RESERVES BEEN SEPARATED AND ALLOCATED IN CONFORMANCE WITH COMMISSION RULES AND POLICIES?

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

F. Depreciation, Amortization and Depletion (Section 36.056)

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

A. Yes, it has. The depreciation rates utilized in this proceeding are supported by Company witness John Spanos and discussed in his testimony.

G. Net Income (Section 36.057)

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

A. Yes, it did.

H. Transactions With Affiliates (Section 36.058)

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

A. No, it is not.

I. Income Taxes (Sections 36.059 and 36.060)

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

A. Yes, it has. Company witness Cynthia Prieto discusses the method and manner by which EPE's federal income taxes have been calculated. That testimony demonstrates the Company's compliance with the provisions of PURA Section 36.059. EPE is not a member of an affiliated group, but does have a subsidiary, MiraSol Energy Services, Inc. (MiraSol), that is included in its consolidated income tax return.

J. Legislative Advocacy Expenses (Sections 36.061 and 36.062)

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

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

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

K. Charitable or Civic Contributions (Section 36.061)

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

A. Yes, it has, as permitted by PURA Section 36.061. I discuss contributions and donations included in this filing later in my testimony. EPE witness Gerald Tucker discusses the pro forma adjustment to contributions, donations and advertising to limit these expenses to .3 of 1% of operating revenues.

L. Rate Case Expenses (Section 36.061)

Q. HAS EPE INCLUDED ANY RATE CASE EXPENSES IN THIS FILING AS PERMITTED BY PURA SECTION 36.061?

A. Yes, it has included in this filing an estimate of out of pocket rate case expenses for this case as detailed on RFP Schedule G-14.1. EPE is not requesting recovery of any rate case expenses related to a previous rate application. The Company is requesting recovery of the expenses for this case over a two year time period in this case. I discuss the development and amortization of rate case expenses later in my testimony.

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

Q. HAS EPE INCLUDED IN ITS COST OF SERVICE ANY PAYMENTS MADE TO COVER COSTS OF AN ACCIDENT, EQUIPMENT FAILURE, OR NEGLIGENCE AT
A utility facility owned by a person or governmental body not selling power inside the state of Texas, other than a payment made under an insurance or risk-sharing arrangement executed before the date of loss?

A. No, it has not.

N. Costs of processing refunds or credits (Section 36.062(3))

Q. Has EPE included in its cost of service any cost of processing a refund or credit associated with bonded rates?

A. No, it has not.

O. Profit or loss from the sale or lease of merchandise (Section 36.063)

Q. Does EPE's cost of service include any profit or loss from the sale or lease of merchandise that is not integral to providing utility service?

A. No, it does not.

P. Self insurance (Section 36.064)

Q. Does EPE self insure any part of its exposure to potential catastrophic property loss through a reserve account for self-insurance?

A. No. EPE has obtained third party insurance covering all of its property. These insurance policies do include minimum deductible amounts, but are not self-insurance plans.
Q. Pensions and Other Postemployment Benefits (Section 36.065)

Q. HAS THE COMPANY CALCULATED ITS PENSION AND POSTEMPLOYMENT BENEFITS EXPENSES IN ACCORDANCE WITH SECTION 36.065?

A. Yes, it has reflected pensions and other post-employment benefits in revenue requirements based upon actuarial studies in accordance with generally accepted accounting standards. The Company has not established a reserve account for pension and other post-employment benefit expenses in accordance with Section 36.065(b).

V. EPE'S COST OF SERVICE AND RATE BASE

Q. BEFORE DISCUSSING THE SPECIFIC SCHEDULES YOU SPONSOR, ARE THERE ANY NOTEWORTHY ITEMS YOU WISH TO DISCUSS CONCERNING THE COMPANY'S CAPITAL INVESTMENTS AND ITS PLANT IN SERVICE VALUES?

A. Yes, there are two such items: First, how the Company is presenting the capital additions it has made since its last rate case, and, second, the value of the PVNGS included in rate base and cost of service for Texas ratemaking purposes.

A. Capital Additions Since the Last Rate Case

Q. HOW IS THE COMPANY PRESENTING THE CAPITAL ADDITIONS IT HAS MADE SINCE ITS LAST RATE CASE?

A. The Company's last base rate case was Docket No. 12700, which was filed in January 1994, used a test year ending June 30, 1993, and was decided in August 1995. Since that case, the Company has made over $1.2 billion in capital additions necessary to continue fulfilling its obligation to serve. The Company is going beyond
the RFP requirements and is presenting evidence of its capital additions from July 1993 through the test year in this case.

Q. HOW IS THE COMPANY PRESENTING THIS INFORMATION ABOUT THESE CAPITAL ADDITIONS?

A. Exhibit DGC-4 is an exhibit that lists all the capital additions from July 1993 through June 30, 2009, the test year end. The additions are broken down into seven categories: distribution, general, intangible, nuclear production, other production, steam production, and transmission plant. The additions are also listed in descending order of the amount of the book value, not in chronological order.

Exhibit DGC-4 also indicates the Company witness who is sponsoring the information in the respective categories and discussing the items in testimony. Company witnesses Matthew Benac and Andres Ramirez sponsor the information about nuclear production plant, the Palo Verde Nuclear Generating Station (PVNGS), Company witness Ramirez sponsors the information about other and steam production plant additions, Company witness Hector Puente sponsors the information about transmission and distribution plant additions, and I sponsor the information about general and intangible plant additions. I discuss the general and intangible plant additions in Subsection C. below.

Retirements to electric plant in service for the period July 1, 1993 through June 30, 2009 are provided on an annual basis on Exhibit DGC-5. These retirements totaling approximately $170 million have reduced the Company's electric plant in service.
B. Restatement Of Production Plant Book Values To Fresh Start Values After Bankruptcy

Q. HAS THE COMMISSION PREVIOUSLY APPROVED ACCOUNTING TREATMENTS THAT AFFECT THE BOOK VALUE OF EPE'S PRODUCTION ASSETS IN THIS CASE AND STEM FROM EPE'S BANKRUPTCY?

A. Yes, it has. EPE emerged from bankruptcy in February 1996. In Docket No. 22280, which was filed in March 2000 and decided in December 2000, EPE sought, among other things, approvals of certain accounting treatments. The adjustments would ensure that the generation plant values reflected on its regulatory books would reflect the "fresh start" values recognized under generally accepted accounting principles (GAAP) upon the Company's emergence from bankruptcy. These accounting treatments occurred in tandem with the Company's proposed rate treatment for stranded costs under Senate Bill 7 (in Section 39.102(c) of PURA). The Commission approved these accounting treatments as proposed in a unanimous settlement among EPE, the Commission Staff, the City of El Paso, the Office of Public Utility Counsel, and the Department of Defense.

Q. WHAT WAS THE SPECIFIC ACCOUNTING TREATMENT EPE SOUGHT IN DOCKET NO. 22280, AND WHY WAS IT APPROPRIATE?

A. As I mentioned above, the accounting treatment was intended to ensure that "fresh start" plant values would be used for both financial accounts/reports and EPE's regulatory books. At that time, the Company's regulatory books reflected the historical original cost of Company's generation assets. However, the Company's financial reporting books and records, prepared in accordance with generally accepted accounting principles (GAAP), reflected the effects of applying "fresh-start"
accounting. The term "fresh start" means what it implies—the restatement of asset values in light of the emergence from bankruptcy.

When EPE emerged from bankruptcy in February 1996, it adopted fresh-start accounting in accordance with the requirements of American Institute of Certified Public Accountants Statement of Position 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code (Now Topic 852 under the FASB's accounting standards codification.)

Q. HOW WERE PLANT COSTS TREATED UNDER FRESH-START REPORTING?
A. In applying fresh-start accounting, the Company first determined its reorganization value as a company. The Company then assigned this reorganization value to its various assets. Liabilities were stated in accordance with their "fair values" as of February 12, 1996, the date the Company's plan of bankruptcy reorganization became effective and the Company emerged from bankruptcy. As a result, the Company's generation assets were, on balance, written down for financial reporting purposes upon its emergence from bankruptcy in order to reflect reorganization values.

