



## **El Paso Electric**

### **Proposed Legislation Regarding Recovery of Capital Investments in Generation**

To continue to provide reliable service, to meet the growing energy demands of the El Paso region, and to put El Paso at the forefront of solar and renewable generation, El Paso Electric ("EPE") is making significant investments in generation. EPE is concurrently requesting support for legislation which would create a company-specific subchapter under the Public Utility Regulatory Act ("PURA") and allow EPE to recover its capital investments in both traditional and renewable generation on a yearly basis using a cost recovery factor.

#### **Proposed Legislation**

EPE is proposing legislation that would accomplish two goals:

1. Create a company-specific subchapter under PURA, as the Legislature has done for the other three vertically integrated investor-owned utilities in Texas, and
2. Authorize the recovery of investments in generation, including solar and other renewable sources, on a yearly basis, in a less time-consuming and costly manner than a traditional rate case while still preserving regulatory oversight.

The legislation would authorize EPE to make an annual filing with the Public Utility Commission ("PUCT") to recover its capital investment in generation, including solar and other renewable generation sources. Once approved, EPE is required to file a traditional rate case with the PUCT every five years. However, the PUCT, the City of El Paso, other incorporated municipalities, and EPE would maintain the ability to pursue a rate case at any time.

#### ***Benefits to Customers and the Community***

- Positions El Paso to be at the forefront of solar generation, living up to its name "Sun City"
- Stimulates local economic development opportunities, creating new business and jobs in the El Paso region
- Responds to strong customer and City leadership support for investments in solar and renewable generation
- Reduces the region's carbon footprint, improving air quality
- Updates the process for rate changes (Pay-as-you-go)
- Creates opportunities for a framework for community partnerships between EPE, Fort Bliss, government entities, educational institutions, and businesses

#### ***Benefits to EPE***

- Promotes clean energy development from solar, renewable, and more efficient conventional generation resources
- Creates a mechanism that promotes greater certainty that investments in generation, including solar and renewable generation, are recovered in a timely manner
- Diversifies EPE's energy resources in the region

**DRAFT**

By. \_\_\_\_\_

\_\_B. No. \_\_

AN ACT

relating to the delay of competition in the Western Electric Coordinating Council service area and to the recovery of certain costs by an electric utility in this area.

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

SECTION 1. Chapter 39, Utilities Code, is amended by adding Subchapter L to read as follows:

SUBCHAPTER L. TRANSITION TO COMPETITION AND RECOVERY OF  
TRANSITION AND GENERATION CAPITAL INVESTMENT RELATED COSTS FOR  
CERTAIN  
AREAS OUTSIDE OF ERCOT

Sec. 39.601. APPLICABILITY. (a) This subchapter applies only to an investor-owned electric utility:

(1) that is operating solely outside of ERCOT in areas of this state that were included in the Western Electric Coordinating Council on January 1, 2011;

(2) that was not affiliated with ERCOT on January 1, 2011; and

(3) to which Subchapters I, J and K do not apply.

(b) The legislature finds that an electric utility subject to this subchapter is unable at this time to offer fair competition and reliable service to all retail customer classes in the area served by the utility. As a result, the introduction of retail competition for such an electric utility is delayed until fair competition and reliable service are available to all retail customer classes as determined under this subchapter.

Sec. 39.602. COST-OF-SERVICE REGULATION. (a) Until the date on which an electric utility subject to this subchapter is authorized by the commission under Section 39.603(f) to implement retail customer choice, the rates of the utility are subject to regulation under Chapter 36 and this subchapter.

(b) Until the date on which an electric utility subject to this subchapter implements customer choice, the provisions of this chapter, other than this subchapter and Sections 39.904 and 39.905, do not apply to that utility.

Sec. 39.603. TRANSITION TO COMPETITION. (a) The events prescribed by Subsections (b)-(f) shall be followed to introduce retail competition in the service area of an electric utility subject to this subchapter. All the listed items in each stage must be completed before the next stage is initiated. Unless

stated otherwise, each of the activities will be conducted by the commission in conjunction with the electric utility and other interested parties. Full retail competition may not begin in the service area of an electric utility subject to this subchapter until completion of the fifth stage.

(b) The first stage for the transition to competition consists of the following activities:

(1) approval of a regional transmission organization by the Federal Energy Regulatory Commission for the power region that includes the electric utility's service area and commencement of independent operation of the transmission network under the approved regional transmission organization;

(2) development of retail market protocols to facilitate retail competition; and

(3) completion of an expedited proceeding to develop non-bypassable delivery rates for the customer choice pilot project to be implemented under Subsection (c)(1).

(c) The second stage for the transition to competition consists of the following activities:

(1) initiation of the customer choice pilot project in accordance with Section 39.104;

(2) development of a balancing energy market, a

market for ancillary services, and a market-based congestion management system for the wholesale market in the power region in which the regional transmission organization operates; and

(3) implementation of a seams agreement with adjacent power regions to reduce barriers to entry and facilitate competition.

(d) The third stage for the transition to competition consists of the following activities:

(1) the electric utility shall:

(A) prepare and file an application for business separation in accordance with Section 39.051;

(B) prepare and file an application for unbundled transmission and distribution rates in accordance with Section 39.201;

(C) prepare and file an application for certification of a qualified power region in accordance with Section 39.152; and

(D) prepare and file an application for price-to-beat rates in accordance with Section 39.202;

(2) the activities to be completed by the commission in the third stage are to:

(A) approve a business separation plan for the

utility;

(B) set unbundled transmission and distribution rates for the utility;

(C) certify a qualified power region, which includes conducting a formal evaluation of wholesale market power in the region, in accordance with Section 39.152;

(D) set price-to-beat rates for the utility; and

(E) determine which competitive energy services must be separated from regulated utility activities in accordance with Section 39.051; and

(3) the activity to be completed by the regional transmission organization, the statewide registration agent and market participants in the third stage is completion of the testing of retail and wholesale systems, including those systems necessary for switching customers to the retail electric provider of their choice and for settlement of wholesale market transactions.

(e) The fourth stage for the transition to competition consists of the following activities:

(1) the commission shall evaluate the results of the pilot project;

(2) the electric utility shall initiate capacity

auctions pursuant to Section 39.153 at a time to be determined by the commission; and

(3) the utility shall separate competitive energy services from its regulated utility activities, in accordance with the commission order approving the separation of competitive energy services.

(f) The fifth stage for the transition to competition consists of the commission evaluating whether the power region can offer fair competition and reliable service to all retail customer classes. If the commission concludes that the power region can offer fair competition and reliable service to all retail customer classes, it shall issue an order initiating retail competition for the utility and directing the utility to complete the business separation and unbundling.

(g) Upon a finding of good cause, as determined by the commission, the sequence for retail competition set forth in this section may be modified by commission order.

Sec. 39.604 INTERIM ADJUSTMENTS FOR CHANGES IN GENERATION CAPITAL INVESTMENTS INCLUDING IN SOLAR, OTHER RENEWABLE, AND NON-RENEWABLE GENERATION. (a) Notwithstanding Section 36.201, an electric utility operating under this subchapter may file with the commission a petition to establish a tariff or rate schedule

that provides for an annual interim generation plant adjustment in the utility's monthly rates to recover the cost of changes in the utility's generation plant invested capital, including investments in utility-scale solar generation, in other renewable generation, and in non-renewable generation, and in the related changes in depreciation, return, and income taxes. A proceeding under this section is not a rate case under Subchapter C of Chapter 36 but is subject to Section 33.023.

(b) The interim generation plant rate adjustment shall be allocated among the electric utility's customer classes in the same manner as the non-fuel revenue requirements were allocated among classes of customers in the utility's most recent rate case. The adjustment allocated to individual rates shall be applied to each base rate based on the same component proportions used in designing the current base rates, excluding the customer charge.

(c) The electric utility shall file the petition to establish the annual interim generation plant rate adjustment as well as succeeding requests to implement annual interim generation plant rate adjustments under this Section with the commission at least 60 days before the proposed implementation date of the annual interim generation plant rate adjustment.

The electric utility shall provide notice of the filing of the petition for an annual interim generation plant rate adjustment to affected customers by either bill insert or direct mail, or by publication in a newspaper of general circulation in the utility's service area not later than the 45th day after the date the utility files the petition to establish the tariff, rate schedule, or annual adjustment with the commission. During the period before the utility's proposed implementation date, the commission may act to suspend the implementation of the annual interim generation plant rate adjustment once for up to, but no longer than, one 45-day period.

(d) After the issuance of a final order or decision by the commission in a Chapter 36 rate case that is filed after the implementation of a tariff or rate schedule under this subsection, any change in net generation plant investment and associated depreciation, return and income taxes that has been included in any interim generation plant rate adjustment in accordance with the tariff or rate schedule under this section and the allocation of those costs among the electric utility's customer classes shall no longer be subject to subsequent review for reasonableness or prudence.

(e) After the commission has first approved a tariff

authorizing the annual interim rate adjustment under this Section, the electric utility shall annually adjust the utility's rates upward or downward under the tariff by filing a request with the commission to make an interim rate adjustment.

(1) The adjustment shall be based on the difference between the amount of the utility's net generation plant invested capital that is in service and the associated depreciation, return and income taxes during the most recent twelve months ending on June 30 as soon as information is reasonably available and the amount of the utility's net generation plant invested capital and associated depreciation, return and income taxes included in base rates in the utility's last Chapter 36 rate proceeding.

(2) The rate of return on investment, depreciation rates, and income tax rates used in the computation must be the same as the rates for those items reflected in the final order issued by or settlement agreement approved by the commission in the electric utility's last rate proceeding under Chapter 36.

(3) If the final order in the last rate case was pursuant to a settlement, then the net generation plant shall be based upon the filed case with any adjustments specified in the settlement. If in the settlement a return on equity was

specified for purposes of calculating the allowance for funds used during construction, then that return on equity shall be used to calculate the cost of capital. If a settlement agreement did not specify a cost of capital, a depreciation expense or an income tax expense, then for any such item not specified, the amount to be used shall be based upon the filed case adjusted for the pro rata difference between the filed case and the final approved revenue requirement.

(4) The utility may also recover with its annual interim rate adjustment any reasonable expenses associated with making the annual interim rate adjustment and reimbursement for municipal expenses incurred in participating in a proceeding under this Section.

(5) The adjustment shall be calculated using weather-adjusted billing determinants from the most recent twelve-month period using the same methodology used in the utility's most recent Chapter 36 rate proceeding.

(f) The interim generation plant rate adjustment shall be recalculated on an annual basis in accordance with the requirements of Subsection (e).

(g) The electric utility may file a request with the commission to suspend the obligation to make an annual

adjustment under the operation of the tariff or rate schedule for any twelve-month period. The request must be in writing and state the reasons why the suspension is justified. The commission may grant the suspension on a good cause showing by the utility of reasonable justification.

(h) An electric utility that implements a tariff or rate schedule under this subsection shall file a rate case under Chapter 36 no later than the 180th day after the fifth anniversary of the date on which a tariff or an adjustment under this section first takes effect, but the utility is not required to file more than one such rate case in any five-year period. The prudence and reasonableness of any change in net generation plant investment that has been included in any interim adjustment in accordance with the tariff or rate schedule under this section since the last rate proceeding under Chapter 36 shall be subject to review in the Chapter 36 rate proceeding filed pursuant to this section.

