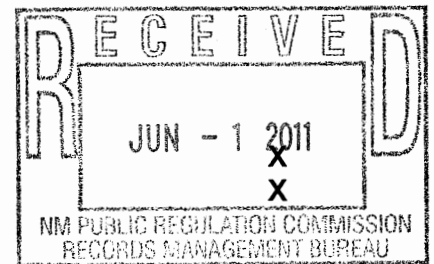


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LINE EXTENSIONS

Page 1 of 24 X

PURPOSE

It is the purpose of this document to set forth uniform and comprehensive policies concerning line extensions and construction charges for the entire New Mexico service area of El Paso Electric Company (hereinafter the "Company")

DEFINITIONS

A. Actual Revenue:

The actual amount of revenue received by the Company from the Customer from monthly bills determined by the metered monthly kilowatt demand and kilowatt-hour usage and applying the appropriate tariff schedule, less the fixed fuel factor costs and taxes.

B. Adequate Security:

Adequate Security shall mean an irrevocable letter of credit, escrow agreement, certificate of deposit or withdrawal restricted savings account payable to the Company in a manner acceptable to the Company and in an amount equal to the Extension Cost. Such Adequate Security shall be obtained by the Customer from or maintained by the Customer at a financial institution acceptable to the Company and located within the Company's service territory that is insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA).

The terms and conditions of acceptable escrow agreements are as follows:

- (a) The Customer shall secure and maintain an Escrow Account at a financial institution acceptable to the Company and which is payable to the Company in the amount stated in the Line Extension Agreement.
- (b) The Customer's designated financial institution shall hold the Escrow Account in full force and effect on behalf of the Company until all applicable financial obligations set forth under the terms of the Line Extension Agreement have been fully satisfied, which shall be no less than sixty (60) days after the final revenue calculations have been made.
- (c) The Company shall have the right to withdraw funds from the Escrow Account, only up to the amount stated in the Line Extension Agreement, to pay for any sums which may become due to the Company or for nonperformance of obligations under the terms of the Line Extension

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LINE EXTENSIONS

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Agreement.

- d) For the term of the Line Extension Agreement, the Company will compute on an annual basis the actual revenues received from the service provided. After the actual revenue calculations have been made, the Company shall reduce the amount required in the Escrow Account in accordance with the terms of the Line Extension Agreement and will promptly notify the customer and the financial institution in writing.

An example of an acceptable escrow agreement is attached hereto as Exhibit No. 1.

C. Applicable Codes:

Any applicable local code or codes, standards of the Company and the National Electrical Safety Code, as such codes now exist or as such codes may be amended.

D. Cost of the Overhead Line Extension:

The cost to install new pole line facilities from existing overhead pole line facilities to the Company-specified Point of Delivery. The cost of the overhead extension will include inventory charges, labor, overhead, transportation, right-of-way acquisition, and survey costs in addition to the cost of materials specified in Paragraph N. The cost of the service drop, meters and metering equipment will not be included in estimating the cost of the overhead extension for revenue requirements except for those customers served at one of the Company's standard Transmission Voltages.

E. Cost of the Underground Line Extension:

The cost to install new underground primary or secondary facilities from either existing overhead pole line facilities or existing underground primary or secondary voltage facilities to the Company-specified Point of Delivery. The cost of the underground extension will include inventory charges, labor, overhead, transportation, right-of-way acquisition and survey costs in addition to the cost of material specified in Paragraph W. The cost of service cables, meters and metering equipment will not be included in estimating the cost of the underground extension for revenue requirements, except for those customers served at one of the Company's standard transmission voltages.

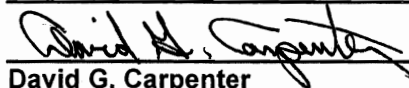
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LINE EXTENSIONS

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F. Customer Advance for Construction:

Cash advances by customers for construction which are subject to refund either wholly or in part depending on the Actual Revenue generated over the forty-eight (48) month revenue period.

X

G. Customer Contributions:

Nonrefundable cash contributions in aid of construction.

H. Estimated Investment:

The Company's estimate of the Extension Cost.

I. Estimated Revenue:

The estimated revenue from the customer, determined by estimating the anticipated monthly kilowatt-hour and kilowatt demand usage and applying the appropriate tariff schedule, less the fixed fuel factor costs and taxes.

J. Extension Cost:

The cost of the Overhead Line Extension and/or Underground Line Extension, whichever is applicable. The materials portion of such cost will be valued using the Company's most current inventory valuation method.

X

K. Franchised Area:

Those cities, towns, villages and counties in which the Company has been granted a franchise to provide electric utility service.