For example, Palo Verde was written down by approximately $737 million, from $1.299 billion to $562 million. The values of Four Corners, Newman, Rio Grande and Copper were adjusted upward. The upward adjustments for Four Corners, Newman, Rio Grande and Copper have been fully amortized on a Texas jurisdictional basis and are not used in this filing. On balance, the then-existing production assets were written down by $639 million.

Q. DID EPE WRITE DOWN PVNGS ON ITS REGULATORY BOOKS TO REFLECT THE FRESH START VALUES WHEN IT EMERGED FROM BANKRUPTCY?
A. No, it did not. EPE continued to use FERC accounting for its regulatory books as the basis for these assets.

Q. WAS THERE ANY OTHER BASIS FOR THE ACCOUNTING ADJUSTMENTS?
A. Yes, EPE had agreed to forego recovery of its stranded costs (also called Economic Cost Over Market or ECOM) after its then-existing 10-year rate freeze ended in 2005. This was codified in PURA section 39.102(c), which reads as follows:

An electric utility that has in effect a system-wide freeze for residential and commercial customers in effect September 1, 1997, extending beyond December 31, 2001, that has been found by a regulatory authority to be in the public interest is not subject to this chapter. At the expiration of the utility's freeze period, the utility shall be subject to this chapter and, at that time, has no claim for stranded cost recovery. (emphasis added)

Therefore, EPE's collection of Texas jurisdictional stranded generation costs was limited to the amounts of revenue it collected during the freeze period resulting from Docket No. 12700, which ended in 2005. With this background, it was appropriate to recognize the creation of a regulatory asset representing EPE's stranded costs so that it could amortize that asset during the rate freeze period that ended in 2005. This also necessitated the approval of EPE's proposed accounting treatments in Docket No. 22280.

Q. HAVE YOU INCLUDED RELEVANT DOCUMENTS CONCERNING DOCKET NO. 22280?
A. Yes, I have. Attached as Exhibit DGC-6 are excerpts from documents in that case, including EPE's petition, the testimony of Gary Hedrick explaining the request, discovery responses, and the Commission's order as well as the parties' unanimous stipulation. These and other documents are also available on the Commission's
interchange. The proposal and approvals are captured in Findings of Fact 25-28 and 30 of the Commission’s order, and section 6 of the parties’ stipulation.

Q. DOES EPE’S PROPOSED COST OF SERVICE IN THIS RATE CASE REFLECT ANY AMOUNTS FOR STRANDED COST RECOVERY?

A. No, it does not. The amortization of the stranded cost regulatory asset ceased in 2005, well before the test year in this case.

Q. WHAT SPECIFIC GENERATION PVNGS BALANCES RESULTED FROM THE FRESH START VALUES?

A. The revalued basis of PVNGS generation units as of February 11, 1996 on a total company basis were:

<table>
<thead>
<tr>
<th>Plant</th>
<th>Revalued Basis (000s)</th>
<th>Average Years of Remaining Service Life After Revaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>PVNGS Unit 1</td>
<td>$173,139</td>
<td>28.67</td>
</tr>
<tr>
<td>PVNGS Unit 2</td>
<td>$215,285</td>
<td>29.58</td>
</tr>
<tr>
<td>PVNGS Unit 3</td>
<td>$173,904</td>
<td>30.75</td>
</tr>
</tbody>
</table>

As discussed above, EPE received approval in Docket No. 22280, to credit accumulated depreciation and recognize a regulatory asset to record the net write-down for regulatory purposes. The stipulation provided for EPE’s non-nuclear units to be written up in value. The increase in value for these units was recorded in FERC Account 116, Utility Plant Adjustments. The write-up (Utility Plant Adjustments) in non-nuclear units has now been fully amortized on a Texas jurisdictional basis and are not reflected in rate base or cost of service in this filing. The net plant balances for PVNGS as of the end of the Test Year were developed based upon the revalued basis in the table above.
Q. HOW WERE PVNGS NET PLANT BALANCES CALCULATED AS OF THE END OF
THE TEST YEAR?

A. EPE's cost of service as filed and the requested base rates continue to reflect the
revaluation and write-down of nuclear generation plant. Exhibit DGC-7 calculates
the total company and Texas jurisdictional amounts of net plant for the PVNGS Units
for the Test Year. Pages 2-3 of Exhibit DGC-7 develops plant-in-service based upon
the revalued amounts. Beginning with the fresh start plant values as of February 11,
1996, additions and retirements were added or subtracted from the beginning
balance to calculate a gross plant balance at June 30, 2009 for each unit.
Accumulated depreciation was calculated on Pages 4-5 of Exhibit DGC-7 in a similar
fashion by adding annual depreciation expense calculated on Page 4, subtracting
retirements, and cost of removal, and adding salvage to determine the ending
balance as of June 30, 2009. Annual depreciation expense was developed on
Pages 6-7 by depreciating the revalued basis at February 11, 1996 and net additions
each year over the remaining life of the plant based upon the year of the addition.
Page 1 summarizes the gross plant, accumulated depreciation and net plant for each
unit and calculates Texas jurisdictional amounts using the demand allocation factor
used in the jurisdictional cost of service study.

Q. DO EPE'S CUSTOMERS BENEFIT FROM THE FRESH START VALUATION YOU
JUST DESCRIBED?

A. Absolutely. The fresh start valuations reflect a substantial reduction in the rate base
value of the Company's generating assets. As a result, rates charged to customers
will be less that they would have been if the Company had continued to reflect these
assets at their original cost less depreciation. The following table compares the net
book value of generating capability for PVNGS as if the original cost less
depreciation continued to be recognized.

<table>
<thead>
<tr>
<th>Description</th>
<th>PVNGS Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Plant Value – Fresh Start Accounting (000)</td>
<td>$571,192</td>
</tr>
<tr>
<td>Cost per KW</td>
<td>$902</td>
</tr>
<tr>
<td>Net Plant Value – Original Cost Less Depreciation (000)</td>
<td>$923,686</td>
</tr>
<tr>
<td>Cost per KW</td>
<td>$1,459</td>
</tr>
</tbody>
</table>

Q. DOES THE FRESH START VALUE FOR PVNGS REFLECT ANY ADJUSTMENTS FOR CONSTRUCTION WORK IN PROGRESS IN RATE BASE PRIOR TO PVNGS IN SERVICE DATE?

A. No. Since EPE's generation plant was restated based upon its fresh start value pursuant to the final order in Docket No. 22280, these assets are no longer based upon their original cost less depreciation including reductions for CWIP included in rate base. As shown above the fresh start values are less than the PVNGS value would have been had original cost accounting continued to be followed including adjustments for CWIP in rate base.

C. Additions to Electric Plant in Service

Q. ARE YOU SPONSORING ADDITIONS TO ELECTRIC PLANT IN SERVICE LISTED ON EXHIBIT DGC-4?

A. Yes. I am sponsoring additions to general and intangible plant from July 1, 2003 through June 30, 2009 as listed on Exhibit DGC-4. I also support the addition to other production related to the "Copper Turbine Acquisition."

Q. WHAT ARE THE CAPITAL ADDITIONS INCLUDED IN GENERAL PLANT?

A. General plant capital additions are charged to FERC detail accounts 390 – 398. These are additions to physical plant that are not classified as generation,
transmission or distribution plant and include plant that supports the administrative activities of the Company including office buildings, furniture and equipment, computers and servers, and communications equipment. Also included in general plant is equipment that supports our generation, transmission and distribution operations, but does not specifically perform generation, transmission and distribution functions. Transportation equipment, laboratory equipment, power operated equipment and tool shop and garage equipment are all examples of general plant.

A significant portion of general plant equipment is purchased through blanket work orders where the cost of individual pieces of equipment is low, but the volume of purchases are high. For example, we purchase 250-300 personal computers and laptops each year at a cost of approximately $1,200 each including software. We also buy a number of vehicles each year including cars, pick-ups, vans and large commercial trucks that are purchased through blanket work orders.

Q. WHAT ARE THE CAPITAL ADDITIONS INCLUDED IN INTANGIBLE PLANT?
A. Intangible plant capital additions are charged to FERC detail account 303, Miscellaneous Intangible Plant. Intangible plant is primarily composed of the cost of purchasing and developing computer software systems. The Company uses computer software systems to support the operation and management of every area of the Company, including billing and accounts receivable, meter reading, general ledger, accounts payable, outage management, work management, generation maintenance management, system operations and other systems. The Company capitalizes software products or systems costing in excess of $1,000. Often, development of computer software includes the purchase of computer hardware to support the systems.
Q. PLEASE DESCRIBE SOME OF THE LARGER CAPITAL ADDITIONS TO GENERAL AND INTANGIBLE PLANT.

