EL PASO ELECTRIC CO

Moderator: Lisa Budtke
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9:30 am CT

Operator: Please stand by. Good day and welcome to the El Paso Electric Company New Mexico Rate Case Filing Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Ms. Lisa Budtke. Please go ahead, ma'am.

Lisa Budtke: Thank you Kristy. Good morning everybody. Thank you for joining the El Paso Electric Company New Mexico Rate Case Conference Call. My name is Lisa Budtke and I am the Assistant Treasurer for El Paso Electric.

On the call today are our CEO Tom Shockley, President Mary Kipp, Chief Financial Officer Nathan Hirschi, and other members of the senior management team.

Today, we will provide a summary of the rate case that we recently filed with the New Mexico Public Regulation Commission. If you would now turn to slide two, I would like to cover the Safe Harbor provisions.

In summary, our comments and answers to your questions may include forward-looking statements made pursuant to the Safe Harbor provision of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risk and other factors which may cause the company's actual results in future periods to differ materially from those expressed here.

Any such statement is qualified by reference to the risks and factors discussed in the company's SEC filings. Our 10Q and other SEC filings contain our forward-looking Safe Harbor statements and also lay out the risk factors that should be considered. These filings may be obtained upon request from the company, on our Web site, or from the SEC.

The company cautions that the risk factors discussed in these filings are not exclusive and we do not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the company. These statements, especially those made during the question and answer section of the call, are subject to risk and uncertainties that are difficult to predict.

At this time, I would like to turn the call over to Tom.

Tom Shockley: Thank you Lisa. Good morning everyone and thank you for joining our call. Slide three shows that the need for rate recovery is necessitated by the significant capital investment the company has made over the past several years, which has been driven by the replacement of older, less efficient plant and equipment as well as the new plant additions necessary to maintain the reliability of our system and for load growth in our area.

In New Mexico, the company filed the rate case using a test year ending December 31, 2014. The precedent in New Mexico allows us to include in rate base plant additions completed within five months of this year which, in our case, means the Montana Power Station Units One and Two, common facilities associated with those plants, and the related transmission and distribution infrastructure as well as our new East Side operations center.

The company has requested a non-fuel base rate increase of $8.6 million, or 7.1% for the New Mexico jurisdiction. We have also requested a rate reduction in fuel and purchased power costs, which will decrease the amount collected in base rates for fuel and purchased power by $15.4 million, or 21.5%.

In New Mexico, the forecasted fuel and purchased power costs which are collected in base rates have declined due to reduced fuel prices and improvements in system heat rates relating to new generation additions. Therefore, we proposed to decrease the base fuel factor to reflect these estimated reductions. The base rate fuel factor can only be changed in a general rate case proceeding and is set to recover the estimated costs.

Due to the volatility in natural gas and purchased power costs, the New Mexico Commission has approved a second mechanism that is adjusted on a monthly basis to account for any over or under-collections for actual fuel and purchase power costs. These two mechanisms work together to ensure that customers pay the actual cost of fuel on a fairly current basis.

In New Mexico, the base fuel decrease is currently flowing through to customers via the fuel adjustment clause. However, early in the second quarter of 2016, we anticipate that our New Mexico customers will see a rate increase resulting in an overall non-fuel base revenue increase of $8.6 million.

Turning to slide four, to determine the base rate increase - the cost of capital included a return on equity of 9.95% and an equity ratio of 49.29%. In addition, for this filing we will seek to use the proxy market pricing for Palo Verde Unit Three. Nonetheless, we will continue to evaluate the impact of alternative rate treatment for this asset and may seek to revise this recovery mechanism in a subsequent rate case.

In the filing, we have taken a gradual approach to our proposed revenue allotment that will move customer classes closer to the full cost of serving them. Additionally, in an effort to ensure that our rate classes distinguish customers with unique load profiles and service characteristics, we're proposing to combine similar customer classes and we are proposing to establish a new rate class for service to residential customers who own or lease distributed generation systems behind their retail electric meter.