L. Impaired Clearance:

The condition where a structure(s), including, but not limited to, buildings, signs, towers, poles, fencing and swimming pools, is located in a position or manner in which insufficient clearance, as specified by the Applicable Codes, exists between the structure and the Company's existing transmission, substation, express feeder, streetlight or distribution line facilities or any combination thereof.

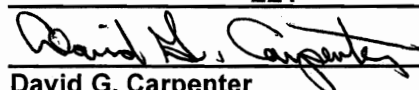
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LINE EXTENSIONS

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M. Meters:

A recording instrument of standard manufacture provided by the Company to measure energy consumption at a single point of delivery.

X

N. Overhead Line Extensions:

The new pole line facilities (including without limitations, poles, anchors, conductors, insulators, arresters, cut-outs, transformers, breakers and other miscellaneous hardware) necessary to provide electric service to the Company-specified Point of Delivery. In determining the Point of Delivery for electric service, the Company will work cooperatively with customers to meet their needs and desires. The Company will work within the constraints of good, sound engineering practice and economic efficiency principles. Since the Company remains responsible for the ultimate safety and reliability of the system, it must reserve the right to specify the Point of Delivery if agreement with the customer is not reached.

O. Permanent Customer:

A Permanent Customer is one whose installed electrical equipment is used in a manner that provides the Company a reasonable rate of return on the capital investment required to serve the customer.

P. Permanent Installation:

Any installation that is constructed or placed on and affixed to a foundation, and which is, or will be used or occupied on a full time basis. A manufactured home (mobile home) or a prefabricated structure shall qualify as a permanent installation if it is installed on a foundation system according to applicable city, county or state regulations or is otherwise impractical to move and has the wheels, axles and hitch or towing device removed, and if it is connected to a permanent water and sewer system, or any other approved water and waste water system.

Q. Point of Delivery:

For overhead service, the point specified by the Company where the Company's and the customer's conductors are connected. For underground Point of Delivery, see Policies, Section C., Special Underground Service Provisions.

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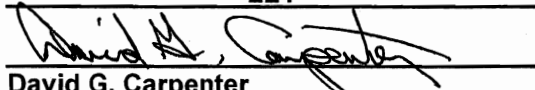
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LINE EXTENSIONS

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R. Primary Voltage:

One of the Company's standard voltages between 2,400 volts and 25,000 volts.

S. Revenue Guarantee:

A written agreement for a term of forty-eight (48) months executed by the Customer that guarantees and secures payment to the Company of the Extension Cost. Such agreement must be secured by Adequate Security. The forty-eight (48) month agreement period will begin for (i) overhead line extensions on the completion date of the overhead line facilities or (ii) for underground line extensions upon completion of the underground structural facilities.

X

X

T. Secondary Voltage:

One of the Company's standard service voltages below 600 volts.

U. Temporary Service:

Electric service to a customer that, in the Company's opinion, is not of a permanent nature - i.e. construction purposes or temporary sales stands.

V. Transmission Voltage:

One of the Company's standard voltages greater than or equal to 69,000 volts.

W. Underground Line Extensions:

The new underground primary or secondary voltage facilities (including without limitation, conduit system, pullboxes, transformer enclosure(s), transformer(s), primary voltage cables, secondary voltage cables, arresters, switches, cut-outs, pole risers and miscellaneous hardware) necessary to provide underground service to the Company-specified Point of Delivery.

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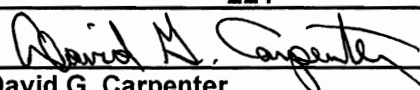
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LINE EXTENSIONS

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POLICIES

A. General

1. The policies herein contained are subject to the terms and conditions in the Company tariff schedules, the Rules and Regulations of the New Mexico Public Regulation Commission, the Rules and Regulations of the Company filed with the New Mexico Public Regulation Commission and the Company's standard operating procedures.
2. In all cases, the Company's decision to make extensions within its territory to serve a customer will be made on a basis equitable both to the Company and the customer.

3. Meters:

The Company will provide the Meter and designate the location of all Meters and metering equipment.

4. Type of Service:

Either single-phase or three-phase electrical service shall be specified by the Company and service will be at one of the Company's standard voltages. Customers requesting three-phase service must meet Company requirements.

5. Rights-of-Way (Easements):

A line extension will not be constructed for a customer until the Company has secured all required firm rights-of-way and permits. All extensions shall be constructed on private rights-of-way, except that within incorporated municipalities where private rights-of-way are not available, such lines may be constructed on existing public roads, streets, alleys or easements. Without charge to the Company, new customers shall furnish any right-of-way over property owned or leased by said new customer required to accomplish the line extension and will assist the Company, if possible, in securing other rights-of-way necessary to provide service. The customer shall have all the property corners surveyed and necessary property irons installed by licensed surveyors to permit the Company to properly install Company's electrical facilities within said rights-of-way.