A. Some of the larger capital additions to general and intangible plant since July 1993 include:

- Stanton Tower Acquisition – In February 2008, EPE purchased the Stanton Tower. The Stanton Tower is an eighteen story office building in downtown El Paso. Prior to the acquisition of the Stanton Tower, EPE leased six floors of office space in the Stanton Tower for its general corporate offices. The corporate offices had been in the Stanton Tower since December 1996. EPE entered into a new lease agreement for office space in July 2007, which expired in May 2018 with three concurrent renewal options of five years each. The new lease agreement also included a right of first refusal to purchase the Stanton Tower, if a contract was entered into to sell the Stanton Tower. On February 8, 2008, EPE exercised its right of first refusal to purchase the office building. By exercising it right of first refusal, EPE not only eliminated future lease payments, but also gained access to additional office space. As a result, EPE sold the Centre Building in downtown El Paso and consolidated most of those employees in the Stanton Tower. An additional $6 million of capital additions associated with the relocation were incurred for building renovations, furniture and other costs. EPE is also developing plans to move employees from another building in El Paso to the Stanton Tower in order to have all of its downtown El Paso employees in one building. In addition, EPE leases four floors of the Stanton Tower to third parties. By purchasing the Stanton Tower and consolidating offices, EPE expects to realize efficiencies and cost savings for employees in downtown El Paso office facilities. In
addition, rentals associated with leasing excess office space are reflected as a revenue credit in determining base rate revenue requirements.

- Santa Fe Relocation Buildouts – The Santa Fe Relocation project captured the costs directly resulting from the sale of the Santa Fe Service Center to the City of El Paso. The Company’s Vanderbilt facility was renovated to allow for the relocation of the Meter Testing, Communication, Transmission Relay and Substations (TSR), and Fleet Services groups. The Company’s Copper Training Center was modified to allow for the relocation of communication equipment and the propane fueling system was reinstalled at the Company’s Roland Lucky Building. In accordance with the sales agreement, the construction costs of a new fence and the extension of the existing distribution line were also incurred and charged to this project.

- Energy Management System Replacement and Energy Management System Upgrade - In 2004 the Company replaced its existing energy management system (Harris System) with a new energy management system (Ranger System) at the System Operations Building. In 2007, the Ranger System was upgraded with integrity hardware and software required to ensure compliance with new standards.

- Asset Management Technology (AMT) – The AMT technologies project included three basic components, a Geographic Information System (GIS), a Work Management System (WMS), and an Outage Management System (OMS). The GIS and WMS systems were placed into production in 2006, the OMS in 2008. The primary business purposes of the GIS implementation were;
To share Distribution System spatial and attribute information across the Company to facilitate both operations and planning decision making processes.

To replace individual paper distribution maps with a fully integrated digital model of the system.

To integrate the distribution graphical design process with the GIS and WMS.

To provide the OMS with an electrical connectivity model of the Distribution System to enable needed OMS functionality.

To become the system of record for the physical customer addressing.

A full Distribution System data conversion effort was performed to implement the GIS. This involved contracting with a vendor that provided field inspection crews for overhead facilities as well as off-shore conversion services for underground paper maps. In this way existing paper distribution data was converted to the GIS. It also involved the acquisition of software from two vendors, ESRI and Miner & Miner. They provided base GIS functionality and specific utility applications that enabled graphical design and electrical system analysis. Included in the cost to implement the system was a large amount of vendor development, integration, and training support.

Since the initial implementation, the GIS has had one major and one minor upgrade. These system upgrades have provided additional functionality, enhanced system performance, and more end user and system efficiency. A tool to programmatically calculate distribution system pole line, duct bank, and circuit feet and another to track distribution asset retirements have been developed. The Company is continuing to enhance its AMT
including adding web service and interfacing to a new customer information system.

The primary business purposes of the WMS implementation were:

- To replace a WMS with limited functionality.
- To integrate line extension processes with the GIS, Plant Accounting, and Materials Management.
- To facilitate distribution crew scheduling.
- To facilitate a means of collecting line extension process statistics and key performance indicators.

The implementation effort required the purchase of the software and needed services to configure and assist with external system integration and training. Since the WMS was implemented at the same time as the GIS, the WMS implementation has provided an essential means of structuring the required work flows for various distribution design activities. It has enabled a programmatic solution to requesting and receiving Work Order numbers from Power Plant, forecasting and requisitioning materials from Oracle Materials, providing Compatible Unit information for the GIS Design Tool, receiving design information back from the GIS Design Tool, sending as-built data to Power Plant, and finally closing the Work Request.

The primary business purposes of the OMS implementation were:

- To facilitate the handling of trouble calls during an outage.
- To reduce system outage duration.
- To enable temporary system modeling as system switching occurs.
- To improve reliability statistics computations.
- To improve crew dispatching during outage conditions.
The implementation effort required the purchase of the software and needed services to configure and assist with external system integration and training. The OMS was implemented in parallel with automated vehicle location and interactive voice recording systems. By periodically updating the base electrical model from the GIS, the OMS has improved system response to outages as well as enabled better reliability statistics compilation.

- **PowerPlant and General Ledger Upgrade** – In July 2005, EPE implemented an entirely new financial system designed to improve all aspects of the Company's financial accounting and reporting. The implementation was the culmination of a one year project which included two major software components.

  The first was a complete reimplementation of EPE's Oracle Financials, including General Ledger, Accounts Payable, Inventory and Purchasing modules, to Oracle Version 11i. This was a major version upgrade which introduced web based technology to Oracle's E-Business Suite. The new version of Oracle offered large scale increases in efficiency for the entire procurement process as well as the month-end closing and reporting process. The second major software enhancement to EPE's financial system was the implementation of several PowerPlant modules, which replaced the Company's aging legacy mainframe based system for asset management and construction accounting. EPE also implemented Capital and O&M Budgeting modules in PowerPlant.

  The end result of this project has been increased efficiency in numerous business processes, better financial reporting with significantly more information available, and improved budgeting processes resulting in
better cost control. These benefits continue to be enhanced on an ongoing
basis including minor upgrades of Oracle in 2007 and PowerPlant in 2009.

Q. DOES EPE HAVE PROCEDURES AND PROCESSES IN PLACE TO ENSURE
THAT COSTS ASSOCIATED WITH GENERAL AND INTANGIBLE PLANT CAPITAL
PROJECTS WERE REASONABLE?

A. Yes. The Company seeks to use competitive bidding processes as often as feasible.
In some cases the Company has established standards for equipment such as
computers and power equipment in order to ensure consistency in the equipment
which lowers the cost of repair and maintenance. The Company then conducts
competitive bidding processes based upon the equipment standards to ensure that
we achieve reasonable prices for the equipment.

The Company uses an established systems development process to ensure
that systems are developed in an efficient and cost effective manner. While the cost
of information systems is important, ensuring that the systems meet the Company's
needs is equally or more important. The systems development process starts with
defining the requirements for each system or software product. A key requirement of
any system is that it interfaces with existing systems. Once the system requirements
are developed, the Company uses competitive bidding processes to identify the
product and developers that best meet the Company's requirements in the most cost
effective manner. Systems are analyzed not only based upon the development costs,
but also on the cost of operating the system during its useful life. The Company's
systems development process seeks to meet the Company's information needs at
the lowest cost over the life of the system.

Q. DO PROJECTS GO THROUGH AN APPROVAL PROCESS?
A. Yes. Purchases of general and intangible plant go through a budget approval process each year. Budgets are reviewed in detail and ultimately approved by the Board of Directors. Purchases are then subject to a purchase authorization process before purchases are made. Systems development projects are not only subject to budget approval, but projects in excess of $50,000 must be approved by the Company’s Corporate Governance Committee (CGC). The CGC is comprised of executives or their representatives from all areas of the Company. The CGC reviews each project for business need and cost benefit. In addition, the CGC reviews proposed software purchases to ensure that they integrate with other systems and meet the Company’s long-term systems development requirements.

