EXECUTIVE SUMMARY OF EL PASO ELECTRIC COMPANY'S REQUESTED RATE CHANGES AND CONTINUATION OF ITS FUEL AND PURCHASED POWER COST ADJUSTMENT CLAUSE

This rate case is filed in compliance with the Commission's Final Order in the Company's last rate case, Case No. 06-00258-UT. As required, EPE based its rate filing on the historical Base Period ending December 31, 2008, adjusted for known and measurable changes comprising the Test Year Period. EPE requests the Commission approve and implement Advice Notice No. 210 that provides for a non-fuel and purchased power base rate increase of $12.7 million and projects a decrease in fuel and purchased power costs of $21.3 million. The net effect will be an overall projected rate reduction of approximately $8.6 million. The projected net decrease for the average residential customer using 593 kWh per month would be approximately $1.26.

EPE requests a change to the base rate factor for fuel and purchased costs, and continuation of its Fuel and Purchased Power Cost Adjustment Clause ("FPPCAC"). The continuation of EPE's FPPCAC will ensure the collection of only EPE's actual and reasonable costs of fuel and purchased power consistent with the FPPCAC statute and Commission Rule 550 and will protect customers and the Company from over collections or under collections of actual reasonable fuel and purchased power costs on a monthly basis, subject to full review and reconciliation by the Commission and its Staff.

EPE Witnesses David Stevens, Dr. Samuel C. Hadaway, David G. Carpenter, Leonard R. Ellsworth, Curtis Hutcheson, Andres Ramirez, Steven T. Buraczyk, and Evan D. Evans are offering prefiled direct testimony and sponsoring schedules. EPE Witness Stevens provides a summary of what each witness addresses in his testimony.

EPE's Cost of Service and Revenue Requirements

EPE has calculated a base revenue requirement of $117.5 million for the New Mexico jurisdiction and reflects a non-fuel base revenue increase of $12.7 million. However, EPE's forecasted New Mexico jurisdictional fuel and purchased power costs are $68.3 million, which results in a projected decrease of $21.3 million from jurisdictional fuel and purchased costs for the Test Period of $89.6 million. The net impact on customers of the increase in non-fuel costs, coupled with the projected decrease in fuel and purchased power costs, would result in a projected reduction in total revenue requirements of $8.6 million.

EPE Witness Carpenter presents a detailed background of EPE's previous rate cases, and the requested revenue requirements based on the proposed rate base and Cost of Service for the Company. EPE Witness Hutcheson cost allocation study and EPE Witness Evans presents EPE's rate design ordered by the Commission to be included in this case. EPE's proposal to adjust its base rates will result in fair, just and reasonable rates, based on EPE's cost of producing and procuring electric power. The Company's base rate increase will be substantially mitigated and decreased by EPE's projected fuel and purchased power cost forecasted decrease.

New Mexico customers will receive the benefits of deregulated Palo Verde Nuclear Generating Station ("PVNGS") Unit 3 power at a fair market price, based upon the Commission's established precedent to value EPE's voluntary and discretionary use of PVNGS Unit 3 for New Mexico customers at the lowest equivalent market price for firm capacity and energy. EPE Witnesses Carpenter and Buraczyk provide EPE's pricing proposal for the use of firm capacity and energy from deregulated PVNGS Unit 3. EPE Witnesses Carpenter and Evans explain the continuation of EPE's FPPCAC and the change to the fuel and purchased power factor in base rates. EPE Witness Carpenter explains the reasonableness of litigation expenses incurred by EPE, and the decommissioning cost recovery for PVNGS Units 1 and 2. He also addresses the recovery in this case of certain approved but deferred renewable portfolio standard costs. EPE Witness Ellsworth addresses all Test Year Period adjustments reflected in EPE's Cost of Service filing.

EPE Witness Ramirez supports the operating and maintenance costs for EPE's local and remote generating facilities. EPE owns 766 MW of local generation. This generation is necessary to EPE for load following, and for voltage support. Remote generation consists of EPE's partial ownership interests in PVNGS and Four Corners Power Plant ("FCPP"). EPE owns 15.8 percent of PVNGS, or 633MW. EPE owns 7 percent of FCPP, or 104 MW. These base load nuclear and coal units provide capacity at relatively low fuel costs. EPE reasonably managed the operation and maintenance of its generating facilities during the Base Period. He also discusses PVNGS decommissioning costs based upon the current Decommissioning Cost Estimate Study.

EPE's Return on Equity and Capital Structure

EPE Witness Hadaway addresses the return on equity and capital structure for EPE. While market conditions have improved relative to the final quarter of 2008, investor risk aversion remains high. Additionally, increased uncertainty about fuel costs and the effects of deregulation in the wholesale power markets have caused investors to view utility stocks as higher risk investments than they might have previously. The on-going business, financial, and regulatory risks faced by EPE support a higher allowed rate of return.

Based on discounted cash flow and risk premium analyses and a detailed review of current market and electric utility industry conditions, EPE's reasonable return on equity is estimated at 11.5 percent. The requested 11.5 percent rate falls within the range of the various quantitative models applied and analyzed by Dr. Hadaway. EPE Witness Hadaway also includes a discussion of the Commission's orders in recent rate cases for the two other major public utilities in New Mexico, which supports his proposed ROE for EPE.

