Subchapter B, Chapter 36, Utilities Code, is amended by adding Section 36.067 to read as follows:

Sec. 36.067. CONSIDERATION OF COMPENSATION AND BENEFIT EXPENSES. (a) In this section, "employee compensation and benefits" includes base salaries, wages, incentive compensation, and benefits. The term does not include:

(1) pension or other postemployment benefits; or

(2) incentive compensation for an officer of an electric utility related to attaining:

(A) financial metrics; or

(B) metrics adverse to customers' interests as determined by the commission.

(b) When establishing an electric utility's rates, the regulatory authority shall presume that employee compensation and benefits expenses are reasonable and necessary if the expenses are consistent with market compensation studies issued not earlier than three years before the initiation of the proceeding to establish the rates.

SECTION 2. (a) Section 36.067, Utilities Code, as added by this Act, applies only to a proceeding for the establishment of rates for which the regulatory authority has not issued a final order or decision before the effective date of this Act.

(b) A proceeding for which the regulatory authority has issued a final order or decision before the effective date of this Act is governed by the law in effect immediately before that date, and that law is continued in effect for that purpose.

SECTION 3. This Act takes effect immediately if it receives a vote of two-thirds of all the members elected to each house, as provided by Section 39, Article III, Texas Constitution. If this Act does not receive the vote necessary for immediate effect, this Act takes effect September 1, 2023.

S.B. No. 1016

______________________________ President of the Senate

______________________________ Speaker of the House

I hereby certify that S.B. No. 1016 passed the Senate on April 3, 2023, by the following vote: Yeas 31, Nays 0.

______________________________ Secretary of the Senate

I hereby certify that S.B. No. 1016 passed the House on April 20, 2023, by the following vote: Yeas 141, Nays 1, two present not voting.

______________________________ Chief Clerk of the House

Approved:

______________________________ Date

______________________________ Governor

BILL ANALYSIS

S.B. 1016
By: King
State Affairs
Committee Report (Unamended)

BACKGROUND AND PURPOSE

Electric utilities are constantly competing with other industries for qualified employees. Large businesses in many industries offer employee compensation packages that include a base salary and additional incentive pay tied to performance metrics. S.B. 1016 seeks to ensure that electric utilities are able to attract, develop, and retain high-performing employees by establishing a presumption that, for rate-setting purposes, a utility employee's total compensation and benefit expenses are presumed to be reasonable and necessary, provided the expenses are consistent with recent market compensation studies.

CRIMINAL JUSTICE IMPACT

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

S.B. 1016 amends the Utilities Code to require a regulatory authority, when establishing an electric utility's rates, to presume that employee compensation and benefits expenses are reasonable and necessary if the expenses are consistent with market compensation studies issued not earlier than three years before the initiation of the proceeding to establish the rates. For this purpose, "employee compensation and benefits" includes base salaries, wages, incentive compensation, and benefits, but does not include pension or other postemployment benefits or incentive compensation for an officer of an electric utility related to attaining financial metrics or metrics adverse to customers' interests as determined by the Public Utility Commission of Texas. The bill's provisions apply only to a proceeding for the establishment of rates for which the regulatory authority has not issued a final order or decision before the bill's effective date.

EFFECTIVE DATE

On passage, or, if the bill does not receive the necessary vote, September 1, 2023.

BILL ANALYSIS

Senate Research Center

S.B. 1016
By: King
Business & Commerce
4/28/2023
Enrolled

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

In 2019, the Texas Legislature passed a law, H.B. 1767 (which passed the Senate 30-1), that directed the Railroad Commission of Texas to presume as reasonable when establishing a gas utility's rates the total compensation paid to the gas utility's employees as long as that pay is consistent with recent market compensation studies. The presumption of reasonableness applies only to employees such as front-line workers, support personnel, and back-office support. The presumption of reasonableness does not apply to named executive officers of the gas utility. Importantly, H.B. 1767 does not allow for the recovery of one-time or supplemental bonus payments to employees or executives.

H.B. 1767 was aimed at reducing litigation in gas utility rate cases at the Railroad Commission of Texas over how gas utility employees are paid (that is, what company goals might affect a portion of employee compensation), and not how much they are paid, which is rarely litigated. H.B. 1767 has had the desired effect of reducing litigation at the Railroad Commission over how gas utility employees are paid.

Similar to H.B. 1767, S.B. 1016 is aimed at reducing litigation in electric utility cases at the Public Utility Commission of Texas over how electric utility employees are paid. S.B. 1016 would direct the Public Utility Commission of Texas to presume as reasonable when establishing an electric utility's rates, the total compensation paid to the electric utility's employees as long as that pay is consistent with recent market compensation studies. Total compensation, defined as "employee compensation benefits," includes base salaries, wages, incentive compensation, and benefits. Total compensation does not include pensions, other postemployment benefits, or incentive compensation for officers of an electric utility related to attaining financial metrics or attaining metrics that are adverse to customers, as determined by the Public Utility Commission of Texas.

S.B. 1016 amends current law relating to the consideration of employee compensation and benefits in establishing the rates of electric utilities.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Subchapter B, Chapter 36, Utilities Code, by adding Section 36.067, as follows:

Sec. 36.067. CONSIDERATION OF COMPENSATION AND BENEFIT EXPENSES. (a) Provides that "employee compensation and benefits" in this section includes base salaries, wages, incentive compensation, and benefits. Provides that the term does not include:

(1) pension or other postemployment benefits; and

(2) incentive compensation for an officer of an electric utility related to attaining:

(A) financial metrics; or

(B) metrics adverse to customers' interests as determined by the Public Utility Commission of Texas.

(b) Requires the regulatory authority, when establishing an electric utility's rates, to presume that employee compensation and benefits expenses are reasonable and necessary if the expenses are consistent with market compensation studies issued not earlier than three years before the initiation of the proceeding to establish the rates.

SECTION 2. (a) Provides that Section 36.067, Utilities Code, as added by this Act, applies only to a proceeding for the establishment of rates for which the regulatory authority has not issued a final order or decision before the effective date of this Act.

(b) Provides that a proceeding for which the regulatory authority has issued a final order or decision before the effective date of this Act is governed by the law in effect immediately before that date, and that law is continued in effect for that purpose.

SECTION 3. Effective date: upon passage or September 1, 2023.

PUBLIC

Exhibit SAS-4 is a CONFIDENTIAL and/or HIGHLY SENSITIVE PROTECTED MATERIALS attachment.

PUBLIC

Exhibit SAS-5 is a CONFIDENTIAL and/or HIGHLY SENSITIVE PROTECTED MATERIALS attachment.

DOCKET NO. 57568

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

DIRECT TESTIMONY

OF

RICHARD S. GONZALEZ

FOR

EL PASO ELECTRIC COMPANY

JANUARY 2025

EXECUTIVE SUMMARY

Richard S. Gonzalez is the Treasurer for El Paso Electric Company ("EPE" or "Company"). His responsibilities include treasury, budgeting, financial forecasting, and claims and credit risk functions of EPE.