Q. EXHIBIT DCG-4 SHOWS, UNDER THE CATEGORY "OTHER PRODUCTION," AN $8 MILLION ENTRY IN 2003 FOR "COPPER TURBINE ACQUISITION." WHAT IS THAT ENTRY?
A. That entry is for the purchase of the Copper gas turbine from the party that had been leasing it to EPE.

Q. PLEASE EXPLAIN.
A. Copper, which is a gas-fired peaking facility, has been part of EPE’s generation fleet since it entered service in El Paso in 1980. In May 1980, EPE entered into a sale/leaseback transaction in which EPE sold the gas turbine to what is now Wells Fargo Bank and another party (together, Wells Fargo) and then leased it back. The initial lease term was for 20 years (through July 2000). At the termination of the lease, EPE had to return the equipment in good condition to any destination in the United States designated by Wells Fargo. The lease also gave EPE options to
extend the term for five years, through July 2005 and, for an additional two years beyond that, through July 2007.

EPE extended the lease for the additional five year term through July 2005. The parties entered into negotiations and in November 2003, EPE purchased the Copper gas turbine for $8.4 million in a transaction that also terminated the lease and included the balance of any remaining payments under the lease.

Q. WAS EPE PRUDENT IN PURCHASING THE COPPER GAS TURBINE WHEN IT DID COMPARED TO ITS ALTERNATIVES AT THE TIME?

A. Yes, it was. EPE was meticulous and thorough in evaluating its options.

In 2003, EPE was in the first lease extension period (through 2005), in which the annual payments were $790,000. EPE had to notify Wells Fargo by July 2, 2003 (later extended to August 15, 2003) whether EPE intended either to extend the lease for the remaining two-year term or to terminate it and return the Copper gas turbine. The lease costs under this second extension would be based on the "fair market rental value" of the gas turbine. Accordingly, early 2003 was an appropriate time to consider the Company's options.

There was no question that EPE still needed the gas turbine to operate the Copper generating plant or, absent the Copper plant, from replacement capacity. In May 2003, EPE issued a Request for Proposals (RFP) soliciting up to 320 MW of additional capacity beginning in 2006. EPE invited Wells Fargo to submit a proposal to sell the Copper gas turbine to EPE in connection with that RFP. A portion of this capacity was intended to replace the Copper generating facility, which was assumed to be unavailable after the expiration of the lease in 2007.

In response to the RFP, bids were received for peaking capacity. Because the Copper plant was existing generation plant and subject to the ongoing lease
terms, its evaluation and the negotiations with Wells Fargo (either to purchase the
gas turbine or extend the lease into 2007) were conducted on a parallel but separate
track with the RFP proposals. Nonetheless, purchasing the Copper gas turbine to
continue to operate the plant was compared against the various proposals submitted
in response to the RFP. Once Wells Fargo agreed to accept an outright purchase
price of $8.4 million, this became the best alternative, given the Company's
continued need for the peaking capacity and the bids received as a result of the
RFP. An economic comparison indicated that purchasing the gas turbine and
continuing to operate the Copper plant was considerably less expensive than each of
the other peaking unit proposals. It had other advantages as well, such as being an
existing resource already interconnected to EPE's transmission system, and being
immediately available. With EPE's exposure under the lease termination option
being approximately $1.350 million (transportation and repair) the effective cost of
the gas turbine was just over $7 million.

At an effective cost of approximately $100/kW (taking into account the costs
avoided in not having to return and repair the gas turbine) the cost was a fraction of
what the cost of new peaking capacity would be. All things considered, the purchase
was the best option among the alternatives.

Q. HOW LONG DOES EPE ANTICIPATE OPERATING COPPER BEFORE IT IS
RETIRED?

A. EPE currently projects that the Copper gas turbine will be in service for another
10 years, through 2020. The Copper generating facility including the gas turbine was
approximately 50% depreciated as of the end of the test year.
D. A Schedules (Cost of Service Summary)

Q. WHAT ARE THE A SCHEDULES?
A. The A Schedules summarize EPE's overall cost of service, its Texas jurisdictional cost of service, cost of service detail by account, and adjustments to the test year, along with other related information discussed below.

Q. HOW WERE THE COST OF SERVICE SCHEDULES PREPARED?
A. The schedules were prepared utilizing a historical test year ending June 30, 2009. The expense schedules start with the actual expense amounts for the test year ending June 30, 2009. Appropriate adjustments to both rate base and operating expenses have been made, as discussed in the testimony of Company witness Tucker and later in my testimony.

Q. BRIEFLY DESCRIBE SCHEDULE A.
A. Schedule A 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 and return. It also includes fuel and purchased power information. This information is presented on a system-wide (total utility) basis, as EPE serves in three jurisdictions (retail in Texas and New Mexico, and wholesale under FERC's jurisdiction). This schedule shows that EPE's overall cost of service is $1,054,938,755.

Q. WHAT IS THE TEXAS RETAIL BASE RATE REVENUE REQUIREMENT?
A. The Texas jurisdiction's overall cost of service is in Schedule A-1, which Company witness Curtis Hutcheson sponsors and discusses. The base rate revenue requirement after subtracting eligible fuel costs and other revenues is $423,593,955.
Q. PLEASE DESCRIBE SCHEDULE A-2 (COST OF SERVICE DETAIL BY ACCOUNT).

A. Schedule A-2 presents EPE's cost of service detail by account, in conformance with the instructions for this schedule on pages A-2 and A-3 of the RFP instructions.

Q. WHAT IS SCHEDULE A-3 (ADJUSTMENTS TO TEST YEAR)?

A. Schedule A-3 shows the adjustments to EPE's test year amounts.

Q. WHAT IS SCHEDULE A-4 (DETAIL TEST YEAR END BALANCE)?

A. Schedule A-4 gives the detail of the test year end trial balance by major FERC accounts and reconciles the test year end numbers in Schedule A-2.

Q. WHAT IS SCHEDULE A-5 (UNADJUSTED O&M)?

A. This schedule lists, by FERC account, the amounts included in unadjusted O&M, with the total of these amounts tying to line 3 on Schedule A-2.

Q. HAS EPE PROVIDED TESTIMONY THAT THE EXPENSES REFLECTED ON SCHEDULE A AND INCLUDED IN EPE'S COST OF SERVICE ARE REASONABLE AND NECESSARY?

A. Yes, it has. Each of the Company witnesses' testimony filed in this docket demonstrates that the expenses included in cost of service are for expenditures that are reasonable and necessary for EPE to fulfill its utility obligations.

E. B Schedules (Rate Base and Return)

Q. DESCRIBE SCHEDULE B-1 (TOTAL COMPANY RATE BASE AND RETURN).
Q. Schedule B-1 summarizes EPE's total company rate base and requested rate of return. This schedule also provides the unadjusted per book amounts, the adjustments, and the adjusted requested amount. The detail behind each line item is supported by Schedules C and D.

Q. THE RFP INSTRUCTIONS TO THIS SCHEDULE REQUIRE THE USE OF ORIGINAL COST. ARE THE ITEMS IN SCHEDULE B-1 BASED ON THEIR ORIGINAL COST?

A. Yes, they are, with the exception of PVNGS, whose book value is based on the fresh start values I discussed above.

Q. WHAT IS SHOWN IN SCHEDULE B-1.1 (TEXAS RETAIL)?

A. Schedule B-1.1 provides the same information in Schedule B-1, only on a Texas retail basis only. The jurisdictional allocation study presented by Company witness Hutcheson was used to derive the Texas retail amounts.

Q. WERE THERE ANY ADJUSTMENTS MADE TO PLANT-IN-SERVICE OTHER THAN THE FRESH START ADJUSTMENTS?

A. Yes. As described in the testimony of EPE witness Tucker, EPE made two adjustments to requested plant in service. The first adjustment was to include expenditures in production plant that have been incurred to complete Newman Unit 5 Phase 1. Newman Unit 5 Phase 1, which includes two 70 megawatt (MW) gas turbines, was placed into service on May 22, 2009. While the unit was in-service and operating prior to the end of the test year, some invoices had yet to be received for work that had been performed prior to the end of the test year. These costs have been included as a pro forma adjustment to the cost of Newman Unit 5 Phase 1.
EPE also removed the Hueco Mountain wind units from plant in service pursuant to finding of fact 50 in Docket No. 34494. In addition, as I discuss later in my testimony, EPE has reflected the cost of its new customer information system in both cost of service and rate base. EPE will place this new system into operation in April 2010.

