

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF EL PASO ELECTRIC COMPANY FOR)
REVISION OF ITS RETAIL ELECTRIC)
RATES PURSUANT TO ADVICE NOTICE)
NO. 317)
EL PASO ELECTRIC COMPANY,)
Applicant.)**

Case No. 25-00082-UT

DIRECT TESTIMONY

OF

ADRIAN HERNANDEZ

ON BEHALF OF

EL PASO ELECTRIC COMPANY

MARCH 2026

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EXHIBITS

Exhibit AH-1	Monthly System Peak Demands
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1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 **A.** My name is Adrian Hernandez. My business address is 100 N. Stanton Street,
4 El Paso, Texas 79901.

5
6 **Q2. HOW ARE YOU EMPLOYED?**

7 **A.** I am employed by El Paso Electric Company ("EPE" or the "Company") as
8 Supervisor - Revenue Requirements and Cost Analysis.

9
10 **Q3. PLEASE SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL**
11 **QUALIFICATIONS.**

12 **A.** I earned a Bachelor of Business Administration in Accounting with a minor in
13 Finance from the University of Texas at Austin in 2007. I subsequently earned a
14 Master of Accountancy from the University of Texas at El Paso in 2011. My
15 specialized utility training includes a graduate certificate in Public Utility
16 Regulation & Economics from New Mexico State University ("NMSU") in 2014,
17 followed by a Master of Business Administration from NMSU in 2017. I am also
18 a licensed Certified Public Accountant in the State of Texas, which requires the
19 completion of continuing professional education.

20 My professional career began in 2007 as a Business Analyst in the public
21 services division of BearingPoint Inc. in the Washington, D.C. area. In 2008, I

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1 served as a Cost Accountant for Helen of Troy Limited before joining EPE in
2 August 2009 as a Regulatory Accountant. In that role, I was responsible for
3 preparing and reviewing jurisdictional regulatory accounting, fuel and operational
4 reports, and supporting workpapers. My work focused extensively on fuel-related
5 matters, including the monitoring of over- and under-collections and the
6 preparation of fuel-related regulatory filings.

7 In 2014, I transitioned to EPE's Rates and Regulatory Affairs Department,
8 where I performed and assisted in economic, statistical, and cost studies. I was
9 promoted to Senior Rate Analyst in 2016, where my responsibilities expanded to
10 include the development of models for cost of service ("COS"), profitability, and
11 pricing studies, as well as revenue forecasting and rate design. I have participated
12 in numerous regulatory proceedings, including base rate cases, fuel rate revisions,
13 energy efficiency filings, and advanced metering infrastructure ("AMI") cases.

14 In June 2022 I was promoted to Principal Rate Analyst where, in addition
15 to those already mentioned in the paragraph above, my responsibilities as
16 Principal Rate Analyst included implementing a new regulatory solution from
17 Utilities International Solutions Group ("UISG" or "UI"). This regulatory
18 solution is what I used to prepare EPE's cost-of-service model. In December
19 2024, I was promoted to my current position as Supervisor of the Revenue
20 Requirements and Cost Analysis department.

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1 **Q4. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES WITH EPE.**

2 **A.** As Supervisor of Revenue Requirements and Cost Analysis, I lead a team
3 responsible for the development of accurate and comprehensive cost-of-service
4 studies and revenue requirement analyses for both regulatory filings and internal
5 strategic planning. My duties include overseeing the generation of COS
6 schedules, workpapers, and exhibits using the UI Regulatory solution, ensuring
7 that all filings maintain technical integrity and comply with applicable regulatory
8 standards and Commission procedures.

9

10 **Q5. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE**
11 **UTILITY REGULATORY BODIES?**

12 **A.** Yes, I have testified on behalf of EPE in cases before the New Mexico Public
13 Regulation Commission ("Commission" or NMPRC") and the Public Utility
14 Commission of Texas.

15

16 **II. PURPOSE OF TESTIMONY**

17 **Q6. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

18 **A.** The purpose of my testimony is to present EPE's COS studies. EPE's COS
19 studies consist of the functional cost-of-service ("FOCOS") study; demand,
20 energy, and customer ("DEC") component costs ("DEC Study"); jurisdictional
21 cost-of-service ("JCOS") study; and class cost-of-service ("CCOS") study. These

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1 studies, which are summarized in many of the schedules listed in Figure AH-1,
2 establish the cost basis for EPE's proposed rates as detailed in the direct
3 testimony of EPE witness Manuel Carrasco.

4 Furthermore, my testimony presents an alternative CCOS study as
5 required by the Commission's Final Order in Case No. 20-00104-UT. This
6 alternative study models the reopening of Rate No. 7 to new customers and
7 qualifying existing customers currently served under Rate No. 3, Rate No. 4, and
8 Rate No. 9.

9
10 **Q7. WHAT SCHEDULES DO YOU SPONSOR OR CO-SPONSOR?**

11 **A.** The schedules that I sponsor or co-sponsor are listed in Figure AH-1 below:
12

Figure AH-1

SCHEDULE	DESCRIPTION
A-1	Summary of Overall Cost of Service and the Claimed Revenue Deficiency
A-3	Summary of the Cost of Service Adjustments by Functional Classification
A-4	Summary of Rate Base – Jurisdictional
K-1	Allocation of Rate Base – Jurisdictional
K-2	Allocation of Rate Base – Functional Classification
K-3	Allocation of Rate Base – Demand, Energy, and Customer
K-4	Allocation of Rate Base to Rate Classes
K-5	Allocation of Total Expenses – Jurisdictional
K-6	Allocation of Total Expenses – Functional Classification
K-7	Allocation of Total Expenses – Demand, Energy, and Customer
K-8	Allocation of Total Expenses to Rate Classes
L-1	Allocated Cost of Service per Billing Unit by Rate Classification
M-1	Allocation Factors Used to Assign Plant and Expenses to Rate Classes
M-2	Classification Factors Used to Assign Plant and Expenses to Demand, Energy, and Customer
N-1	Rate of Return by Rate Classification
P-2	Plant in Service – Jurisdiction
P-3	Property Retirements and Property Investments Information – Jurisdiction
P-4	Operation and Maintenance Expense Information – Jurisdiction
P-12	Fuel Statistics Information – Jurisdictional

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1

2 **Q8. ARE YOU SPONSORING ANY EXHIBITS IN YOUR TESTIMONY?**

3 **A.** Yes. I am sponsoring the exhibits listed in the Table of Contents page, which are
4 attached to this testimony.

5

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

9 **A.** Yes, they were.

10

11 **III. COST-OF-SERVICE STUDY OVERVIEW**

12 **Q10. IS A COST-OF-SERVICE STUDY REQUIRED AS PART OF A GENERAL**
13 **RATE CASE FILING?**

14 **A.** Yes. Rule 530 requires that a fully allocated cost-of-service study be included in
15 the Schedule K Series of a general rate case application. The purpose of a cost-
16 of-service study is to appropriately assign costs to jurisdictions and classes of
17 customers using the cost causation principle to ensure fair pricing of electric
18 service. The results of the COS studies are used by EPE witness Carrasco for
19 developing proposed rates.

20

21 **Q11. WHAT DATA ARE USED IN EPE'S COST-OF-SERVICE STUDIES?**

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1 **A.** The cost-of-service studies use revenue and cost data based on EPE's Base Period
2 and Historical Test Year Period ended September 30, 2025. The Base Period data
3 were compiled from EPE's accounting records, which are maintained in
4 accordance with the Commission's prescribed accounting system, the Federal
5 Energy Regulatory Commission ("FERC") Uniform System of Accounts. This
6 data is compiled on a total Company basis and then allocated to the New Mexico
7 retail jurisdiction based on direct assignments or using the appropriate allocation
8 factors.

9 As discussed in the testimony of EPE witness Steven A. Sierra, the total
10 Company Base Period book balances were adjusted to reflect annualization,
11 known and measurable changes, and pro forma adjustments for plant-in-service
12 additions to arrive at Historical Test Year Period amounts. As described in the
13 direct testimony of EPE witness Sierra, the Test Year adjustments are generally
14 based upon rate treatments approved in Case No. 20-00104-UT ("2020 Rate
15 Case").

16

17 **Q12. DO EPE'S ACCOUNTING RECORDS REFLECT FERC ORDER 898?**

18 **A.** Yes, beginning January 1, 2025, EPE books reflect the new accounts added by
19 FERC Order 898, as described in EPE witness Cynthia S. Prieto's direct
20 testimony.

21

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1 **Q13. WHAT ARE THE TYPICAL STEPS INVOLVED IN DEVELOPING A**
2 **COST-OF-SERVICE STUDY?**

3 **A.** The cost-of-service study typically consists of three steps: functionalization,
4 classification, and assignment. Each of these steps is described below.

5
6 **Q14. PLEASE DESCRIBE COST FUNCTIONALIZATION.**

7 **A.** Once the Base Period costs are finalized and recorded in EPE's accounting
8 ledgers, the accounting data can be utilized to determine the functions associated
9 with those costs. These functions are:

- 10 • Production – costs associated with the production of energy and capacity,
11 including purchased power;
- 12 • Transmission – costs associated with the high voltage system that transports
13 the power to load centers;
- 14 • Distribution – costs associated with distributing the energy from the
15 transmission system to the end users;
- 16 • Customer Service – costs associated with providing service to the customer,
17 e.g., meter reading, billing, etc.; and
- 18 • Administrative and General – common costs, such as management, buildings,
19 software, support services, etc., which are incurred to support the core
20 functions of electric service listed above.

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1 EPE's cost of service now includes a Functional COS step. I will discuss this new
2 step in more detail later.

3
4 **Q15. PLEASE DESCRIBE COST CLASSIFICATION.**

5 **A.** The next step is to classify the functionalized costs according to the characteristics
6 of the utility service being provided. The three principal cost classifications are
7 demand-related costs, energy-related costs, and customer-related costs.

- 8 • Demand-related costs are those fixed costs that are related to the kilowatt
9 ("kW") demand that the customers place on the system at any point in time.

10 These costs vary with the maximum demand imposed on the various
11 components (facilities) of the power system by the customers.

- 12 • Energy-related costs are those costs that are related to the kilowatt-hours
13 ("kWh") of energy that the customer utilizes over time. These costs, primarily
14 fuel, vary with the overall quantity of energy consumed.

- 15 • Customer-related costs are those costs incurred as a result of the number of
16 customers on the system but irrespective of the customer's load. These costs,
17 such as meters and billing, are incurred to serve individual customers.

18 EPE's COS model incorporates the classification of costs at a more detailed level
19 in its DEC study.

20
21 **Q16. ONCE THE COST OF SERVICE IS FUNCTIONALIZED AND**

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1 **CLASSIFIED, HOW ARE COSTS ASSIGNED?**

2 **A.** After functionalization and classification, responsibility for each cost is then
3 determined through allocation or direct assignment. The process of allocating
4 costs starts with using operating and accounting data to develop allocation factors
5 by rate class that correspond to each cost classification factor (Demand, Energy,
6 and Customer). These allocation factors are then calculated as percentages (i.e.,
7 New Mexico jurisdiction or residential class as a percent of total). The allocation
8 factors are then applied to specific costs and rate-base items to derive EPE's cost
9 of service for each jurisdiction or rate class. If costs were incurred to benefit a
10 clearly identifiable jurisdiction or rate class, a direct assignment of that cost is
11 made.

12

13 **Q17. HAS EPE MADE ANY CHANGES TO THE COST-OF-SERVICE MODEL**
14 **SINCE ITS LAST NEW MEXICO RATE CASE, CASE NO. 20-00104-UT?**

15 **A.** Yes. EPE has implemented a new regulatory software solution from UISG to
16 prepare its COS studies.