(i) In any proceeding under this Section, the commission shall allow participation by an affected party.

(j) Nothing in this Section shall diminish the ability of the regulatory authority, on its own motion or on complaint by an affected person as provided by Subchapter D of Chapter 36,

after reasonable notice and hearing, to find that the existing rates of an electric utility for a service are unreasonable or in violation of law. The utility shall annually file an earnings report with the Commission on the form specified by the Commission and provide a copy to any other regulatory authority that has requested a copy of the earnings report.

SECTION 2. 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, 2011.

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**MEMORANDUM**

To: Mayor John Cook  
City Manager Joyce Wilson

From: Norman J. Gordon

Date: January 20, 2011

Re: Subject EPE proposed Legislation regarding Generation Cost Rider.

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I have previously identified the general issues with a an adjustment clause for generation facilities, which include the fact that the nature of this clause ultimately costs ratepayers more money by having rates reflect the generation addition at a time earlier than a rate case, that review of actual expenditures becomes extremely difficult within the time parameters for a subsequent rate case, and the fact that other costs which may be increasing or decreasing are not considered in an annual adjustment. I will provide some general comments on the language of the Bill, some comments on the EPE survey and some comments on the cost of solar power in the current market. In my view, these types of clauses are not good policy. The specific clause proposed is totally one sided to the utility and limits the ability of the City to influence its future. The EPE estimates of the rate effect, solar installations and solar costs are understated. I also believe the survey questions on the costs were skewed in favor of the EPE position.

**General Comments**

One selling point for using this type of clause is avoidance of the expense of a rate case. In reality, this provision avoids having the City incur and be reimbursed its costs for complete evaluation of rates. (In the last two EPE rate cases which were both settled without the necessity of a hearing, the expenses were not a surcharge or add on to the rates, they were subsumed within the overall revenues.) Without the City as a regulator, or participant in the process, the evaluation totally dependent on others, whose participation and involvement may well be more limited given the overall state of the State's finances, and expected budget cuts. This particular proposal is even more egregious in that it contemplates that the City would not be a direct part of the process, that it would not be reimbursed its costs for any involvement in the process, but that

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the utility would be able to recover its costs of filing such packages as an added increase in rates.<sup>1</sup>

### **EPE Proposed Section 39.604 of Texas Utilities Code.**

When a utility makes investments in plant, it can only recover the costs of that plant in one, through rates. Once the plant is recognized for rates, the cost of the plant to ratepayers is the same whether through a traditional case or the monthly charge is no different if the plant is included sooner rather than later. Thus if the ultimate cost is \$1.50 per month it is \$1.50 per month if it starts in January 2012 or September 2012. The only difference is that under the EPE proposed legislation ratepayers will start paying sooner and therefore more.

This proposed amendment partially follows the so called GRIP<sup>2</sup> statute which applies to Gas Utilities, but this often has a number of differences. Chief among these differences is the total elimination of the City from the rate setting process, and total elimination of any financial reporting or requirement that the gas utilities have.

1. 39.604(a) Applies to all generation plant, not only solar. EPE is planning to construct over 1,200 Megawatts (current capacity 1,700 MW between now and 2020). The amount of the investment is in the range of \$ 670 million by 2015 and additional amounts thereafter.
2. 39.604(a) Cedes all original jurisdiction over rates to the PUC. The filing is with the PUC rather than with the City of El Paso. It cuts the City Council out of the process. There may be increases in rates every year but no rate case until 2017.
3. 39.604(b) Allocation based on allocation of revenues in prior case, which was settled. Therefore, to the extent a greater portion of the increase was on residential and small commercial customers, that relationship will continue until there is another rate case.
4. 39.604(c) Creates a total time of 105 days for the process (filing 60 days before propose implementation and a suspension by the PUC of up to 45 days). The rate case process is 185 days.
5. There is no provision for the filing of an earnings report or adjustment in the event the company is over-earning. Under the GRIP statute, the utility has to explain its earnings

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<sup>1</sup> Proposed Sec. 39.604(e)(4)—page 13.

<sup>2</sup> TEX. UTIL. CODE ANN. § 104.301 This act applies to gas utilities and was enacted in 2003 in order to encourage investment in plant by giving utilities the incentive of being able to recover costs sooner (and therefore recover more money) from investments.

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and justify the overall rates if it is over-earning, or earning more than the approved rate of return.<sup>3</sup>

6. The rate of return is fixed at the rate of return identified for limited purposes in the rate settlement. The parties in that settlement specifically limited the use of the identified rate of return in contemplation that it not be used in circumstances such as GRIP filings. Most intervenors in rate cases argue that any clause such as a GRIP clause lowers a company's risk and should lower the rate of return.
7. The factors that would be changed do not contemplate that there would be adjustments to consider items of cost free capital EPE will have due to changes in accounting and the tax act passed by congress in December 2010.
8. There is no requirement for a rate case, that is a full rate case for 7 ½ years after the passage of this act, however the rates are not frozen.
9. The PUC is currently considering rules which would allow similar adjustments for distribution and transmission additions for all utilities. EPE has filed comments to that rule stating that it should apply to all utilities. The PUC did not adopt the rule, but at least two commissioners stated that they would adopt the rule in June if the legislature did not speak to either give them authority or deny them authority to adopt such a rule. If there is a similar provision for distribution plant, that is an added cost. Therefore, if adopted there would be other increases. [EPE has said that they have not factored this in their projections but has not agreed to give it up.]

## **EPE Survey**

EPE conducted a survey in December through a national firm to gauge public reaction to increased cost of solar power. The questions for this clause were based on an EPE cost study which indicated that the incremental cost of the solar power proposal was \$1.50 per month to an average residential customer. As I indicate below, I believe that cost is understated. However I wanted to identify the survey questions that were asked.

If you had a choice, would you prefer to pay for new power plant construction through your electricity bill on a “pay-as-you-go” basis, which means your

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<sup>3</sup>§104.301 (g) If the gas utility is earning a return on invested capital, as demonstrated by the report filed under Subsection (f), of more than 75 basis points above the return established in the latest effective rates approved by a regulatory authority for the area in which the tariff or rate schedule is implemented under this section, the gas utility shall file a statement with that report stating the reasons why the rates are not unreasonable or in violation of law.

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monthly bill would have a small upward adjustment each year following power plant construction costs as they occur? Or would you prefer to have El Paso Electric accumulate construction costs for a year or two and then ask government utility regulators for a large increase to “catch up” with past costs?

This question was followed up with the following:

Let me give you some more information, the “pay-as-you-go” method approves the construction program only once and then requires only auditing and cost verification for “pay-as-you-go” rate increases. The “catch-up” method requires El Paso Electric to present a much more costly and extensive rate case to government regulators every year or two during the five-year construction period. These rate cases will cost EPE’s customers millions of dollars more in legal and accounting fees compared to the “pay-as-you-go” method. Hearing this, would you prefer the “pay-as-you-go” method with small upward bill adjustments during the year, or would you prefer the “catch-up” method with its big bill increase every year or two?

In my opinion the question is totally slanted. It compares a small increase every year to a “big bill increase” every year or two. There is no real greater cost to the rate case method. The costs of the rate case pale in comparison to the cost of power plants \$670 million or \$225 million just for solar. Thus the alternatives are not fair. If I were asked, I would have to answer; I would prefer a smaller increase to a larger one. In addition, if the amount of the increase is truly \$1.50 under this proposal, it is not substantially greater under traditional ratemaking. Moreover, the question did not disclose that ratepayers would have an increase at the end of this year if the legislation is passed.

They survey also excluded persons (or family members) who answered yes to being managerial positions with the City, County, or state agencies. It did not exclude utility employees.

### **Cost of Solar Option vs. Non Solar**

The rate increase comparison, compares the Solar Option to the non-solar option, but contemplates that this statute will be in effect. Although EPE's position is that this will mean less revenue, they have not shared a comparison with us. In other words, EPE has not provided a comparison of rates by year with this legislation in place and without this legislation. Under the provisions of this proposed legislation, EPE gets a rate change earlier (6-9 months earlier) than if

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it had to file a rate case. Thus, if the legislation is approved EPE contemplates a base rate increase in 2011 of approximately \$11 million related to the completion of Newman Unit 5. If a rate case were filed for Newman 5, the increase, if any, would not likely occur until after the first quarter of 2012. Similarly, increases in later years will be postponed if rate cases need to be filed. Finally, the projections contemplate that they will delay some gas generation construction. The rates and costs after 2015 have not been provided.

### **Final Thought**

This legislation applies to all generation plant, whether renewable or not. Nothing requires EPE to invest in solar, and the act applies even if EPE does not invest in these solar projects.

cc: William F. Studer  
Charlie McNabb  
Bertha Ontiveros  
Sylvia Firth

January 23, 2011

Mayor John Cook  
City of El Paso  
2 Civic Center Plaza  
El Paso, Texas 79901

Ms. Joyce Wilson  
City Manager  
City of El Paso  
2 Civic Center Plaza  
El Paso, Texas 79901

Re: Proposed Legislation regarding Generation Cost Tracker: Response to the  
Comments of Norman Gordon

Dear Mayor Cook and City Manager Wilson:

I am writing this letter in response to the comments that Norman Gordon submitted to you regarding the Generation Cost Recovery Tracker (GCRT) in his memorandum dated January 20, 2011. The GCRT is currently being drafted at the state legislature and two of our local legislators are proposing to submit the legislation assuming there is support from the City. I believe that this can have a major impact on our community, but it necessitates a true partnership between the City and El Paso Electric Company (EPE).

The goal of utility regulation is to provide an efficient process that results in both fair rates and reliable service to our customers and a fair return on the investments made by the utility. We believe that the GCRT accomplishes these goals. In an attachment to this letter, we will respond to the key issues raised in Mr. Gordon's memorandum and why we believe his letter purports and overstates potential negative impacts and minimizes and overlooks the many positive aspects of the GCRT. In addition, as can be seen in the latest marked-up draft of the legislation that is attached to this letter, many of Mr. Gordon's concerns (e.g., City rate case expense reimbursement and financial statements) have already been addressed.

We wish to reiterate El Paso Electric's (EPE) commitment to construct 50 megawatts of solar generation in El Paso or its environs. EPE expects that this investment will cost in excess of \$200 million. Since this is such a large financial commitment by EPE, it is critical that we have a timely and efficient mechanism to recover this major investment.

Additionally, EPE has just conducted a survey of our El Paso area customer base, and it is clear that our customers are very interested in seeing EPE invest in solar energy. EPE wants our investment to be a community event, one that we can all be proud of, and one that may lead to additional economic development and jobs for this area.

We want to make generation investments that work for all constituents, but not to the detriment of the shareholders of EPE. We believe that what we have proposed is a well thought out and appropriate process for a privately held utility that will be making significant investments in both fossil fuel and solar generation over the next five years. We certainly hope the City will join us in this endeavor by supporting this legislation so EPE can move forward with our five-year generation plan that incorporates 50MW of solar energy.

I plan to attend the City Council meeting tomorrow, Tuesday, January 25<sup>th</sup> should any additional questions arise. Thanks for your consideration.