Mr. Gonzalez discusses EPE's capital expansion plan, capital structure, cost of capital, financing plans, and the need to maintain EPE's credit ratings, nuclear decommissioning trust funding, and compliance with certain financial regulatory commitments. Mr. Gonzalez also supports the test period adjustment for revolving credit facility commitment fees.

TABLE OF CONTENTS

SUBJECT **PAGE**

EXHIBITS

I. Introduction and Qualifications

Q1.PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Richard S. Gonzalez. My business address is 100 N. Stanton Street, El Paso, Texas 79901.

Q2.HOW ARE YOU EMPLOYED?

A. I am employed by El Paso Electric Company ("EPE" or "Company") in the position of Treasurer.

Q3.PLEASE SUMMARIZE YOUR EDUCATIONAL AND BUSINESS BACKGROUND.

A. I hold a Bachelor of Business Administration in Economics and a Master of Business Administration from the University of Texas at El Paso. I have been employed by EPE since July 2002. In February 2024, I was appointed Treasurer of EPE. Prior to becoming Treasurer, I held various positions within the Company as Manager of Financial Planning & Analysis, Manager of Cash Management and Investor Relations, Supervisor of Investor Relations, Financial Analyst, and Load Forecaster.

Q4.WHAT ARE YOUR PRINCIPAL RESPONSIBILITIES WITH EPE?

A. I have responsibility for the treasury, financial planning & analysis, and claims & risk functions at EPE. I also have oversight of trust investments and administration.

Q5. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE ANY REGULATORY AGENCY?

A. Yes. I have filed testimony before the New Mexico Public Regulation Commission ("NMPRC").

II. Purpose of Testimony

Q6.WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my Direct Testimony is to present and address the capital needed for EPE to fund its anticipated construction program. In addition, I discuss the capital required to satisfy the Company's obligation to serve while meeting the increasing demands placed on the system by the continued load growth in EPE's service territory. I address the requested capital structure, cost of debt, and the weighted average cost of capital, which reflects the Company's requested return on equity ("ROE"). EPE's witness, Jennifer E. Nelson, supports the requested ROE. I also discuss the Company's credit ratings and the need to maintain investment grade credit ratings to prevent EPE and its customers from paying increased borrowing costs. EPE's witness Ellen Lapson also supports EPE's requested capital structure and provides additional external analysis regarding the importance of maintaining investment grade credit ratings.

Further, my testimony supports EPE's proposal regarding the Palo Verde Generating Station ("Palo Verde" or "PVGS") decommissioning trust funds. I provide support that demonstrates EPE's compliance with Nuclear Regulatory Commission ("NRC") guidelines and Commission rules governing nuclear decommissioning funds. I discuss EPE's request to fund its remaining decommissioning obligation on a straight-line basis over the plant life of Palo Verde as reflected in the 2023 decommissioning study conducted by Lori Glander of TLG Services, Inc. My testimony supports the projected annual escalation rates for decommissioning costs and EPE's calculation of the weighted average return on the fund investments. I also explain the Company's proposal to increase its decommissioning funding request from zero to $3.3 million. My testimony further addresses the reasonableness of commitment fees relating to the Company's revolving credit facility, and continued compliance with certain financial regulatory commitments.

Q7. WHAT SCHEDULES DO YOU SPONSOR?

A. The schedules I sponsor and co-sponsor are listed in Exhibit RSG-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.

III. Capital Requirements and Financing Plan

Q9. IS EPE PLANNING TO MAKE SIGNIFICANT CAPITAL EXPENDITURES IN THE NEXT FIVE YEARS?

A. Yes, as Table RSG-1 below shows, EPE is currently projecting to spend approximately $4.4 billion over the next five years. As can be seen in Table RSG-1, cash construction expenditures are anticipated to be in excess of $580 million each year through year 2029.

Table RSG-1

Cash Capital Expenditures ($ in millions) Calendar Year Basis				
Forecasted Expenditures				
2025	2026	2027	2028	2029
$1,148	$1,140	$835	$699	$580

(The amounts shown in this table do not include Allowance for Funds Used During Construction)

The anticipated cash capital expenditures for the years 2025 through 2029 include the capital necessary to complete the construction of 200-megawatt(s) ("MW") of additional solar generation and battery capacity. EPE's peak load continues to grow as does the need for additional generating resources. In July 2023, EPE set a new record peak of 2,384 MW, which was 8.3% or 183 MW higher than the previous peak established in 2022, as addressed by EPE witness George Novela. In addition, EPE expects to make significant capital investments in transmission and distribution plant to upgrade and replace aging equipment, expand its system to meet customer growth, and for additional infrastructure to add and improve customer service options through advanced metering. Palo Verde Generating Station also requires capital investments to sustain its operations. These investments will help EPE meet its obligation to serve, which includes satisfying growing customer demand.

Q10. ARE THE PROJECTED CAPITAL EXPENDITURES FOR THE YEARS 2025 THROUGH 2029 MORE THAN WHAT WAS INCLUDED IN EPE'S FIVE-YEAR

CAPITAL EXPENDITURE REGULATORY COMMITMENT IN THE APPROVAL OF ITS PURCHASE BY SUN JUPITER HOLDINGS LLC IN DOCKET NO. 49849?

A. Yes, EPE's projected capital expenditures for the years 2025 through 2029 are more than the amounts included in EPE's minimum capital expenditure regulatory commitment for the five-year- period beginning January 1, 2021, in Docket No. 49849.[1]

Q11. WHAT IS THE MINIMAL CAPITAL EXPENDITURE REGULATORY COMMITMENT YOU ARE REFERENCING AND IS EPE IN COMPLIANCE?

A. EPE committed to make minimum capital expenditures in an amount equal to EPE's preceding five-year budget (as reported in EPE's 2018 SEC Form 10-K) for the five-year period beginning January 1, 2021, subject to specified adjustments. Currently, EPE expects to meet and to exceed its capital commitment.

Q12. WHAT ARE THE EXPECTED SOURCES OF CAPITAL FOR EPE TO MEET ITS CONSTRUCTION NEEDS OVER THE NEXT SEVERAL YEARS?

A. EPE uses its revolving credit facility ("RCF") and a term loan as short-term bridge loans to finance utility operations and ongoing utility construction projects necessary to provide service to its customers. From time to time, such short-term debt is repaid through the issuance of long-term debt in order to maintain appropriate levels of liquidity and the Company's long-term capital structure.

The Company's sources of permanent capital include long-term debt issuances in the capital markets and equity infusions from EPE's parent, Sun Jupiter Holdings LLC ("Sun Jupiter" or "Parent"),[2] to finance its construction requirements. The Company's exact percentage mix of equity and long-term- debt may periodically vary in the short run due primarily to the timing of long-term- debt issuances and equity infusions. All things being equal, equity ratios decrease as debt is issued or dividends are distributed. On the other hand, equity ratios increase as debt matures and is not refinanced or equity infusions are received.