Q. DESCRIBE SCHEDULE B-1.2 (PERCENTAGE OF PLANT IN SERVICE).
A. Schedule B-1.2 applies if the requested plant in service is less than 100% of original prudent cost. As I described above, the fresh start accounting adjustments have resulted in the Company requesting less than 100% of the original prudent cost for the PVNGS.

Q. DISCUSS SCHEDULE B-1.3 (PENALTIES OR FINES).
A. This schedule is not applicable since the Company has not included any penalties or fines in its requested plant in service.

Q. WHAT ABOUT SCHEDULE B-1.4 (POST TEST YEAR ADJUSTMENTS)?
A. Schedule B-1.4 requires that all "attendant impacts" be quantified and discussed, if there are any post test year adjustments to rate base. EPE is requesting a good cause exception to include the capital costs of its customer information system (CIS) in rate base. I discuss the basis for this request Section VII of my testimony. The cost of service includes a pro forma adjustment (Schedule A-3 Adjustment No. 15) to reflect the cost of operating the new CIS system and to remove costs associated with the prior customer system that will not be incurred in the future.

Q. DESCRIBE SCHEDULE B-2 (ACCUMULATED PROVISION BALANCES).
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 the ending account balance are shown.

Q. PLEASE DESCRIBE SCHEDULE B-2.1 (ACCUMULATED PROVISION POLICIES).
A. This schedule details the Company's policies regarding accumulated provision accounts and benefits to customers.

F. C Schedules (Original Cost of Plant)

Q. WHAT ARE THE C SCHEDULES?
A. The C Schedules (which extend through Schedule C-6.10) contain original cost of plant information.

Q. DESCRIBE SCHEDULE C-1 (ORIGINAL COST OF UTILITY PLANT).
A. This schedule summarizes the amounts of utility plant classified by major accounts of the Uniform System of Accounts as of the beginning of the test year (12 months of actual experience), with the book additions, retirements, and adjustments, together with the balance at the end of the test year. Adjustments are explained in the testimony of EPE witness Tucker. I have previously explained the adjustments to nuclear plant in service.

Q. WHAT ABOUT SCHEDULE C-2 (DETAIL OF ORIGINAL COST OF UTILITY PLANT)?
A. This schedule presents the detail by FERC asset account of the amounts presented by major plant accounts in Schedule C-1.
Q. DISCUSS SCHEDULE C-3 (MONTHLY DETAIL OF UTILITY PLANT IN SERVICE).

A. Schedule C-3 includes the monthly book balance of plant by primary or functional classification, by plant account, for each month of the test year. Adjustments to plant in service are also included.

Q. WHAT DO THE TWO C-4 SCHEDULES ADDRESS?

A. Schedules C-4.1 and C-4.2 address CWIP.

Schedule C-4.1 (CWIP by functional group) provides information about CWIP by functional group, for functional groups with total expenditures amounting to $100,000 or more, as of the test year end. It also includes the work order number, description and/or purpose, amount expended, estimated completion date, and estimated total cost.

Schedule C-4.2 (CWIP allowed in rate base) describes the amount of CWIP requested and allowed in rate base for EPE's two most recent rate filings. No CWIP was included in rate base in EPE's two most recent rate filings Docket No. 9945 (which was filed in December 1990 and decided in December 1991) and Docket No. 12700 (which was filed in January 1994 and decided in August 1995).

Q. WHAT DOES SCHEDULE C-5 (ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC)) ADDRESS?

A. It addresses AFUDC and construction overheads. This schedule states the methods, procedures and calculations EPE follows in capitalizing AFUDC and other construction overheads. It also includes a list of the AFUDC rates for each of the five years 2004 through 2008, and the amounts generated and transferred to plant in service in each of those years.
Q. WHAT INFORMATION IS IN THE C-6 (NUCLEAR FUEL) SCHEDULES?
A. The C-6 Schedules (extending through Schedule C-6.10, present information about nuclear fuel. I sponsor all these schedules except Schedule 6.9 (nuclear fuel inventory policy). EPE owns an undivided interest in nuclear fuel purchased in connection with the PVNGS. Arizona Public Service Company (APS), as operator of the PVNGS, manages the nuclear fuel, the nuclear fuel cycle, and various nuclear fuel contracts. The Company finances its interest in nuclear fuel through the Rio Grande Resources Trust (RGRT) which borrows money from the Company's revolving credit facility. RGRT owns the nuclear fuel and charges the Company for nuclear fuel as it is consumed. Since RGRT owns the nuclear fuel, the Company records all nuclear fuel in FERC account 120.6, Nuclear Fuel under Capital Lease. The Company includes the balance of nuclear fuel in inventory on its balance sheet as an asset and includes the balance of funds owed to RGRT as a liability.

Q. WHAT DOES SCHEDULE C-6 (NUCLEAR FUEL) PRESENT?
A. This schedule lists all account balances for account 120 (120.1 through 120.6) at the end of the test year. As previously discussed since EPE records nuclear fuel under a capital lease only FERC account 120.6, Nuclear Fuel under Capital Lease, and FERC account 120.5 Accumulated Provision for Amortization of Nuclear Fuel are used by the Company.

Q. DESCRIBE THE OTHER C-6 SCHEDULES.
• C-6.1: Nuclear Fuel in Process – this schedule is not applicable to the Company.
• C-6.2: Distribution of Costs and Quantities for Account 120.1 – this schedule is not applicable to the Company.
• C-6.3: Distribution of Costs and Quantities for Account 120.2 – this schedule is not applicable to the Company.

• C-6.4: Distribution of Costs for Account 120.3 – this schedule is not applicable to the Company.

• C-6.5: Distribution of Costs for Account 120.4 – this schedule is not applicable to the Company.

• C-6.6: Distribution of Costs for Account 120.5 – this schedule contains a distribution of costs for account 120.5 at the end of the test year.

• C-6.7: Distribution of Costs for Account 120.6 – this schedule contains a distribution of costs for account 120.6 at the end of the test year.

• C-6.8: Allocation of Unassigned Balance – this schedule describes how material, services, and other costs are allocated from an unassigned balance to a specific reload group or a specific assembly.

• C-6.10: Nuclear Fuel Trust/Lease – this schedule describes the trust through which EPE finances its nuclear fuel. The description includes the costs which arise through the operation of the trust and an explanation of how these costs are paid to the trust holder and recovered from ratepayers.

G. D Schedules (Depreciation)

Q. WHAT ARE THE D SCHEDULES?
A. The D Schedules (which extend through Schedule D-8) contain depreciation information, as described below.

Q. WHAT DOES SCHEDULE D PRESENT?
A. Schedule D is a narrative that includes descriptions of the computer programs,
Q. DESCRIBE SCHEDULE D-1 (BY FUNCTIONAL GROUP AND/OR PRIMARY ACCOUNT).
A. Schedule D-1 shows accumulated provisions for depreciation detailed by functional group (e.g., steam production, transmission) at the beginning of the test year; test year book accruals, retirements and adjustments; and the balances at the end of the test year.

Q. DESCRIBE SCHEDULE D-2 (BOOKING METHODS).
A. Schedule D-2 describes the methods and procedures followed in booking depreciation of plant, retirements and abandonments.

Q. WHAT DOES SCHEDULE D-3 (PLANT HELD FOR FUTURE USE) SHOW?
A. Schedule D-3 lists EPE's plant held for future use recorded in FERC Account 105. This schedule is not applicable to EPE since it does not have any plant held for future use.

Q. WHAT ABOUT SCHEDULE D-4 (DEPRECIATION EXPENSE)?
A. This schedule shows EPE's plant depreciation expenses by functional group and primary account classification. Production plant is further subdivided by each generating unit. The categories are:

- functional group
- production plant generating unit
- primary FERC account,
For each category the following information is presented:

- test year depreciable plant,
- test year depreciation rate,
- EPE's test year depreciation expense,
- EPE's requested depreciable plant,
- EPE's requested depreciation rate,
- EPE's requested depreciation expense, and
- adjustments.

The depreciation rates requested by EPE in this filing are discussed in the direct testimony of EPE witness John Spanos.