Sincerely,

Richard Fleager

**EL PASO ELECTRIC COMPANY RESPONSES  
TO THE LETTER FROM NORMAN GORDON TO THE CITY  
DATED JANUARY 20, 2011**

**NORMAN GORDON'S COMMENT (NGC); page 1; first paragraph:** *In my view, these types of clauses are not good policy.*

**EPE RESPONSE:** The GCRT was modeled after the transmission cost recovery factor currently used in Texas. Mr. Gordon acknowledges that one selling point for this type of clause is the avoidance of the expense of a traditional rate case. Mr. Gordon is correct, and this is one principal reason why this type of clause is widely accepted as an alternative to traditional cost of service rate cases. The cost of traditional rate case filings by utilities in Texas is extremely high, and customers end up paying these costs. El Paso Electric Company received approval from both the City of El Paso and the Public Utility Commission of Texas (PUCT) to implement a \$17.15 million rate increase in 2010. *EPE's cost for this rate filing, including reimbursement to the City of El Paso for its legal counsel and consultants was over \$4.5 million.* This cost is driven by the extensive requirements and litigation involved in traditional, full-blown rate filings before the PUCT. In contrast, as allowed by the Texas Legislature, the PUCT has implemented a more limited process for utilities to recover transmission investments in Texas similar to the proposed GCRT. Utilities filing for rate changes using this process generally spend \$100,000 to \$200,000 per year to obtain new rates. Thus, it is evident that the GCRT would effectuate a substantial reduction in costs customers pay for utility regulation.

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**NGC; page 1; first paragraph:** *The specific clause proposed is totally one sided to the utility and limits the ability of the City to influence its future. Later in the memorandum (first page; last paragraph), Mr. Gordon indicates that the proposed legislation would mean that "the City would not be a direct part of the process, that it would not be reimbursed its costs for any involvement in the process." Finally, (page 2; item 2) Mr. Gordon states that: "the filing is with the PUCT rather than with the City of El Paso. It cuts the City Council out of the process."*

**EPE RESPONSE:** None of the above was the intent of the draft legislation, and it is a grave misunderstanding of what the legislation does to the City's role. While the particular rate mechanism in the draft legislation would be a process at the PUCT (in the same manner as fuel cases are conducted today), the City would have the right to intervene and participate, just as it does now with cases that are filed at the PUCT or have been appealed to the PUCT. The City regularly participates and plays a major role in proceedings over which only the PUCT has jurisdiction, such as fuel cases, certificate of convenience and necessity cases, and the energy efficiency cost recovery proceedings. There is no reason that the City could not also play a major role in proceedings authorized by the draft legislation. And, contrary to Mr. Gordon's summary, the City would be reimbursed its costs for participation in the GCRT process. *To the extent there was any ambiguity over the City's right to participate, the draft legislation you received in this packet makes it clear that the City can participate and would be reimbursed for its reasonable expenses. Moreover, under the draft legislation, the City would retain its original jurisdiction over traditional rate proceedings, which are required to be filed approximately every five years, and the City would retain the right to initiate investigations of the reasonableness of rates on its own at any time.* So, the proposed legislation does not result in "the total elimination of the City from the rate setting process". **EPE wants to re-emphasize this last point: Anytime during this five year period, the City of El Paso can require EPE to file a full rate case, the PUCT can require EPE to file a full rate case or EPE can elect to file a full rate case on its own.**

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**NGC; page 1; first paragraph:** *The EPE estimates of the rate effect, solar installations and solar costs are understated.*

**EPE RESPONSE:** Mr. Gordon does not provide any information in his memorandum that would shed any light on this contention. While the cost of new solar investments cannot be known until EPE seeks to acquire the required land, photovoltaic solar panels and construction support, it should be noted that the cost of solar photovoltaic installations has been going down. EPE provided its best estimate of the impact on rates of the GCRT based upon the latest information available to the Company. Our estimates are based upon third party projects being built in New Mexico and elsewhere. Although, EPE is not privy to the actual cost of these projects, EPE is able to make reasonable assumptions about costs based upon the project's pricing model. Additionally, EPE is required to file a Certificate of Convenience and Necessity (CCN) with the PUCT prior to constructing its solar facilities. EPE expects the City of El Paso to intervene in these filings just as the City intervenes in similar CCN filings and especially if they truly believe the costs are inappropriate.

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**NGC; page 2; second complete paragraph:** *Chief among these differences is the total elimination of any financial reporting or requirement the gas utilities have.*

**EPE RESPONSE:** EPE currently files its annual "Earnings Monitoring Report" with the PUCT, which is required by PUCT Substantive Rule 25.73 and is public information. The draft legislation does not change this financial reporting requirement, but has been modified to allow the City to require this report to be formally filed with the City. Additionally, as a regulator, the City currently has the authority to require EPE to file financial and other information it determines appropriate (see, for example section 33.021 of the Public Utility Regulatory Act). **The proposed legislation does not change or diminish the City's authority to obtain certain financial information from or about EPE.**

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**NGC; page 2; item3:** *39.604(b) Allocation based on allocation of revenues in prior case, which was settled. Therefore, to the extent a greater portion of the increase was on residential and small commercial customers, that relationship will continue until there is another rate case.*

**EPE RESPONSE:** The allocation of base rate revenues to rate classes can be a very technical and highly contested issue in rate filings. Great efforts were made by all parties to the settlement in the 2010 rate case to develop a fair allocation of revenues. In reality, the proposed legislation provides for any increase in rates under the GCRT to be allocated between customer classes such as residential and small commercial customers based upon the total base rate revenues (or costs) allocated to each rate class approved in EPE's last rate case. Thus, the legislation provides for the GCRT increases to be allocated based upon total base rate revenues between classes, not the rate increases each class received in the last rate increase, so that residential and small commercial customers will receive the same percentage increase as all other rate classes. EPE's best estimate at this time is the average residential customer will see a total increase of approximately \$3.00 over the next five years due to investments in generation with approximately \$1.50 the result of EPE's investment in solar energy. Moreover, EPE's best estimate at this time is the average small commercial customer will see a total increase of approximately \$5.00 over the next five years due to investments in generation with approximately \$2.50 the result of EPE's investment in solar energy. As we have indicated in all of our visits with you and in individual meetings with Council members, EPE's recent survey of our customer base indicates that both residential customers and small commercial customers overwhelmingly support investments in solar energy, understood that investments in solar energy would require a rate increase, and were supportive of the type of increases discussed above.

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*NGC; page 3; item 6: The rate of return is fixed at the rate of return identified for limited purposes in the rate settlement.*

**EPE RESPONSE:** The settlement in the 2010 Texas rate case did not specify a return on equity reflected in the settled rates. However, the parties agreed to a return on equity of 10.125% for purposes of calculating the allowance for funds used during construction or, in other words, EPE's carrying costs on its investments under construction. While Mr. Gordon is correct that the settlement did not contemplate the use of this return on equity for the GCRT, it is the best approximation that is available. It should be noted that this 10.125% return on equity that would be used pursuant to the legislation is the same return on equity approved by the PUCT on January 20, 2011 in a Texas New Mexico Power Company rate case. **As previously discussed, the City retains the right to review EPE's rates if it believes that EPE is earning more than is appropriate.**

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*NGC; page 3; item 7: The GCRT does not contemplate that there would be an adjustment to account for cost free capital EPE may have due to changes in accounting and the tax act passed by Congress in December 2010.*

**EPE RESPONSE:** The exclusion of this item—together with the exclusion of numerous other items considered in a full blown rate case (increased labor costs, O&M costs, property taxes)—is a virtue in the proposed legislation, not a flaw. The GCRT was modeled after the transmission cost recovery factor currently used in Texas which also does not include changes in cost-free capital. Mr. Gordon fails to mention that the GCRT also does not include a number of additional costs EPE would experience as it adds generation investment, such as increased operation and maintenance expenses and property taxes associated with new generation plant investment as well as any revenue taxes associated with any rate increase. The GRCT is intended to be narrowly focused on some major cost changes and, thereby, limits the scope of review in order to reduce the cost of compliance which is a burden ultimately borne by customers.

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**NGC; page 4; middle of the page:** *In my opinion, the wording of the question in the survey concerning whether customers would prefer a "pay-as-you-go" or a "catch-up" process for changing rates is totally slanted.*

**EPE RESPONSE:** The survey conducted by Fairbank, Maslin, Maullin, Metz and Associates took about 20 minutes per respondent. The entire questionnaire was shared with Norman Gordon. It is worthy of noting that Mr. Gordon was critical of only one question in the survey. EPE has previously provided information about the survey showing that the responses were from geographically dispersed areas; conducted in English and Spanish; and included land lines as well as cell phones. EPE believes the question fairly states the differences between the "pay as you go" concept versus the "catch-up" methodology. As we stated earlier in this memorandum, the "catch-up" methodology, resulted in a rate case costing approximately \$4.5 million. This estimate is from the last EPE filing. The GCRT is expected to costs less than \$200,000 annually to administer. **This estimated difference of over \$4.0 million dollars for filing a fairly modest rate increase is very significant, in EPE's mind, and an expense the average rate payer would prefer not to spend assuming a fair mechanism, as is outlined in our proposal, is adopted.**

By. \_\_\_\_\_

\_\_ .B. No. \_\_

AN ACT

relating to the delay of competition in the Western Electric Coordinating Council service area and to the recovery of certain costs by an electric utility in this area.

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

SECTION 1. Chapter 39, Utilities Code, is amended by adding Subchapter L to read as follows:

SUBCHAPTER L. TRANSITION TO COMPETITION AND RECOVERY OF  
TRANSITION AND GENERATION CAPITAL INVESTMENT RELATED COSTS FOR  
CERTAIN

AREAS OUTSIDE OF ERCOT

Sec. 39.601. APPLICABILITY. (a) This subchapter applies  
only to an investor-owned electric utility:



authorized by the commission under Section 39.603(f) to implement retail customer choice, the rates of the utility are subject to regulation under Chapter 36 and this subchapter. .B. No.     

(b) Until the date on which an electric utility subject to this subchapter implements customer choice, the provisions of this chapter, other than this subchapter and Sections 39.904 and 39.905, do not apply to that utility.

Sec. 39.603. TRANSITION TO COMPETITION. (a) The events prescribed by Subsections (b)-(f) shall be followed to introduce retail competition in the service area of an electric utility subject to this subchapter. All the listed items in each stage must be completed before the next stage is initiated. Unless stated otherwise, each of the activities will be conducted by the commission in conjunction with the electric utility and other interested parties. Full retail competition may not begin in the service area of an electric utility subject to this

\_\_ .B. No. \_\_

subchapter until completion of the fifth stage.

(b) The first stage for the transition to competition consists of the following activities:

(1) approval of a regional transmission organization by the Federal Energy Regulatory Commission for the power region that includes the electric utility's service area and commencement of independent operation of the transmission network under the approved regional transmission organization;

(2) development of retail market protocols to facilitate retail competition; and

(3) completion of an expedited proceeding to develop non-bypassable delivery rates for the customer choice pilot project to be implemented under Subsection (c) (1).

(c) The second stage for the transition to competition consists of the following activities:

(1) initiation of the customer choice pilot project

\_\_ .B. No. \_\_

in accordance with Section 39.104;

(2) development of a balancing energy market, a market for ancillary services, and a market-based congestion management system for the wholesale market in the power region in which the regional transmission organization operates; and

(3) implementation of a seams agreement with adjacent power regions to reduce barriers to entry and facilitate competition.