---

[1] *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, Findings of Fact 58(c) (Jan. 28, 2020).

[2] Sun Jupiter Holdings LLC is an indirect, wholly owned subsidiary of IIF US Holding 2 LP ("IIF").

Q13. DID EPE HAVE ANY SHORT-TERM BORROWINGS OUTSTANDING AT THE END OF THE TEST YEAR?

A. Yes. EPE maintains a RCF for working capital and general corporate purposes, and for bridge financing nuclear fuel through the Rio Grande Resources Trust II ("RGRT").

EPE had a total of $228.6 million of short-term borrowings outstanding at the end of the Test Year, September 30, 2024. Of this amount, $211.0 million was for working capital or general corporate purposes, including the financing of a portion of its $438.0 million year-end construction work in progress balance. In addition, EPE had $17.6 million of outstanding borrowings made by the RGRT for nuclear fuel at the end of the Test Year. None of the assets funded by the RCF are in the Company's rate base request in this case because the RCF is used to fund fuel and construction work in progress.

Q14. HAS EPE AMENDED ITS RCF SINCE THE 2021 RATE CASE?

A. Yes. On May 5, 2023, EPE amended and restated its RCF to (i) change the rate provisions from LIBO/Eurodollar to Term SOFR, (ii) extend the initial maturity date to May 5, 2028, and (iii) increase the commitment to $450 million. On January 19, 2024, the Company exercised one of its options to increase the size of its $450 million RCF by $50 million to a total of $500 million. On July 26, 2024, EPE exercised its last remaining option to increase the size of its $500 million RCF by $50 million to a total of $550 million. EPE has two remaining options to extend the initial maturity date of the facility by one additional year, subject to approval by the lenders and upon the satisfaction of certain conditions.

Q15. DOES THE COST OF LONG-TERM DEBT IN THIS RATE FILING INCLUDE RIO GRANDE RESOURCES TRUST DEBT?

A. No. EPE has excluded the financial obligations of the RGRT from the debt component of the capital structure. Nuclear fuel is financed through the RGRT and is not included in rate base and the costs of that fuel, including the financing costs, are recovered separately through EPE's fixed fuel factor.

Q16. WHY ARE BORROWINGS UNDER THE RCF EXCLUDED FROM THE COST OF DEBT?

A. The RCF is excluded from the cost of debt because it is used to fund EPE's (1) nuclear fuel financing obligations in the most cost-effective and efficient manner and (2) construction work in progress, both of which are excluded from rate base.

Q17. HAVE THERE BEEN ANY REFINANCINGS OR ISSUANCES OF LONG-TERM DEBT SINCE THE 2021 BASE RATE CASE (DOCKET NO. 52195)?

A. Yes. There have been three long-term debt transactions:

- On September 22, 2021, the RGRT completed the sale of $45 million aggregate principal amount of 2.35% Senior Guaranteed Notes due September 22, 2031. Although the RGRT debt does not impact the Company's cost of debt in this case, the Company does guarantee the payment of principal and interest on the RGRT Senior Guaranteed Notes;
- On February 15, 2022, EPE issued $150 million aggregate principal amount of 2.91% Senior Notes, Series A, due September 1, 2032, and $200 million aggregate principal amount of 3.54% Senior Notes, Series B, due February 15, 2052. The 3.54% Senior Notes were funded on February 15, 2022, and the 2.91% Senior Notes were funded on September 1, 2022, due to the utilization of a delay draw feature; and
- On February 15, 2024, EPE issued $180 million aggregate principal amount of 6.02% Senior Notes, due February 15, 2054.

Q18. HAS ANY OF THE RGRT'S OR EPE'S LONG-TERM DEBT MATURED SINCE THE 2021 BASE RATE CASE?

A. Yes. On September 15, 2022, the Company's $150 million 3.30% Senior Notes matured and were paid utilizing funds borrowed under the RCF. It is the Company's practice to maintain at least $100 million of available borrowing capability on the RCF and from time to time, the Company will issue long-term notes to repay the short-term borrowings on the RCF.

Q19. HAS EPE RECEIVED ANY EQUITY INFUSIONS FROM ITS PARENT SINCE THE 2021 BASE RATE CASE (DOCKET NO. 52195)?

A. Yes. EPE has received $590 million of equity infusions from Sun Jupiter since its last base rate case. Please refer to Table RSG-2 below for amount and timing of equity infusions.

Table RSG-2

Equity Infusions by Year ($ in millions)			
2022	2023	2024	Total
$70	$167	$353	$590

Q20. DOES EPE HAVE A PLAN FOR FUTURE DEBT ISSUANCES OR EQUITY INFUSIONS?

A. Yes. EPE has several financings on the horizon to fund its obligation to serve:

- The Company anticipates guaranteeing the issuance of up to $65 million of debt by the RGRT in the second half of 2025. The RGRT's $65 million aggregate principal amount of 4.07% Senior Notes mature on August 15, 2025. This new debt will be used to repay the RCF borrowings outstanding for nuclear fuel. Since the RGRT debt is excluded from rate base, it will not impact the Company's cost of debt in base rates.
- EPE's $59.2 million 4.50% 2012 Maricopa Series A PCBs, due 2042, have been redeemable at par (i.e., stated or face value) since August 2022. EPE is not required to take action on these PCBs. However, depending on market conditions, EPE may seek to refinance the PCBs.
- EPE plans to continue to balance its capital structure and maintain its investment grade credit ratings through equity contributions when needed.

The need for additional future debt issuances and equity infusions is dependent upon a variety of factors; therefore, additional transactions not listed here may be necessary.

IV. Requested Capital Structure and Cost of Capital

Q21. WHAT WAS THE COMPANY'S CAPITAL STRUCTURE AS OF SEPTEMBER 30, 2024, THE END OF THE TEST YEAR?

A. As of the September 30, 2024, Test Year, the Company's capital structure was comprised of 57.6% equity and 42.4% long-term debt. The Company has excluded the financial obligations of the RGRT from the debt component of the capital structure because nuclear fuel financed by the RGRT is excluded from rate base. The RGRT's only purpose is to finance nuclear fuel with 100% debt. Financing nuclear fuel with 100% debt rather than including nuclear fuel in rate base, which is effectively financed at the weighted average cost of capital, reduces costs to customers. The cost of nuclear fuel, along with the RGRT financing costs, is recovered through EPE's fuel factor.

Q22. HAS THE COMPANY ADJUSTED THE CAPITAL STRUCTURE AS OF SEPTEMBER 30, 2024, IN THIS CASE?

A. Yes, EPE has recommended making an adjustment to the Company's capital structure to reflect the dividend payment to Sun Jupiter Holdings LLC. The dividend payment made in October 2024 is not reflected in the actual test year capital structure. The effect of the dividend payment resulted in a revised capital structure comprised of 56.4% equity and 43.6% debt. This adjusted capital structure is reflected in the Company's requested weighted average cost of capital in Table RSG-3.

Q23. DOES EPE REGULARLY REVIEW ITS COST OF DEBT?