EPE Witness Carpenter addresses the Company's cost of long-term debt, including recent financings that have contributed to the reasonable cost of debt maintained by the Company. With the Company's debt and equity percentages of capital at test year end December 31, 2008, and an embedded cost of debt at 6.69 percent, the requested overall rate of return is 9.06 percent.

EPE's Newman Unit 5 Generating Addition

EPE Witness Ramirez addresses the addition of Newman Generating Station Unit 5 ("Newman 5") Phase I generation. In 2007, the Commission approved construction of a combined cycle generation resource at the Newman Station in Texas. Construction of the first phase, two 70 MW combustion turbines, has been completed and has started commercial operation, and will be available for use by EPE over this summer's peak. Completion of the second phase is expected no later than June 2011. This phase will use the exhaust gas from the combustion turbines to produce steam to drive a turbo-generator. The second phase will add 148 MW to provide a total output of 288 MW when the project is completed. Completion is proceeding on schedule and on budget. When completed, the project will provide a necessary resource for EPE customers, at reasonable cost.

EPE's Rate Base

EPE Witness Carpenter addresses the rate base amounts requested for generation plant in accordance with Commission orders. EPE has included Phase I of Newman 5 in rate base and explains its effect on the revenue requirement. EPE's ownership interest in PVNGS Unit 3 is deregulated and expressly decertified plant and therefore has never been included in EPE's New

Mexico jurisdictional rate base. However, as EPE agreed to do in its last rate case, EPE Witness Carpenter shows the effect, for illustrative purposes only, of including Unit 3 in jurisdiction rates and cost of service. EPE Witness Ramirez describes additions to EPE's local and remote generating facilities.

EPE's Fuel and Purchased Power Expenses

EPE Witness Buraczyk sponsors EPE's projected fuel and purchased power costs for the July 2010 through June 2011 period ("Forecast Period"). This period matches the end of the suspension period for this rate case, although new rates could go into effect any time after July 2009, if the Commission resolves this rate case more expeditiously. He also discusses the methodology for the projections, including the market pricing of PVNGS Unit 3, and he supports the reasonableness of the fuel and purchased power projections for the Forecast Period. He also details how EPE's procurement practices are designed to result in the lowest reasonable cost acquisition of fuel and purchased power.

EPE has developed reasonable fuel and purchased power projections over the Forecast Period. EPE uses a combination of fuel supply contracts along with a mix of fixed and index-based pricing for natural gas to help reduce price volatility. Current forecasts reflect recent market price downturns. For the base load fuels coal and nuclear, EPE has in place long-term contracts to help ensure a reliable supply of these lower cost fuels. EPE Witness Carpenter and Buraczyk address the full and final reconciliation of EPE's fuel and purchased power costs incurred through December 31, 2008.

EPE Witness Carpenter and Buraczyk address continuation of EPE's FPPCAC, make all the required showings for its continuation, and explain its benefits and how it will work to recover only actual reasonable fuel and purchased power costs.

EPE's Market-Based Pricing for PVNGS Unit 3 Firm Capacity and Energy

PVNGS Unit 3 is not subject to regulation by the Commission, has been expressly decertified and abandoned by the Commission through Final Order, and has been made available to New Mexico customers only through past voluntary and temporary Stipulations adopted by prior Final Orders. EPE Witnesses Carpenter and Buraczyk address the appropriate market price for EPE's voluntary use of decertified and deregulated PVNGS Unit 3. Currently, capacity and energy pricing components from a wholesale purchase contract with Southwestern Public Service Company have been used as the market based proxy for firm capacity and energy from PVNGS Unit 3. Because this contract has been terminated effective September 2009, EPE Witness Buraczyk's testimony shows that, of three current bilateral contracts to which EPE is a party, a wholesale purchase from Credit Suisse is the lowest priced and, therefore, most reflective of the lowest equivalent market price for capacity and energy currently available to EPE. He further testifies that a capacity charge for power from PVNGS Unit 3 is recognized and required under previous Commission orders as both necessary and appropriate because any "equivalent" replacement power needs to be based on equivalent firm capacity and energy available to EPE to maintain margins and resources. EPE will continue to use PVNGS Unit 3 firm capacity and energy on a voluntary basis to serve New Mexico customers if it receives a fair and adequate market-based price.

EPE's Rate Design and Proposed Rates

EPE Witness Hutcheson presents EPE's jurisdictional and class cost of service studies, addresses changes in the methodologies used to allocate costs on a jurisdictional and functional basis, explains the annualization of billing determinants and revenues, and presents EPE's long term load forecast and reliability standards. EPE Witness Evans develops the changes to base rates contained in Advice Notice No. 210. Mr. Evans describes EPE's compliance with the requirement from NMPRC Case No. 06-00258-UT to conduct the new rate design study. He explains EPE's proposed revenue distribution for proposed rates, supports changes to EPE's existing rate structures resulting from the rate design study, discusses the proposals new seasonal and time-of-use rates, and addresses measures to encourage energy efficiency and conservation, and explains how customers can decrease their rates through shifting usage to more off-peak periods. He also explains certain proposed changes to miscellaneous charges and fees. The revised tariffs are contained in Advice Notice 210. He addresses calculation of the base factor to be implemented for EPE's FPPCAC. Mr. Evans also discusses EPE's compliance with Orders issued by the Commission during the last five years, compliance with voluntary renewable energy service requirements and compliance with energy efficiency and conservation requirements.