(d) The third stage for the transition to competition consists of the following activities:

(1) the electric utility shall:

(A) prepare and file an application for business separation in accordance with Section 39.051;

(B) prepare and file an application for unbundled transmission and distribution rates in accordance with Section 39.201;

(C) prepare and file an application for  
certification of a qualified power region in accordance with  
Section 39.152; and

(D) prepare and file an application for price-  
to-beat rates in accordance with Section 39.202;

(2) the activities to be completed by the commission  
in the third stage are to:

(A) approve a business separation plan for the  
utility;

(B) set unbundled transmission and distribution  
rates for the utility;

(C) certify a qualified power region, which  
includes conducting a formal evaluation of wholesale market  
power in the region, in accordance with Section 39.152;

(D) set price-to-beat rates for the utility; and

(E) determine which competitive energy services

must be separated from regulated utility activities in \_\_\_\_\_B. No. \_\_\_\_\_  
accordance with Section 39.051; and

(3) the activity to be completed by the regional transmission organization, the statewide registration agent and market participants in the third stage is completion of the testing of retail and wholesale systems, including those systems necessary for switching customers to the retail electric provider of their choice and for settlement of wholesale market transactions.

(e) The fourth stage for the transition to competition consists of the following activities:

(1) the commission shall evaluate the results of the pilot project;

(2) the electric utility shall initiate capacity auctions pursuant to Section 39.153 at a time to be determined by the commission; and

.B. No. \_\_\_\_

(3) the utility shall separate competitive energy services from its regulated utility activities, in accordance with the commission order approving the separation of competitive energy services.

(f) The fifth stage for the transition to competition consists of the commission evaluating whether the power region can offer fair competition and reliable service to all retail customer classes. If the commission concludes that the power region can offer fair competition and reliable service to all retail customer classes, it shall issue an order initiating retail competition for the utility and directing the utility to complete the business separation and unbundling.

(g) Upon a finding of good cause, as determined by the commission, the sequence for retail competition set forth in this section may be modified by commission order.

Sec. 39.604 INTERIM ADJUSTMENTS FOR CHANGES IN GENERATION

.B. No. \_\_\_\_

CAPITAL INVESTMENTS INCLUDING IN SOLAR, OTHER RENEWABLE, AND  
NON-RENEWABLE GENERATION. (a) Notwithstanding Section 36.201, an  
electric utility operating under this subchapter may file with  
the commission a petition to establish a tariff or rate schedule  
that provides for an annual interim generation plant adjustment  
in the utility's monthly rates to recover the cost of changes in  
the utility's generation plant invested capital, including  
investments in utility-scale solar generation, in other  
renewable generation, and in non-renewable generation, and in  
the related changes in depreciation, return, and income taxes.  
A proceeding under this section is not a rate case under  
Subchapter C of Chapter 36 but is a ratemaking proceeding under  
Section 33.023.

(b) The interim generation plant rate adjustment shall be  
allocated among the electric utility's customer classes in the  
same manner as the non-fuel revenue requirements were allocated

\_\_\_\_\_B. No. \_\_\_\_\_  
among classes of customers in the utility's most recent rate  
case. The adjustment allocated to individual rates shall be  
applied to each base rate based on the same component  
proportions used in designing the current base rates, excluding  
the customer charge.

(c) The electric utility shall file the petition to  
establish the annual interim generation plant rate adjustment as  
well as succeeding requests to implement annual interim  
generation plant rate adjustments under this Section with the  
commission at least 60 days before the proposed implementation  
date of the annual interim generation plant rate adjustment.  
The electric utility shall provide notice of the filing of the  
petition for an annual interim generation plant rate adjustment  
to affected customers by either bill insert or direct mail, or  
by publication in a newspaper of general circulation in the  
utility's service area not later than the 45th day after the

\_\_\_\_\_ .B. No. \_\_\_\_\_  
date the utility files the petition to establish the tariff,  
rate schedule, or annual adjustment with the commission. During  
the period before the utility's proposed implementation date,  
the commission may act to suspend the implementation of the  
annual interim generation plant rate adjustment once for up to,  
but no longer than, one 45-day period.

(d) After the issuance of a final order or decision by the  
commission in a Chapter 36 rate case that is filed after the  
implementation of a tariff or rate schedule under this  
subsection, any change in net generation plant investment and  
associated depreciation, return and income taxes that has been  
included in any interim generation plant rate adjustment in  
accordance with the tariff or rate schedule under this section  
and the allocation of those costs among the electric utility's  
customer classes shall no longer be subject to subsequent review  
for reasonableness or prudence.

.B. No. \_\_\_\_

(e) After the commission has first approved a tariff  
authorizing the annual interim rate adjustment under this  
Section, the electric utility shall annually adjust the  
utility's rates upward or downward under the tariff by filing a  
request with the commission to make an interim rate adjustment.

(1) The adjustment shall be based on the difference  
between the amount of the utility's net generation plant  
invested capital that is in service and the associated  
depreciation, return and income taxes during the most recent  
twelve months ending on June 30 as soon as information is  
reasonably available and the amount of the utility's net  
generation plant invested capital and associated depreciation,  
return and income taxes included in base rates in the utility's  
last Chapter 36 rate proceeding.

(2) The rate of return on investment, depreciation  
rates, and income tax rates used in the computation must be the

\_\_\_\_\_ .B. No. \_\_\_\_\_  
same as the rates for those items reflected in the final order  
issued by or settlement agreement approved by the commission in  
the electric utility's last rate proceeding under Chapter 36.

(3) If the final order in the last rate case was  
pursuant to a settlement, then the net generation plant shall be  
based upon the filed case with any adjustments specified in the  
settlement. If in the settlement a return on equity was  
specified for purposes of calculating the allowance for funds  
used during construction, then that return on equity shall be  
used to calculate the cost of capital. If a settlement  
agreement did not specify a cost of capital, a depreciation  
expense or an income tax expense, then for any such item not  
specified, the amount to be used shall be based upon the filed  
case adjusted for the pro rata difference between the filed case  
and the final approved revenue requirement.

(4) The utility may also recover with its annual

.B. No. \_\_\_\_

interim rate adjustment any reasonable expenses associated with making the annual interim rate adjustment and reimbursement for municipal expenses incurred in participating in a proceeding under this Section.

(5) The adjustment shall be calculated using weather-adjusted billing determinants from the most recent twelve-month period using the same methodology used in the utility's most recent Chapter 36 rate proceeding.

(f) The interim generation plant rate adjustment shall be recalculated on an annual basis in accordance with the requirements of Subsection (e).

(g) The electric utility may file a request with the commission to suspend the obligation to make an annual adjustment under the operation of the tariff or rate schedule for any twelve-month period. The request must be in writing and state the reasons why the suspension is justified. The



.B. No. \_\_\_\_

(j) Nothing in this Section shall diminish the ability of the regulatory authority, on its own motion or on complaint by an affected person as provided by Subchapter D of Chapter 36, after reasonable notice and hearing, to find that the existing rates of an electric utility for a service are unreasonable or in violation of law. The utility shall annually file an earnings report with the Commission on the form specified by the Commission and provide a copy to any other regulatory authority that has requested a copy of the earnings report.

SECTION 2. 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, 2011.

\_.B. No. \_

# EL PASO ELECTRIC



## SOLAR ISSUES RESEARCH SUMMARY

DECEMBER 2010

Fairbank,  
Maslin,  
Maullin,  
Metz &  
Associates

FM3

Public Opinion Research  
& Strategy

WINNER & ASSOCIATES  
An MS&L Group Company

# RESEARCH OVERVIEW--

## METHODOLOGY

### *Residential Customer Telephone Survey*

- 500 randomly selected customers—the person who pays the EPE bill
- Margin of error +/- 4.4 percent
- Conducted December 12-16

### *Small Business Customer Telephone Survey*

- 300 randomly selected customers—the person responsible for decisions regarding electric power
- Margin of error +/- 5.6 percent
- Conducted December 15-21

# KEY FINDINGS

- Solar energy as a source of electricity is highly popular
  - 80% of residential customers *strongly approve* the use of solar energy
  - 84% of small business customers *strongly approve* the use of solar energy
- Large majorities of both residential & small business customers favor EPE investing in solar energy to generate electric power
- There is little knowledge of the cost of solar vs. natural gas:
  - 40% believe that solar is cheaper than natural gas
  - 33% don't know which is cheaper—solar or natural gas
- Strong support for solar energy continues even after respondents hear that an EPE investment in solar will increase their monthly bills
- More than half of all customers believe EPE's investment in solar energy would create major economic and environmental benefits for the El Paso region
- Both residential and small business customers support paying for the solar project as it is constructed with small payments on their monthly bills.