A. Yes, EPE continues to review its debt and the capital markets to make sure costs are reduced when possible.

Q24. WHAT IS THE COST OF LONG-TERM DEBT INCLUDED IN THIS RATE FILING?

A. The cost of long-term debt shown on Schedule K-3 as of the end of the Test Year was 5.339%. This reflects EPE's actual outstanding long-term debt as of September 30, 2024. The weighted cost of debt reflects the average yield to maturity for EPE's long-term debt required by the Commission's rate filing package. The resulting cost of long-term debt is less than the 5.576% cost of debt approved in the Company's 2021 Texas base rate case.

Q25. WHAT IS THE COST OF EQUITY INCLUDED IN THIS BASE RATE FILING?

A. As supported in the Direct Testimony of EPE's expert witness Nelson, the Company is requesting a 10.7% return on equity in this filing.

Q26. WHAT IS THE COST OF CAPITAL (REQUESTED RATE OF RETURN) INCLUDED IN THIS BASE RATE FILING?

A. The Company's cost of capital (requested rate of return) is 8.363%. The calculation used to obtain the cost of capital is contained in Schedule K-1 and reflects the 10.7% return on equity recommended by EPE expert witness Nelson and the requested capital structure of 56.4% equity and 43.6% long-term debt.

Table RSG-3

Description	BALANCE AS OF TEST YEAR END DATE	PERCENT OF TOTAL	COST OF CAPITAL	WEIGHTED AVERAGE COST OF CAPITAL
As Requested				
Proprietary Capital	$ 2,130,170,668	56.409%	10.700%	6.036%
Long-Term Debt	$ 1,646,108,721	43.591%	5.339%	2.327%
Total As Requested	$ 3,776,279,389	100.000%		8.363%

Q27. ARE THE COMPANY'S REQUESTED CAPITAL STRUCTURE AND COST OF CAPITAL REASONABLE?

A. Yes. The requested capital structure will allow the Company to attract debt investors at reasonable costs and provide a reasonable return to its equity investor. In addition, the requested capital structure will allow the Company to obtain capital required to satisfy its obligation to serve and to fund its construction program at a reasonable price. This will also help support the Company's financial credit metrics, which will allow the Company to maintain its investment-grade credit ratings. The overall cost of capital, which includes both the cost of equity and the weighted cost of debt, is reasonable. EPE expert witness Nelson provides additional support for the reasonableness of EPE's capital structure and the cost of equity. EPE expert witness Lapson further supports EPE’s capital structure and the importance of maintaining investment grade credit ratings.

V. Rating Agencies and the Importance of Credit Ratings

Q28. WHAT IS THE SIGNIFICANCE OF CREDIT RATINGS?

A. Credit ratings are a measure of the creditworthiness of the Company's debt. The Company's creditworthiness, as reflected in its credit ratings, will directly affect the Company's ability to attract capital and the resulting cost of that capital. Financial institutions and fixed income- and equity investors evaluate and utilize the Company's credit ratings to determine its access to capital and the acceptable rate of return on its invested capital. The lower the credit rating, the higher the associated cost of debt. Customers ultimately bear the costs of higher priced debt. Rating agencies, in the assignment of their credit ratings to the Company, evaluate the Company's ability to pay the interest on borrowings outstanding and ultimately the principal of the borrowings when due.

Q29. WHO RATES THE COMPANY'S DEBT?

A. The Company's outstanding debt is currently rated by Moody's Investors Services, Inc. ("Moody's") and Fitch Ratings, Inc. ("Fitch") (together, the "credit rating agencies"). The determination of the assigned credit rating of the Company by the credit rating agencies is premised on several metrics that include, among other things, the evaluation of the amount of leverage the Company has and its cash flow metrics.

Q30. WHAT ARE EPE'S CURRENT CREDIT RATINGS?

A. The credit ratings of EPE are outlined in Table RSG-4:

Table RSG-4		
	Moody's[3]	Fitch[4]
Credit Rating	Baa2	BBB
Outlook	Stable	Stable

Because these current credit ratings are investment grade, they allow the Company to access the capital markets at reasonable rates. However, the ratings are near the bottom of the range of investment grade credit ratings as shown in Table RSG-5:

/

/

//

/

Table RSG-5

	Moody's[3]	Fitch[4]
Investment Grade	Aaa	AAA
	Aa1	AA+
	Aa2	AA
	Aa3	AA-
	A1	A+
	A2	A
	A3	A-
	Baa1	BBB+
	Baa2	**BBB**
	Baa3	BBB-
Non-Investment Grade	Ba1	BB+
	Ba2	BB
	Ba3	BB-
	Caa1	CCC+
	Caa2	CCC
	Caa3	CCC-

Maintaining investment grade credit ratings is important because many institutional investors are not permitted to purchase non-investment grade securities (less than Baa3 for Moody's and BBB- for Fitch). Institutional investors include banks, insurance companies, pension funds, endowments, and mutual funds that invest money on behalf of individuals or other institutions. These investors are critically important to the market and to the Company. Institutional investors own substantially all of EPE's outstanding bonds, and it is critical for EPE and its customers that institutional investors be allowed to own its debt instruments to maximize access to capital at reasonable rates. In times of capital restrictions, companies with less than investment grade ratings may not have access to capital at any cost.

Q31. WHAT FACTORS DO THE CREDIT RATING AGENCIES CONSIDER IN ORDER TO ESTABLISH CREDIT RATINGS?

A. The rating agencies base credit ratings upon a number of factors. One of the primary factors is their assessment of a company's ability to pay interest and principal on its outstanding debt when they are due. The credit rating agencies' analyses include the amount of debt in a company's capital structure; specific credit metrics, or coverage ratios, that indicate the

[3] Moody's, https://www.moodys.com/ratings-process/Ratings-Definitions/002002 (last visited December 18, 2024).

[4] Fitch Ratings, https://www.fitchratings.com/products/rating-definitions#ratings-scales (last visited December 18, 2024).

ability of a company to pay interest and principal on outstanding debt when they are due; and a company's liquidity (i.e., the ability to obtain cash when needed). In establishing the credit ratings of a regulated utility, credit rating agencies also consider the regulatory structure in which a company operates and whether regulatory commissions authorize rates that support a utility's credit ratings. The Direct Testimony of EPE's expert witness Lapson provides further support regarding the credit rating process and its importance.

In conducting their analyses, the credit rating agencies make various adjustments to the debt component of a company's balance sheet, resulting in changes in the percentage of debt and equity in the capital structure for credit rating purposes. As discussed earlier, EPE finances its nuclear fuel through the RGRT. The debt of the RGRT does not appear in EPE's capital structure used to finance rate base because it is recovered through fuel clauses in both New Mexico and Texas for regulatory purposes. However, for purposes of evaluating credit quality, the credit rating agencies consider the RGRT debt as EPE debt as it is guaranteed by EPE. Additionally, the rating agencies will also include all outstanding short-term borrowings on the RCF in their calculation of the Company's total debt even though those borrowings are excluded from the Company's regulatory capital structure. As a result, it is important that EPE maintain adequate equity in its capital structure and adequate coverage ratios to support investment grade credit ratings.