17

18 **Q18. ARE THERE ANY SIGNIFICANT DIFFERENCES BETWEEN THE UISG**
19 **COST-OF-SERVICE MODEL COMPARED TO THE PRIOR COS**
20 **MODEL?**

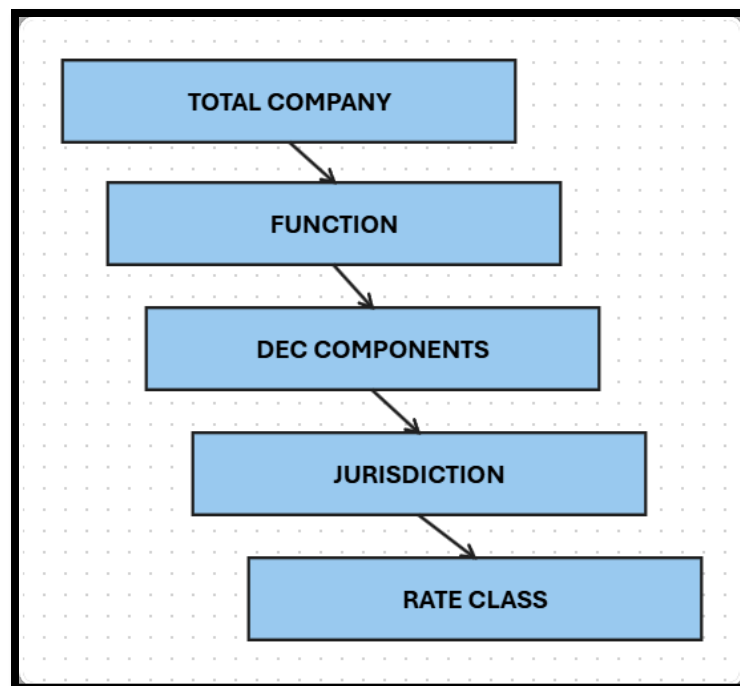
21 **A.** Yes. The first major difference is that the UISG regulatory module integrates

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1 with EPE's other UISG modules that have also been implemented, including the
2 Spending, Plant/Tax, and Financial Planning modules.

3 Another significant difference is that EPE's new COS model now includes
4 a function step early in the process, which will make the assignment to functions
5 more transparent. The COS model will be presented in the following order shown
6 in Figure AH-2 below:

7 **Figure AH-2**



18 Some other significant differences with EPE's new UI regulatory software
19 include:

- 20
- Improved accounting code block presentation;
 - Automation of essential schedules and workpapers; and
- 21

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- 1 • Quicker turn-around time in model runs.

2
3 **Q19. ABOVE YOU MENTIONED THAT THE NEW UISG MODEL HAS**
4 **IMPROVED THE ACCOUNTING CODE BLOCK PRESENTATION,**
5 **WHAT DOES "ACCOUNTING CODE BLOCK" MEAN AND HOW HAS**
6 **IT IMPROVED WITH THE UISG REGULATORY MODEL?**

7 **A.** "Accounting code block" refers to the structured set of codes used to categorize
8 financial transactions and data within an organization's accounting system. In the
9 context of EPE's cost of service model, the accounting code block typically
10 includes components such as the FERC Account, Operating Segment,
11 Expenditure Type, and Project for operation and maintenance ("O&M") expenses
12 or Functional Class, Depreciation Summary, and Depreciation Group for Plant-
13 related costs. The improved presentation in the UISG regulatory model allows for
14 clearer visibility and more precise assignment of costs, enhancing transparency
15 and efficiency in the cost allocation process.

16
17 **Q20. HAS THE OVERALL METHODOLOGY OF THE COST-OF-SERVICE**
18 **MODEL CHANGED WITH THE USE OF THE UISG REGULATORY**
19 **MODEL?**

20 **A.** No. Even with some of the updates we have made with the new UISG model, the
21 overall methodology has not changed. EPE continues to use the National

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1 Association of Regulatory Utility Commissioners' ("NARUC") "Electric Utility
2 Cost Allocation Manual" ("NARUC Manual") as a general guide for its cost of
3 service.

4 While EPE's overall approach will not change, some cost allocation
5 modifications will be proposed in this filing. I discuss these modifications in
6 more detail later in my testimony.

7
8 **IV. FUNCTIONAL COST-OF-SERVICE STUDY**

9 **Q21. WHY HAS EPE PRODUCED A FUNCTIONAL COST-OF-SERVICE**
10 **STUDY?**

11 **A.** EPE has always functionalized its costs as part of the process of preparing its
12 COS studies, but EPE's previous COS models have not been as clear with regard
13 to functionalization. Therefore, in the interest of being more transparent and to
14 improve allocations, EPE's COS studies will now include a Functional Cost-of-
15 Service (FCOS) study as a first step.

16
17 **Q22. HOW DOES EPE DETERMINE THE FUNCTION THAT APPLIES TO**
18 **THE COSTS?**

19 **A.** EPE first relies on the functionalized FERC Accounts to determine whether the
20 cost is associated with Production, Transmission, Distribution, or Customer. For
21 example, the O&M expense accounts are presented in the uniform system of

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1 accounts in their respective sections by function. Also, EPE's plant-in-service is
2 reported by functional class and utility plant accounts that make it easy to
3 determine the high-level function with which it is associated.

4
5 **Q23. WHAT TYPES OF ALLOCATORS ARE USED IN THE FUNCTIONAL**
6 **COST-OF-SERVICE STUDY?**

7 **A.** The UISG model utilizes two primary types of allocators: Input (external) and
8 Dynamic (internal).

- 9 • **Input Allocators** are sourced externally and either imported or manually
10 entered into the model. In this FCOS, input allocators are generally
11 straightforward, as most costs are directly assigned to specific functions—
12 Production, Transmission, Distribution, or Customer—based on account
13 data and accounting code block details.

- 14 • **Dynamic Allocators** are used when a cost cannot be directly associated
15 with a single function. These costs are allocated indirectly using a
16 calculated basis, such as labor or net plant-in-service costs.

17
18 **Q24. HOW DOES EPE DEVELOP THE LABOR ALLOCATION FACTOR?**

19 **A.** The LABOR allocator is developed by first directly assigning O&M labor costs
20 (excluding A&G) to their respective functions. These functionalized totals are
21 then summed to create the dynamic LABOR allocator used to distribute indirect

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costs. A high-level illustration of how the LABOR allocator is developed in the FCOS is shown below in Table AH-1:

Table AH-1

Description	Production	Transmission	Distribution	Customer	Other	Total
Production O&M	\$20m	\$0	\$0	\$0	\$0	\$20m
Transmission O&M	\$0	\$12m	\$0	\$0	\$0	\$12m
Distribution O&M	\$0	\$0	\$17m	\$0	\$0	\$17m
Customer O&M	\$0	\$0	\$0	\$9m	\$0	\$9m
Total Labor (\$)	\$20m	\$12m	\$17m	\$9m	\$0	\$58m
LABOR (%)	34.5%	20.7%	29.3%	15.5%	0.0%	100%

The LABOR allocator is used to allocate costs such as general plant in the FCOS.

The labor allocators are developed using a consistent methodology across the DEC, JCOS, and CCOS studies.

Q25. HOW ARE ALLOCATORS ASSIGNED TO COSTS IN THE FCOS?

A. Allocator assignment is largely driven by functionalized accounts for Plant and O&M costs. For more granular detail, EPE leverages accounting code block fields (Operating Segment, Project, Expenditure Type) and specific ledger data, including depreciation groups and tax-related Schedule M items.

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1 **Q26. HOW DOES EPE DETERMINE THE ALLOCATOR ASSIGNED TO A**
2 **COST FOR WHICH THE FUNCTION IS NOT KNOWN?**

3 **A.** There are many instances where certain costs have no direct association with a
4 function but are still assigned to a function indirectly. For example, General Plant
5 and most Administrative and General expenses are typically assigned a Labor
6 allocator as discussed above. Other dynamic allocators spread costs to functions
7 based on net plant or rate base in the FCOS. However, for certain revenues and
8 revenue-related costs, instead of allocating across functions EPE assigns them to
9 Other.

10
11 **Q27. WHY DOES EPE HAVE A FUNCTION CALLED "OTHER"?**

12 **A.** The Other function is used for certain items where the function is not known and
13 where it does not make sense to allocate it across functions. These items include
14 certain revenues or revenue-related expenses where they will be placed in the
15 Other function as a placeholder to be assigned to Jurisdiction and Rate Class later
16 in the JCOS and CCOS studies, respectively.

17
18 **Q28. IS THERE A SCHEDULE THAT PRESENTS RATE BASE AND**
19 **EXPENSES BY FUNCTION?**

20 **A.** Schedules K-2 and K-6 present EPE's rate base and expenses by function,
21 respectively. For further detail, refer to Workpaper K.

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V. DEMAND, ENERGY, AND CUSTOMER COMPONENTS STUDY

Q29. PLEASE DESCRIBE THE DEMAND, ENERGY, AND CUSTOMER COMPONENTS STUDY.

A. The Demand, Energy, and Customer Components Study ("DEC Study") is the second step in the process after the FCOS study. The DEC Study allocates costs to each of the DEC components. These DEC results along with the CCOS results (discussed later in my testimony) are essential in developing rates and are provided to EPE witness Carrasco for that purpose.

Q30. HOW DO THE FUNCTIONALIZED COSTS IDENTIFIED IN PREVIOUS STEPS RELATE TO THE COSTS PRESENTED IN THE DEC STUDY?

A. The functionalized costs of Production, Transmission, Distribution, and Customer are classified into Demand, Energy, and Customer components in the DEC Study as shown in Table AH-2.

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Table AH-2

Cost Functions	Cost Classifications
Production	Demand Related Energy Related
Transmission	Demand Related
Distribution	Demand Related Customer Related
Customer	Customer Related
Other	Other

Q31. WHAT ARE THE SPECIFIC COMPONENTS PRESENTED IN THE DEC STUDY THAT MAKE UP THE DEMAND, ENERGY, AND CUSTOMER CLASSIFICATIONS?

A. The components are shown in Table AH-3 below.

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Table AH-3

Demand	Energy	Customer	Other
Demand- Production	Energy- Other	Customer- Other	Other
-Dem Prod- 4CP-A&E	Energy- Fuel	Customer- Deposits	
-Dem Prod- 4CP		Customer- 369 Services	
-Dem Prod- 12CP-A&E		Customer- 370 Meters	
Demand- Transmission		Customer- 371 Cust Installs	
Demand- Distribution		Customer- 373 Strt Lightng	
-Load Dispatching		Customer- 902 Meter Read	
-Poles Towers Fixtures- Primary		Customer- 903 Cust Rec Co	
-Poles Towers Fixtures- Secondary			
-Overhead Lines- Primary			
-Overhead Lines- Secondary			
-Underground Lines- Primary			
-Underground Lines- Secondary			
-Line Transformers- Primary			
-Line Transformers- Secondary			

Q32. HOW IS PRODUCTION PLANT-IN-SERVICE CLASSIFIED?

A. Production plant is classified as demand related. Therefore, all production plant accounts fall under the Demand - Production components. Peaking generation plant-in-service costs fall under the 4CP demand production component. All other generation plant-in-service costs will be classified under the 4CP-A&E demand production component.

Q33. HOW IS TRANSMISSION PLANT-IN-SERVICE CLASSIFIED?

A. Transmission plant is classified as demand related, and all transmission plant accounts fall under the Demand - Transmission component.

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1 **Q34. HOW IS DISTRIBUTION PLANT-IN-SERVICE CLASSIFIED?**

2 **A.** Distribution investments serve customer demand as well as providing a basic
3 investment uniformly common to all customers. For this reason, Distribution
4 plant will have both a Demand component and a Customer component as seen in
5 Table AH-3 above.

6 Distribution Plant Account No. 360 - Land and Land Rights, Account
7 No. 361 - Structures and Improvements, and Account No. 362 - Station
8 Equipment are assigned to the Distribution - Load Dispatching component of
9 Demand. Distribution Plant Account No. 364 - Poles is assigned to the
10 Distribution - Poles, Towers, and Fixtures component of Demand. Account No.
11 365 - Overhead Conductors is assigned to the Distribution - Overhead component
12 of Demand. Account No. 366 - Underground Conductors and Account No. 367 -
13 Underground Conduits are assigned to the Distribution - Underground component
14 of Demand. All of these are separated based on the distribution voltage level
15 served, either primary or secondary. Account No. 368 - Line Transformers is also
16 separated based on whether the distribution voltage level served is primary or
17 secondary and is assigned to the Distribution - Transformer component of
18 Demand.