Q. DESCRIBE RFP SCHEDULE D-5 (DEPRECIATION RATE STUDY).
A. This schedule provides EPE's depreciation study, sponsored by Company witness Spanos.

Q. IS EPE REQUESTING ANY ADJUSTMENTS TO DEPRECIATION RATES IN THIS PROCEEDING?
A. Yes. EPE is requesting two adjustments concerning depreciation rates. First, the Commission last approved depreciation rates for Texas in Docket No. 12700, using a 1993 depreciation study. In 2004, EPE began booking different depreciation rates system-wide (which were on balance higher than those approved in Docket No. 12700 and therefore resulted in a higher balance of accumulated depreciation and lower rate base) based on a 2002 depreciation study and a 2003 decision of the New Mexico Public Regulation Commission approving those rates. However, EPE did not then seek Texas Commission approval to use those newer rates.
Accordingly, EPE now requests that the Commission approve the use of the 2004
depreciation rates and resulting higher accumulated depreciation reserve balances
as if the Commission had already approved the higher depreciation rates for use in
2004 and afterwards. Notwithstanding this request, EPE has supplied information
reflecting depreciation rates and accumulated reserve balances as if the Docket
No. 12700 rates had continued to be applied instead of the 2004 rates.

Second, for future depreciation, EPE is presenting a 2008 depreciation study
that supports the use of newer and more current depreciation rates, and EPE
requests that the rates from that study apply once new rates are established in this
case. Company witness John Spanos supports both the 2002 and 2008 depreciation
studies in his testimony.

Q. WHAT DOES SCHEDULE D-6 (RETIREMENT DATA FOR ALL GENERATING
UNITS) PRESENT?
A. Schedule D-6, which is sponsored by Company witness Ramirez, provides
retirement data for all generating units of EPE.

Q. ARE YOU PROPOSING A REVISION IN THE DEPRECIABLE LIFE OF PVNGS?
A. Yes, the Company along with the other participants in PVNGS filed a request with
the Nuclear Regulatory Commission (NRC) in December 2008 for a 20-year
extension of the operating license for PVNGS. EPE has been depreciating PVNGS
over the life of the current operating license. While, the NRC is not expected to grant
the extension in the operating license until the first quarter of 2011, the Company
believes the life extension will be granted. EPE agreed to reflect the 20-year life
extension in depreciation rates in New Mexico subject to true-up if the license is not
extended. EPE has made the same adjustment to proposed depreciation rates in this
filing to reflect the life extension. If the life extension is not granted, EPE will adjust
future depreciation rates to recover its PVNGS investment over the remaining
operating life of the plant.

Q. WHAT DOES SCHEDULE D-7 (SUMMARY OF BOOK SALVAGE) SHOW?
A. Schedule D-7 summarizes the test year salvage value for each FERC account or
functional group. It also includes cost of removal, together with gross salvage and
net salvage.

Q. DESCRIBE RFP SCHEDULE D-8 (SERVICE LIFE).
A. This schedule provides the average service life for each group of assets, sorted by
functional use. It also indicates which Iowa curve was used to determine the
average service life. Schedule D-8 is sponsored by Company witness Spanos.

H. F Schedule (Description of Company)

Q. WHAT IS SCHEDULE F?
A. Schedule F provides a description of the Company.

I. G Schedules (Accounting Information)

Q. WHAT DO THE G SCHEDULES ADDRESS?
A. The G Schedules contain accounting information. I sponsor schedules—G-1, 2, 6, 8,
10, 11, 12, 13, and 14.

1. Payroll Information (G-1 Schedules)

Q. WHAT DO THE G-1 SCHEDULES CONTAIN?
A. The G-1 Schedules (from G-1 through G-1.6) contain payroll information.
Q. WHAT INFORMATION IS IN SCHEDULE G-1 (PAYROLL INFORMATION)?
A. Schedule G-1 provides a narrative of EPE’s payroll practices.

Q. WHAT INFORMATION IS IN SCHEDULES G-1.1, G-1.2 AND G-1.3?
A. Schedules G-1.1, 2 and 3 provide gross payroll information for each month in the July 2008-June 2009 test year as well as the three most recent calendar years before the test year—2006, 2007 and 2008.

- In Schedule G-1.1 (Regular and Overtime Payroll), the categories are regular payroll, overtime payroll, other and total payroll.
- In Schedule G-1.2 (Regular Payroll by Category), the categories are union payroll, non-union payroll, and total payroll.
- In Schedule G-1.3 (Payroll Capitalized vs. Expensed), the categories are payroll expenses, payroll capitalized, other payroll, and total payroll.

Q. 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 portions of PVNGS and Four Corners, it is not the operator of either plant and does not disburse payroll to employees who work at those units.

Q. WHAT INFORMATION IS IN SCHEDULES G-1.5 (NUMBER OF EMPLOYEES) AND G-1.6 (PAYMENTS OTHER THAN STANDARD PAY)?
A. Both of these schedules provide employee information for each month in the July 2008-June 2009 test year as well as the three most recent calendar years before the test year—2006, 2007 and 2008.
• 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

2. General Employee Benefit Information (G-2 Schedules)

Q. WHAT DO THE G-2 SCHEDULES CONTAIN?
A. The G-2 schedules contain employee benefit information, as well as pension
expense, postretirement benefits other than pension (OPEB) and administration
fees.

Q. DESCRIBE SCHEDULE G-2 (GENERAL EMPLOYEE BENEFIT INFORMATION).
A. Schedule G-2 describes all employee benefits EPE requests in its cost of service.

Q. WHAT INFORMATION IS IN SCHEDULE G-2.1 (PENSION EXPENSE)?
A. Schedule G-2.1 provides information about EPE’s pension fund and expense activity.

Q. DESCRIBE SCHEDULE G-2.2 (POSTRETIREMENT BENEFITS OTHER THAN
PENSION).
A. Schedule G-2.2 provides information about OPEB (or SFAS No. 106) test year
expenses and included in EPE’s cost of service.

Q. 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.
3. **Bad Debt Expense (G-3 Schedules)**

**Q. WHAT DOES SCHEDULE G-3 CONTAIN?**

**A.** Schedule G-3 contains information concerning bad debt expense including policies for writing off bad debts and the Company's methodology for calculating monthly bad debt expense.

4. **Summary of Test Year Affiliate Transactions (G-6 Schedules)**

**Q.** THE G-6 SCHEDULES REQUIRE INFORMATION ABOUT TEST YEAR AFFILIATE TRANSACTIONS AND EXPENSES. ARE THERE ANY FOR THE COMPANY?

**A.** The Company is not a member of an affiliate group. The Company has one subsidiary, MiraSol Energy Services, Inc. It is basically inactive as its only operations are to complete its obligations under existing contracts. EPE does not have any direct transactions with MiraSol. EPE does perform administrative functions for MiraSol including maintaining accounting records for MiraSol and paying taxes, payroll and benefits on behalf of MiraSol. These activities are performed as they are performed for EPE. As a result, the cost for MiraSol is de minimis (less than $50,000 annually).

5. **Summary of Outside Services Employed (Schedule G-8)**

**Q. WHAT DOES SCHEDULE G-8 CONTAIN?**

**A.** Schedule G-8 presents information on outside services employed during the test year that appear in the FERC 900 series accounts. Each vendor of outside services is identified, the purpose of the vendor's service and whether the expense is recurring or non-recurring.
6. Factoring Expense (Schedule G-10)

Q. SCHEDULE G-10 ADDRESSES FACTORING AND FACTORING EXPENSE INFORMATION. DOES EPE FACTOR ITS ACCOUNTS RECEIVABLES?

A. No, it does not. Accordingly, Schedule G-10 does not apply to EPE.

7. Deferred Expenses from Prior Dockets (Schedule G-11)

Q. WHAT INFORMATION IS IN SCHEDULE G-11 (DEFERRED EXPENSES FROM PRIOR DOCKETS)?

A. EPE is not requesting recovery of any deferred expenses from prior dockets and, therefore, Schedule G-11 is not applicable.

8. Below the Line Expenses (Schedule G-12)

Q. WHAT INFORMATION IS IN SCHEDULE G-12 (Below the Line Expenses)?

A. Schedule G-12 summarizes all expenses charged "below the line" during the test year.

9. Nonrecurring or Extraordinary Expenses (Schedule G-13)

Q. WHAT INFORMATION IS CONTAINED IN SCHEDULE G-13 (Nonrecurring or extraordinary expenses)?

A. Schedule G-13 lists all non-recurring or extraordinary expenses occurring during the test year and included in cost of service.