Q32. HAVE THE CREDIT RATING AGENCIES ISSUED RECENT REPORTS IDENTIFYING POTENTIAL NEGATIVE IMPACTS TO THE COMPANY'S CASH FLOWS?

A. Yes, the latest credit opinions on EPE issued by the rating agencies contain factors that may result in credit rating downgrades. In the Moody's credit opinion published on December 18, 2024, Moody's indicated that if EPE's cash coverage ratio (Cash Flow from Operations pre-working capital to Debt) falls below 15% on a sustained basis, if a contentious political or regulatory environment emerges, if political intervention by the El Paso City Council creates material uncertainty over cost or investment recovery, or if financial policies implemented by Infrastructure Investments Fund are detrimental to the credit quality of EPE, it could result in a downgrade in credit ratings. [5] Additionally, in the

[5] *Supra* note 3 at p.2-3.

credit opinion issued by Fitch on May 2, 2024, Fitch similarly concluded that if EPE was subjected to materially unfavorable regulatory developments or if its coverage ratio (Funds from Operations leverage) exceeded 5.3x on a sustained basis, it could result in a downgrade in credit ratings. [6]

Q33. DO EQUITY INFUSIONS HELP SUPPORT THE COMPANY'S CREDIT RATINGS?

A. Yes. EPE has sought additional capital in the form of equity infusions from Sun Jupiter, which can be accessed more efficiently and economically with less risk. EPE received $590 million of equity infusions from Sun Jupiter since the Company's previous base rate case and anticipates additional contributions in the future. In this case, the Company is requesting a capital structure with 43.6% long-term debt and 56.4% equity. This requested equity ratio is necessary to help maintain the Company's current investment-grade credit metrics. As EPE expert witness Lapson describes in her Direct Testimony, "a higher equity ratio and reduced debt leverage would signal to investors and banks a solid credit foundation." The Company's equity ratio is anticipated to be maintained through the Company's long-term debt issuances, and dividend distributions to and equity contributions from Sun Jupiter. Approval of the Company's requested capital structure and return on equity, in addition to adequate rate relief for the balance of EPE's Cost of Service, should allow the Company to maintain investment grade credit ratings while also meeting the growing energy demands in our service territory and maintaining reliable service.

VI. Decommissioning Expense/Funding

Q34. HAS THE COMPANY PRESENTED INFORMATION IN THIS CASE ON THE ESTIMATED COST TO DECOMMISSION PALO VERDE?

A. Yes, it has. TLG Services, Inc. ("TLG Services"), a firm that offers decommissioning and engineering services to nuclear power plants, routinely prepares an estimate for the PVGS participants. The most recent decommissioning cost estimate, used in this filing, was prepared in 2023 on behalf of all of the participants in the PVGS (the "2023 TLG Study"). EPE witness Lori Glander of TLG Services presents that estimate in her testimony.

[6] *Supra* note 4 at p.3.

Q35. PLEASE PROVIDE SOME BACKGROUND ON THE NUCLEAR DECOMMISSIONING PROCESS AND EXPENSE?

A. The Nuclear Regulatory Commission ("NRC") defines decommissioning as the process by which nuclear power plants are retired from service. To address safety and environmental impact concerns, the NRC established regulations and associated guidance outlining the requirements and the process companies must follow.

The decommissioning process involves decontaminating the facility to reduce residual radioactivity, dismantling the structures, removing contaminated materials to appropriate disposal facilities, and releasing the property for other uses. The owner remains accountable to the NRC until decommissioning has been completed and the NRC has terminated each unit's license.

To prepare for eventual decommissioning, the NRC requires the companies that operate nuclear power plants to put aside funds throughout the plant's operating lifetime. Companies work with federal and state regulators to ensure that enough money will be available. Decommissioning funds are not under the direct control of the companies, and those funds cannot be used for any purpose other than decommissioning expenses.

Q36. ARE THERE SPECIFIC FEDERAL AND STATE GUIDELINES FOR ESTABLISHING AND FUNDING THE DECOMMISSIONING TRUSTS RELATED TO NUCLEAR POWER PLANTS SUCH AS PALO VERDE?

A. Yes. To ensure the adequacy of funds for the safe dismantling, decontamination, and disposal of the generating units at the end of their useful lives, the NRC established guidelines that apply to both the amounts of fund contributions and the methods for funding the ultimate decommissioning of the units. The Public Utility Commission of Texas ("PUCT" or "Commission") has also adopted rules establishing certain requirements for nuclear decommissioning trusts.

Q37. PLEASE SUMMARIZE THE GUIDELINES FROM THE NRC REGARDING FUNDING OF NUCLEAR DECOMMISSIONING TRUSTS.

A. As detailed in 10 Code of Federal Regulations (C.F.R.) § 50.75, the NRC requirements are intended to ensure that adequate funds will be available for the decommissioning process.

The NRC regulations specify a minimum amount to be accumulated in the decommissioning fund, depending on the size and type of nuclear reactor. The regulations further require each licensee of a nuclear power plant to prepare a biennial certification of assurance demonstrating that the licensee has accumulated the minimum required amount of decommissioning funds. Arizona Public Service Company, as the operator of Palo Verde, files this report on behalf of all of the Palo Verde participants.

Q38. WHAT FINANCING METHODS DOES THE NRC ALLOW?

A. NRC regulations allow for several methods to provide financial assurance of decommissioning, the least costly of which is an external sinking fund. The sinking fund method is the same as the external, irrevocable trust fund method required by PUCT Substantive Rule 25.301(a), and it is the method that EPE has used since Palo Verde began commercial operation in 1986.

Q39. WHAT ARE THE NRC'S REQUIREMENTS FOR AN EXTERNAL SINKING FUND?

A. The NRC requires that the fund be in an account segregated from the licensee's assets and outside the licensee's administrative control. The Palo Verde licensee is the Arizona Nuclear Power Project, which is composed of all the Palo Verde participants.

Q40. DO THE PUCT'S RULES PROVIDE FOR THE SELECTION AND APPOINTMENT OF A TRUSTEE?

A. Yes. PUCT Substantive Rule 25.301 (the "PUCT rule") specifies the Company's duties regarding the selection and appointment of an institutional trustee. The rule requires the Company to place the decommissioning funds in an external, irrevocable trust. The Company must determine that the trustee it selects is qualified to hold the trust funds, that the trustee is financially stable, and that the trustee's fees are reasonable. The Company must also monitor the trustee's compliance with the trust agreement. The rule also requires that copies of all trust agreements be filed with the PUCT.

Q41. WHAT DOES THE PUCT RULE SPECIFY FOR THE SELECTION AND APPOINTMENT OF INVESTMENT MANAGERS?