19 Account No. 369 - Services is classified as a customer-related cost and is
20 assigned to the Customer - 369 Services component under Customer. Account
21 No. 370 - Meters is classified as a customer-related cost and assigned to the

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1 Customer No. 370 - Meters component under Customer. Account No. 371 –
2 Installations on Customers’ Premises is classified as a customer-related cost and
3 assigned to the Customer No. 371 – Installs on Customer Premises component
4 under Customer. Finally, Account No. 373 – Street Lighting and Signal Systems
5 is classified as a customer-related cost and assigned to the Customer No. 373 –
6 Street Lighting component under Customer.

7
8 **Q35. HOW IS ENERGY STORAGE PLANT-IN-SERVICE CLASSIFIED?**

9 **A.** During the Base Period, EPE operated one energy storage facility: a battery
10 located at a customer-sited solar installation. Due to its relatively small scale and
11 its function of directly serving that specific customer, EPE classifies this asset as
12 Distribution Plant – Load Dispatching.

13
14 **Q36. HOW ARE GENERAL PLANT-IN-SERVICE COSTS ALLOCATED TO**
15 **DEC COMPONENTS?**

16 **A.** General Plant-in-Service costs follow labor allocation factors. By leveraging the
17 functionalized payroll data from the FCOS, the DEC study assigns these costs
18 according to their specific Functional payroll allocators as follows:

- 19 • PRODLABOR – allocates to Demand Production and Energy Other
20 components
- 21 • TRANLABOR – allocates to Demand Transmission component

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- 1 • DISTLABOR – allocates to Demand Distribution and Customer
- 2 components associated with distribution plant.
- 3 • CUSTLABOR – allocates to Customer components associated with
- 4 customer accounts (O&M).

6 **Q37. HOW IS WORKING CAPITAL ALLOCATED IN THE DEC STUDY?**

- 7 **A.** Fuel inventory is allocated with the E2ENERGY allocator. Prepayments and
- 8 Materials and Supplies are tagged with different allocators depending on the
- 9 functional account code block descriptions. Consistent with the previous steps in
- 10 the COS, the calculation of Working Cash in UISG uses the allocated DEC
- 11 results.

13 **Q38. IS THERE A SCHEDULE THAT SHOWS HOW ALL RATE BASE**

14 **AMOUNTS ARE ASSIGNED TO DEMAND, ENERGY, AND**

15 **CUSTOMER?**

- 16 **A.** Yes. Schedule K-3 itemizes all the rate base costs and presents them by Demand,
- 17 Energy, and Customer component classifications. For further detail, refer to
- 18 Workpaper K.

20 **Q39. HOW ARE POWER PRODUCTION EXPENSES CLASSIFIED?**

- 21 **A.** Fuel and purchased power expenses do not have a base-rate impact since they are

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1 recovered (off-set) by fuel-related revenues. All fuel-related expenses and
2 revenues are assigned to the Energy - Fuel component. The remaining non-fuel,
3 energy-related costs are assigned to the Energy - Other component. Demand-
4 related production O&M costs associated with load-dispatching costs (Account
5 556) are assigned to the Demand – Production 12CP-A&E component. Demand-
6 related production O&M costs associated with peaking generation costs are
7 assigned to the Demand – Production 4CP component. All other demand-related
8 production O&M costs are assigned to the Demand – Production 4CP-A&E
9 component.

10

11 **Q40. HOW ARE TRANSMISSION O&M EXPENSES CLASSIFIED?**

12 **A.** Similar to Transmission plant, all Transmission O&M expenses fall under the
13 Transmission component of Demand.

14

15 **Q41. HOW ARE DISTRIBUTION O&M EXPENSES ALLOCATED TO DEC**
16 **COMPONENTS?**

17 **A.** Similar to the CCOS study, Distribution O&M expenses are allocated based on
18 the related distribution plant account allocation. An exception is when using a
19 blended allocator for supervision and engineering accounts and the miscellaneous
20 distribution expense. Also, rents are allocated based on total Distribution plant as
21 in the CCOS study. Similar to Distribution plant, Distribution O&M expenses

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1 will have both Demand and Customer components.

2
3 **Q42. HOW ARE CUSTOMER SERVICE EXPENSES CLASSIFIED?**

4 **A.** All customer service expenses will be classified as Customer-related. Account
5 No. 902 - Meter Reading Expense is assigned to the Customer - 902 Meter
6 Reading component. Account No. 903 - Customer Record & Collections is
7 assigned to the Customer – 903 - Customer Rec & Collections component.
8 Account No. 904 - Uncollectible Accounts, Account No. 905 - Misc. Customer
9 Accounts Expenses, and Account No. 909 - Informational and Instructional
10 Advertising Expenses are all classified under the Customer - Other component.
11 Account No. 908 - Customer Assistance Expense is related to training and
12 education on EPE advanced meters so it is classified to the Customer – 370
13 Meters component.

14
15 **Q43. HOW ARE A&G EXPENSES ASSIGNED TO DEC COMPONENTS?**

16 **A.** If the A&G account code block descriptions provide enough detail to determine a
17 function or a DEC Component classification, then those costs are assigned to
18 those DEC Components that are associated with the code block description. The
19 remaining A&G expenses for which a specific classification cannot be determined
20 are allocated using mostly the LABOR allocation factors specific to the function it
21 was allocated to in the FCOS study. Refer to the response to allocation of

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1 General Plant above.

2

3 **Q44. HOW DOES EPE ALLOCATE DEPRECIATION AND AMORTIZATION**
4 **EXPENSES TO DEC COMPONENTS?**

5 **A.** EPE allocates depreciation and amortization expenses by the function consistent
6 with the allocation of the associated plant and accumulated depreciation accounts.

7

8 **Q45. HOW ARE INCOME TAXES ALLOCATED TO DEC COMPONENTS?**

9 **A.** Consistent with the FCOS, deferred income taxes are allocated using a net plant
10 allocator unless another function is specified in the tax code block details of that
11 account. Current income taxes are calculated by DEC component based on the
12 results of how other costs are classified.

13

14 **Q46. HOW ARE TAXES OTHER THAN INCOME TAXES ALLOCATED TO**
15 **DEC COMPONENTS?**

16 **A.** Payroll and unemployment taxes are allocated based on a functional labor
17 allocation factor. Assignment of property taxes to each DEC component is
18 consistent with how each plant-in-service functional grouping is allocated.
19 Revenue-related taxes are allocated on a functional rate base allocator if they are
20 associated with a specific function, or they are assigned to a specific DEC
21 component labeled "Other" where they will later be assigned to jurisdiction and

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1 allocated to rate classes by a revenue allocator. Other taxes such as sales and use
2 taxes are allocated based on a gross plant allocator.

3

4 **Q47. WHY DOES EPE HAVE A DEC COMPONENT CALLED "OTHER"?**

5 **A.** Similar to the "Other" function in the FCOS, the "Other" DEC Component is used
6 for certain revenues or revenue-related items where the DEC Component is not
7 known and where it does not make sense to allocate across DEC components.
8 These items will be placed in the Other DEC Component as a placeholder to be
9 assigned in the JCOS and CCOS.

10

11 **Q48. IS THERE A SCHEDULE THAT PRESENTS HOW THE EXPENSES ARE**
12 **ASSIGNED TO DEMAND, ENERGY, AND CUSTOMER?**

13 **A.** Yes. Schedule K-7 presents the expenses by the Demand, Energy, and Customer
14 component classifications. Refer to Workpaper K for the allocation details.

15

16 **VI. JURISDICTIONAL COST-OF-SERVICE STUDY**

17 **Q49. WHY IS IT NECESSARY FOR EPE TO PRODUCE A JURISDICTIONAL**
18 **COST-OF-SERVICE STUDY?**

19 **A.** As described in the direct testimony of EPE witness George Novela, EPE is a
20 multi-jurisdictional utility that provides service to customers in west Texas and
21 southern New Mexico. To provide the revenue and cost data for EPE's New

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1 Mexico service area that is required for preparation of several Rule 530 schedules,
2 specifically the K, M, and N Series schedules, it is necessary to first produce a
3 jurisdictional cost-of-service study for the New Mexico retail jurisdiction. The
4 JCOS serves as the foundation for the class cost-of-service study in which the
5 revenue requirements are assigned to each rate class. The class cost-of-service
6 study is discussed later in my testimony.

7 To meet the Schedule K Series requirements, a JCOS is produced for the Base
8 Period and another for the Historical Test Year Period ("Test Year Period"). The
9 Test Year Period JCOS includes all the adjustments discussed in the testimony of
10 EPE witnesses Sierra and Prieto. Both the Base Period and the Test Year Period
11 JCOS studies begin with total Company amounts which are then allocated
12 amongst the jurisdictions as described below. Schedule/Workpaper A-3 provides
13 the effect of each adjustment on the New Mexico jurisdiction.¹

14
15 **Q50. WHAT IS REQUIRED TO PRODUCE A JCOS FOR THE NEW MEXICO**
16 **JURISDICTION?**

¹ The FERC account that the adjustment is made in will have a Base Period allocation factor applied to the per book balance amounts, followed by a Test Year Period allocation factor applied to the adjusted balance amounts. Therefore, the difference between jurisdictional adjusted balances and per book balances are not solely related to the known and measurable adjustments made but also to the difference in the applying two different sets of allocation factors to Base Period and to Adjusted (Test Year Period) balances.

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1 **A.** Following the functionalization and classification stages, jurisdictional
2 responsibility is determined through either direct assignment or indirect allocation
3 based on cost-causation principles.

4 If a cost specifically benefits a single jurisdiction (e.g., a distribution
5 substation), it is directly assigned. For costs benefiting multiple jurisdictions,
6 EPE develops allocation factors using jurisdictional operating data categorized by
7 Demand, Energy, and Customer classifications. Key allocators used in the JCOS
8 include:

- 9 • Demand: 4CP-A&E, 4CP, and 12CP-A&E allocation factors
- 10 • Energy: All kWh at supply or Firm kWh Only at supply
- 11 • Customer: Total Annual Customer counts
- 12 • Dynamic (internal) costs: Functionalized and Classified Labor, Plant, or
13 Rate Base allocators
- 14 • Dynamic (internal) revenues: Determined on jurisdictional revenues

15 These factors represent the New Mexico retail portion as a percentage of the
16 total company. When applied to revenue, expense, and rate base items, they
17 derive the cost of service for the New Mexico and "Other" jurisdictions (which
18 consolidates Texas, FERC, and Other jurisdictions). These results then serve as
19 the basis for further dynamic allocations within the model.

20

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1 **Q51. WHAT COSTS ARE DIRECTLY ASSIGNED IN THE JCOS?**

2 **A.** When a cost is incurred on behalf of only one jurisdiction, that cost is directly
3 assigned to that jurisdiction. For example, solar purchased power agreements
4 ("PPAs") necessary to meet New Mexico renewable energy standards are directly
5 assigned to New Mexico. Directly assigned costs include regulatory assets and
6 items affected by the actions of specific regulatory bodies. For example, EPE is
7 required to pay an annual commission assessment fee to the State of New Mexico
8 to defray the cost of the NMPRC. This fee relates directly to the New Mexico
9 jurisdiction, and it applies solely to New Mexico customers. Therefore, in this
10 example, these costs are directly assigned to the New Mexico jurisdiction in the
11 JCOS.

12

13 **Q52. WHAT TYPES OF ALLOCATORS ARE USED IN THE**
14 **JURISDICTIONAL COST-OF-SERVICE STUDY?**

15 **A.** As mentioned previously, EPE uses two types of allocators: "input" and
16 "dynamic." In the JCOS, input allocators include energy, demand, and customer
17 allocators that come from another source and are either imported or manually
18 input into the JCOS model. As prescribed by the NARUC Manual, the dynamic
19 allocators in the JCOS are derived from accounts that have already been allocated
20 using a combination of allocators. Refer to Schedule M-1 for EPE's full list of
21 jurisdictional allocation factors.