These customers will take service under a partial requirement service rate. This allows us to break out these customers to collect and evaluate their cost and revenues, and to determine the benefits separately from our other residential customers because their usage varies. The new partial requirements customers will continue to be billed using an identical rate structure as the standard residential customer class.

As you can see in the chart, not all rate classes are anticipated to receive a base rate increase. We are proposing that the residential and partial requirements customers classes receive an average 9% increase, which includes the reduction for fuel and purchased power. It is important to note that all rate increases illustrated on the slide reflect the average increase for the entire class and will vary according to each customer's kilowatt hour usage.

Before Nathan discusses some of the details regarding our filing, I want to mention that our filing in New Mexico should not be used as an approximation for our upcoming filing in Texas. Each jurisdiction has its own set of rules and circumstances which will produce different results.

At this time, I would like to turn the call over to Nathan.

Nathan Hirschi: Thank you Tom. If you'll now turn to slide five of the presentation, I would like to discuss a summary of the requested rate base in New Mexico.

Total company rate base for this filing is $1.8 billion. This amount is less than the amount which will be included in the Texas filing and is compared to the rate base shown on slide eight because the New Mexico filing does not include Palo Verde Unit Three in the total company amounts. The New Mexico allocation of that rate base is $436 million.

Since the company filed its last New Mexico rate case in 2009, we have made significant capital investments to replace older, less efficient facilities and to meet the growing needs of our region. Approximately $1.3 billion of plant additions excluding Palo Verde Unit Three have been placed in service since our last New Mexico rate case.

New assets included in rate base are Palo Verde capital improvements, Newman Unit Five phase two, Rio Grande Unit Nine, and over $413 million of transmission and distribution infrastructure. This is in addition to the Montana Power Station Units One and Two, the Montana Power Station Common Plant, and the transmission and distribution infrastructure associated with the new power station, as well as the East Side Operations Center.

While El Paso Electric works hard to keep expenses down, we remain committed to meeting demand and providing safe and reliable service to our region. The company's recent investments in new plant not only serves to protect and safeguard the power grid, but also ensures that we will continue to meet the energy needs of our community.

If you will now turn to slide six, I would like to walk you through a table that summarizes our requested New Mexico rate base.

In total, the company's capital costs continue to exceed the increase in accumulated depreciation and amortization. As a result, our net plant in service included in this filing was approximately $495 million; an increase of over 40% since our last filing. The revenue requirement associated with the increase in rate base is partially offset by load growth and additional deferred income taxes.

Turning to slide seven, the capital structure requested in this filing includes the actual capital structure as of December 31, 2014. The capital structure reflects 49.29% common stock equity and 50.71% long term debt. As a reminder, our regulatory capital excludes the Rio Grande Resources Trust debt which is used to finance the company's nuclear fuel; thus, we have a higher regulatory common stock equity ratio than we have for SEC reporting purposes.

On a positive note, our cost of debt decreased from 6.69% in our last New Mexico rate case to about 5.9% in this filing due to the fact that our recent debt issuances have been at lower interest rates. Also, we believe our requested return on equity of 9.95% is fair and reasonable and is in line with a return on equity approved by the New Mexico Commission last year. Based on our capital structure at the end of 2014 and our requested return on equity, the company's overall requested rate of return amounts to 7.897%.

On slide eight, you can see that the rate base at the end of 2015 -- which is more reflective of the company rate base because it includes the jurisdictional components for both Texas and New Mexico -- is projected to be approximately $1.9 billion. After the completion of Montana Power Station Units Three and Four, the total company rate base is anticipated to grow by approximately $225 million to reach $2.2 billion at the end of 2016.

These projections are in line with our previously disclosed rate base projections. We would seek additional rate relief in subsequent rate cases to recover the additional rate base.

At this time, I'd like to turn the call over to Mary to discuss the next steps in the rate case process.