A. In appointing an investment manager, the PUCT rule requires that the Company must determine the reasonableness of the manager's fees, the financial strength and stability of the investment manager, and the past investment performance of the investment manager. In addition, the Company must monitor the compliance of the manager with the investment management agreement. The rule also requires that copies of all investment manager agreements be filed with the PUCT. The PUCT's requirements regarding the trust investments themselves and the investment parameters will be described later in my testimony.

Q42. HAS THE COMPANY FOLLOWED THE REQUIREMENTS ADOPTED BY THE NRC AND THE PUCT?

A. Yes, the Company has followed all guidelines prescribed by the NRC and PUCT regarding the selection, appointment and evaluation of the trustee and investment managers.

Q43. WHO CURRENTLY SERVES AS THE TRUSTEE OF THE NUCLEAR DECOMMISSIONING TRUSTS?

A. State Street Global Advisors Trust Company currently serves as trustee for each of the Company's decommissioning trusts. The Company has a qualified and a non-qualified trust fund for each of the three PVGS units, so there are six decommissioning trust funds in total. (Qualified and non-qualified funds are subject to different tax treatment.) Each of these trusts is both external and irrevocable as required by the PUCT rule.

Q44. WHO ARE THE CURRENT INVESTMENT MANAGERS FOR THE NUCLEAR DECOMMISSIONING TRUST FUND INVESTMENTS?

A. State Street Global Advisors Trust Company currently serves as the investment manager for each of the Company's decommissioning funds.

Q45. HOW DOES THE COMPANY ASSIST THE INVESTMENT MANAGERS AND TRUSTEE TO COMPLY WITH ALL NRC AND PUCT RULES?

A. The Company provides each investment manager and trustee with an Investment Policy Statement ("IPS") that outlines the responsibilities of each party involved with the trust funds' investments. The IPS provides guidelines, objectives, and administrative and review procedures set forth by the Company. The IPS also provides the specific asset allocation of the portfolio selected by the Company and a list of permissible securities for investment by the decommissioning trust funds.

Q46. HOW DOES THE COMPANY ESTABLISH THE INVESTMENT POLICY STATEMENT AND MONITOR THE INVESTMENT MANAGERS AND TRUSTEE?

A. The IPS is created and approved by the Company's Nuclear Decommissioning Trust Committee ("NDT Committee"). Currently, the NDT Committee is comprised of 9 EPE employees who are appointed by the Audit Committee of the Company's Board of Directors. The NDT Committee meets quarterly to evaluate the performance of the investment managers and trustee and to determine if they are operating in compliance with the IPS and all applicable rules.

Q47. WHAT FUNDING METHOD IS THE COMPANY PROPOSING IN THIS FILING?

A. The Company proposes to continue the external, irrevocable trust fund method it has used since the establishment of the fund. This method requires periodic irrevocable deposits to an external trust to fund the future decommissioning of the facility. The Company will make monthly contributions to the external, irrevocable qualified trust funds established in 1986, 1986, and 1987 for PVNGS Units 1, 2, and 3, respectively, in accordance with PUCT rules. As explained further below, although the Company is not proposing to change the method for funding decommissioning, it is proposing new contributions be made to meet NRC decommissioning requirements.

Q48. IN ADDITION TO THE NRC REGULATIONS THAT REQUIRE DECOMMISSIONING, DOES EPE HAVE A CONTRACTUAL OBLIGATION TO PAY FOR COSTS OF DECOMMISSIONING?

A. Yes. Pursuant to the Palo Verde Generating Station Participation Agreement ("PVGS-PA"), which is discussed in the testimony of EPE witness David Rodriguez, EPE must fund its share of decommissioning costs (15.8 percent) in advance through periodic deposits to an irrevocable decommissioning trust fund for each Palo Verde Unit, with each fund held by an independent trustee. This contractual requirement is met through the external, irrevocable decommissioning funds required by the NRC. If EPE or any other participant fails to provide its independent trustee with sufficient funds to meet its decommissioning obligations, they can be held in default under the PVGS-PA. If the default is not cured in accordance with the PVGS-PA, the defaulting participant loses its output from the plant and receives no compensation for the loss until the default is cured.

Q49. PLEASE PROVIDE SOME ADDITIONAL DETAILS ON THE REQUIREMENTS IN THE PVGS-PA FOR EPE'S DECOMMISSIONING OBLIGATIONS.

A. Amendment 13 of the PVGS-PA established a Termination Funding Committee ("TFC") whose responsibility is to oversee the performance and completion of the decommissioning plan at Palo Verde, including the financial and funding elements of such plan and any changes thereto. Amendment 13 also created the TFC Manual which established minimum and target funding levels by year and allowable investments. Each participant is required to submit an annual status report to the TFC, which presents the current status of its decommissioning fund. The primary purpose of this report is to compare the actual fund balances to the minimum requirements. In order to remain above the minimum funding level, EPE must ensure that it has the right combination of funding and earnings during the life of Palo Verde to ensure that adequate funds are available to decommission the plant.

Q50. PLEASE EXPLAIN THE BASIS FOR THE COMPANY'S PROPOSAL TO RECOMMEND NEW FUNDING CONTRIBUTIONS SUBJECT TO FUTURE ADJUSTMENTS.

A. The PVGS-PA provides that participants can adjust their deposits to the decommissioning funds as needed as long as the required accumulations are achieved. As I explain in more detail below, current fund balances and expected earnings on the funds are not sufficient to meet funding obligations.

Q51. WHAT ARE THE PUCT REQUIREMENTS REGARDING INVESTMENTS HELD BY DECOMMISSIONING TRUSTS?

A. Requirements for decommissioning trust investments are covered in PUCT Substantive

Rule 25.301(c). Generally, the requirements state that the funds must be invested prudently, with a goal of earning a reasonable return commensurate with the need to preserve the value of the assets in the trusts. Additionally, the portfolio of securities held in the trust must be diversified to the extent reasonably feasible given the size of the trust. Asset allocation and the acceptable risk level of the portfolio should take into account market conditions, the time horizon remaining before the commencement and completion of decommissioning, and the funding status of the trust. The annual fees and expenses of the fund are limited to a maximum of 0.7 percent of the portfolio's average annual balance. Additionally, there are limitations on the use of derivative securities and the use of leverage to purchase securities. There are also restrictions on the quality and types of fixed income securities, minimum standards for portfolio quality and issuer size for equity securities, and limits on the amount of equity securities that may be held in the decommissioning trust portfolio.

Q52. PLEASE DESCRIBE THE INVESTMENT RESTRICTIONS ON FIXED INCOME SECURITIES.

A. Section 25.301(c)(3)(A) of the PUCT Substantive Rules prohibits decommissioning trusts from investing in securities that have a bond rating below investment grade. Also, subsection (c)(2)(D) of the rule provides that trusts cannot purchase certain derivative securities including mortgage strips, inverse floating rate securities, leveraged investments or internally leveraged securities, residual and support tranches of Collateralized Mortgage Obligations, and other derivatives such as forwards or swaps.