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1

2 **Q53. HOW ARE THE JURISDICTIONAL ENERGY, DEMAND, AND**
3 **CUSTOMER ALLOCATION FACTORS DEVELOPED?**

4 **A.** EPE witness Enedina Soto develops the demand and energy allocators as
5 discussed in her direct testimony. The data for the customer allocators is provided
6 by EPE witness Rene Gonzalez. These external allocators are then input into the
7 UISG regulatory software module where the COS model can be run to produce
8 the allocated results.

9

10 **Q54. WERE ANY ADJUSTMENTS MADE TO THE ENERGY AND DEMAND**
11 **ALLOCATION FACTORS FOR DEDICATED GENERATION**
12 **FACILITIES?**

13 **A.** Yes. Consistent with prior EPE rate case filings, adjustments were made to the
14 jurisdictional energy and the production demand allocation factors to reflect
15 certain dedicated facilities in New Mexico and Texas. EPE witness Soto
16 addresses those adjustments in more detail in her direct testimony.

17

18 **Q55. HOW ARE COSTS OF THOSE DEDICATED FACILITIES THAT ARE**
19 **SOLAR PPAS RECOVERED FROM CUSTOMERS?**

20 **A.** The cost of energy from PPAs in New Mexico that were entered into to meet
21 renewable portfolio standard ("RPS") requirements are recovered directly from

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1 New Mexico customers through the RPS Cost Rider Rate No. 18. In Texas, EPE
2 recovers the costs of energy from the 10-MW Newman Solar PPA from Texas
3 customers through the fixed fuel factor and the Texas Community Solar program
4 tariff.

5
6 **Q56. HOW ARE COSTS FROM COMPANY-OWNED SOLAR GENERATION**
7 **FACILITIES TREATED IN THE JURISDICTIONAL COST OF**
8 **SERVICE?**

9 **A.** EPE directly assigns costs of small, Company-owned solar facilities that are
10 specifically dedicated to a certain state or jurisdiction. For example, the costs of
11 the Company-owned small solar parking structure facility located at Rio Grande
12 Generating Station is directly assigned to New Mexico.

13 Furthermore, any costs of Company-owned solar generation facilities that
14 are specifically dedicated to a single customer are directly assigned to the Other
15 jurisdiction since they are part of a special contract for that single customer and
16 not shared by other customers. Similarly, for voluntary programs such as
17 community or business solar, EPE directly assigns these costs to the Other
18 jurisdiction in the JCOS so that none of these costs or related indirect costs are
19 allocated to New Mexico customers' base rates.

20
21 **Q57. WHAT ARE THE COMPANY-OWNED SOLAR GENERATION**

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1 **FACILITIES THAT EPE DIRECTLY ASSIGNS TO NEW MEXICO?**

2 **A.** The only Company-owned solar generation facility that EPE directly assigns to
3 the New Mexico jurisdiction at this time is Rio Grande Solar (Carport).

4
5 **Q58. WHAT METHOD IS USED TO ALLOCATE JURISDICTIONAL**
6 **DEMAND-RELATED COSTS OF PRODUCTION?**

7 **A.** In this filing, EPE proposes to continue the use of the 4CP methodology to
8 allocate jurisdictional demand-related costs of peaking generation facilities with
9 the exception of Newman Unit 6, which is not assigned to New Mexico. All other
10 generation facilities will continue to be allocated using the 4CP-A&E
11 methodology.

12 EPE's system peaks during the summer months of June through
13 September. These monthly peak demands are mostly within 10% of the annual
14 system peak demand, as shown in Exhibit AH-1. The production system is
15 designed and built to meet both peak demand and EPE's energy requirements
16 throughout the year. Therefore, EPE determined that the appropriate allocation
17 for demand-related plant-in-service costs of production should be based on 4CP-
18 A&E and 4CP methodologies, consistent with EPE's Commission-approved
19 allocations from its previous New Mexico rate case.

20
21 **Q59. WHAT IS THE DIFFERENCE BETWEEN THE 4CP-A&E AND 4CP**

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1 **METHODOLOGIES?**

2 **A.** The difference between the 4CP-A&E and the 4CP methodologies lies in how
3 demand components are factored into each of the calculations. The 4CP-A&E
4 methodology consists of both peak demand and annual average-demand
5 components, while the 4CP methodology consists of just the peak-demand
6 component. The specific calculations for each allocator are prepared under the
7 supervision of EPE witness Soto.

8

9 **Q60. HOW WERE JURISDICTIONAL DEMAND-RELATED PLANT-IN-**
10 **SERVICE COSTS OF PRODUCTION ALLOCATED IN EPE'S PRIOR**
11 **FILING?**

12 **A.** EPE proposed the same methodology to use the 4CP to allocate the jurisdictional
13 demand-related plant-in-service costs of its peaking generating facilities
14 (identified as D2PROD in EPE's JCOS study) and the 4CP-A&E methodology to
15 allocate the jurisdictional demand-related plant-in-service costs of all other
16 generating facilities (D1PROD). These allocation proposals were approved by
17 the NMPRC in Case No. 20-00104-UT.

18

19 **Q61. HOW IS EPE HANDLING PALO VERDE GENERATING STATION**
20 **("PVGS") UNIT 3 ALLOCATION?**

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1 **A.** Since PVGS Unit 3 is not approved in New Mexico, any costs directly related to
2 PVGS Unit 3 will not be allocated to New Mexico. In addition, one-third of
3 PVGS Unit 3 Common and Water Resource Facility costs will be handled the
4 same way and will not be allocated to New Mexico. Instead, one-third of PVGS
5 Unit 3 common and water reclamation facility costs are allocated to the "Other"
6 jurisdiction in the JCOS. The allocation factors that EPE will utilize for any
7 PVGS Unit 3 related costs will be the following:

- 8 • D1PROD_PV3
- 9 • DPROD12_PV3
- 10 • E1ENERGY_PV3
- 11 • E1FUEL_PV3
- 12 • E2ENERGY_PV3

13 These above allocators will allocate as normal to Texas and FERC but New
14 Mexico gets a zero percent allocation and that allocation goes to Other instead.

15

16 **Q62. WHY HAS EPE DECIDED TO USE A 4CP ALLOCATION METHOD TO**
17 **ALLOCATE JURISDICTIONAL DEMAND-RELATED**
18 **PLANT-IN-SERVICE COSTS OF PEAKING GENERATION**
19 **FACILITIES?**

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1 **A.** EPE continues to use the 4CP allocation method for peaking generation to remain
2 consistent with its previously approved proposal. These units are designed for
3 intermittent use to meet summer peak load fluctuations rather than extended base-
4 load operation. Since EPE's system peaks during the four summer months (June–
5 September), the 4CP method accurately reflects the cost-causation of these assets.
6 They are primarily operational during these peak windows and provide "load
7 following" capabilities that are not required during off-peak periods. Further
8 technical details on the performance of EPE's generation fleet can be found in the
9 direct testimony of witnesses Hughes and Martinez.

10

11 **Q63. WHAT ARE THE GENERATION FACILITIES THAT EPE CONSIDERS**
12 **AS PEAKING UNITS FOR COST ALLOCATION PURPOSES?**

13 **A.** EPE considers the following generation facilities as peaking units:

- 14 • Montana Power Station Units 1 through 4;
- 15 • Newman Unit 6;²
- 16 • Rio Grande Generating Station Unit 9; and
- 17 • Copper Generating Station.

18

19 **Q64. DOES EPE HAVE ANY GENERATION FACILITIES THAT ARE AT OR**

² EPE is not requesting recovery of Newman Unit 6 in New Mexico.

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1 **NEAR FULL RETIREMENT?**

2 **A.** Yes, EPE has four Steam Generation plants that are at or near full retirement. The
3 following generation facilities are EPE's retiring plants:

- 4 • Newman Unit 1;
- 5 • Newman Unit 2;
- 6 • Rio Grande Unit 6; and
- 7 • Rio Grande Unit 7.

8

9 **Q65. HOW IS EPE PROPOSING TO TREAT ITS RETIRING STEAM**
10 **GENERATION PLANTS?**

11 **A.** As discussed by EPE witness Prieto in her direct testimony, Rio Grande Unit 6
12 has been retired. Therefore, EPE will remove any costs related to Rio Grande
13 Unit 6. The three remaining facilities are continuing to operate and will therefore
14 be treated the same as in EPE's previous rate case in that they will be allocated to
15 New Mexico using a 4CP-A&E allocation factor.

16

17 **Q66. HOW IS EPE ABLE TO DISTINGUISH ALL OF THE FACILITIES**
18 **WITHIN PLANT IN SERVICE IN ITS COST OF SERVICE?**

19 **A.** EPE's UISG regulatory software module presents plant data using accounting
20 code block detail specific to plant costs such as functional class, depreciation

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1 summary, and depreciation groups, which provide the user with enough
2 information to make informed cost allocation decisions.

3
4 **Q67. HOW DOES EPE ALLOCATE JURISDICTIONAL PLANT-IN-SERVICE**
5 **COSTS FOR TRANSMISSION?**

6 **A.** Most of EPE's transmission plant is treated by EPE as a single, integrated system
7 that serves all jurisdictions regardless of geographic location. Because the
8 transmission system is designed primarily to meet peak demand rather than
9 energy requirements, these costs are allocated using the 4CP methodology.
10 Specifically, the 4CP allocator (D2TRAN) captures system requirements during
11 the four summer months (June through September) when EPE's peak demand
12 occurs.

13
14 **Q68. ARE THERE ANY TRANSMISSION PLANT-IN-SERVICE COSTS THAT**
15 **ARE NOT ALLOCATED BETWEEN JURISDICTIONS?**

16 **A.** Yes. Transmission costs related to the Felina Interconnection are not allocated
17 among the jurisdictions. Instead, these costs are directly assigned to the Texas
18 jurisdiction.

19
20 **Q69. HOW ARE DISTRIBUTION PLANT-IN-SERVICE COSTS ALLOCATED**
21 **IN THE JCOS?**

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1 **A.** Distribution plant-in-service costs in the JCOS are directly assigned based on
2 geographic location. The only exception is for costs related to solar facilities that
3 are dedicated to a single customer.

4
5 **Q70. HOW ARE ENERGY STORAGE PLANT-IN-SERVICE COSTS**
6 **ALLOCATED IN THE JCOS?**

7 **A.** As mentioned previously, EPE's only energy storage facility is directly associated
8 with a single customer and its solar facility. This facility is directly assigned to
9 Other.

10

11 **Q71. HOW IS EPE ALLOCATING METERS TO EACH JURISDICTION?**

12 **A.** While EPE's advanced meters are currently recovered through a separate rider,
13 EPE is proposing to incorporate these Advanced Metering System ("AMS") costs
14 into base rates in this proceeding. Accordingly, EPE is directly assigning AMS
15 rider revenues and associated expenses to the New Mexico jurisdiction. Any
16 over- or under-recovered revenues, however, continue to be assigned to the
17 "Other" jurisdiction.

18 Legacy meters (identified as Unrecovered Plant and Regulatory Study Costs in
19 Schedule A-4) are directly assigned to their respective jurisdictions. Note that in

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1 this proceeding, New Mexico legacy meters have been removed from the
2 requested rate base per Adjustment 33.³

3
4 **Q72. HOW ARE GENERAL PLANT-IN-SERVICE COSTS ALLOCATED IN**
5 **THE JCOS?**

6 **A.** General Plant-in-Service costs are allocated using labor allocation factors derived
7 from payroll costs. Because EPE functionalizes and classifies its payroll as
8 described previously, the JCOS can apply labor allocators that precisely align
9 with the specific classification of the work performed. For instance, costs that
10 were allocated via PRODLABOR in the DEC study are further refined into
11 Demand Production and Energy-Other components. This granularity allows EPE
12 to use specific demand allocators—D1PROD, D2PROD, and DPROD12—for
13 their respective Demand Production components, and E1ENERGY for the
14 Energy-Other component. By utilizing these specific DEC components, EPE
15 ensures that general plant costs are allocated in a manner that directly reflects the
16 underlying functional cost drivers.