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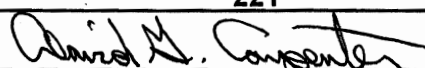
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LINE EXTENSIONS

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B. Line Extensions

OPTION 1: LINE EXTENSIONS BUILT BY THE COMPANY

1. General:

The Company will provide at its expense, primary or secondary electric service to a Permanent Customer, if the Estimated Revenue for forty-eight (48) months equals or exceeds the Estimated Investment. No extension of overhead lines will be made from underground facilities or into areas designated or committed to underground facilities.

X

2. Under no circumstances shall the Company be required to make an extension that would be unprofitable to the Company and thereby cause undue hardship to other customers of the Company and this policy shall not be read or construed to require the Company to make an extension that would be unprofitable to the Company.

3. Security for the Line Extension:

a. The Company's decision to provide line extensions will be based upon the Company's Estimated Investment and the Estimated Revenue for a forty-eight (48) month period. If the Company is not certain that the Actual Revenue over the term of the line extension agreement it will receive from the line extension will cover the Company's Estimated Investment, then the Company will require security in the form of a Customer Advance for Construction or a Revenue Guarantee. In such cases the amount of the Customer Advance for Construction or Revenue Guarantee will be set by the Company not to exceed the Estimated Investment.

X

The Company will also require a Customer Advance for Construction or a Revenue Guarantee from a customer when the Estimated Investment exceeds the Estimated Revenue. In such cases the amount of the Revenue Guarantee or Customer Advance for Construction will be computed using the following formula:

(1)	Estimated Investment	\$ _____
(2)	Estimated Annual Revenue	\$ _____
(3)	Revenue Credit (4 x Line 2)	\$ _____


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LINE EXTENSIONS

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- (4) Amount of Revenue Guarantee or
Customer Advance for Construction
(Line 1 less Line 3) \$_____

When a Customer Advance for Construction or a Revenue Guarantee is required, the Customer must enter into a written agreement to provide and must provide to the Company a Customer Advance for Construction or a Revenue Guarantee.

b. Customer Advance for Construction:

The following, relating to Customer Advances for Construction, applies only to individual residential customers, commercial and industrial customers, land developers, residential subdivision developers and commercial and industrial subdivision/park developers.

The Customer Advance for Construction will be refunded or retained by the Company as follows:

- (1) For the first forty-eight (48) months following completion of the extension, the Company will refund annually to the customer the annual amount of Actual Revenue above the Estimated Revenue for such one (1) year period or reduce the refundable portion of the Customer Advance for Construction by the annual amount of Actual Revenue below the Estimated Revenue for such one (1) year period. At no time will the Company ever refund in total more than the Customer Advance for Construction. X
X
- (2) When the Customer has been required to give the Company a Customer Advance for Construction on the basis that the Company is uncertain of its ability to recover the Estimated Investment, the Company must review the account on an annual basis. The Company may retain any amount of the Customer Advance for Construction necessary to secure the Estimated Investment. If at the annual review period or at termination of the line extension agreement the total Actual Revenue exceeds the total Estimated Investment, the Company must refund the entire Customer Advance for Construction to the customer. At the end of the term of the line extension agreement the Company will retain the Customer Advance for Construction, if any, in the amount that the Estimated Investment exceeds the Actual Revenue. X


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When a Customer Advance for Construction is required, the Company will refund an amount equal to the Actual Revenue over a forty-eight (48) month period or four (4) times the annual Estimated Revenue of each new customer connected to the extension, less an amount equal to the estimated cost to install the additional facilities, including transformers. No refund shall be made for customers connected to a new extension off the original extension unless the new extension and customers are within the area exactly described in the original line extension agreement. The total of all such refunds shall in no case exceed the amount of the original Customer Advance for Construction. Refunds will be made annually or at shorter intervals at the option of the Company.

X

The Customer shall be promptly notified of any reduction to the Customer Advance for Construction.

c. Revenue Guarantees:

The following terms regarding Revenue Guarantees apply only to individual residential customers, commercial and industrial customers, land developers, residential subdivision developers and commercial and industrial subdivision/park developers.

