

**NOTICE OF EL PASO ELECTRIC COMPANY'S PETITION TO CHANGE RATES,
RECONCILE FUEL COSTS, ESTABLISH FORMULA-BASED FUEL FACTORS,
IMPLEMENT ENERGY EFFICIENCY COST RECOVERY FACTOR, AND FOR
RELATED RELIEF**

El Paso Electric Company (EPE or Company) publishes this notice that on December 9, 2009, it filed with the Public Utility Commission of Texas (Commission) its Petition and Statement of Intent and Application for Authority to Change Rates, to Reconcile Fuel Costs, to Establish Formula-Based Fuel Factors, and to Implement Energy Efficiency Cost Recovery Factor. This filing has been assigned Commission Docket No. 37690. This filing was also made with those municipal authorities in EPE's Texas service territory that have original jurisdiction over EPE's electric rates and have requested a copy of the filing.

EPE is proposing to change its rates for electric service provided to all of its 367,000 Texas retail customers. All such customers, all classes of customers and all areas in Texas in which EPE serves will be affected by this change in rates, as well as the requests to reconcile fuel costs, to establish the formula-based fuel factor and to recover energy efficiency costs.

STATEMENT OF INTENT TO CHANGE RATES

EPE's request to increase its base rates is based on the financial results for a 12-month test year ending on June 30, 2009. The effect of EPE's proposed rate changes would be to increase its adjusted test year revenues by \$51,577,065, an overall increase of 12.89%, exclusive of fuel revenues and energy efficiency costs. This increase is premised in part on EPE's request (1) to recover EPE's investment in its newest generation facility, Phase I of Newman Unit 5; (2) to recover EPE's other capital additions made since June 1993, which is the end of the test year in EPE's last rate case; (3) to change its depreciation rates; and (4) to update the decommissioning costs related to EPE's share of the Palo Verde nuclear power plant.

The impact of the rate change on various customer classes will vary from the overall impact described in this notice. The typical Residential Service customer using 500 kilowatt-hours of energy per month will see a bill increase of \$6.68 per month, or 11% under the proposed rates in this proceeding.

EPE has proposed that the effective date of its rate change be January 13, 2010, for the areas where the Commission has original jurisdiction and March 2, 2010, for those areas where

municipal authorities retain regulatory jurisdiction. EPE has proposed that the effective date of this rate change be suspended, so that with the suspension and the compliance tariff approval process, its rates would be applicable beginning on July 1, 2010, at the expiration of EPE's current rate freeze. The proposed effective date is subject to suspension and extension by actions that may be taken by the Commission and other regulatory authorities.

TARIFF REVISIONS

EPE is proposing revisions to most tariffs and schedules. These changes include, but are not limited to the consolidation of certain related classes with the elimination of the unnecessary duplicative classes, the expansion of time of use and seasonal rates, creation of the military base discount and cost recovery factors and the addition of the energy efficiency cost recovery factor. The complete set of proposed tariff schedules is presented in Schedule Q-8.8 of EPE's RFP.

EPE's requests to reconcile fuel and purchased power costs, to establish formula-based fuel factors and to implement an energy efficiency cost recover factor are separate from its request to change base rates and are briefly described below.

RECONCILIATION OF FUEL COSTS

EPE requests authority to reconcile its fuel and purchased power costs for the period from March 1, 2007 through June 30, 2009 ("Reconciliation Period"). This request, if granted, will affect all Texas retail customers who pay fixed fuel factors. During the Reconciliation Period, EPE incurred a total of \$463,845,826 in eligible fuel, fuel-related, and purchased power expenses (offset by off-system sales) to generate and purchase electric energy for its Texas retail customers. EPE is also requesting a good cause exception to the Commission's rules to allow the inclusion of any charges or credits associated with purchase or sale of credits for the emission of nitrous oxides or sulfur oxides and Renewable Energy Credits in eligible fuel costs. At the conclusion of the Reconciliation Period after adjustments, EPE had a cumulative over-recovery of such expenses of \$3,535,356. EPE seeks to carry over the cumulative Reconciliation Period fuel over-recovery balance of \$3,535,356 into the subsequent Reconciliation Period beginning July 2010.

FORMULA-BASED FUEL FACTOR

EPE also requests authority to implement a new EPE-specific fuel-factor formula, which is a formula for determining future adjustments to EPE's fuel factor. Rather than specifying particular dates on which the fuel factor will be adjusted pursuant to the formula, EPE proposes to adjust the factor whenever an adjustment is appropriate within the constraints of the P.U.C. SUBST. R. 25.237(a)(1). EPE is also requesting a good cause exception to the Commission's rules to allow the inclusion of any charges or credits associated with purchase or sale of credits for the emission of nitrous oxides or sulfur oxides and Renewable Energy Credits in eligible fuel costs. The fuel factors differentiated by voltage level that would result from the proposed formula using test-year costs are as follows:

	(a)	(b)	(c)	(d)
Line No.	Fixed Fuel Factor By Voltage Level	Composite Fuel Factor (\$/kWh)	Voltage Factor	Proposed Fuel Factor (\$/kWh) d=b x c
1	Texas System	0.035140	1.00000	0.035140
2	Secondary	0.035140	1.00834	0.035433
3	Primary	0.035140	0.99014	0.034793
4	Transmission	0.035140	0.96494	0.033908

However, EPE is proposing that the inputs to the formula be updated nearer in time to the conclusion of the overall proceeding, which will also update the proposed fuel factors. If EPE's request is approved, it is expected that the fuel factors resulting from the formula would be in effect prospectively from July 1, 2010 until changed pursuant to the formula. The requests for a formula-based fuel factor and for a good cause exception, if granted, will affect all Texas retail customers who pay fixed fuel factors. Any changes in the fuel factor pursuant to the formula, once implemented, will be subject to final review by the Commission in EPE's next reconciliation.

ENERGY EFFICIENCY COST RECOVERY FACTOR

Under PURA and the Commission's rules, electric utilities in Texas are required to fund energy efficiency programs. EPE requests authority to implement an energy efficiency cost recovery factor (separate from its base rates) to recover \$2,594,665 during the half-year period

July 1, 2010 through December 31, 2010, consisting of its ongoing energy efficiency costs together with amortization for that period of previous costs the Commission allowed the Company to defer for future recovery. EPE requests that it begin collecting its costs under the energy efficiency cost recovery factor July 1, 2010, when its rate freeze expires. Costs so collected will be subject to reconciliation in future proceedings.

CONTACT INFORMATION

Persons with questions or who want further information on the application may contact EPE at 100 N. Stanton, El Paso, Texas 79901, or call toll-free at (800) 592-1634 (when instructed, press 7, then four-digit extension 5970 plus #) during normal business hours. A complete copy of the filing is available for inspection at the address listed in the previous sentence.

Persons who wish to intervene in or comment upon these proceedings should notify the Public Utility Commission as soon as possible, as an intervention deadline will be imposed. A request to intervene or for further information should be mailed to the Public Utility Commission of Texas, P.O. Box 13326, Austin, Texas 78711-3326. Further information may also be obtained by calling the Public Utility Commission at (512) 936-7120 or (888) 782-8477. Hearing- and speech-impaired individuals with text telephones (TTY) may contact the Commission at (512) 936-7136 or use Relay Texas (toll-free) 1-800-735-2989. A request for intervention or for further information should refer to Docket No. 37690. The deadline for intervention in the proceeding is 45 days after the date the application was filed with the Commission. The 45th day after EPE filed its application is January 23, 2010.