10. Regulatory Commission Expense (Schedule G-14)

Q. WHAT INFORMATION IS CONTAINED IN SCHEDULE G-14 (Regulatory Commission Expense)?

A. Schedule G-14 provides a summary by docket of expenses charged to FERC
Account 928 during the test year. Schedule G-14.1 provides the requested rate case expenses for this application. Schedule G-14.2 provides requested rate case expenses from prior dockets. The Company is not requesting recovery of any expenses from prior dockets.

11. Monthly O&M Expense (Schedule G-15)

Q. WHAT INFORMATION IS IN SCHEDULE G-15 (MONTHLY O&M EXPENSE)?
A. Schedule G-15 includes EPE's operations and maintenance (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.

J. H Schedules (Production Expenses)

Q. DO YOU SPONSOR ANY OF THE H SCHEDULES?
A. Yes, I sponsor Schedule H-5.1, which describes the Company's methods and criteria for capitalizing cost items or projects. Schedule H-5.1 also describes the Company's capitalization procedures and provides retirement units and expense item information in workpapers.

K. J Schedules (Financial Statements)

Q. WHAT IS SCHEDULE J?
A. The three J Schedules contain financial statement information.

- Schedule J provides the financial statements necessary for fair presentation of EPE'S financial position in accordance with GAAP (e.g., Balance Sheet, Income Statement, Statement of Comprehensive Operations, Statement of Cash Flows).
The Income Statement, Statement of Comprehensive Operations and Statement of Cash Flows cover the test year and the twelve months immediately preceding the test year. The Company has also provided as pages 1-6 of Schedule J EPE's Balance Sheet and Retained Earnings at June 30, 2009 and 2008, as well as its Income Statement, Statement of Comprehensive Income and Statement of Cash Flows for the test year and the twelve month period immediately preceding the test year prepared on a FERC regulatory accounting basis.

- Schedule J-1 (Reconciliation -Total Company to Total Electric) reconciles the balance sheet and income statement presented on a Total Company basis in Schedule J with the same information presented on a Total Electric basis. EPE has adjusted out activity related to its wholly owned subsidiary, MiraSol Energy Services.

- Schedule J-2 (Consolidated Financial Statements) does not apply to EPE because it is not a member or division of a group of companies or another company for which consolidated financial statements could be presented.

L. K Schedules (Financial Information for Investor-Owned Utilities)

Q. WHAT DO THE K SCHEDULES ADDRESS?
A. The K Schedules (K-1 through K-9) contain financial information.

Q. WHAT IS CONTAINED IN SCHEDULE K-1 (WEIGHTED AVERAGE COST OF CAPITAL)?
A. This schedule provides EPE's claimed overall rate of return as a weighted average of each class of capital based upon EPE's capitalization at the end of the test year, along with any proposed pro forma adjustments. It also presents EPE's claimed overall return on the original cost rate base as adjusted for PVNGS fresh start values.
discussed earlier and the resulting total claimed return (capital cost) expressed in dollars.

Q. DESCRIBE SCHEDULE K-2 (WEIGHTED AVERAGE COST OF PREFERRED STOCK).

A. Schedule K-2 is not applicable since EPE does not have any outstanding preferred stock.

Q. WHAT ABOUT SCHEDULE K-3 (WEIGHTED AVERAGE COST OF DEBT)?

A. This schedule shows the weighted average cost of long-term debt as of June 30, 2009. In May 2005, EPE refinanced all of its outstanding first mortgage bonds including $175.8 million of 8.9% Series D bonds and $183.6 million of 9.4% Series E bonds through the issuance of 6% Senior Notes resulting in significant interest rate savings. Due to the low interest rates at the time the bonds were planned, EPE entered into an interest rate lock arrangement to ensure that the interest savings would be achieved. The interest rate lock resulted in a reduction in the proceeds from the 6% Senior Notes which is reflected in column (f) of Schedule K-3. The yield to maturity (cost of debt) for the 6% Senior Notes reflects the reduction in principal required to fund the interest rate lock and the loss on reacquired debt due to the refunding of the first mortgage bonds.

On March 26, 2009, the Company completed a refunding transaction whereby the 2005 Series B $63.5 million pollution control bonds and the 2005 Series C $37.1 million pollution control bonds were refunded and replaced by 2009 Series A bonds in the aggregate principal amount of $63.5 million and 2009 Series B bonds in the aggregate principal amount of $37.1 million. Both the 2009 Series A and 2009 Series B bonds have a fixed interest rate of 7.25%. The 2005 Series B bonds
and 2005 Series C bonds had variable interest rates that were repriced weekly. The Company had experienced interest rates in excess of 10% on the weekly auctions due to the turbulent condition of the financial markets prior to the refunding. The 2009 Series A and 2009 Series B pollution control bonds are reflected in the cost of debt in Schedule K-3.

Q. WERE THE COSTS INCURRED TO REFUND AND REISSUE THE POLLUTION CONTROL BONDS REASONABLE?
A. Yes. The costs incurred to refund and reissue the 2009 PCBs were reasonable. As a result of the reissuance, the PCBs are no longer subject to weekly interest rate fluctuations. Although customers benefited over the long-term from the interest rates associated with the 2005 PCBs, the uncertainty in financial markets was such that it was in the interest of EPE and its customers to have longer-term and more stable interest rates in place for these PCBs.

Q. PLEASE DESCRIBE SCHEDULE K-4 (NOTES PAYABLE)
A. This schedule provides information about EPE's notes payable used for working cash requirements. EPE did not have any notes outstanding at the end of the test year for working cash requirements. EPE also uses up to $120 million of its revolving credit facility to finance nuclear fuel through RGRT. The RGRT borrows against the RCF and purchases nuclear fuel on behalf of the Company. The Company pays the RGRT when nuclear fuel is consumed at the Palo Verde plant.

Q. WHAT INFORMATION IS IN SCHEDULE K-5 (SECURITY ISSUANCE RESTRICTIONS)?
A. Schedule K-5 describes and calculates the most restrictive financial tests as of the test year end pertaining to the issuance of securities or the maintenance of banking lines of credit.

Q. DESCRIBE SCHEDULE K-6 (FINANCIAL RATIOS).
A. This schedule provides historical financial ratios for the test year and the years 2003 through 2007. In addition, the same ratios are projected for the years 2010 through 2012 assuming EPE's full requested relief is granted.

Q. DESCRIBE SCHEDULE K-7 (CAPITAL REQUIREMENTS AND ACQUISITION PLAN).
A. Schedule K-7 estimates the requirements for and sources of future capital for 2010 through 2012 consistent with Schedule K-6.

Q. WHAT INFORMATION IS IN SCHEDULE K-8 (HISTORICAL GROWTH IN EARNINGS, DIVIDENDS, AND BOOK VALUE)?
A. Schedule K-8 provides historical information necessary to calculate earnings per share, dividends and book value per share for the 16 year period, 1993 - 2008.

Q. DESCRIBE SCHEDULE K-9 (RATING AGENCY REPORTS).
A. This schedule provides a listing of credit rating analyses by Standard and Poor's and Moody's issued in the latest 12-month period. In addition, EPE has listed copies of stock analyst reports issued in the latest 12-month period. The reports are copyright protected.
M. M Schedules (Nuclear Plant Decommissioning)

Q. WHAT ARE THE M SCHEDULES?
A. The two M Schedules contain information about the decommissioning of PVNGS, including EPE's funding of estimated nuclear decommissioning expenses.

Schedule M-1 (Decommissioning Information) provides data concerning the decommissioning funds EPE has established, including fund, trust, trustee and decommissioning cost and funding information. Schedule M-2 (Decommissioning Funding Plan) provides detailed information on EPE's decommissioning fund plan.

Later in my testimony I discuss the decommissioning information in more detail and support EPE's requested annual decommissioning expense of $12.0 million on a total company basis. Company witness Francis Seymore of TLG Services, Inc. presents information about the estimated cost to decommission PVNGS and Company witness Tucker addresses the cost of service adjustment for decommissioning expense.