The amount of the Revenue Guarantee will be adjusted by the Company as follows:

- (1) For the first forty-eight (48) months following the completion of the extension, the Company will compute the annual amount of Actual Revenue. Each year after the Actual Revenue has been computed, the amount of the Revenue Guarantee required shall be reduced by subtracting the cumulative Actual Revenue from the initial Revenue Guarantee amount.
- (2) When the Customer has been required by the Company to provide a Revenue Guarantee on the basis that the Company is uncertain of its ability to recover the Estimated Investment, the Company must review the account on an annual basis. The Company may retain only the amount of the Revenue Guarantee necessary to secure the Estimated Investment. If at the annual review period or at termination of the line extension agreement the total Actual Revenue exceeds the total Estimated Investment, the Company must release the entire amount of the revenue Guarantee to the customer. At the end of the term of

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LINE EXTENSIONS

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the Revenue Guarantee, Actual Revenues received during the term of the Revenue Guarantee from customers served from the line extension will be compared to the Estimated Investment. If such Actual Revenues do not equal or exceed the Estimated Investment, the customer will be billed for the Revenue Deficiency. The amount of such Revenue Deficiency must be paid by the customer to the Company within thirty days after the date of the bill.

The Customer shall be promptly notified of any reduction to the Customer Advance for Construction.

- (3) If additional line extensions are connected to the original line extension and the additional facilities are within an area exactly described in the original line extension agreement, any Actual Revenue received from customers served from the additional extensions will first be applied to the cost of the additional facilities, including transformers, and then will be applied to the original customer's line extension agreement. No revenue credit shall be given for customers connected to a new extension off the original extension unless the new extension and customers are within the area exactly described in the original line extension agreement. The total of all such revenue credit shall in no case exceed the amount of the Revenue Guarantee.

The Customer and the respective financial institution shall be promptly notified of any reduction to the Revenue Guarantee.

- d. The Company, at its option, may extend any line extension agreement or Revenue Guarantee for an additional two (2) years if the line extension is generating sufficient revenue to cover operating costs, debt service, and the allowable return on investment.
- e. (1) The Company will enter into a long-term contract to serve an end-use customer if that customer is willing to enter into a take-or-pay contract which guarantees the Company with sufficient revenues to repay the extension cost; or the customer has secured the extension cost with adequate security.

In addition, each such customer must:

- (a) furnish the Company with sufficient documentation of its financial stability to provide a reasonable expectation of the Company's

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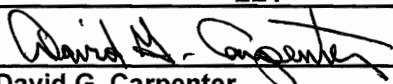
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LINE EXTENSIONS

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ability to recover the extension cost; and

(b) request the Company to serve a load of such magnitude that it requires the Company to make transmission system improvements.

(2) Any contract entered into under this provision must not be anticipated by the Company to have an adverse effect on the Company's existing customers. Any such contract shall be filed with the New Mexico Public Regulation Commission.

4. Company Requirements Pursuant to 17.5.410.27 NMAC: X

Upon a residential customer's request for a line extension, the Company shall: X

- a. Provide the residential customer with a copy of the Company's line extension policy and explain the content of such policy; X
X
- b. Establish a reasonable time not exceeding thirty (30) days after the residential customer has complied with all reasonable Company requirements for the delivery to the residential customer of the Company's estimate for the line extension; X
X
- c. Complete construction of the line extension within sixty (60) days after the residential customer signs the Company's line extension agreement and after the Company has secured all applicable permits, rights-of-way, materials, and labor necessary for the line extension, and the Company has completed all other applicable contractual obligations. The Company will exercise due diligence and good faith in its efforts to obtain such permits, rights-of-way, materials, labor, and contractual compliance. The Company shall not be required to complete construction of the line extension within this time frame where *force majeure* or hazardous conditions exist; X
X
X
X
X
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X
- d. Advise the residential customer that if the residential customer is not satisfied with the Company's line extension proposal including cost and time of construction, an informal review of the proposal may be provided by Company personnel located in the service area of the residential customer and authorized to conduct such reviews, and shall be in a position to modify such proposal, where appropriate; and; X
X
X
X
X
- e. Inform the residential customer in writing of how the residential customer's options concerning the type of installation of a line extension will affect utility charges based on present rates or rates which are the subject of a pending case concerning rates. At a minimum, the Company will provide comparisons of average annual utility charges. X
X
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LINE EXTENSIONS

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OPTION 2: LINE EXTENSIONS BUILT BY THE CUSTOMER

1. General

Customers desiring new electric service lines and systems to be built to their premises may choose to have them constructed by a competent and qualified electrical contractor. After construction and acceptance, such systems shall be sold to the Company for \$1.00 by the Customer for its use in serving end-users.

In recognition of the need to protect the public from electrical hazards, and the need for electrical systems which are useful and safely maintainable over a normal and customary service life, the following will govern the construction of customer-built electrical systems.

2. Design and Construction Specifications

The Company will design the line extension required to serve the Customer, in accordance with the Company's standards and specifications.

The Company will provide electrical system design drawings and construction specifications (Drawings and Construction Specifications) to the Customer. The Customer shall pay the Company for applicable design costs at the time of closing and these costs are refundable in accordance with paragraph 11, Refunds for Customer-Built Line Extensions, found under Policies, Option 2: Line Extensions Built By the Customer, of this Policy.