Q53. CAN YOU DESCRIBE THE INVESTMENT RESTRICTIONS REGARDING ISSUER QUALITY FOR EQUITY SECURITIES?

A. Yes. Section 25.301(c)(3)(B) of the PUCT Substantive Rules prohibits investment in companies with a capitalization of less than $100 million. It also requires that the quality rating of the total portfolio be equivalent to the composite rating of the Standard and Poor's 500 Index.

Q54. WHAT DO THE PUCT RULES SPECIFY WITH REGARD TO ASSET ALLOCATION?

A. Asset allocation is the process of dividing a pool of investment assets among different types of investment securities. The current investments included in the funding plan for EPE's portion of PVGS decommissioning costs are equities (common stocks), fixed income (bonds and cash or cash equivalents), and international securities. Section 25.301(c)(2)(F) of the PUCT Substantive Rules specifies a maximum percentage of assets that may be allocated to equities in a decommissioning portfolio based on the weighted average life of the decommissioning liability. When the weighted average remaining life of the liability exceeds five years, as is currently the case, the maximum equity allowed in the portfolio is 60 percent. EPE currently has a target equity allocation of 55 percent for its decommissioning portfolio.

Q55. WHAT IS MEANT BY LIQUIDITY AND WHY IS IT NEEDED IN THE DECOMMISSIONING PORTFOLIO?

A. Liquidity is the term used to describe the amount of cash held in the decommissioning trust portfolio. There must always be some cash in the portfolio to pay fees and expenses. Cash holdings may also exist temporarily due to Company contributions to the trust, the sale of securities, and the receipt of dividend and interest payments. Once decommissioning commences, the securities held in the investment portfolio will be liquidated over time, and the resulting cash will be used to pay decommissioning costs.

Q56. WHAT WAS THE ASSET ALLOCATION OF THE DECOMMISSIONING FUND AS OF THE TEST YEAR-END SEPTEMBER 30, 2024?

A. As of September 30, 2024, the asset allocation of the decommissioning fund was 55 percent in equities, 44 percent in fixed income, and 1 percent in cash.

Q57. WHAT IS THE BASIS FOR THE COSTS OF DECOMMISSIONING PVNGS CONTAINED IN THIS FILING?

A. In this filing, the basis for the costs is the 2023 TLG Study as discussed by EPE witness Lori Glander in her testimony.

Q58. IS THERE A COST CATEGORY INCLUDED IN THE TLG STUDY FOR WHICH THE

COMPANY DOES NOT REQUEST FUNDING AT THIS TIME?

A. Yes. One of the decommissioning cost categories included in the TLG study is for the Independent Spent Fuel Storage Installation (ISFSI) facility. As explained in the direct testimony of Ms. Glander, the ISFSI is a facility designed and constructed for the interim storage of spent nuclear fuel and associated radioactive materials. Because there is an expectation that these costs will be covered by the United States Department of Energy, the Company is not including these costs in its decommissioning cost funding request at this time.

Q59. HOW ARE THE COST ELEMENTS OF THE DECOMMISSIONING STUDY DERIVED?

A. The decommissioning cost estimates are based on the current costs, in 2023 dollars, to decommission PVGS Units 1, 2, and 3 regardless of the year the costs are expected to occur. The 2023 TLG Study provides yearly expenditures over the expected duration of the decommissioning program in 2023 dollars, without accounting for cost escalations that would occur in the projected future periods during which any given decommissioning activity is undertaken. Thus, the cost estimates are prepared reflecting current information and technologies but without attempting to estimate inflationary impacts on decommissioning components over the remaining plant life.

Q60. HAS EPE APPLIED ESTIMATED INFLATION TO THESE COSTS?

A. Yes. EPE applied estimated inflation to those costs to more accurately estimate the yearly costs that must be set aside for decommissioning. EPE's estimated annual escalation rate is 3.94 percent, as shown in Schedule M-1.

Q61. ARE ANY OTHER ADJUSTMENTS TO THE 2023 TLG STUDY REQUIRED?

A. Yes. As discussed by EPE witness Lori Glander, the 2023 TLG Study included an overall contingency of 19 percent. EPE instead uses a 10 percent contingency for calculating decommissioning costs prior to escalating them. This adjustment is made in compliance with PUCT Substantive Rule 25.231(b)(1)(F)(i). As discussed in the testimony of EPE witness Glander, the 19 percent contingency may more appropriately reflect the expected costs of decommissioning. As a result, additional funding of decommissioning costs may be required in the future as cost estimates are refined or if actual decommissioning costs are more reflective of EPE witness Glander's estimates.

Q62. DID EPE INCORPORATE PAST COLLECTION OF DECOMMISSIONING COSTS FOR PVGS IN THIS CASE?

A. Yes. Because EPE's decommissioning cost study represents total Company expenditures, it is necessary to "gross-up" the Texas jurisdictional accumulation (collections and earnings), to a total Company representation using a demand allocator. The various Commission cases approving collections for decommissioning costs also established related demand allocators that are used for this purpose.

Q63. WHY DOES EPE USE THE DEMAND ALLOCATOR TO "GROSS-UP" THE TEXAS JURISDICTIONAL ACCUMULATIONS?

A. EPE applies the demand allocator because decommissioning is solely related to generating plant costs. Application of the demand allocator results in a balance that represents the contributions attributable to all jurisdictions if the Texas regulatory treatment had been applied on a Company-wide basis. This "total Company" balance can then be used as the beginning balance for future Texas jurisdictional collections for each of the PVGS units. These beginning balances are detailed and incorporated into the annual funding schedule and the decommissioning funding calculation provided in Exhibit RSG-2 and Exhibit RSG-3, respectively.

Q64. WHAT DEMAND ALLOCATOR IS EPE USING TO "GROSS-UP" THE TEXAS JURISDICTIONAL ACCUMULATIONS IN THIS CASE?

A. EPE is using the demand allocator from Docket No. 52195 of 81.0545 percent to calculate the beginning balance.

Q65. PLEASE EXPLAIN THE DEVELOPMENT OF THE PAYMENTS REQUIRED TO FUND THE DECOMMISSIONING COSTS IN THEIR RESPECTIVE YEARS OF EXPENDITURE.

A. Exhibit RSG-2 details the annual payments necessary to fund decommissioning of PVGS Units 1, 2 and 3, respectively, based on an earnings rate for EPE's decommissioning trust funds (after tax) of 4.25 percent. The calculation of the weighted average return on nuclear decommissioning trust investments is made on Exhibit RSG-4. As shown on Exhibit RSG-2, based upon the expected inflation in decommissioning costs and earnings on the decommissioning trust funds, funding is required for PVGS Units 1, 2 & 3. The amount of decommissioning funding required for all units is $3.3M annually for PVGS decommissioning costs. Changes in assumptions in the future could increase the funding obligation or eliminate future funding requirements. As a result, EPE is requesting $3.3M to fund the decommissioning of Palo Verde for this case and will address adjustments to future funding levels in future rate case proceedings.

Q66. IS THIS EARNINGS RATE REASONABLE?