Mary Kipp: Thank you Nathan. I would like to begin with a discussion of a potential procedural schedule and timeline for our New Mexico filing as outlined on slide nine.

We filed the New Mexico rate case yesterday using a historic test year ended December 31, 2014. The first step in the process will be for the commission to appoint a hearing examiner who will then establish a procedural schedule for the case.

We anticipate that the discovery process and direct testimony will conclude sometime around the end of September. The rate case process is open and transparent and allows for interested stakeholder to intervene in the case, and we certainly anticipate that we'll receive a number of different intervening parties in our case and we welcome the opportunity to communicate and engage with them as we move forward.

The procedural schedule issued by the appointed hearing examiner will give us a better indication of the timeline for the rate case to be finalized. However, we have estimated that a potential decision by the commission could be reached by January of 2016. New Mexico has the ability to suspend the effective date another three months, but we believe that using a historic test year will allow the rate case to be completed in the initial ten month suspension period. New non-fuel base rates would then become effective early in the second quarter of 2016.

Turning to slide ten, I will discuss the filing and potential timeline for the Texas rate case. As Tom mentioned earlier, our New Mexico rate case is not an indication of the amount of rate relief we will be seeking in Texas and should not be used for estimating the Texas revenue deficiency or for the impact on customer bills.

In Texas, our expected timeline contemplates using a historic test year ended March 31, 2015 and we currently anticipate that we will file in July or August of this year. Based on this filing date, we anticipate that new rates would become effective in Texas by early second quarter of 2016, similar to New Mexico. We will continue to refine our rate filing timeline and we're working to ensure that the filings can be made and resolved on a timely basis.

Before I hand the call back to Lisa, I would like to take a moment to thank all of our employees who have worked very hard on putting this case together. Preparing and filing a rate case requires a tremendous amount of commitment and dedication by all of our employees and I know that we can always count on them to get the job done. So I just wanted to let them know that I sincerely appreciate all of their hard work.

Lisa Budtke: Thanks Mary. This concludes our New Mexico rate case presentation. Kristy, please open the call for questions.

Operator: Thank you. If you'd like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that's star one to ask a question. We'll pause for just a moment to assemble the queue.

And we'll take our first question from Anthony Crowdell with Jefferies.

Anthony Crowdell: Good morning. Just a couple questions - one housekeeping. Could you walk me through the total rate base, total company on slide five of $1.8 billion versus the rate base on slide eight - the beginning rate base of 1.63 or the 1.947 for 2016.

Nathan Hirschi: The biggest difference, Anthony, is that for the New Mexico filing we do not include New Mexico Unit Three on a total company basis. So neither the New Mexico or the Texas piece is included in the $1.8 million. So that's about a $200 million of net plant in that balance, which is reduced by deferred taxes as well. So the fundamental difference is that Unit Three of Palo Verde is not in that $1.8 billion.

Anthony Crowdell: Okay, but I guess - I thought previously that it was - the book value of - and maybe I'm mixing up Palo Verde Three - was somewhere in the thirty-ish million number.

Nathan Hirschi: For New Mexico it is, but for purposes of this filing we have backed out both the Texas and the New Mexico piece from rate base. That's the way that the New Mexico Public Regulatory Commission has requested that we file it.

Anthony Crowdell: So then if it's thirty million for New Mexico Palo Verde Three, then Texas is roughly 170?

Nathan Hirschi: Yes, 170 for net plant. But again, there's some deferred taxes that then go in and offset that number.

Anthony Crowdell: Okay, great. Second, there's a slide that talks about a rate increase net of fuel. I think it's slide four, and you give us average net bill impact with proposed fuel. Is fuel hedged in the forward years? What's your assumption of natural gas prices or are you hedged at a certain dollar value where you're estimating the impact?

Tom Shockley: Tony, we don't do any literal fuel hedging, maybe very short time periods; but in fact, what we use is an estimate looking forward of what futures are trading at to get an expectation of what the next twelve months should be on average. That's what we try to arrive at for inclusion into the base rate part of the New Mexico fees.