X
X

3. Material Specifications

The Company shall specify all materials and equipment to be used in the electrical system including, but not limited to: wire, cable, conduit, transformers, poles, fixtures, switchgear, relays, capacitors, and insulators. The Customer shall be free to acquire said materials from any source, provided that all materials shall be from Company-approved manufacturers and meet the specifications as promulgated by the Company that are in effect at the time the Company provides the Design and Construction Specifications to the Customer.

4. Quality Control and Assurance

The Customer agrees to comply with Company specifications for materials, equipment, and construction standards. In order to assure compliance, the Company will select a Construction Inspector who will visit the construction site.

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The Inspector shall have the authority to accept, or reject, the work and materials of the Customer or contractor and shall certify such acceptance or rejection at the time of inspection. The function of the Inspector shall be to verify compliance with design, materials, equipment and installation specifications and all other matters relating to the quality control of the line extension construction.

The Customer agrees to pay the Company for its reasonable costs incurred in the inspection of the electrical system, which will be paid by the Customer at the time of closing and these costs are refundable in accordance with paragraph 11, Refunds for Customer-Built Line Extensions, found under Policies, Option 2: Line Extensions Built By the Customer, of this Policy.

X
X

5. Easements and Rights-of-Way

The Company will secure all required firm rights-of-way and permits for Customer-Built Line Extensions, and the Customer shall pay the Company for all costs incurred by the Company for right-of-way acquisition. The Customer, at its option, can secure all required firm rights-of-way and permits. In this case, the following will apply:

- a. The Customer shall provide to the Company easements and rights-of-way in a Company-approved format which reflect the "as-built" configuration and location of the electric system.
- b. The Company will assist the Customer in securing rights-of-way necessary for the extension, if requested. The Customer shall pay the Company for such assistance.
- c. The Customer shall pay the Company for its reasonable costs incurred to verify the easements and rights-of-way. Right-of-way verification must be completed prior to closing.
- d. All right-of-way costs incurred by the Company shall be paid by the Customer at the time of closing and these costs are refundable in accordance with paragraph 11, Refunds for Customer-Built Line Extensions, found under Policies, Option 2: Line Extensions Built By the Customer, of this Policy.

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X

6. Licensing Requirements and Compliance with Required Governmental Inspections

The Customer agrees to be properly qualified and licensed or to hire only those

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contractors who are properly currently qualified and licensed, in accordance with State and local law and regulation, to construct electrical distribution systems.

Also, the Customer agrees to comply with all applicable State and local construction inspection requirements.

7. Meters

The purchase and installation of meters will be the sole responsibility of the Company.

8. Purchase of System and Resulting Tax Liability

After the electrical system has been constructed, and accepted by the Company's Construction Inspector, the Customer agrees to sell to the Company and the Company agrees to buy the line extension for \$1.00. This sale shall be free of any liens or encumbrances.

Should any gross receipts tax liability to the Company result from the sale, the Customer agrees to pay the cost of said tax liability.

The Company and the Customer shall execute an Agreement (Customer-Built System) to transfer the property and to make the Customer eligible for refunds in accordance with paragraph 11, Refunds for Customer-Built Line Extensions, found under Policies, Option 2: Line Extensions Built By the Customer, of this Policy.

X
X

9. Property Records at the Time of Sale

The Customer agrees to supply to the Company its certified cost incurred in constructing the electric system so that proper accounting of the electric system may be made by the Company. The Company agrees to keep such Information confidential unless the Company is required to disclose this information to regulatory or other governmental agencies or bodies.

10. Liability for the Electrical System

Commencing with the date of sale of the electrical system to the Company, the Company will assume full and complete operating responsibility for the system. The Customer shall be liable for the direct and indirect consequences of any defects or failures of the electrical system constructed by the Customer for a period of one year, unless such defects or failures arise from the Company's

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design, specifications, or improper operation of the system.

11. Refunds for Customer-Built Line Extensions

- a. At the time of sale of the electrical system to the Company, the Customer may receive an initial refund payment based upon the installation of permanent meters. The revenue refund payment is based on the Estimated Revenue from the meters over a forty-eight (48) month period and cannot exceed the lesser of the Customer's certified cost or the Company's Estimated Cost. In such cases, the amount subject to refund will be computed using the following formula: X

(1)	The Lesser of the Customer's Certified Cost or the Company's Estimated Cost	\$ _____
(2)	Estimated Annual Revenue	\$ _____
(3)	Revenue Credit (4 x Line 2)	\$ _____
(4)	Amount Subject to Refund (Line 1 less Line 3)	\$ _____

The Customer must enter into a Line Extension Agreement with the Company to make the Customer eligible for refunds.