# CUSTOMER ATTITUDES TOWARDS SOLAR ENERGY

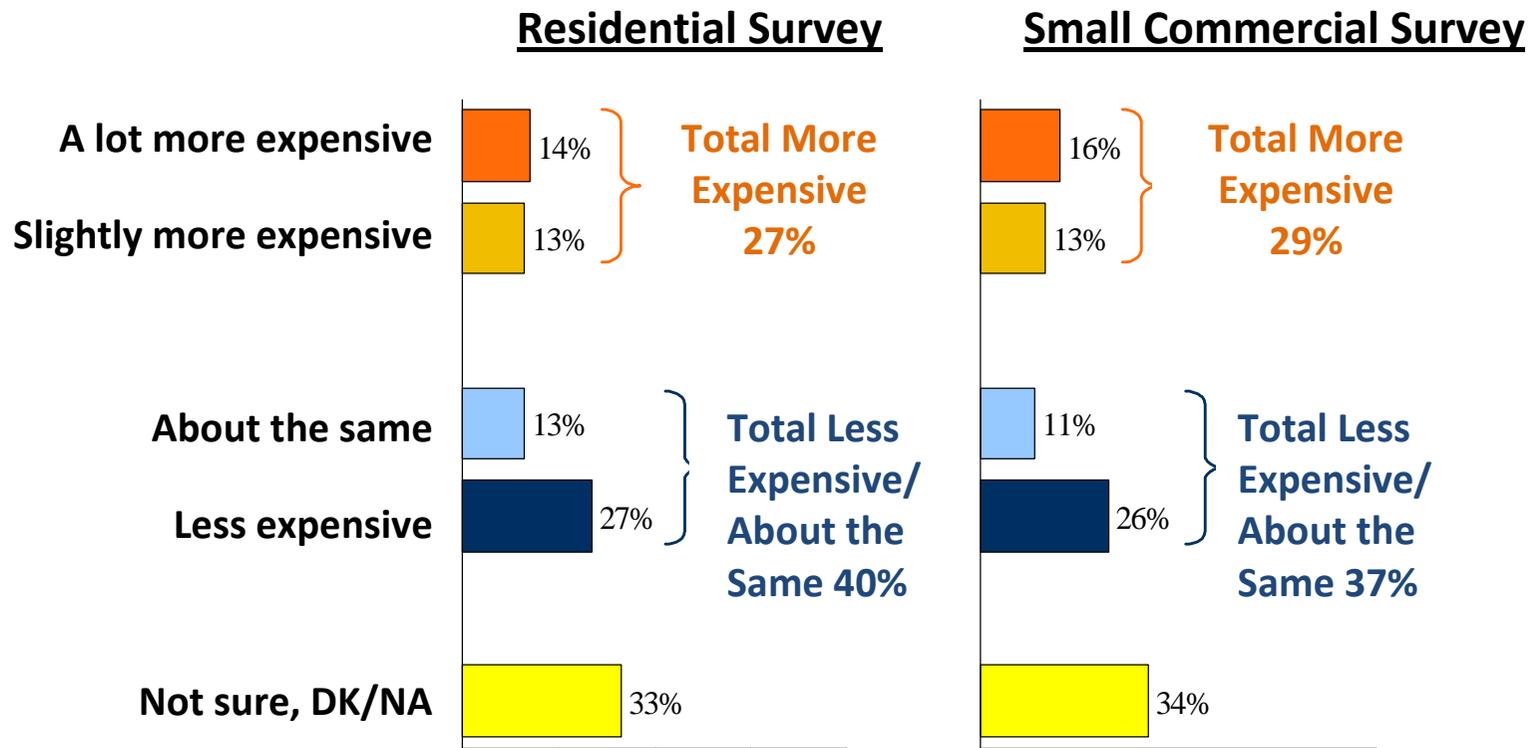
# SUPPORT FOR SOLAR ENERGY

## *Approval of fuels/energy sources for generating electricity in the El Paso region*

Residential Survey				
Fuels and Energy Sources	Strongly Approve	S.W. Approve	S.W./Strongly Disapprove	DK/NA
Solar	80%	14%	3%	3%
Wind	74%	15%	7%	3%
Natural gas	52%	33%	12%	3%
Hydroelectric	42%	27%	9%	21%
Geothermal steam	34%	22%	9%	34%
Nuclear	25%	21%	42%	11%
Coal	15%	26%	48%	11%
Small Commercial Survey				
Fuels and Energy Sources	Strongly Approve	S.W. Approve	S.W./Strongly Disapprove	DK/NA
Solar	84%	11%	4%	1%
Wind	80%	13%	5%	3%
Natural gas	51%	36%	11%	2%
Hydroelectric	51%	26%	5%	18%
Geothermal steam	38%	23%	9%	30%
Nuclear	25%	18%	48%	9%
Coal	21%	28%	44%	7%

# SOLAR ENERGY COST PERCEPTIONS

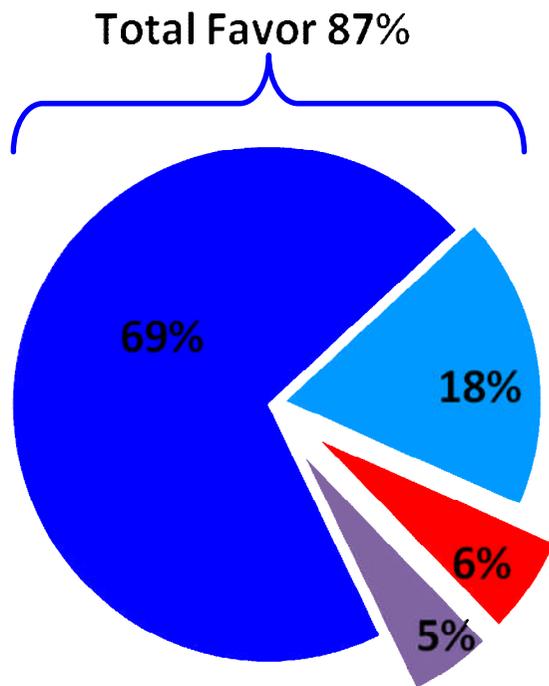
*How does the cost of electricity from solar power compare to electricity from gas-fired power plants?*



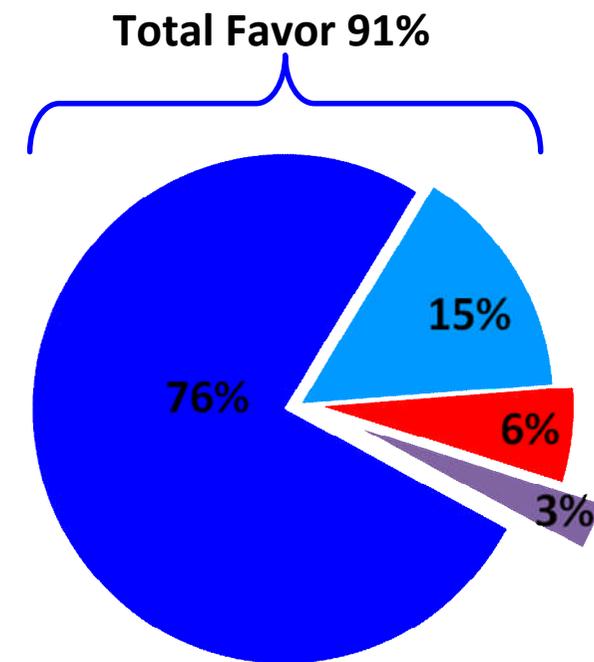
# INITIAL SUPPORT FOR EPE SOLAR INVESTMENT

*Initial support for/opposition to EPE making significant investment in solar energy*

Residential Survey



Small Commercial Survey



- Strongly Favor
- Somewhat Favor
- Oppose
- DK/N

# PERCEIVED BENEFITS OF SOLAR

## Potential benefits from a significant EPE solar investment

Residential Survey				
Statements	Major Benefits	Just Some Benefits	Few Benefits	Don't Know
Improvement in air quality	63%	22%	11%	3%
The El Paso region's general economy	54%	32%	9%	5%
Employment growth with new jobs for the region	53%	31%	12%	4%
The creation of new businesses specifically in the region	50%	33%	12%	6%
Small Business Survey				
Statements	Major Benefits	Just Some Benefits	Few Benefits	Don't Know
Improvement in air quality	63%	26%	8%	3%
The creation of new businesses specifically in the region	52%	31%	13%	3%
Employment growth with new jobs for the region	52%	33%	11%	4%
The El Paso region's general economy	51%	37%	9%	3%
Your particular business	35%	33%	26%	6%

# SOLAR SUPPORTERS STATEMENTS

*Solar supporters statements: How convincing are these reasons for EPE making significant solar investment?*

Statements	Survey Type	Very Convincing	S.W. Convincing	Total % Convincing
A significant commitment to solar energy in the El Paso region will stimulate the local economy and create new jobs	Residential Survey	38%	37%	75%
	Small Commercial Survey	36%	41%	77%
A major commitment to solar energy would reduce El Paso's carbon footprint, which would help in the battle against global warming	Residential Survey	41%	31%	72%
	Small Commercial Survey	37%	32%	69%
Adding solar to EPE's mix of energy resources along with nuclear and natural gas would balance the company's energy resources and increase the reliability of electric power in the El Paso region	Residential Survey	23%	44%	67%
	Small Commercial Survey	24%	43%	67%
El Paso's city government has adopted policies that seek to make the city an international leader in solar energy use. El Paso Electric's commitment to solar is vital to the realization of the city's solar promise	Residential Survey	23%	36%	59%
	Small Commercial Survey	24%	40%	64%

# REASONS FOR SUPPORTING SOLAR INVESTMENT

*Top 5 reasons 87% of residential & 91% of small business customers favor investment*

## Residential Survey

Reasons	Favor
Less expensive/will lower costs	39%
There is a lot of sun here/we are the "Sun City"	30%
Better for the environment	15%
Green/clean form of energy	11%
For our future/future generations/long-term benefits	9%

## Small Business Survey

Reasons	Favor
Better for environment/less pollution/help prevent global warming	33%
Less expensive/will lower costs	31%
There is a lot of sun here/we are the "Sun City"	21%
Green/clean form of energy/it's natural	14%
For our future/future generations/long-term benefits	11%

# REASONS FOR OPPOSING SOLAR

## INVESTMENT

*Top 5 reasons 6% of residential & 6% of small business customers oppose investment*

### Residential Survey

Reasons	Favor
Cost is too high/would raise rates	48%
Solar power is weak/inefficient	15%
Won't make a difference	9%
Wind, nuclear power are better	9%
Don't understand it/not enough is known about it	6%

### Small Business Survey

Reasons	Favor
Cost is too high/would raise rates	44%
Solar power is weak/inefficient	11%
Don't understand it/not enough is known about it	11%
Won't make a difference	6%
Would be a waste of money	6%