17
18 **Q73. HOW IS THE ACCUMULATED DEPRECIATION ALLOCATED IN THE**
19 **JCOS?**

³ Refer to Unrecovered Plant and Regulatory Study Costs section of EPE witness Prieto's direct testimony.

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1 **A.** Accumulated depreciation is allocated using functional class, depreciation
2 summary, and depreciation group. This is the same methodology as the allocation
3 of plant-in-service costs.

4

5 **Q74. HOW ARE WORKING CAPITAL AMOUNTS ALLOCATED IN THE**
6 **JCOS?**

7 **A.** Costs under Prepayments or Materials and Supplies are allocated according to the
8 DEC Component classification, or they are direct assigned if they related to a
9 specific jurisdiction. Fuel inventory is allocated with E2ENERGY. Working
10 Cash is calculated within the UISG regulatory solution, but the calculation uses
11 the allocated jurisdictional result of its components (e.g., O&M, taxes, etc.).

12

13 **Q75. IS THERE A SCHEDULE THAT SHOWS EPE'S JURISDICTIONAL**
14 **RATE BASE?**

15 **A.** Yes. Schedule K-1 summarizes all the rate base amounts and presents the
16 jurisdictional allocation of each rate base item. For further line-by-line detail,
17 please refer to Workpaper K.

18

19 **Q76. HOW ARE DEMAND-RELATED PRODUCTION O&M EXPENSES**
20 **ALLOCATED TO EACH JURISDICTION?**

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1 **A.** Demand-related production O&M expenses are allocated based on either the
2 4CP-A&E, 4CP, or 12CP-A&E allocator identified in the JCOS model as
3 D1PROD, D2PROD, and DPROD12, respectively. The D1PROD allocator is
4 applied to O&M expenses of all non-peaking generating facilities, and the
5 D2PROD allocator is applied to O&M expenses of the peaking generating
6 facilities. The DPROD12 allocator is applied to system control and dispatch
7 expense.⁴

8 Finally, EPE typically treats battery capacity and other non-reconcilable
9 purchased power costs (i.e., spinning reserves) as demand-related costs so it
10 allocates those costs with the D1PROD allocator. However, it is important to
11 note that in this proceeding EPE is direct assigning the costs related to Carne and
12 Santa Teresa battery capacity as well as the Buena Vista battery deferred capacity
13 costs to the New Mexico jurisdiction⁵.

14

15 **Q77. ARE THERE ANY ENERGY-RELATED PRODUCTION O&M**
16 **EXPENSES?**

17 **A.** Yes. Production O&M expenses that vary with the amount of energy produced
18 are considered energy related. There are two types of energy-related production

⁴ FERC Account 556 - System Control and Dispatching costs are incurred year-round; therefore, these costs are allocated using a 12CP-A&E allocator.

⁵ Refer to Workpaper A-3 Adjustment 02 Fuel and Purchased Power Expense workpapers.

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1 O&M expenses. The first type is fuel and purchased power expenses which are
2 recovered through the Fuel and Purchased Power Cost Adjustment Clause
3 ("FPPCAC") and the Renewable Portfolio Standards ("RPS") Rider. The second
4 type of energy-related expenses are typically non-fuel expenses recovered in base
5 rates.

6
7 **Q78. WHAT ARE THE DIFFERENT ENERGY ALLOCATORS, AND HOW**
8 **ARE THEY DEVELOPED?**

9 **A.** EPE uses three different external allocators to allocate energy-related costs:
10 E1ENERGY, E1FUEL, and E2ENERGY. E1ENERGY is used to allocate
11 energy-related non-fuel production O&M expenses. E1FUEL is used to allocate
12 fuel and purchased power expenses. E2ENERGY is used to allocate costs that
13 may be fuel-related or driven by a fuel-related activity but are not recovered
14 through the FPPCAC or RPS (i.e., fuel inventory or fuel-related Schedule M
15 items within deferred taxes) riders.

16 EPE witness Soto develops the E1ENERGY allocator using kWh at
17 supply excluding non-firm (interruptible) kWh. The E1FUEL and E2ENERGY
18 allocators are also developed by EPE witness Soto using all kWh at supply
19 (including non-firm).

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1 **Q79. HOW ARE ENERGY-RELATED PRODUCTION O&M EXPENSES**
2 **ALLOCATED TO EACH JURISDICTION?**

3 **A.** As discussed above, non-fuel O&M expenses are allocated to each jurisdiction on
4 E1ENERGY. Reconcilable fuel and purchased power expenses are all allocated
5 using E1FUEL. Non-reconcilable fuel and purchased power expenses that are not
6 demand-related (such as the imputed capacity or spinning reserves discussed
7 above) would be allocated using the E2ENERGY allocator.

8

9 **Q80. IS EPE ALLOCATING PRODUCTION O&M DIFFERENTLY IN THIS**
10 **CASE COMPARED TO ITS PREVIOUS RATE CASE?**

11 **A.** No. EPE still uses the NARUC Cost Allocation Manual as a general guide for
12 assigning demand and energy allocators. Demand-related production O&M
13 expenses will be allocated (similar to production plant) using the 4CP or 4CP-
14 A&E depending on the type of generation or direct assigned depending on the
15 regulatory treatment of a specific generation facility. FERC Account 556 - Sys
16 Control Load Dispatch is still allocated on 12CP-A&E.

17

18 **Q81. HOW ARE TRANSMISSION O&M EXPENSES ALLOCATED AMONG**
19 **THE JURISDICTIONS?**

20 **A.** Most transmission O&M expenses are allocated based on the 4CP method. The
21 4CP allocator is identified as D2TRAN. The only exception is for FERC

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1 Account 561 – Load Dispatching. Load dispatching costs are incurred
2 year-round; therefore, these costs are allocated using a 12CP allocator,
3 DTRAN12.

4
5 **Q82. HOW ARE DISTRIBUTION O&M EXPENSES JURISDICTIONALLY**
6 **ALLOCATED?**

7 **A.** Distribution O&M expenses are either: (1) directly assigned to the respective
8 jurisdiction that the expenses were incurred for; (2) allocated based on their
9 respective plant investment in each jurisdiction; or (3) allocated on a dynamic
10 allocator based on the costs contained in the other accounts of the operation or
11 maintenance account grouping. The additional DEC Component detail provided
12 from the DEC study allows EPE to allocate distribution costs with more accuracy.

13
14 **Q83. HOW ARE CUSTOMER O&M EXPENSES ALLOCATED TO EACH**
15 **JURISDICTION?**

16 **A.** Customer Accounts and Customer Service & Information O&M expenses that are
17 directly assignable are determined and directly assigned to the applicable
18 jurisdiction. The remaining expenses in those accounts are allocated using
19 customer allocators such as customer count. The only exception is FERC
20 Account 904 – Uncollectible Accounts which is allocated using the firm base and
21 fuel revenues of all customer classes except Other Public Authority and

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1 Commercial and Industrial (C&I) Large in each jurisdiction (UNCOLL_REVS).
2 EPE's allocation of uncollectible expense takes guidance from the Company's
3 accounts receivable aging schedule to estimate bad debts. EPE's policy excludes
4 Other Public Authority and C&I Large customers from the aging schedule.
5 Therefore, EPE's allocation of uncollectible expense excludes these customers as
6 well.

7 Costs in FERC Account 908 - Customer Assistance Expense are associated
8 with EPE's AMS programs, so EPE direct assigns those to the jurisdiction
9 specified in the accounting code block (project number).
10

11 **Q84. HOW ARE A&G EXPENSES ALLOCATED AMONG THE**
12 **JURISDICTIONS?**

13 **A.** Most A&G expenses are allocated to a jurisdiction based on the LABOR
14 allocation factor or another labor-related allocation factor derived from the labor
15 expenses contained in the accounts of the applicable functional account grouping.
16 A&G expenses related to a specific function (e.g., production, transmission,
17 distribution) are allocated based on the function's assigned allocator. If an
18 expense can be identified as benefiting a specific jurisdiction, then that expense is
19 directly assigned to that jurisdiction (such as Regulatory Commission fees
20 recorded in FERC Account 928 – Regulatory Commission Expenses).
21

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1 **Q85. HOW ARE THE DEPRECIATION AND AMORTIZATION EXPENSES**
2 **JURISDICTIONALLY ALLOCATED?**

3 **A.** EPE jurisdictionally allocates depreciation and amortization expenses by
4 functional class, depreciation summary, and depreciation group consistent with
5 the allocation of associated plant-in-service and accumulated depreciation
6 amounts.

7

8 **Q86. HOW IS THE AMORTIZATION OF LEGACY METERS ALLOCATED**
9 **TO EACH JURISDICTION?**

10 **A.** The amortization associated with legacy meters (identified as Amortization of
11 Unrecovered Plant in Schedules A and A-1) is direct assigned consistent with the
12 jurisdiction of those legacy meters. While EPE's legacy meters for New Mexico
13 were removed from rate base, the amortization of those legacy meters is being
14 requested in this proceeding as shown in Adjustment 13.⁶

15

16 **Q87. HOW ARE REGULATORY DEBITS AND CREDITS ALLOCATED TO**
17 **EACH JURISDICTION?**

18 **A.** Regulatory debits and credits are assigned to each jurisdiction as specifically
19 mandated by each jurisdiction's utility commission. Amortization on reacquired

⁶ Refer to EPE witness Prieto's direct testimony, pages 71 and 72.

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1 debt costs are allocated to jurisdiction based on Net Plant.

2

3 **Q88. HOW ARE INCOME TAXES ALLOCATED TO EACH JURISDICTION?**

4 **A.** Federal and state income taxes are split into two categories, current and deferred.
5 Deferred federal and state income tax expenses are assigned an allocator based
6 upon the underlying Schedule M item descriptions of the deferred income tax in
7 the regulatory module. Most deferred federal and state income taxes are
8 functionalized and classified using dynamic allocators based on dynamic
9 allocators like NETPLANT, but since the costs is broken out by DEC component
10 in the JCOS, it is allocated based on the DEC component classification. Current
11 federal and state income taxes are calculated in the UISG regulatory module
12 based on the allocated results of rate base and operating income. EPE witness
13 Tamera Henderson discusses the calculation of the Company's income taxes.