- b. The Amount Subject to Refund will be refunded by the Company as follows:

- (1) For the first forty-eight (48) months following completion of the Customer-Built Line Extension, the Company will refund annually to the Customer the annual amount of Actual Revenue above the revenue credit already given for such one (1) year period or reduce the refundable portion by the annual amount of Actual Revenue below the revenue credit already given for such one-year period. At no time will the Company ever refund in total more than the lesser of the Customer's certified cost or the Company's Estimated Cost. X
- (2) The Company must review the account on an annual basis. If at the annual review period or at termination of the line extension agreement the total Actual Revenue exceeds the lesser of the Customer's certified cost or the Company's estimated Cost, the Company must refund the entire amount subject to refund to the Customer. X

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- (3) The Company will refund an amount equal to the Actual Revenue over a forty-eight (48) month period or four (4) times the annual Estimated Revenue of each new customer connected to the Customer-Built line extension, less an amount equal to the estimated cost to install the additional facilities, including transformers. No refund shall be made for customers connected to a new extension off the original extension unless the new extension and customers are within the area exactly described in the original line extension agreement. The total of all such refunds shall in no case exceed the lesser of the Customer's certified cost or the Company's Estimated Cost. Refunds will be made annually or at shorter intervals at the option of the Company. X
- c. The Company, at its option, may extend any line extension agreement for an additional two (2) years if the line extension is generating sufficient revenue to cover operating costs, debt service, and the allowable return on investment.
- d. (1) The Company will enter into a long-term contract to serve an end-use customer if that customer is willing to enter into a take-or-pay contract which guarantees the Company with sufficient revenues to repay the extension cost. In addition, each such customer must:
- (a) furnish the Company with sufficient documentation of its financial stability to provide a reasonable expectation of the Company's ability to recover the extension cost; and
 - (b) request the Company to serve a load of such magnitude that it requires the Company to make transmission system improvements.
- (2) Any contract entered into under this provision must not be anticipated by the Company to have an adverse effect on the Company's existing customers. Any such contract shall be filed with the New Mexico Public Regulation Commission.

C. Special Underground Service Provisions

1. Point of Delivery:

The Point of Delivery for individually served and metered residential Permanent Customers requesting underground service shall be the Meter enclosure.

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When multiplex (duplex and above) residential units have their Meters grouped and connected into a common gutter, the Point of Delivery shall be at a Company-owned secondary service enclosure or transformer as designated by the Company.

The Point of Delivery for all other customers, including commercial and industrial customers, requesting underground service shall be the low voltage terminals of the Company's transformation, unless another Point of Delivery is specified by the Company.

2. Permanent New Residential Customers:
 - a. Secondary Voltage Underground Extensions:
 - (1) Overhead System:

Where 120/240 volt service is available from an existing overhead system, the Company will install, own, and maintain a pole riser, riser base, secondary service enclosure, if needed, and service conductors (maximum of 150 foot run at Company expense) for providing single phase underground secondary service to a customer. The customer will supply, install, own and maintain the conduit system from the riser base or service enclosure to the meter enclosure. The customer supplied conduit system must meet Company specifications and Applicable Code requirements. The customer shall make a Customer Contribution for the cost of any portion of the service conductor run in excess of 150 feet.

- (2) Underground System:

Where 120/240 volt service is readily available from an existing underground system, the Company will install, own, and maintain service conductors (maximum of 150 foot run at Company expense) for single phase service, in a customer supplied, owned, and maintained conduit system, from the nearest Company transformer or service enclosure to the Point of Delivery. The location of both points will be designated by the Company. The customer supplied conduit system must meet Company specifications and Applicable Code requirements. The customer shall make a Customer Contribution for the cost of any portion of the service conductor run in excess of 150 feet.

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3. Residential Subdivisions:

Unless the Company shall make an exception, underground extensions should be made before construction of houses begins. The Company will install an underground distribution system in a filed, dedicated subdivision after the developer has met Company requirements pertaining to the installation of other utilities and has provided security to the Company in the form of a Customer Advance for Construction or a Revenue Guarantee, if applicable, and entered into a written agreement covering the number of residential lots to be served, the location of any necessary overhead express feeder lines, and other necessary conditions.

If deemed necessary by the Company and prior to the execution of any agreements between the Company and the developer in subdivisions to be served by an underground distribution system, the developer will provide to the Company overhead pole-type express feeder easements, either along the edge of the subdivision or through the subdivision along a mutually satisfactory route as selected by the Company and approved by the developer.

No overhead or underground Secondary Voltage services will be extended from the overhead express feeder lines.

4. Commercial and Industrial Customers:

The Company will install an underground Primary Voltage or Secondary Voltage extension to serve a commercial or an industrial customer after the customer has provided security to the Company in the form of a Customer Advance for Construction or a Revenue Guarantee, if applicable, and entered into a written agreement covering the location of the Company's new overhead and underground facilities. Commercial areas designated or committed to underground facilities by the Company and/or the developer or any regulatory body will only be served underground.