N. S Schedules (Test Year Review by Independent Certified Public Accountants)

Q. WHAT ARE THE S SCHEDULES (TEST YEAR REVIEW)?
A. The S Schedules (S through S-6) contain information concerning the review by KPMG, LLP, the Company's independent public accountants.

Q. DESCRIBE SCHEDULE S (TEST YEAR REVIEW).
A. Schedule S consists of a report by EPE's independent certified public accountant KPMG, LLP (KPMG), on its review covering the test year which complies with applicable standards established by the American Institute of Certified Public Accountants and with the minimum procedures listed in the RFP instructions.
Q. WHAT INFORMATION IS IN SCHEDULE S-1 (SCOPE OF REVIEW)?
A. Schedule S-1 summarizes the independent accountants' scope of review procedures and materiality considerations applied to each of the required minimum procedures listed in the RFP instructions for Schedule S.

Q. WHAT ABOUT SCHEDULE S-2 (ERRORS AND EXCEPTIONS NOTED BY INDEPENDENT ACCOUNTANT)?
A. This schedule lists all errors, exceptions, or omissions noted by the independent accountant during the course of the test year review which were not corrected in the rate filing. No errors or exceptions were noted in KPMG's review of EPE's financial statements for the test year ended June 30, 2009.

Q. DESCRIBE SCHEDULE S-3 (COMMUNICATIONS FROM INDEPENDENT ACCOUNTANT).
A. The RFP instructions state that a copy of any Schedule S-3 shall include communications by the independent accountants on reportable conditions required by Statement on Auditing Standards No. 60, Communication of Internal Control Structure Related Matters Noted in an Audit. No reportable conditions were reported to EPE by KPMG during the test year.

Q. WHAT INFORMATION IS IN SCHEDULE S-4 (ADJUSTING JOURNAL ENTRIES)?
A. Schedule S-4 requires a copy of adjusting journal entries resulting from the most recent annual audit provided by the independent accountants to EPE for posting to EPE's books. No adjusting journal entries were provided by the independent accountants to EPE in its most recent audit.
Q. DESCRIBE SCHEDULE S-5 (PASSED ADJUSTING JOURNAL ENTERIES).
A. Schedule S-5 includes a copy of all potential or passed adjusting journal entries identified during the course of the most recent annual audit which were not posted to EPE's books. No reportable entries were reported by KPMG to the Company in its last annual audit for the year ended December 31, 2009.

Q. DESCRIBE SCHEDULE S-6 (WORKPAPER REVIEW).
A. Schedule S-6 specifies the name and telephone number of a contact person through whom arrangements can be made to review the independent accountants' workpapers for the test year review and the most recent annual audit. This schedule also specifies a location in Austin, Texas, where the workpapers will be made available for review.

VI. ADMINISTRATIVE AND GENERAL EXPENSES
Q. PLEASE DESCRIBE THE ADMINISTRATIVE AND GENERAL ACTIVITIES OF THE COMPANY.
A. The Company has a number of administrative and general activities that provide support to the Company's generation, transmission and distribution of electricity. The Company's administrative and general activities are organized into the following divisions:

- Customer Care
- Human Resources
- Finance
- Corporate Planning and Development
- Legal and Compliance
Q. PLEASE DESCRIBE THE CUSTOMER CARE DIVISION AND ITS FUNCTION.

A. The Customer Care Division has primary responsibility for the Company's interactions with customers including meter reading, billing, collections, customer service, customer call centers, and commercial and industrial customer relations. This division also includes public relations, governmental relations, and information technology. These are all critical functions of the Company. A key part of our business is the ability to bill and collect revenues from customers and to respond to customer inquiries. Operating, maintaining and developing computer information systems is also an important function of the Company. As I will discuss in the next section, the Company's customer information system is a critical component of providing good customer service whether it be billing customers or responding to outages.

Public relations is also important in providing service to customers as the Company often needs to communicate important information to customers such as how to obtain service, changes in rates, outage information, etc. Likewise, government relations personnel work to maintain contact with community leaders on many issues affecting the community and the Company such as economic development and impacts of new legislation.

Q. PLEASE DESCRIBE THE HUMAN RESOURCES DIVISION AND ITS FUNCTION.

A. The Human Resources Division is responsible for employee relations and performance, employee training, employee recruiting, union relations, and employee benefits. Employees are the backbone of the Company, and Human Resources ensures that the Company maintains a skilled and trained workforce. A key
component of maintaining a qualified workforce is providing appropriate compensation and benefits.

Q. PLEASE EXPLAIN HOW EMPLOYEE COMPENSATION IS DETERMINED.
A. The Company develops compensation for non-union employees by benchmarking jobs to comparable positions in El Paso and within the utility industry through salary surveys and other sources of information on compensation. The Company contracts with Hewitt Associates (Hewitt) to develop salary information for non-union employees. While there are a number of positions at the Company in which it competes for locally available skills (such as customer service representatives and meter readers), the Company competes with other utilities for many positions that require experience or training in the electric utility industry such as engineers, plant managers, and rates employees. In addition, the cost of living and salary structures in El Paso are different from other areas. Hewitt takes these factors into account in developing the compensation levels for individual positions. The Company seeks to establish salary ranges for comparable jobs in the electric utility industry slightly below the mid-point of the industry average. The Company's salary structure seeks to ensure that the Company can hire and retain competent employees for each position in the Company.

Compensation for union employees and contracted changes in compensation levels are negotiated in the union contract, which is the product of collective bargaining. The current union contract was effective on September 3, 2007 and expires on September 2, 2010. 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 annual increases in wages on September 3 of each year. The contract provided for a three percent increase in
straight time hourly rates for all job classifications on September 3, 2009. EPE witness Gerald Tucker has reflected this increase as well as an anticipated increase in non-union wages in his pro forma salary adjustment.

Q. PLEASE DESCRIBE THE BENEFIT PLANS OFFERED TO EMPLOYEES.

A. The Company offers a comprehensive package of benefits to employees. Providing employees with a comprehensive benefit package is an important component of employee compensation. The Company provides the same benefits to both union and non-union employees. Employee benefits include:

- Paid time off – Fully funded by the Company
- 401k savings plan – Company matches 50% up to 6% of pay
- Pension plan – Fully funded by the Company
- Health insurance – Partially funded by the Company
- Dental insurance – Partially funded by the Company
- Accidental death and dismemberment insurance – Partially funded by the Company
- Vision insurance – Fully funded by the employee
- Life insurance – Partially funded by the Company
- Long-term disability insurance – Fully funded by the Company
- Retiree life insurance – Fully funded by the Company
- Retiree health insurance – Partially funded by the Company

As noted above, some of the benefit plans are fully funded by the Company, some are partially funded by the Company and some are not funded by the Company. The Company benchmarks its package of employee benefits against other utilities and companies in the El Paso area. Compared to other utilities, the
Company's benefits plans in total are slightly below the average. The Company seeks to obtain benefits for employees at a reasonable cost and negotiates with vendors for competitive rates for both the Company and the employee. The Company works with PriceWaterhouseCoopers (PWC) in developing its pension and medical benefit plans. PWC also prepares Actuarial Reports to determine the annual expense for pension and other post-retirement benefits (OPEB) for financial reporting under generally accepted accounting principles (GAAP) and reporting under the Employment Retirement Income Security Act of 1974 (ERISA). PWC has prepared actuarial estimates of GAAP expenses for 2010 for the pension and OPEB plans that are reflected in the pro forma adjustments discussed in the testimony of EPE witness Gerald Tucker. GAAP requirements establish these expenses based upon assumptions as of January 1 of each year. The 2010 estimates reflect assumptions as to discount rates and other assumptions as of year-end 2009. These estimates represent the costs that the Company will incur during the period that rates are in effect as a result of this filing.

Q. IS THE COMPANY SEEKING RECOVERY OF DIRECTOR’S FEES?
A. Yes, directors' fees are included in the requested cost of service. Directors receive an annual retainer and are compensated for each meeting attended. The Chairman and Vice Chairman of the Board and Chairmen of each Board committee receive additional compensation for those specific roles. Like employees, the fees paid to directors are benchmarked against other companies.

Q. PLEASE DESCRIBE THE FINANCE DIVISION AND ITS FUNCTION.
A. The Finance Division is responsible for obtaining and managing capital resources required to finance the Company. This includes maintaining relations with investors,