14

15 **Q89. HOW ARE TAXES OTHER THAN INCOME TAXES ALLOCATED TO**
16 **EACH JURISDICTION?**

17 **A.** Payroll and unemployment taxes are allocated based on the resulting functional
18 and DEC component breakout of labor allocation factors, but in the JCOS they are
19 allocated based on the DEC Component classification. Jurisdictional allocation of
20 property taxes is consistent with how each plant-in-service functional grouping is
21 allocated. Revenue-related taxes are directly assigned to the jurisdiction in which

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1 such taxes are assessed; therefore, the New Mexico jurisdiction is not allocated
2 any Texas revenue-related taxes. Other taxes such as sales and use taxes are
3 allocated to jurisdiction according to the DEC Components cost breakout
4 resulting from the functional and classification allocations of gross plant.
5

6 **Q90. IS THERE A SCHEDULE THAT SHOWS EPE'S EXPENSES ON A**
7 **JURISDICTIONAL BASIS?**

8 **A.** Yes, Schedule K-5 summarizes how all the expenses are broken out by New
9 Mexico and Other. For further line by line detail on JCOS allocations, refer to
10 Workpaper K.
11

12 **Q91. BASED ON THE JURISDICTIONAL COST-OF-SERVICE STUDY YOU**
13 **HAVE DISCUSSED, WHAT IS THE NEW MEXICO REVENUE**
14 **REQUIREMENT THAT EPE IS REQUESTING IN THIS CASE?**

15 **A.** With reference to Schedule A-1 and Table AH-5 below, EPE has calculated a
16 total cost of service for the New Mexico jurisdiction of \$297.1 million. After
17 adjusting that amount for fuel revenues and other operating revenues, the
18 remaining \$210.8 million base rate revenue requirement exceeds "as adjusted"
19 base revenue of \$140.1 million by \$70.7 million (or 50.5 percent). The following
20 table shows the results of the New Mexico jurisdictional cost of service:
21

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Table AH-5

Line	Description	New Mexico Amount
1	Total Rate Base	\$727,012,562
2	Weighted Average Cost of Capital ("WACC")	8.354%
3	Return on Rate Base	60,737,862
4	Fuel and Purchased Power	94,343,724
5	Operation and Maintenance (O&M)	68,832,834
6	Regulatory Debits and Credits	3,135,744
7	Depreciation & Amortization	47,063,658
8	Decommissioning and Accretion	749,740
9	Amortization of Unrecovered Plant	1,672,773
10	Taxes Other Than Income	9,494,325
11	Federal Income Taxes	9,656,588
12	State Income Taxes	1,383,646
13	Total Cost of Service	297,070,893
14	Less: Other Operating Revenues	9,574,671
15	Less: Fuel Revenues and Sales for Resale	(76,678,062)
16	Base Rate Revenue Requirement	210,818,160
17	Less: As Adjusted Base Revenues	(140,094,381)
18	Base Rate Revenue Deficiency	70,723,779
19	Percent Increase	50.48%

EPE's As Adjusted Base Revenues of \$140,094,381 (shown on line 17 of Table AH-5 above) reflect the known and measurable adjustments to revenues that are discussed in more detail in the direct testimony of EPE witness Rene Gonzalez.

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VII. CLASS COST-OF-SERVICE STUDY

Q92. PLEASE DESCRIBE THE NEW MEXICO RETAIL CLASS COST-OF-SERVICE STUDY MODEL.

A. The New Mexico CCOS study is the final phase of the sequential process that includes the FCOS, DEC, and JCOS studies. Once the New Mexico jurisdictional revenue requirements are fully functionalized and classified, the CCOS model assigns those costs to each retail rate class based on cost-causation principles. The resulting data provides the necessary foundation for developing EPE's class-specific rate design schedules.

Q93. WHAT IS REQUIRED TO PRODUCE A CCOS FOR THE NEW MEXICO JURISDICTION?

A. To produce the CCOS, EPE assigns jurisdictional costs to specific rate classes using either direct assignments or calculated allocation factors. For clearly identifiable costs—such as street lighting facilities—a direct assignment is made to the benefiting class. For all other costs, EPE utilizes class-level operating data to develop Demand, Energy, and Customer allocation factors.⁷ These percentages are applied to the New Mexico jurisdictional revenue requirement to determine

⁷ Demand and Energy Rate Class Allocation Factors are provided by EPE witness Soto and Customer Rate Class Allocation Factors are provided by EPE witness Rene Gonzalez.

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1 the cost of service for each retail class.

2

3 **Q94. WHAT ARE DIRECTLY ASSIGNED COSTS?**

4 **A.** Directly assigned costs consist of those costs that are incurred specifically for
5 certain rate classes. For example, EPE incurs costs for operating and maintaining
6 streetlights (such as replacing burnt lamps); therefore, these costs are directly
7 assigned to the Street-lighting rate class in the CCOS.

8

9 **Q95. WHAT TYPES OF ALLOCATORS ARE USED IN THE CLASS**
10 **COST-OF-SERVICE STUDY?**

11 **A.** Similar to the JCOS study, the CCOS study employs both Input and Dynamic
12 allocators. However, the recent enhancements to EPE's cost-of-service process
13 has reduced the reliance on dynamic allocators in the CCOS. EPE has
14 streamlined the CCOS study by leveraging JCOS results that are already
15 functionalized and classified by DEC components. This pre-classification
16 eliminates many of the indirect allocations in the CCOS like in EPE's previous
17 COS model. This allows for a more direct and transparent flow of costs from the
18 jurisdictional level to the retail class level.

19

20 **Q96. IS EPE PROPOSING TO ADD OR REMOVE ANY RATE CLASSES IN**
21 **THIS PROCEEDING?**

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1 **A.** No, EPE's CCOS in this proceeding will not add or remove any rate classes.

2

3 **Q97. WHAT METHOD IS USED TO ASSIGN THE DEMAND-RELATED**
4 **COSTS OF THE PRODUCTION PLANT-IN-SERVICE TO EACH RATE**
5 **CLASS?**

6 **A.** As explained in the JCOS section, EPE proposes to continue to use the 4CP
7 methodology (D2PROD) for assigning demand-related costs of peaking
8 generation facilities, and the 4CP-A&E methodology (D1PROD) for assigning
9 demand-related costs of all other generation facilities. The CCOS uses these
10 allocators to assign demand-related production costs to each rate class.

11

12 **Q98. HOW ARE THE DEMAND-RELATED COSTS OF TRANSMISSION**
13 **PLANT-IN-SERVICE ASSIGNED TO EACH RATE CLASS?**

14 **A.** Consistent with the JCOS study, transmission plant is assigned to each rate class
15 using the 4CP allocator D2TRAN.

16

17 **Q99. HOW IS THE DEMAND-RELATED COST OF DISTRIBUTION**
18 **PLANT-IN-SERVICE ASSIGNED TO EACH RATE CLASS?**

19 **A.** EPE uses the Maximum Class Demand ("MCD") to assign substation and primary
20 distribution feeder system costs and Non-Coincident Peak Demand ("NCP") to
21 assign secondary voltage distribution feeders and line transformer costs.

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1

2 **Q100. HOW ARE MCD AND NCP DEVELOPED, AND WHAT DO THEY**
3 **REPRESENT?**

4 **A.** EPE witness Soto develops the MCD and NCP. In general, MCD represents the
5 diversified loads of a rate class at the system peak; NCP represents the summation
6 of the maximum loads of each customer within a rate class, regardless of when
7 those loads occur.

8

9 **Q101. WHY DOES EPE USE BOTH THE MCD AND NCP ALLOCATORS FOR**
10 **DISTRIBUTION PLANT?**

11 **A.** These distribution plant allocators are based on the level of voltage at which
12 service is received. The cost causation for the distribution system differs for each
13 voltage level; therefore, EPE developed allocation factors for each of these levels
14 to reflect the type of loads that most significantly influence the costs at that level.
15 The MCD is appropriate for the primary voltage plant because the primary
16 distribution system serves all distribution level customers. The NCP Demand
17 allocator is a measurement of maximum attainable peak demand by each rate
18 class, independent of the class or system peak. This method allocates costs to
19 serve customers based on their diversity at the more localized secondary
20 distribution system.

21

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1

2 **Q102. HOW ARE DISTRIBUTION PLANT-IN-SERVICE ACCOUNTS**
3 **RELATED TO SUBSTATIONS (NOS. 360 THROUGH 362) ASSIGNED**
4 **TO EACH RATE CLASS?**

5 **A.** Distribution Plant Account No. 360 - Land and Land Rights, Account No. 361 -
6 Structures and Improvements, and Account No. 362 - Station Equipment costs are
7 assigned based on the MCD allocator described previously. The MCD allocator
8 (D3DIST, D4DIST, D7DIST, or D9DIST) reflects the responsibility and costs to
9 the customers served downstream from substations.

10

11 **Q103. HOW ARE DISTRIBUTION PLANT-IN-SERVICE ACCOUNT NOS. 364**
12 **THROUGH 368 ASSIGNED TO RATE CLASSES?**

13 **A.** Costs for Distribution Plant Account No. 364 - Poles, Account No. 365 - Overhead
14 Conductors, Account No. 366 - Underground Conductors, Account No. 367 -
15 Underground Conduits, and Account No. 368 - Line Transformers are separated
16 based on the distribution voltage level served. The primary voltage level costs are
17 assigned to rate classes using the MCD allocator. The secondary voltage level costs
18 are assigned based on the NCP allocator (D5DIST, D6DIST, D8DIST, or
19 D10DIST).

20

21 **Q104. HOW IS THE CUSTOMER-RELATED COST OF DISTRIBUTION**

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1 **PLANT-IN-SERVICE ASSIGNED TO EACH RATE CLASS?**

2 **A.** EPE also assigns costs for services on a service drop investment allocator (SDI)
3 and costs for meters based on a weighted non-AMS meter cost allocator (NON-
4 AMS_METER) or based on a weighted AMS meter cost allocator
5 (AMS_METER). Lighting-related facilities are directly assigned to the associated
6 rate class such as street lighting or private area lighting.

7
8 **Q105. HOW DOES EPE ASSIGN COSTS FOR ACCOUNT NO. 369 – SERVICES**
9 **TO EACH RATE CLASS?**

10 **A.** Account No. 369 – Services, e.g., costs of service drop from the distribution
11 system to serve customers, is assigned to rate classes based on the Service Drops
12 ("SDI") allocator provided to me by EPE witness Rene Gonzalez. This method
13 creates the SDI allocator based on the number of services per rate class weighted
14 by the typical cost to provide a service drop to that rate class.

15
16 **Q106. WHAT ALLOCATOR(S) DOES EPE USE FOR ACCOUNT NO. 370 -**
17 **METERS?**

18 **A.** EPE utilizes two distinct meter allocators in the CCOS study: the Non-AMS
19 Weighted Meter Allocator (NON-AMS_METER) and the AMS Weighted Meter
20 Allocator (AMS_METER). As supported by EPE witness Rene Gonzalez, these
21 allocators are designed to reflect cost causation by weighing the actual meter

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1 count for each class by the typical unit cost.

2 This weighting ensures that costs are assigned proportionally to the
3 specific class and level of service driving the expense. For example, large-use
4 customers often require sophisticated Interval Data Recorder ("IDR") meters,
5 which are significantly more expensive than standard residential energy meters.
6 By applying a higher "weight" to these IDR meters, the model more accurately
7 assigns the higher equipment costs to the classes that use them.

8
9 **Q107. HOW ARE GENERAL PLANT-IN-SERVICE COSTS ASSIGNED TO**
10 **EACH RATE CLASS?**

11 **A.** Since the allocated results of general plant from prior steps are already known by
12 Function and DEC Component, the assignment of allocators in the rate class step
13 can be more specifically allocated with demand, energy, or customer allocators.

14
15 **Q108. HOW IS THE ACCUMULATED DEPRECIATION RELATED TO THE**
16 **PLANT-IN-SERVICE COSTS ASSIGNED?**

17 **A.** Accumulated depreciation amounts are assigned to each rate class using an
18 allocation factor commensurate with the plant account that these amounts are
19 associated with.

20
21 **Q109. HOW ARE WORKING CAPITAL AMOUNTS ASSIGNED TO EACH**

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1 **RATE CLASS?**

2 **A.** Materials and Supplies are allocated according to the function specified in the
3 account code block description. Fuel inventory is allocated with E2ENERGY.
4 Prepayments are allocated according to the function specified in the account code
5 block description. Consistent with the allocation in the JCOS, Working Cash is
6 calculated using the allocated results of its components (e.g., O&M, taxes, etc.).
7

8 **Q110. IS THERE A SCHEDULE THAT SHOWS HOW ALL RATE BASE**
9 **AMOUNTS ARE ASSIGNED TO EACH RATE CLASS?**

10 **A.** Yes. Schedule K-4 summarizes all the rate-base costs and how they are assigned
11 to each rate class. For further details refer to Workpaper K.
12

13 **Q111. HOW ARE POWER PRODUCTION EXPENSES ASSIGNED TO EACH**
14 **RATE CLASS?**

15 **A.** Reconcilable fuel and purchased power related expenses are allocated on the
16 energy allocator E1FUEL. Non-fuel energy-related power production expenses
17 are allocated using E1ENERGY. The remaining demand-related power
18 production expenses are allocated based on either the 4CP-A&E allocator
19 (D1PROD); 4CP allocator (D2PROD); or 12CP-A&E allocator (DPROD12).
20

21 **Q112. HOW ARE TRANSMISSION O&M EXPENSES ASSIGNED TO EACH**

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1 **RATE CLASS?**

2 **A.** Consistent with the JCOS, FERC Account 561 – Load Dispatching expenses are
3 allocated using a 12CP allocator (DTRAN12). All other transmission O&M
4 expenses are assigned to each rate class with the D2TRAN allocator.