Commercial and industrial customers will provide, own and maintain all facilities beyond the Point of Delivery for both overhead and underground service.

5. Conversion of Overhead Facilities to Underground Facilities:

a. Residential Service Drops:

If a residential customer requests conversion of his existing overhead service drop to underground service; the Company will, at its expense, install

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underground service conductors a maximum run of one hundred fifty (150) feet if:

- (1) The customer pays the Company in advance the estimated installed cost of the new underground facilities plus the estimated cost to remove the existing overhead facilities less the estimated salvage value of the removed overhead facilities. The customer must also grant to the Company any needed firm easements for this installation and for future underground extensions to adjacent lots as required.
 - (2) The customer shall supply, install, own and maintain the conduit system from the riser base or service enclosure to the meter enclosure. The conduit system must meet Company and Applicable Code requirements.
 - (3) The customer must make any changes to his service entrance equipment necessary to accommodate the new underground service.
 - (4) If the new underground service run is greater than one hundred fifty (150) feet, the customer shall make a Customer Contribution for the amount of the service run in excess of one hundred fifty (150) feet.
- b. Overhead Primary and Secondary Distribution Facilities:

If the Company, in response to a customer request, agrees to replace the Company's existing overhead facilities with underground facilities, the customer shall pay the Company in advance the estimated installed cost of the Company's new underground facilities plus the estimated cost to remove the existing overhead facilities less the estimated salvage of the removed overhead facilities.

Commercial and industrial customers will provide, own and maintain all facilities beyond the new Point of Delivery.

D. Temporary Service

A customer requesting Temporary Service shall pay the Company in advance the estimated cost of equipment, calculated in the same manner as for permanent service, plus installation and removal expenses, less the estimated salvage value.

In addition, the Customer shall pay a charge for Temporary Service connection. Such charge shall be made on the following basis:

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1. From the overhead system:
 - a. If service is readily available at the site, then a "temporary overhead connection charge" shall be made.
 - b. If service is not immediately available at the site, then a charge shall be made to cover the added expense involved in making service available.
2. From the underground system:
 - a. If service is readily available at the site, then a "temporary underground connection charge" shall be made.
 - b. If service is not immediately available at the site, then a charge shall be made to cover the added expense involved in making service available.

Energy purchased through a Temporary Service will be billed on the applicable tariff schedule.

E. Special Services

1. Dual Feeders:

Any Permanent Customer requesting an alternate Primary Voltage line in addition to the regular main Primary Voltage line shall either make a Customer Contribution in the amount of the Company's estimated cost to provide the alternate Primary Voltage line (including substation facilities), or enter into a written agreement to pay a monthly facilities charge equal to the Company's fixed charges on the additional facilities.

2. Transmission Voltage Service:

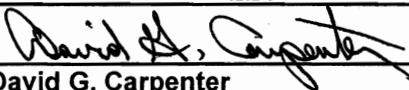
Electric service from the Company's Transmission Voltage system is available, at the Company's option, to customers whose electrical load is of such magnitude or unusual character that it should not be served otherwise. The customer shall be responsible for providing all transformation equipment in accordance with Company specifications. The total cost of the transmission line extension (including metering) shall be subject to a monthly facilities charge. The Company, at its option, may require a Customer Contribution for all or a portion of the Company's cost to construct the line extension.

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3. Private Security Lighting or Area Lighting:

Dusk to dawn, security lighting service is available in the Company's service area under the terms and conditions of the applicable tariff schedule. If 240-volt overhead service is readily available within 125 feet, the Company will install a standard fixture on an existing wood pole or new 30-foot wood pole located as mutually agreed to by the Company and customer. If 240-volt overhead service is not readily available within 125 feet, the cost of any required additional facilities will be borne by the customer, including the total cost of all underground associated facilities if the installation is served from an underground system. All requests for service from an underground system must be negotiated separately with the Company, as this lighting service is not available in all underground situations. The Company retains the right to remove a security light if it is damaged or vandalized repeatedly.

F. Public Street Lighting

Street lighting systems are installed, owned and maintained by the Company. Only Company specified standard street lighting components are used in the installations. Street lighting service is available to all city, town, village, county agencies, public schools and other parties outside the limits of a municipality, under applicable tariff schedules.

In areas with overhead electric distribution lines, street lights are installed on existing wood poles. If necessary, the Company will install one additional pole for each street light. The Company will install street lighting standards which are served underground only on main thoroughfares that are paved and have curbs and gutters.

Street lighting facilities will be relocated for the benefit or convenience of a customer only when written approval of the new location is received from proper county or municipal authorities, and the customer making the request bears all relocation costs.

