

Narrative explanation of why EPE's monthly and yearly Available Transfer Capability (ATC) as posted under 18 CFR §37.6(b)(3)(i)(A-B) has remained unchanged at a value of zero for six months.

EPE's native load is centered in the El Paso, Texas and Las Cruces, New Mexico areas. This load is served with (i) resources that are remote from EPE's load, namely Palo Verde Nuclear Generating Station ("Palo Verde") near Phoenix, Arizona and Four Corners Power Plant in northwest New Mexico, (ii) resources purchased through the Eddy Count HVDC tie with Southwestern Public Service Company (SPS) if available, and (iii) generation located in the EPE service area. Under economic dispatch principles, EPE utilizes its remote Palo Verde and Four Corners generation to the fullest extent, followed by a purchase from SPS, if available, and then its local generation.

EPE sells Available Transfer Capability ("ATC") on two separate transmission systems. The first is the 500 kV transmission system associated with Palo Verde defined as the Palo Verde East (PVEast) path. This path consists of two transmission lines, the Palo Verde to Westwing 500 kV line and the Jojoba to Kyrene 500 kV line. The Total Transfer Capability ("TTC") for this path is determined by the transmission system operator, Salt River Project ("SRP"), with the agreement of the other path owners, Public Service Company of New Mexico ("PNM") and Arizona Public Service Company ("APS"). The TTC for the PVEast path is bi-directional and EPE's TTC is 1034 MW, which is shared between the two lines in the path and can be used by either line. In addition to the bi-directional capacity on the PVEast path, EPE also has ownership in the Palo Verde to Jojoba 500 kV line. This transmission line has been separately rated from the PVEast path and EPE has 555 MW of bi-directional capacity in this line.

As stated above, EPE owns 1034 MW of bi-directional capacity in the PVEast transmission system. EPE also owns 642 MW of capacity in the three Palo Verde generating units, which is used to serve EPE's native load. This generation is EPE's lowest cost resource and thus is dispatched first to serve EPE's native load. To deliver this energy to the EPE service area (through a combination of wheeling, the 1982 TEP/EPE Power Exchange Agreement and the 1983 EPE/TEP Interchange Agreement (which was incorporated into the June 28, 1991 Interconnection Agreement between EPE and TEP), EPE has reserved 642 MW in the direction from Palo Verde to Westwing and Jojoba/Kyrene. The remaining capacity is sold on the EPE OASIS.

In the direction of Westwing to Palo Verde (and Kyrene to Jojoba as a common ATC line) EPE has reserved 400 MW of its 1034 MW capacity under the grandfathered 1982 TEP/EPE Power Exchange Agreement and the 1991 EPE/TEP Interconnection Agreement. The remaining capacity is sold on the EPE OASIS.

The second transmission system on which EPE sells capacity is its local system centered around the El Paso, Texas and Las Cruces, New Mexico area. This system consists of a 345 kV WECC-rated path called Path 47 and a 345 kV HVDC interconnection to the Southwest Power Pool ("SPP"). Path 47 is jointly owned and used by EPE, PNM and Tri-State Generation and

Transmission Cooperative, Inc. and the interconnection with SPS is jointly owned by EPE and PNM.

Path 47 consists of three 345 kV transmission lines interconnecting EPE to the WECC through the PNM system at WestMesa Substation and through Tucson Electric Power Company (“TEP”) at the Springerville Substation and Greenlee Substation. EPE has total firm capacity on this path of 645 MW. EPE utilizes all of its Path 47 capacity to import EPE’s low cost remote generation located at Palo Verde and Four Corners into the EPE load area, such generation totals 746 MW. Therefore, EPE has reserved all of its 645 MW capacity on Path 47 for native load use. Consequently, the ATC for this path has remained unchanged at a value of zero for six months and will remain at zero until the need to reserve capacity for native load use is gone.

EPE’s capacity ownership in the Eddy County HVDC tie is 133 MW. However, due to reliability issues with the HVDC Terminal, EPE only posts and sells ATC over the HVDC Terminal as non-firm ATC.