5

6 **Q113. HOW ARE DISTRIBUTION O&M EXPENSES ASSIGNED TO EACH**
7 **RATE CLASS?**

8 **A.** Since the DEC Components are known in the CCOS, the process of assigning rate
9 class allocators to Distribution O&M costs is simplified. For example, Account
10 No. 580 - Supervision and Engineering and Account No. 588 - Misc. Distribution
11 Expenses used to be allocated on dynamic allocator EXP_5817 (based on
12 Accounts 581 through 587), but now a more direct allocator can be determined
13 using the known DEC Component classifications for these accounts.

14

15 **Q114. HOW ARE CUSTOMER ACCOUNTS (ACCOUNT NOS. 901 – 905) AND**
16 **CUSTOMER SERVICE & INFORMATION O&M (ACCOUNT NOS. 906 –**
17 **910) EXPENSES ASSIGNED TO EACH RATE CLASS?**

18 **A.** Account No. 901 - Supervision and Account 905 - Miscellaneous Customer
19 Expenses are assigned to each rate class using a dynamic allocator based on
20 Accounts 902 and 903. Account No. 902 - Meter Reading Expenses are based on
21 a non-AMS meter-related allocation factor and Account Nos. 903 - Customer

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1 Records and Collections is assigned to rate classes using a customer-count
2 allocation factor. Account No. 908 - Customer Assistance Expenses is allocated
3 based on the weighted AMS meter allocator.

4 As previously discussed, Account No. 904 - Uncollectible Accounts
5 expenses are assigned based on the firm base and fuel revenues of each rate class,
6 except for those rate classes that are not subject to account write-offs such as
7 governmental customers or C&I Large customers.

8
9 **Q115. HOW ARE ADMINISTRATIVE AND GENERAL EXPENSES ASSIGNED**
10 **TO EACH RATE CLASS?**

11 **A.** In the past, most A&G expenses were assigned to rate classes using a
12 labor-related allocation factor derived from the payroll expenses contained in the
13 accounts of the applicable functional account grouping. However, A&G expenses
14 in the CCOS are now presented with a known Function and DEC classification so
15 a specific allocator directly associated with the DEC Component can be assigned.

16
17 **Q116. HOW ARE THE DEPRECIATION AND AMORTIZATION EXPENSES**
18 **ASSIGNED TO EACH RATE CLASS?**

19 **A.** EPE assigns depreciation and amortization expenses to each rate class by relying
20 on functional class, depreciation summary, and plant description consistent with
21 the assignment of plant-in-service and accumulated depreciation costs.

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1

2 **Q117. HOW ARE REGULATORY DEBITS AND CREDITS ASSIGNED TO**
3 **EACH RATE CLASS?**

4 **A.** If there are any regulatory debits and credits assigned to the New Mexico
5 jurisdiction, they are allocated depending on the DEC Component of the specific
6 debts and credits.

7

8 **Q118. HOW ARE TAXES OTHER THAN INCOME TAXES ASSIGNED TO**
9 **EACH RATE CLASS?**

10 **A.** Payroll and unemployment taxes are assigned to rate classes based on labor, but in
11 the CCOS, that labor allocation has been broken out into function and DEC
12 component so the assignment to rate class is directly based on the functional
13 classification of those payroll and unemployment taxes. The same could be
14 said for the assignment of property taxes, which are allocated to each rate
15 class based on a gross plant allocation that are now directly associated with
16 DEC Components. Revenue-related taxes are also allocated based DEC
17 Component, but any proposed increases are calculated. Other taxes such as
18 sales and use tax are allocated with a gross plant allocator, but similar to
19 property taxes, they can be allocated more directly using the Function and
20 DEC classification.

21

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1

2 **Q119. HOW ARE INCOME TAXES ALLOCATED TO EACH RATE CLASS?**

3 **A.** The deferred federal and state income taxes are allocated to rate class by using the
4 known Function and DEC classification to choose the allocator that directly
5 related to the DEC Component. Current federal and state income taxes are
6 calculated at the rate class level in the model like they were in previous steps of
7 the COS.

8

9 **Q120. IS THERE A SCHEDULE THAT SHOWS HOW EXPENSES ARE**
10 **ASSIGNED TO RATE CLASSES?**

11 **A.** Yes. Schedule K-8 also summarizes all the expenses items and how they were
12 assigned to each rate class. For further detail, refer to Workpaper K.

13

14 **Q121. HOW DOES THE CCOS ALLOCATE THE NON-FIRM, FUEL, AND**
15 **OTHER OPERATING REVENUES TO EACH RATE CLASS?**

16 **A.** Non-firm revenue is allocated to rate classes using the D2PROD allocator. The
17 reason is because non-firm revenues from interruptible customers are used in
18 order to reduce peak demand. As previously discussed, D2PROD is the 4CP
19 allocator used to allocate peaking-generation units.

20 Fuel revenues are adjusted to match the reconcilable fuel and purchased
21 power expenses of each rate class, net of off-system sales. The reconcilable fuel

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1 and purchased power expenses and off-system sales fuel costs are allocated to
2 each rate class with the E1FUEL allocator.

3 Other Operating Revenues are allocated to each rate class with various
4 allocators depending on the function specified. For example, Miscellaneous
5 Service Revenues are allocated with the distribution or customer-related
6 allocators and Forfeited Discounts are allocated similar to uncollectible expense.

7 EPE's revenues are discussed in the direct testimony of EPE witness Rene
8 Gonzalez. These revenues (non-firm, fuel-related, and other operating revenues)
9 are credited against the Total Cost of Service to arrive at the firm Base Rate
10 Revenue Requirement of each rate class.

11
12 **Q122. HOW IS THE CLASS COST-OF-SERVICE STUDY PRESENTED IN THE**
13 **FILING?**

14 A. Schedule N-1 summarizes the cost of service for the New Mexico rate classes.
15

16 **Q123. WHAT SCHEDULE SUMMARIZES THE OVERALL RESULTS OF**
17 **DEMAND, ENERGY, AND CUSTOMER COMPONENTS STUDY FOR**
18 **EACH RATE CLASS?**

19 A. Schedule L-1 summarizes the results of the DEC Study by rate class and
20 calculates the DEC components on a cost-per-unit basis.
21

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1 **Q124. PLEASE SUMMARIZE THE OVERALL RESULTS OF THE PROPOSED**
2 **NEW MEXICO CLASS COST-OF-SERVICE STUDY.**

3 **A.** Table AH-6 below lists the results of the non-fuel cost assignment to each proposed
4 rate class from the CCOS (not including non-firm revenues). The values shown are
5 at equalized rate of return (full cost of service). The proposed allocation of revenue
6 requirements and rate design is discussed and presented in the testimony of EPE
7 witness Carrasco.

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Table AH-6

Rate	Description	Base Revenue Deficiency @ Equalized Rate of Return*	Percent Increase Required
01	Residential	\$53,652,731	73.37%
03	Small General Service	1,592,507	7.56%
04	General Service	5,625,581	28.11%
05	Irrigation Service	1,908,356	56.866%
07	City & County	1,812,069	40.83%
08	Water/Sewage Pumping	516,988	24.83%
09	Large Power Service	1,986,997	26.18%
10	Military Service – A	916,146	36.10%
10	Military Service – B	1,219,507	79.75%
11	Street Lighting	(21,365)	-6.15%
12	Area Lighting	551,086	60.15%
19	Seasonal Agriculture	(116,681)	-10.47%
25	Recreational Lighting	48,413	81.58%
26	State University	1,031,444	57.16%
Total*		\$70,723,779	50.53%

*The base revenue deficiency amounts above do not include non-firm revenues.

VIII. ALTERNATIVE CLASS COST-OF-SERVICE ILLUSTRATION

FOR RATE NO. 7

**Q125. WHY ARE YOU PRESENTING AN ALTERNATIVE ILLUSTRATION OF
THE CCOS?**

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1 **A.** Per the Final Order from Case No. 20-00104-UT, EPE was required to submit an
2 alternative cost of service that assumes reopening Rate No. 07 (City & County) to
3 new customers. Therefore, EPE will illustrate the results of a CCOS as if Rate
4 No. 07 were open to new customers and assuming any customers eligible for Rate
5 No. 07 will be included under Rate Class 07.

6

7 **Q126. HOW DID YOU PUT TOGETHER THE ALTERNATIVE CCOS**
8 **ILLUSTRATION?**

9 **A.** I created a new scenario in the UISG regulatory software module, but using
10 different annualized revenues and customer allocators from EPE witness Rene
11 Gonzalez moving customers out of other rate classes (mostly rate classes 03, 04,
12 and 09) and into Rate Class 07. Also, I used an alternative set of demand and
13 energy allocation factors provided to me by EPE witness Soto. This new set of
14 revenues and class allocation factors assumes that any customers that would have
15 been eligible for Rate No. 07 if the rate was open, are included as part of Rate
16 Class 07 in terms of their revenues, consumption, customer count, etc.

17

18 **Q127. WHAT WERE THE RESULTS?**

19 **A.** Refer to the results in Exhibit AH-2. The illustration shows the per kWh rate for
20 each rate class at full cost of service. Table AH-7 below provides a comparison

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1 of Rate Nos. 3 and 7 because Rate No. 3 would be the qualifying rate for many
2 customers if they are not eligible to take service under a reopened Rate No. 7.

3
4 **Table AH-7**

5

Rate Class	Full Cost of Service	Billing Determinants	Full Cost
	(\$)	(kWh)	(\$/kWh)
Rate 3	22,121,848	203,022,875	0.108962
Rate 7	9,339,361	81,192,961	0.115027
Differential (\$/kWh)			0.006065
(%)			5.57%

6
7
8
9

10 The table shows no significant disparity exists in the cost of serving Rate
11 No. 7 and Rate No. 3 customers. It also shows that the cost to serve Rate No. 7
12 customers is about 5.6 percent more than the cost to serve Rate No. 3 customers.

13 The results show that there is no cost basis for having a separate rate class
14 for governmental entities. However, at this time, EPE is proposing to leave Rate
15 No. 7 closed to new customers.

16
17 **IX. SUMMARY AND CONCLUSION**

18 **Q128. PLEASE SUMMARIZE YOUR TESTIMONY.**

19 **A.** The JCOS for the Test Year ended September 30, 2025, results in a total revenue
20 requirement of \$297.1 million and a base rate revenue requirement of

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1 \$210.8 million for the New Mexico jurisdiction. The base revenue deficiency is
2 \$70.7 million.