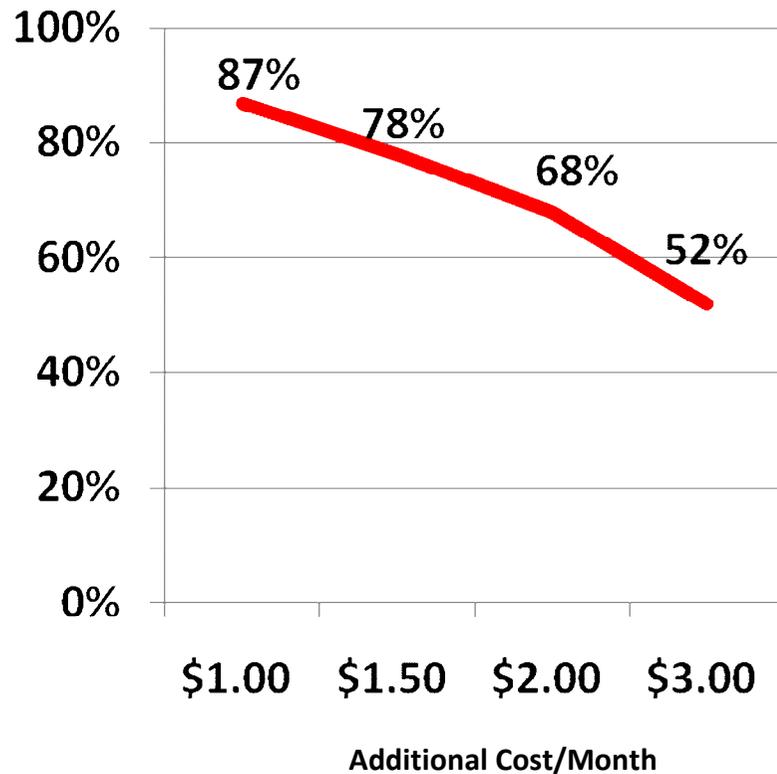


# WILLINGNESS TO PAY FOR SOLAR ENERGY

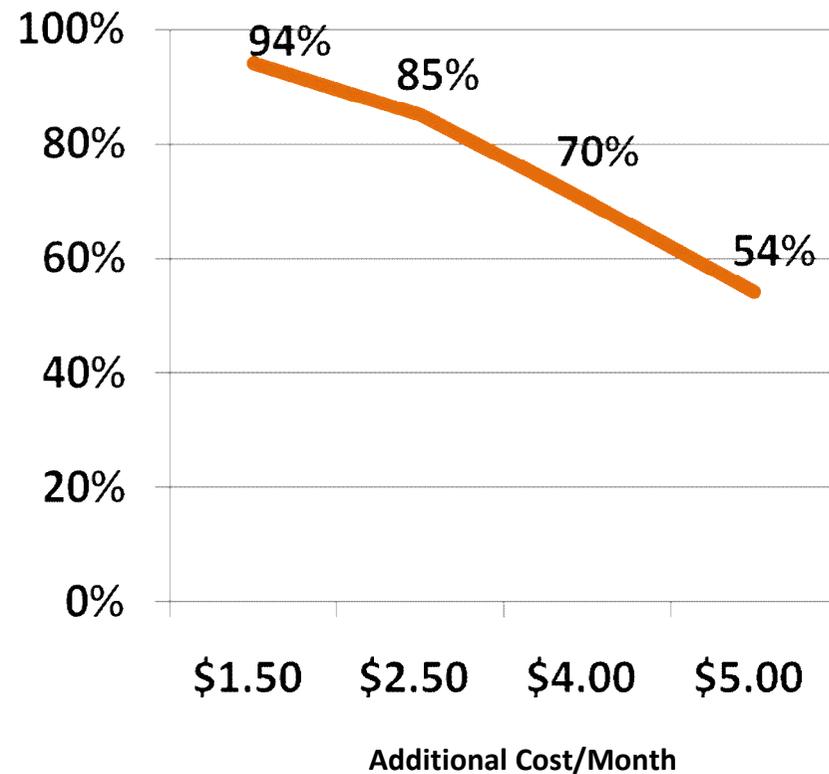
# SUPPORT FOR VARIOUS COST INCREASES

*Support for solar investment at various monthly bill costs increments*

**Residential Survey**



**Small Business Survey**



# SUPPORT FOR VARIOUS COST INCREASES

## *Residential Customers*

- When informed that an investment in solar energy would raise their bills by an average of \$1.50 a month over five years:
  - 78% favored (62% strongly favored & 16% somewhat favored)
  - 10% strongly opposed / 6% somewhat opposed / 5% didn't know
- The 78% that favored a \$1.50 increase were asked if they would favor a \$2 a month increase:
  - 87% favored (59% strongly favored & 28% somewhat favored)
  - 6% strongly opposed / 6% somewhat opposed
- The 87% that favored a \$2 increase were asked if they would favor a \$3 increase:
  - 76% favored (48% strongly favored & 28% somewhat favored)
  - 13% strongly opposed / 11% somewhat opposed
- Of the 21% of respondents that did not favor a \$1.50 increase, 44% said they would favor a smaller increase of a \$1 each month:
  - 44% favored (19% strongly favored & 25% somewhat favored)
  - 32% strongly opposed / 13% somewhat opposed

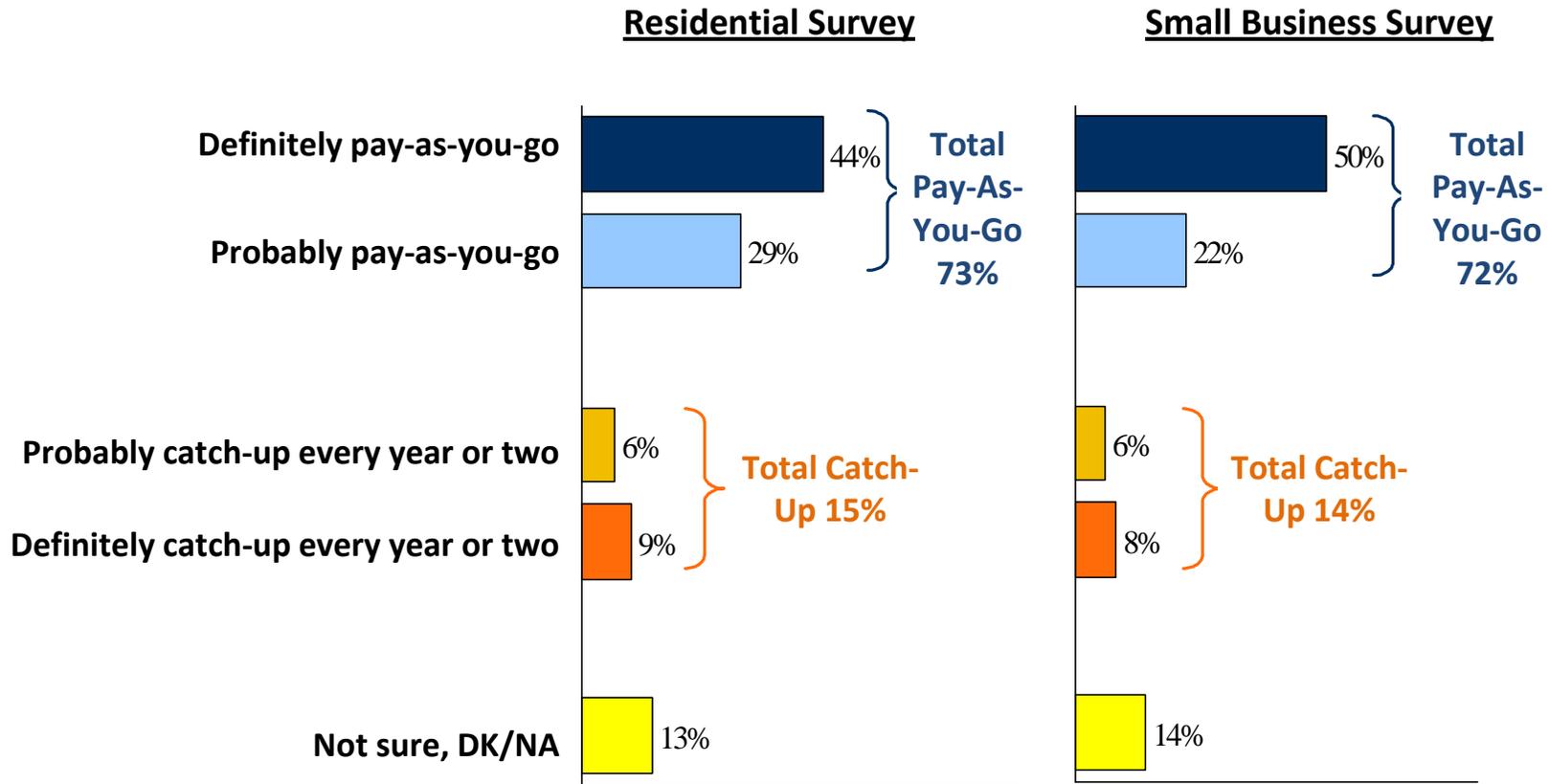
# SUPPORT FOR VARIOUS COST INCREASES

## *Small Business Customers*

- When informed that an investment in solar energy would raise their bills by an average of \$2.50 a month over five years:
  - 85% favored (64% strongly favored & 21% somewhat favored)
  - 7% strongly opposed / 4% somewhat opposed / 4% didn't know
- The 85% that favored a \$2.50 increase were asked if they would favor a \$4 a month increase:
  - 82% favored (56% strongly favored & 26% somewhat favored)
  - 7% strongly opposed / 11% somewhat opposed
- The 82% that favored a \$4 increase were asked if they would favor a \$5 increase:
  - 77% favored (50% strongly favored & 27% somewhat favored)
  - 7% strongly opposed / 16% somewhat opposed
- Of the 15% of respondents that did not favor a \$2.50 increase, more than half said they would favor a smaller increase of a \$1.50 each month:
  - 57% favored (34% strongly favored & 23% somewhat favored)
  - 27% strongly opposed / 11% somewhat opposed

# "PAY-AS-YOU-GO" VS. "CATCH-UP"

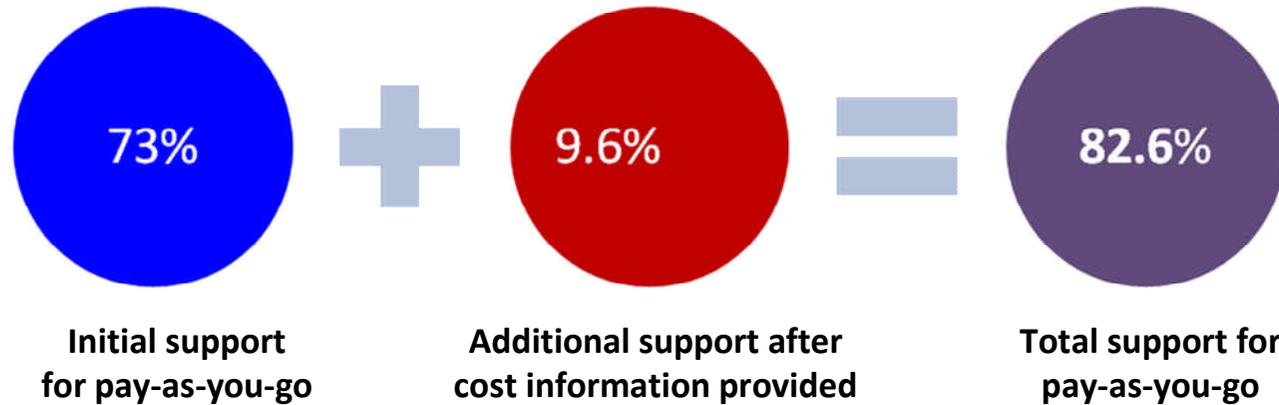
*Preference for "Pay-as-you-go" vs. "Catch-up" cost increases based on limited information*



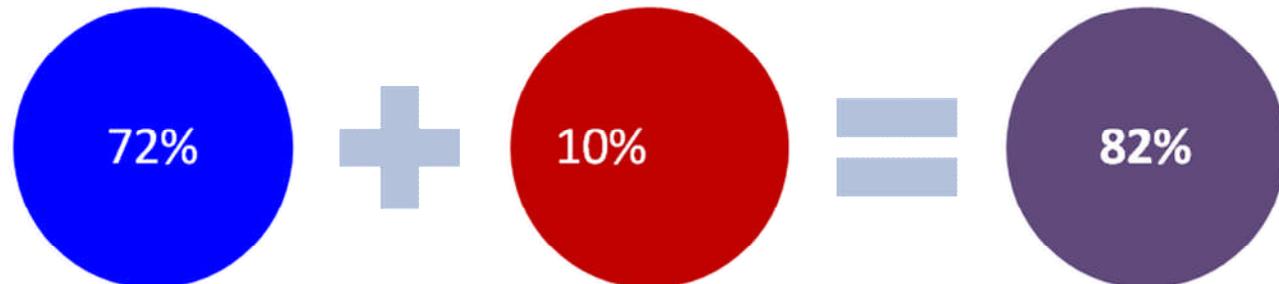
# "PAY-AS-YOU-GO" VS. "CATCH-UP"

*Support for "pay-as-you-go" increases when cost of legal/accounting fees provided.*

## Residential



## Small Business



# EL PASO ELECTRIC



## SOLAR ISSUES RESEARCH PRESENTATION

**RICHARD FLEAGER AND HECTOR  
GUTIERREZ**

**JANUARY 25, 2011**

# RESEARCH OVERVIEW-- METHODOLOGY

## *Residential Customer Telephone Survey*

- 500 randomly selected customers—the person who pays the EPE bill
- Margin of error +/- 4.4 percent
- Conducted December 12-16
- Spanish respondents – 20 percent
- Cell phone respondents – 7 percent

# RESIDENTIAL CUSTOMER ZIP CODE

## DISTRIBUTION

Area	Frequency	Percentage
Central El Paso	58	11.6
West El Paso	89	17.8
Northeast El Paso	104	20.8
East El Paso	92	18.4
Far East El Paso	78	15.6
Lower Valley	72	14.4
Other	7	1.4

