



POWER ON.

New Mexico Rate Case Summary

May 12, 2015



Safe Harbor Statement



This presentation includes statements that may constitute forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. This information may involve risks and uncertainties that could cause actual results to differ materially from such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to:

- Increased prices for fuel and purchased power and the possibility that regulators may not permit EE to pass through all such increased costs to customers or to recover previously incurred fuel costs in rates
- Recovery of capital investments and operating costs through rates in Texas and New Mexico
- Uncertainties and instability in the general economy and the resulting impact on EE's sales and profitability
- Changes in customers' demand for electricity as a result of energy efficiency initiatives and emerging competing services and technologies
- Unanticipated increased costs associated with scheduled and unscheduled outages of generating plant
- The size of our construction program and our ability to complete construction on budget
- Potential delays in our construction schedule due to legal challenges or other reasons
- Costs at Palo Verde
- Deregulation and competition in the electric utility industry
- Possible increased costs of compliance with environmental or other laws, regulations and policies
- Possible income tax and interest payments as a result of audit adjustments proposed by the IRS or state taxing authorities
- Uncertainties and instability in the financial markets and the resulting impact on EE's ability to access the capital and credit markets
- Possible physical or cyber attacks, intrusions or other catastrophic events
- Other factors detailed by EE in its public filings with the Securities and Exchange Commission. EE's filings are available from the Securities and Exchange Commission or may be obtained through EE's website, <http://www.epelectric.com>

New Mexico Rate Case Filing Requests



- EE filed a general rate case on May 11, 2015 with the New Mexico Public Regulation Commission (NMPRC)
- Summary of request included:
 - Historical test year ended December 2014
 - Case filed primarily to reflect new plant in service
 - Montana Power Station (MPS) Units 1& 2, common, substation & transmission
 - Eastside Operations Center
 - Change in non-fuel base rates
 - Non-fuel base rate increase of \$8.6mm or 7.1%
 - Change in base fuel rates
 - Forecasted base fuel decrease of \$15.4mm* or 21.5%
 - 100% of forecasted fuel and purchased power collected in base rates
 - Fuel Adjustment Clause trues-up collection to actuals

* Base fuel decrease is currently flowing through to customers via the fuel adjustment clause

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New Mexico Rate Case Filing Requests (Cont'd)



- ROE of 9.95%; Equity Ratio of 49.29%
- Continuation of Palo Verde (PV) Unit 3 proxy market pricing
- Structural rate design changes include:
 - Gradual approach to moving customer classes closer to the costs of serving them
 - Combining similar classes
 - Proposing a new partial requirement customer class

	<u>Average Non-Fuel Base Change</u>	<u>Average Net Bill Impact with Proposed Fuel</u>
Residential Service	14.0%	9.0%
Partial Requirements	18.7%	9.0%
Small General Service	0.0%	0.0%
General Service	0.0%	0.0%
Irrigation Service	7.3%	4.5%
Water Pumping Service	0.0%	0.0%
Large Power Service	0.0%	0.0%
Military Research & Dev. Service	0.0%	0.0%
Street Lighting Service	26.0%	20.0%
Private Area Lighting Service	0.0%	0.0%
Seasonal Agricultural Processing	6.6%	4.5%
Outdoor Recreational Lighting	29.6%	20.0%
State University Service	5.0%	2.4%

Rate Base Summary

- Total Rate Base*
 - Total Company \$1,809mm
 - New Mexico jurisdictional \$436mm
- Approximately \$1,281mm of plant has been added since the last rate case
 - Significant plant additions to rate base include:
 - Palo Verde Capital Improvements – \$159.0mm
 - Phase II of Newman Unit 5 – \$164.1mm
 - Rio Grande Unit 9 – \$94.4mm
 - Transmission and Distribution - \$413.3mm
 - MPS and Eastside Operations Center - \$266.4mm**

* Rate Base and plant additions exclude PV Unit 3 and 1/3 of PV common

** MPS includes Units 1 & 2, common, substation and transmission lines

New Mexico Rate Base



(\$000's)

	2015	2009	Change
	Rate Case	Rate Case	
Plant In Service	\$ 753,053	\$ 538,591	\$ 214,462
Accumulated Depr. & Amort.	(258,158)	(188,187)	(69,971)
Net Plant in Service	\$ 494,895	\$ 350,404	\$ 144,491
Working Capital	9,558	15,397	(5,839)
Accumulated Deferred FIT	(76,802)	(33,065)	(43,737)
Other	8,672	6,530	2,142
Total Rate Base	<u>\$ 436,323</u>	<u>\$ 339,266</u>	<u>\$ 97,057</u>

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Cost of Capital



As requested:

	Balance as of 12/31/2014 (\$000's)	Percent of Total	Cost of Capital	Rate of Return
Long-term Debt	\$ 1,027,657	50.7108%	5.9022%	2.9931%
Common Equity	998,848	49.2892%	9.9500%	4.9043%
	<u>\$ 2,026,505</u>	<u>100.0000%</u>		<u>7.8974%</u>

Projected Rate Base & CWIP



Pro forma Rate Base Balances (\$000)

	YE 2015 Including MPS 1 & 2	YE 2016 Including MPS 3 & 4
Beginning Rate Base ⁽¹⁾⁽²⁾	\$1,633	\$1,947
Plant Additions:		
MPS Transmission and Substations	20	14
New Eastside Facility	41	-
Other	141	116
New Generating Units:		
Montana Common Plant	53	12
Montana Unit 1	79	-
Montana Unit 2	74	-
Montana Unit 3	-	78
Montana Unit 4	-	78
Total	<u>408</u>	<u>298</u>
Depreciation Expense	(90)	(95)
Change in Deferred Income Taxes & Other	(4)	22
Total Rate Base ⁽³⁾	<u>\$1,947</u>	<u>\$2,172</u>
	<u>2015</u>	<u>2016</u>
Ending CWIP Balances (\$ in millions)	\$282	\$178

(1) Excludes NM's portion of PV Unit 3 rate base, net of ADIT, of approximately \$26mm and \$27mm for each pro-forma filing in 2015 and 2016, respectfully

(2) Beginning rate base is December 31, 2014 and year end balances exclude CWIP

(3) Represents a pro-forma rate base projection that is subject to change based on actual rate filings

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New Mexico Rate Case Schedule



- Potential Procedural Schedule and Timeline
 - General Rate Case Filing – May 2015
 - Discovery Process – May/September 2015
 - Interveners and Staff Testimony – August/September 2015
 - Rebuttal Testimony – September 2015
 - Hearings – October/November 2015
 - Potential NMPRC decision – 1st quarter 2016
 - New rates become effective early in 2nd quarter 2016

Texas Rate Case Filing



- New Mexico rate case filing should not be used to estimate the level of rate relief that will be requested in Texas
- EE anticipates filing a general rate case in July or August 2015
- Historical test year ended March 2015
- Anticipate new rates will become effective by early 2nd quarter 2016

Q & A