A. Yes. The 4.25 percent earnings rate is based on the weighted average expected earnings on the decommissioning trust funds as of September 30, 2024. EPE's decommissioning trust funds for PVGS were invested 39 percent in US common equities, 44 percent in US fixed income securities and cash equivalents, and 17 percent in international equities on September 30, 2024. The average return on the US common stock equities is based upon the expected earnings of the broad stock market, as measured by the Russell 3000 Index, for the long-term future of ten or more years. The average return on the US fixed income securities is based upon the expected income and appreciation for taxable and non-taxable long-term bonds in the trust funds. The Company also invests a portion of its decommissioning trust funds in an international equity fund to diversify its investments. The average return on the international equity fund is based upon the expected earnings of the developed international stock markets, as measured by the MSCI EAFE Index, for the long-term future of ten or more years.

Q67. PLEASE SUMMARIZE EPE'S PROPOSAL FOR DECOMMISSIONING FUNDING IN THIS CASE.

A. EPE is requesting that its annual funding contributions be increased from zero to $3.3M in this proceeding because the current funds and the expected earnings on those funds are not sufficient to meet all funding obligations based upon the ten percent contingency limitation. However, this level of funding is requested for this case only and is subject to review and adjustment in future proceedings. The requested funding is reflected in Schedule M-2 and Workpaper A-3 Adjustment No. 5, which I sponsor.

VII. Miscellaneous Issues

A. Nuclear Fuel Financing and Commitment Fees

Q68. HOW IS NUCLEAR FUEL FINANCED AND COLLECTED?

A. EPE finances its nuclear fuel through a trust arrangement, the RGRT, whereby the costs of nuclear fuel including all the related costs of refining, processing, and fabrication into fuel rods and carrying costs are included in eligible fuel costs monthly as power is generated and nuclear fuel is consumed. Schedule C6.10 describes the RGRT and includes a description of the costs that arise through the operation of the trust and an explanation of how these costs are paid to the trustee and recovered from ratepayers.

EPE repays its fuel trust obligations with monthly fuel revenues. As discussed above, because the costs of nuclear fuel are collected through EPE's fuel factor and thus not included in non-fuel base rates, the liability and the costs related to the nuclear fuel trust are excluded from the debt component of EPE's capital structure and the calculation of the cost of long-term debt. Utilizing the RGRT and borrowing the funds to finance nuclear fuel purchases by the RGRT is less expensive than including the fuel in EPE's rate base because nuclear fuel is financed with 100% debt.

Q69. PLEASE BRIEFLY DESCRIBE THE RGRT AND HOW IT IS FINANCED?

A. The RGRT is a Texas grantor trust whose obligations are guaranteed by the Company. The RGRT utilizes a combination of short- and long-term debt to finance the Company's portion of nuclear fuel for PVGS. EPE maintains a $550 million RCF for working capital and general corporate purposes and the financing of nuclear fuel through the RGRT. Financing for the RGRT is provided through senior notes and the RCF. Financing for nuclear fuel by the RGRT was $136.3 million on September 30, 2024, of which $71.3 million was borrowed under the RCF and $65 million was borrowed through senior notes that the RGRT issued in a private placement transaction in 2018. The RGRT issued the senior notes in 2018 to recognize the long-term nature of the RGRT nuclear fuel investments, to provide more liquidity under the RCF, and to reduce interest rate volatility.

Interest costs on borrowings to finance nuclear fuel are accumulated by the RGRT and charged to EPE as fuel is consumed and are recovered from customers through the fixed fuel factor.

Q70. IS IT REASONABLE AND NECESSARY FOR EPE TO MAINTAIN A RCF?

A. Yes. The RCF's purpose is to ensure that the Company has cash available on a short-term basis to maintain liquidity as well as to meet short-term funding requirements and in the event of an unexpected contingency. If internally generated funds are fully utilized and EPE does not have timely access to the capital markets, the RCF provides a source of liquidity for EPE. The significance of this liquidity for the financial health of the Company is demonstrated by the fact that the RCF is a key component of the rating agencies' review of liquidity in establishing the Company's credit ratings.

Q71. HOW DOES THE ABILITY TO HAVE AVAILABLE, BUT UNISSUED, SHORT--TERM DEBT BENEFIT CUSTOMERS?

A. First, having available, but unissued, short-term debt is a critical component of the rating agencies' review of EPE's credit ratings. Without the unissued debt under the RCF, EPE's credit ratings would likely be downgraded, possibly to below investment grade. Second, without the ability to issue short-term debt offered by the RCF, EPE would need much higher balances of cash available both for unanticipated cash expenditures and to manage the daily fluctuations in receipts and payments. The higher cash balances would need to be reflected in working capital paid by customers. Third, available, but unissued, -short-term debt provides available cash in the event of unanticipated cash expenditures or the inability to access the capital markets or both.

Q72. DOES EPE USE THE RCF TO MEET UNEXPECTED FLUCTUATIONS IN EXPENDITURES OR RECEIPT OF CASH?

A. Yes. Unexpected cash funding requirements can arise for a number of reasons, including increases in fuel expenses, capital expenditures, timing of bill payments, and timing of -long-term debt issuances and equity infusions. In addition, absent the RCF, EPE has no guarantee that funds will be available in the capital markets. In past years, EPE has seen sudden and substantial increases in natural gas prices that could not be recovered from customers on a timely basis. This resulted in the need for short-term funds from the RCF for the interim financing of fuel costs.

Q73. ARE THERE COSTS ASSOCIATED WITH MAINTAINING THE RCF?

A. Yes, the RCF administrator charges a fee (i.e., a commitment fee) associated with the unused balance of the RCF. That is, EPE must pay for the available unused funds in the RCF balance. The commitment fees are incurred to ensure that EPE has an available source of liquidity (the RCF), if required.

Q74. ARE THE RCF COMMITMENT FEES REASONABLE AND NECESSARY?

A. Yes. Without the RCF, EPE would not be able to provide adequate service at reasonable rates to its customers. Moreover, EPE would not be able to maintain the RCF without the commitment fees.

Q75. WHAT LEVEL OF COMMITMENT FEE COSTS IS EPE REQUESTING IN THIS FILING?

A. In its cost of service, EPE is requesting an annual commitment fee of $175,000 based on a used RCF balance of $100M as shown in workpaper A-3, Adjustment number 21. Although EPE intends to maintain a larger balance of unused funds during the rate period and therefore expects to pay more in commitment fees during the period in which rates are in effect, the Company's request is limited to the fees associated with the minimum possible balance of unused funds in the RCF.

B. Compliance with Certain Financial Ring-Fencing Provisions

Q76. DID THE COMPANY ADD ANY ADDITIONAL RING-FENCING PROVISIONS AS A RESULT OF THE 2021 BASE RATE CASE (DOCKET NO. 52195)?

A. Yes. EPE agreed to two additional ring-fencing provisions for purposes of settlement in Docket No. 52195 related primarily to financing activities.