# RESEARCH OVERVIEW--

## METHODOLOGY

### *Small Business Customer Telephone Survey*

- 300 randomly selected customers—the person responsible for decisions regarding electric power
- Margin of error +/- 5.6 percent
- Conducted December 15-21
- Spanish respondents – 17 percent
- Cell phone respondents – 27 percent

# SMALL BUSINESS CUSTOMER ZIP CODE DISTRIBUTION

Area	Frequency	Percentage
Central El Paso	67	22.33
West El Paso	43	14.33
Northeast El Paso	25	8.33
East El Paso	65	21.67
Far East El Paso	18	6.00
Lower Vallev	42	14.00
Hudspeth Countv	2	0.67
Other	38	12.67

# COMBINED CUSTOMER ZIP CODE

## DISTRIBUTION

Area	Frequency	Percentage
Central El Paso	125	15.63
West El Paso	132	16.50
Northeast El Paso	129	16.13
East El Paso	157	19.63
Far East El Paso	96	12.00
Lower Vallev	114	14.25
Hudspeth Countv	2	0.25
Other	45	5.63



# CUSTOMER ATTITUDES TOWARDS SOLAR ENERGY

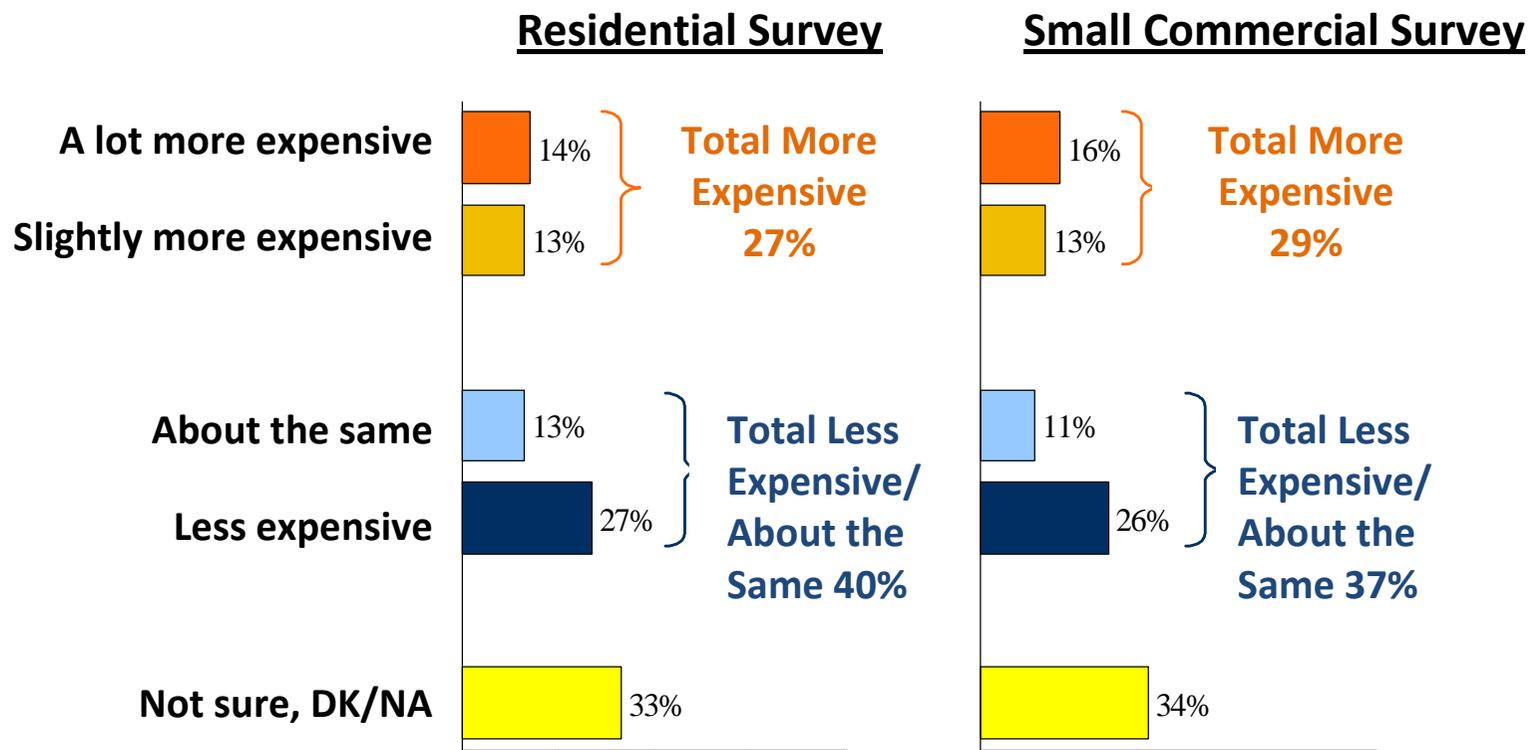
# SUPPORT FOR SOLAR ENERGY

## *Approval of fuels/energy sources for generating electricity in the El Paso region*

Residential Survey				
Fuels and Energy Sources	Strongly Approve	S.W. Approve	S.W./Strongly Disapprove	DK/NA
Solar	80%	14%	3%	3%
Wind	74%	15%	7%	3%
Natural gas	52%	33%	12%	3%
Hydroelectric	42%	27%	9%	21%
Geothermal steam	34%	22%	9%	34%
Nuclear	25%	21%	42%	11%
Coal	15%	26%	48%	11%
Small Commercial Survey				
Fuels and Energy Sources	Strongly Approve	S.W. Approve	S.W./Strongly Disapprove	DK/NA
Solar	84%	11%	4%	1%
Wind	80%	13%	5%	3%
Natural gas	51%	36%	11%	2%
Hydroelectric	51%	26%	5%	18%
Geothermal steam	38%	23%	9%	30%
Nuclear	25%	18%	48%	9%
Coal	21%	28%	44%	7%

# SOLAR ENERGY COST PERCEPTIONS

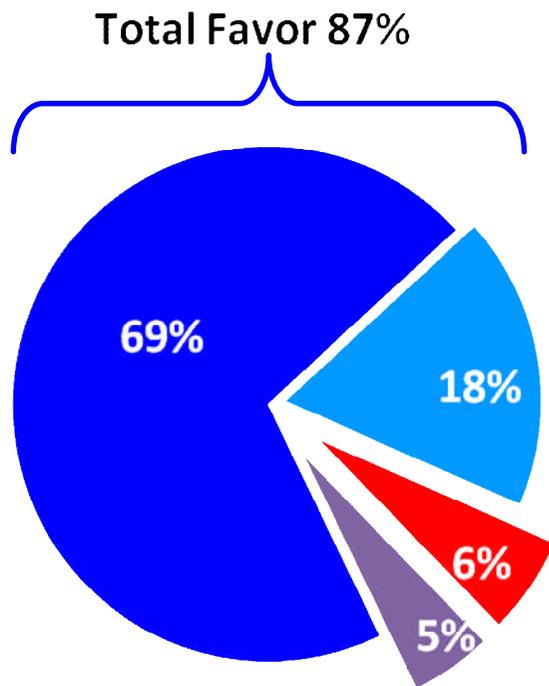
*How does the cost of electricity from solar power compare to electricity from gas-fired power plants?*



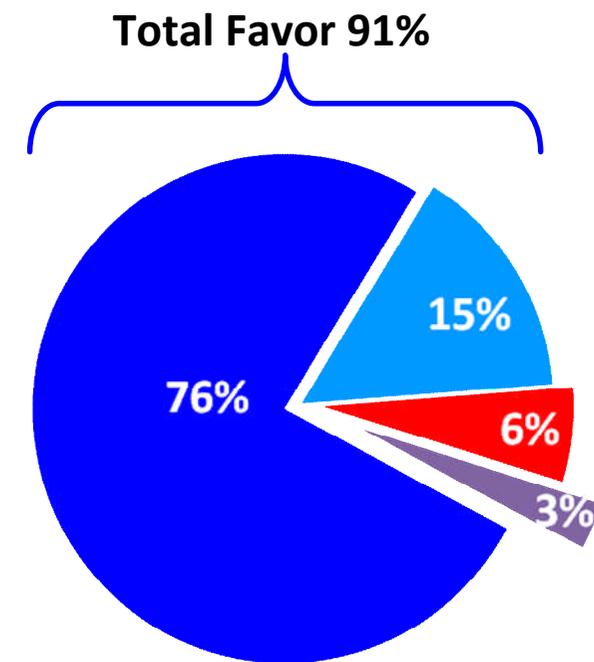
# INITIAL SUPPORT FOR EPE SOLAR INVESTMENT

*Initial support for/opposition to EPE making significant investment in solar energy*