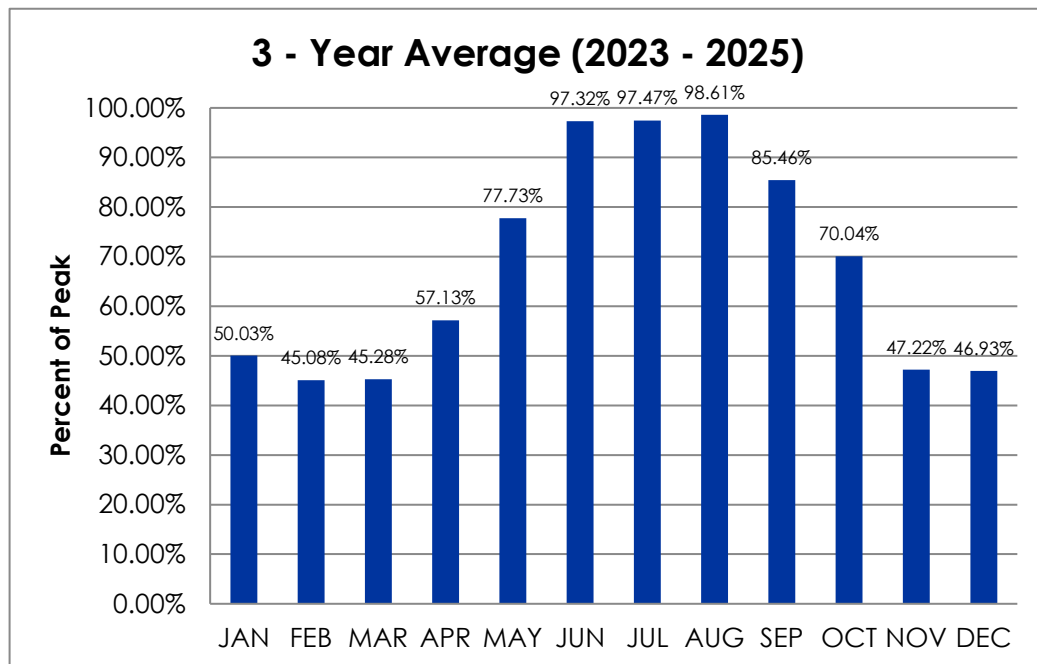
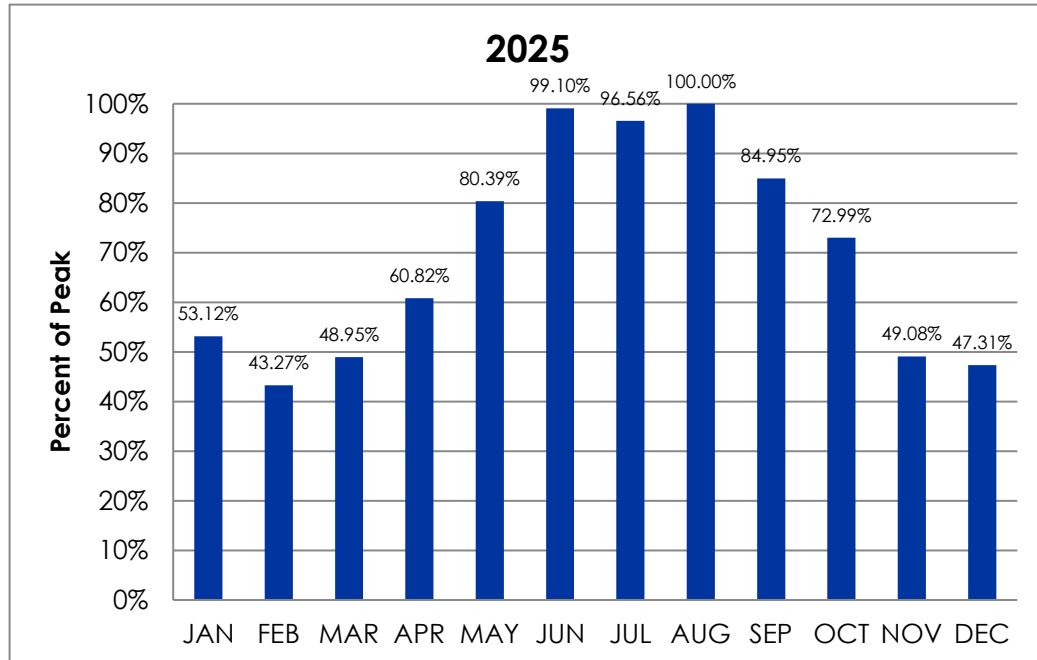
3 The CCOS shows the assignment of the revenue requirements discussed
4 above to each rate class. Table 5 summarizes the CCOS, and the resulting rate
5 increase required to achieve an equalized rate of return across rate classes. The
6 resulting firm base revenue requirements (net of non-firm revenues) for each class
7 are shown on line 1 of Schedule N-1 and the results for each rate class by DEC
8 Component are shown in Schedule L-1.

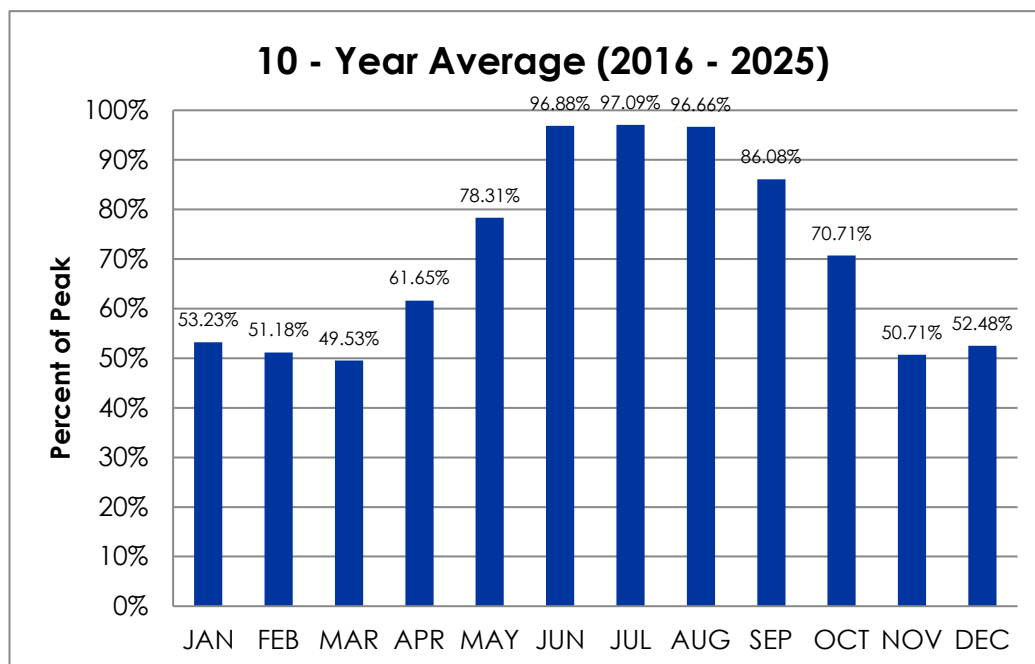
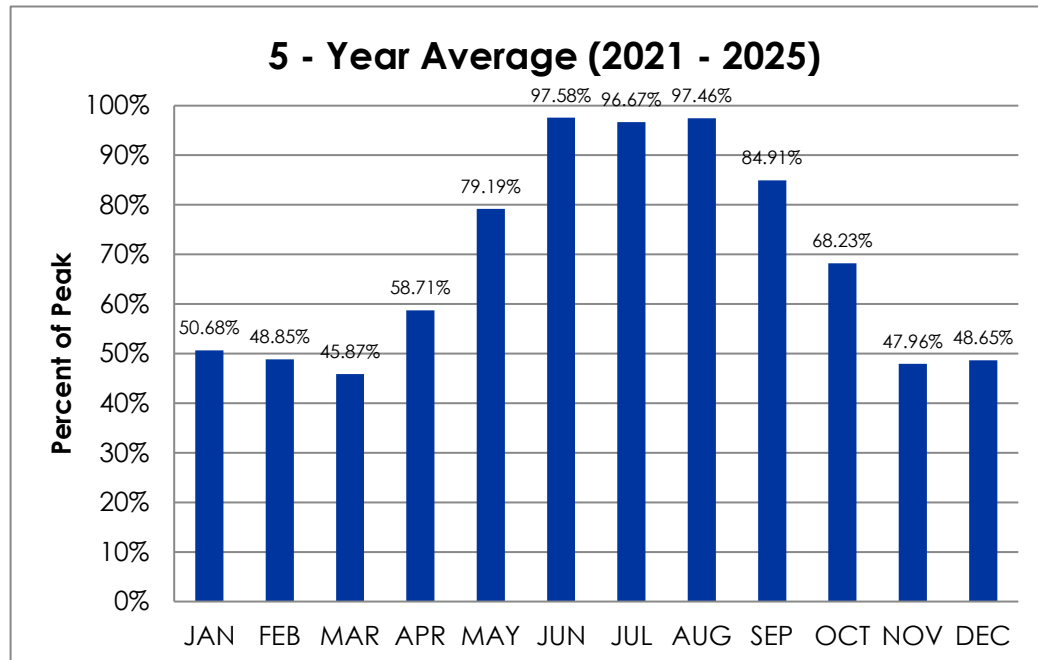
9
10 **Q129. IN YOUR OPINION, ARE THE ALLOCATION METHODS AND THE**
11 **RESULTS OF THE ALLOCATIONS EMPLOYED IN EPE'S COST-OF-**
12 **SERVICE STUDIES FAIR AND REASONABLE?**

13 **A.** Yes. The allocation methods employed in EPE's cost-of-service studies are fair
14 and reasonable and accurately present the costs to serve each jurisdiction and rate
15 class. Furthermore, the methods that have been employed in conducting the
16 cost-of-service studies utilize well-reasoned methods which are commonly
17 employed in the electric utility industry.

18
19 **Q130. DOES THIS CONCLUDE YOUR TESTIMONY?**

20 **A.** Yes, it does.





	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)
Line No.	Description	Total	NM Rate 01 - Residential	NM Rate 03 - Small General Service	NM Rate 04 - General Service	NM Rate 05 - Irrigation	NM Rate 07 - City and County	NM Rate 08 - Water/Sewage Pumping	NM Rate 09 - Large Power	NM Rate 10 - Military Service A	NM Rate 10 - Military Service B	NM Rate 11 - Street Lighting	NM Rate 12 - Private Area Lighting	NM Rate 19 - Seasonal Agriculture	NM Rate 25 - Recreational Lighting	NM Rate 26 - State University
1	Full Cost of Service	\$210,693,076	\$126,642,782	\$22,121,848	\$23,221,985	\$5,259,232	\$9,339,361	\$2,596,542	\$9,578,695	\$3,453,651	\$2,748,557	\$326,012	\$1,467,111	\$996,632	\$107,566	\$2,833,102
2	kWh	1,839,035,960	849,205,960	203,022,875	281,942,574	46,807,468	81,192,961	40,443,766	158,789,004	64,199,975	57,865,838	2,419,760	4,641,780	11,093,716	638,371	36,771,912
3	Full Cost of Service (\$)/kWh	\$0.1145671	\$0.1491308	\$0.1089623	\$0.0823642	\$0.1123588	\$0.1150267	\$0.0642013	\$0.0603234	\$0.0537952	\$0.0474988	\$0.1347290	\$0.3160665	\$0.0898375	\$0.1685004	\$0.0770453

Amended Filing
BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF EL PASO ELECTRIC COMPANY FOR)
REVISION OF ITS RETAIL ELECTRIC)
RATES PURSUANT TO ADVICE NOTICE)
NO. 317)**

Case No. 25-00082-UT

**DECLARATION OF ADRIAN HERNANDEZ IN SUPPORT OF THE FOREGOING
AMENDED FILING DIRECT TESTIMONY**

I, *Adrian Hernandez*, pursuant to Rule 1-011 NMRA, state as follows:

1. I affirm in writing under penalty of perjury under the laws of the State of New Mexico that the following statements are true and correct.

2. I am over 18 years of age and have personal knowledge of the facts stated herein. I am employed by El Paso Electric Company ("EPE" or "the Company") as the *Supervisor – Revenue Requirements and Cost Analysis*.

3. I have reviewed the foregoing Amended Filing Direct Testimony of Adrian Hernandez, and the exhibits, schedules, and workpapers sponsored by me and I confirm, to the best of my knowledge, that those materials are complete, accurate, internally consistent, and consistent with the Amended Application.

4. The foregoing Amended Filing Direct Testimony of Adrian Hernandez, together with all exhibits sponsored therein and attached thereto, is true and accurate based on my knowledge and belief.

5. I submit this Declaration, based upon my personal knowledge and upon information and belief, in support of EPE's *Amended Application for Revisions of Its Retail Electric Rates Pursuant to Advice Notice No. 317*.

Amended Filing

FURTHER, DECLARANT SAYETH NAUGHT.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on August 6, 2026.

/s/Adrian Hernandez
ADRIAN HERNANDEZ