In franchised areas, the Company may contract with the city, town or village to operate and maintain street lighting installed and owned by the State. In some cases, the Company may contract with a county for interstate highway lighting only. In the absence of such a contract, electric service for a state-owned street lighting systems shall be provided under the Company's standard practice for metered services, and billed under the applicable tariff schedule.

G. Removal and Relocation

If a customer requests the removal and/or relocation of Company facilities and no

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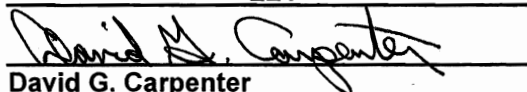
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simultaneous new or additional service is involved, such customer shall bear all costs incurred by the Company in completing the removal and/or relocation. Such a request will not be granted if removal and/or relocation would be disadvantageous to the Company or another customer. Relocation of Company facilities is contingent upon the Company securing all necessary rights-of-way.

If a customer requests the removal and/or relocation of Company facilities and such request involves providing electric service simultaneously to new or additional electrical loads, the cost incurred by the Company in completing the removal and/or relocation shall be combined with the estimated cost to provide service. This applies to the removal and/or relocation of Company facilities that will physically interfere with the development of a property or construction of a new building(s), but does not apply to the removal and/or relocation of Company facilities simply as a matter of preference or for aesthetic reasons. The Company reserves the right to determine the reason for the removal and/or relocation. Such a request will not be granted if the removal and/or relocation would be disadvantageous to the Company or another customer. Relocation of the Company facilities is contingent upon the Company securing all necessary rights-of-way.

H. Overtime Charges

A customer requesting the Company to perform work on an overtime basis shall be required to pay appropriate overtime charges.

I. Rental of Company Equipment

The Company will rent certain equipment to customers on a short-term emergency basis, provided the items of equipment are not immediately available from local suppliers and the Company has a sufficient supply of such items in stock to meet its operating requirements. Terms and conditions of the rental transaction shall be specified in writing.

J. Sale of Company Installed Facilities

The Company, at a customer's request and in the Company's sole discretion, may sell Company facilities in place and as is, at a negotiated fair market value if:

- (1) The facilities are solely for the purpose of serving the customer, and
- (2) The customer is changing or expanding his electrical facilities in a manner that will include the Company's facilities as an integral part of the customer's facilities.

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K. Impaired Line Clearance

Any customer or any other person (including, but not limited to a company, corporation, partnership, contractor, land developer, property owner, or property lessee, or any combination thereof) who installs or constructs any permanent or temporary structure(s) that impairs the clearance (as specified in any Applicable Code) of the Company's existing transmission, substation, express feeder, streetlight or distribution line facilities, or any combination thereof, shall bear all costs incurred by the Company in the reconstruction or relocation, or both, necessary to remove any and all impaired clearances. The customer shall notify the Company, as soon as possible, of any existing or anticipated impaired clearances.

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EXHIBIT NO. 1

ESCROW AGREEMENT

Pursuant to the Security Agreement (the "Security Agreement") dated (Date) between (Name of Customer), El Paso Electric Company, a Texas corporation ("EPE"), and (Name of Financial Institution), a copy of which is attached hereto as Exhibit A and incorporated herein by reference the undersigned agree as follows:

1. (Name of Customer) currently has a certificate of deposit in the amount of at least (Amount of Revenue Guarantee) on deposit with (Name of Financial Institution) (the "Account").

2. The funds in the account shall be used to pay for any sums which may become due to EPE under Paragraph III (5) of the Security Agreement.

3. Signatures by (Name of Customer) and a representative of EPE shall be required to withdraw any part or all of the initial principal of the Account; provided, however, EPE may withdraw any part or all of the initial principal of the Account without the signature of (Name of Customer) upon presentation of a notice as set forth in Paragraph III (5) of the Security Agreement signed by EPE's authorized representative specifying the nature of the alleged nonperformance of obligations under Paragraph III (5) of the Security Agreement, stating that the nonperformance has not been remedied within the thirty (30) day notice period set out in the Security Agreement and stating how the funds withdrawn from the Account will be applied.

X

4. Interest on the Account shall be paid in accordance with the terms of the Account. All fees and penalties charged for withdrawal of funds from the account in accordance with the terms of this agreement and the Security Agreement shall be borne by (Name of Customer).

5. (Name of Customer) agrees to indemnify (Name of Financial Institution) for any expenses incurred in connection with its acting as escrow agent herein, including its reasonable attorney fees and court costs.

SIGNED this _____ day of _____, 2_____.

EL PASO ELECTRIC COMPANY

By: _____

CUSTOMER

FINANCIAL INSTITUTION

By: _____

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