After we get what we think should be the best estimate, we then have the additional fuel adjustment that is trued up every month.

Anthony Crowdell: Okay. And lastly, you made a point twice to say - don't use this rate case filing to estimate the level of rate relief that we requested in Texas. Could you let us know what type of rate increase you're expecting in Texas?

Mary Kipp: Well, we still believe - Anthony, this is Mary. It's going to be in the eight to twelve percent range, but that's all we're really prepared to talk about today as we're still putting that case together.

Anthony Crowdell: Okay, great. Thanks for taking my questions.

Operator: As a reminder, that is star one to ask a question. We'll take our next question from Brian Russo with Ladenburg Thalmann.

Brian Russo: Hi, good morning.

Nathan Hirschi: Good morning, Brian.

Brian Russo: Just to clarify, the average residential rate increase net of the decline in fuel costs is 9%?

Nathan Hirschi: On average for the customer, yes.

Brian Russo: Okay. When I look at the press release, you're asking for $8.6 million non-fuel base rate increase and base fuel factor revenues declined $15 million. So why isn't there more of an offset to the base rate increase? Is it because it's flown through the fuel factor from now until when new rates go into effect?

Nathan Hirschi: Exactly.

Brian Russo: Okay.

Tom Shockley: Yes, it trues up. We use, numbers that are two months old, but every month we true up what we had as far as cost of the fuel and the purchased power. So by the time we get to the implementation of a new full base, there will already be that adjustment that will be changed as the adder will be different after that.

Brian Russo: Got it, okay. And then just to summarize the comments earlier, is the reason why you're not filing for a forward test year is because you feel more comfortable that you can get this done in ten months?

Tom Shockley: Yes.

Brian Russo: Okay. And you laid out a preliminary schedule. When would settlement discussions start? At any time, or is there a procedural date and window of time for that?

Tom Shockley: I guess theoretically they could start any time, but the reality of it is I'm sure that all of the interested parties -- the stakeholders -- are going to want to understand exactly what we've got in our numbers. And when you look at that time schedule, I think we anticipate that we may be three or four months with the Q and A or the interrogatories, the RFI's.

And so it would probably be some time after there's been some opportunity for everyone to get a full understanding of what we're asking for before really any meaningful settlement discussions could move forward.

Brian Russo: Okay. And when will the filing be posted on the PRC Web site? And is there a docket number yet?

Tom Shockley: There is a docket number. It ends in "UT." I remember that.

Mary Kipp: I don't have it right here. I apologize.

Tom Shockley: We'll be looking for it and get back with you on that.

Mary Kipp: It'll most likely be posted on the PRC Web site in a couple of days.

Tom Shockley: And I don't have the answer to how quickly they'll disseminate the copies that we provided them to the interveners or posted on their Web site.

Brian Russo: Okay. And can you then just talk about when MPS Three and Four are expected to be in service, and when would the timing of the next rate cases play out?

Nathan Hirschi: We expect that we will be finishing Unit Three in mid-year of next year and Unit Four by the end of the year. And we'll just look at all of the things that matters that will be impacting the needs in the rate case to determine exactly what month or what quarter might be the best one for us to file in.

Brian Russo: Okay. So I guess - would you - I'm trying to get a sense - in 2017, would new rates possibly go into effect given that you have historical test years?

Nathan Hirschi: We would be looking at filing at something that would not have new rates in effect until the last half, maybe last quarter of '17. So '17 will once again be another rate lag year where we will have the facilities in service and be requesting the new rates, but - the adjustmentwon't be in place until later in the year.

Brian Russo: Okay, thank you very much.

Mary Kipp: And that docket number, by the way, is 15-00127-UT.

Brian Russo: Alright, thank you.

Operator: And we have no further questions at this time.

Lisa Budtke: Okay. I would like to thank everyone again for joining us on today's call. Be safe.

Operator: That concludes today's conference. Thank you for your participation.

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