Residential Survey



Small Commercial Survey



- Strongly Favor
- Somewhat Favor
- Oppose
- DK/N

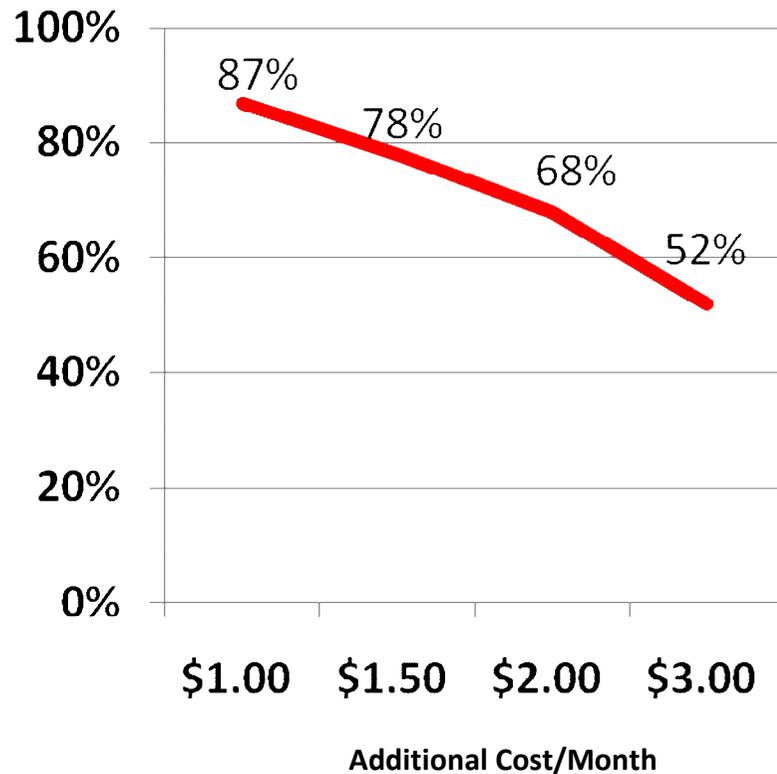


# WILLINGNESS TO PAY FOR SOLAR ENERGY

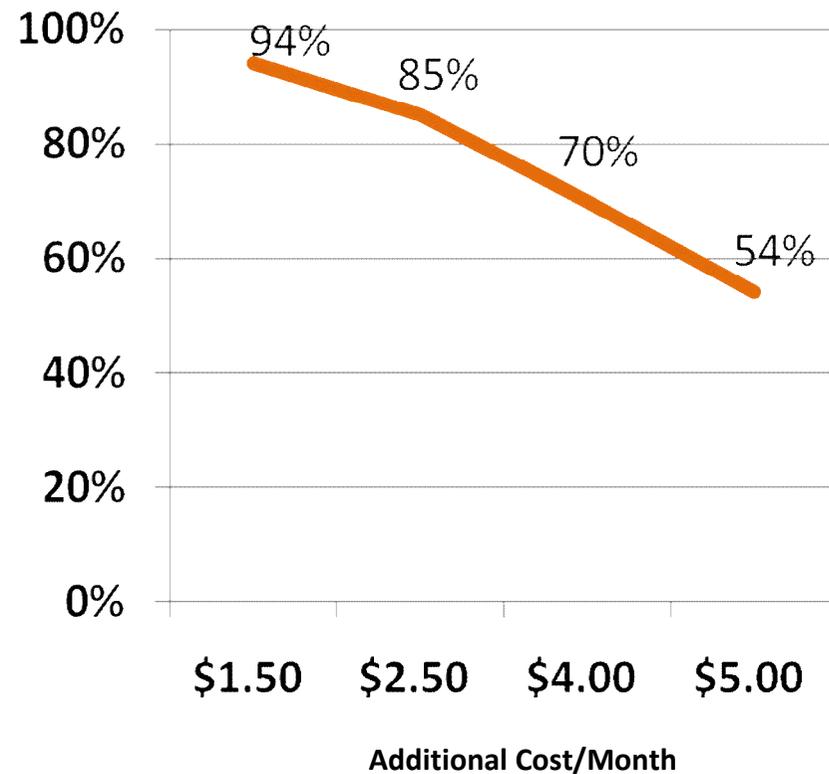
# SUPPORT FOR VARIOUS COST INCREASES

*Support for solar investment at various monthly bill costs increments*

**Residential Survey**



**Small Business Survey**

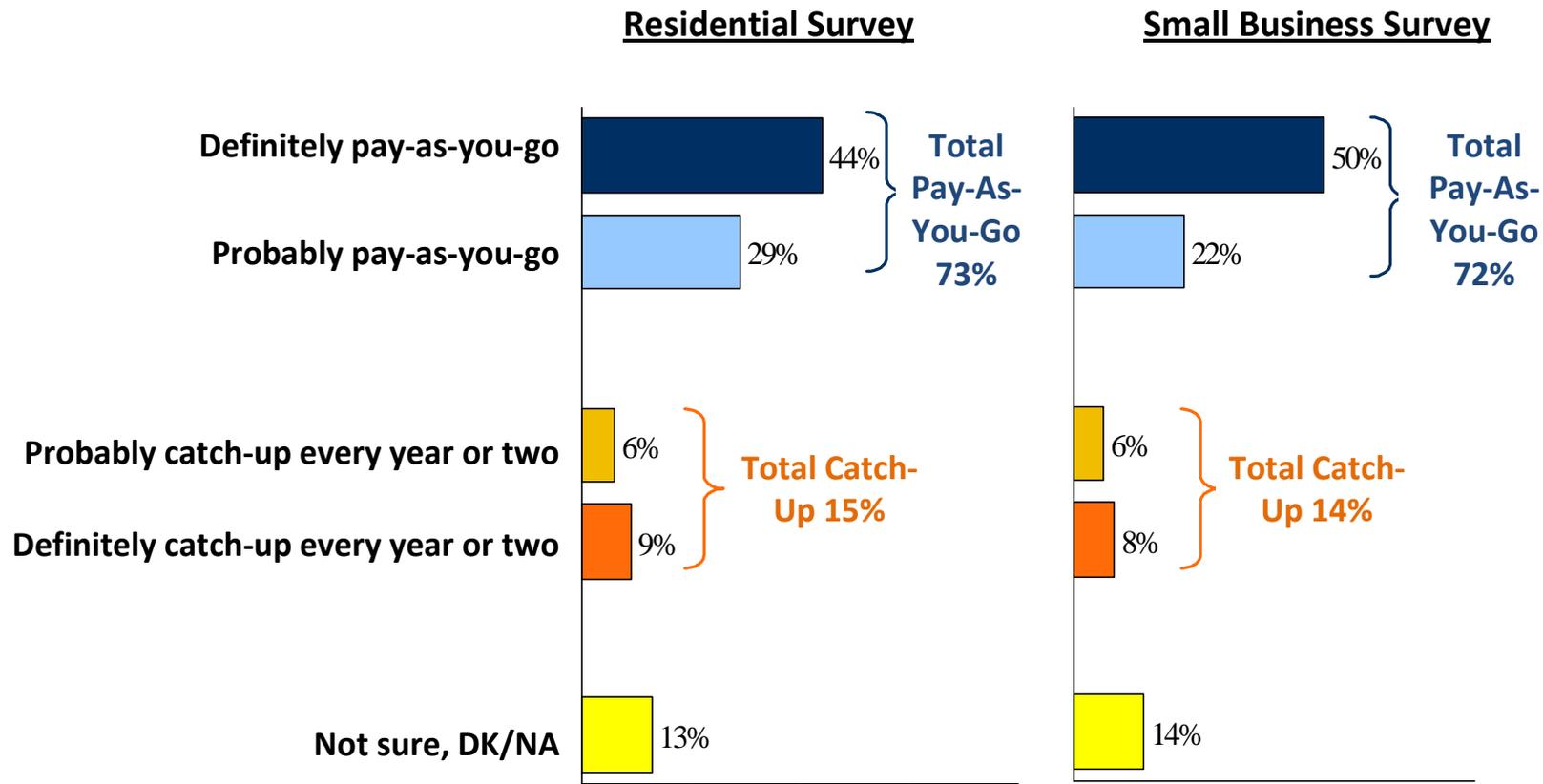




# "PAY AS YOU GO" VS "CATCH UP"

# "PAY-AS-YOU-GO" VS. "CATCH-UP"

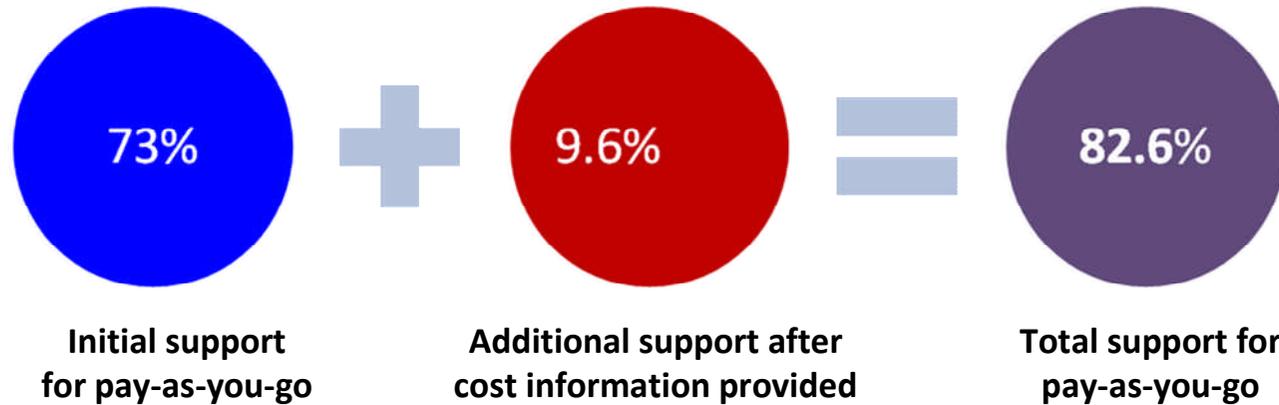
*Preference for "Pay-as-you-go" vs. "Catch-up" cost increases based on limited information*



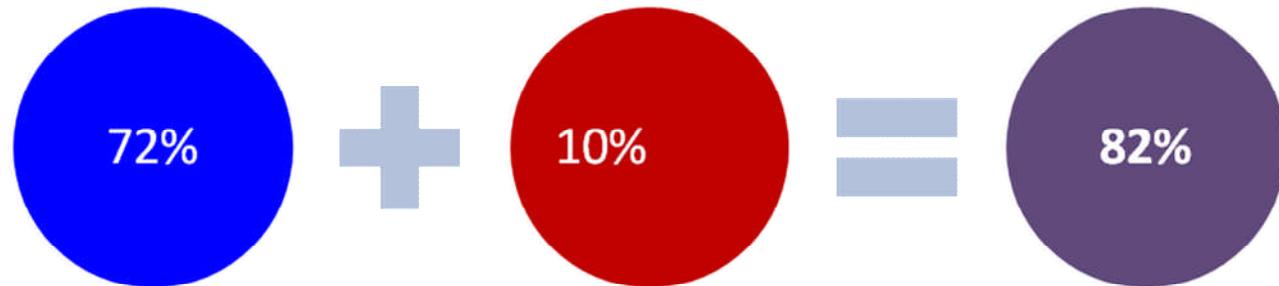
# "PAY-AS-YOU-GO" VS. "CATCH-UP"

*Support for "pay-as-you-go" increases when cost of legal/accounting fees provided.*

## Residential



## Small Business



# KEY FINDINGS

- Solar energy as a source of electricity is highly popular
  - 80% of residential customers *strongly approve* the use of solar energy
  - 84% of small business customers *strongly approve* the use of solar energy
- Large majorities of both residential & small business customers favor EPE investing in solar energy to generate electric power
- There is little knowledge of the cost of solar vs. natural gas:
  - 40% believe that solar is cheaper than natural gas
  - 33% don't know which is cheaper—solar or natural gas
- Strong support for solar energy continues even after respondents hear that an EPE investment in solar will increase their monthly bills
- More than half of all customers believe EPE's investment in solar energy would create major economic and environmental benefits for the El Paso region
- Both residential and small business customers support paying for the solar project as it is constructed with small payments on their monthly bills.

# PROPOSAL

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**Based on the results of the survey, El Paso Electric is requesting the City of El Paso to include proposed legislation as part of its legislative agenda.**

# PROPOSED LEGISLATION

- EPE is proposing legislation that would accomplish two goals:
  - Create a company-specific subchapter under PURA, as the Legislature has done for the other three vertically integrated utilities, and
  - Authorize the recovery of investments in generation, including solar and other renewable sources, on a yearly basis, in a less time-consuming and costly manner than a traditional rate case, while still preserving regulatory oversight.

# BENEFITS TO CUSTOMERS AND COMMUNITY

- Positions El Paso to be at the forefront of solar generation, living up to its name “Sun City”
- Stimulates local economic development opportunities, creating new business and jobs in the El Paso region
- Responds to strong customer and City leadership support for investments in solar and renewable generation
- Reduces the region’s carbon footprint, improving air quality
- Updates the process for rate changes (Pay-as-you-go)
- Creates a framework for community partnerships between EPE, Fort Bliss, government, educational institutions, and business

# BENEFITS TO EL PASO ELECTRIC

- Promotes clean energy development from solar, renewable, and more efficient conventional generation resources
- Creates a mechanism that promotes greater certainty that investments in generation, including solar and renewable generation, are recovered in timely manner
- Diversifies EPE's energy resources and increases the reliability of electric service in the region

# PROPOSED LEGISLATION

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Q & A