

**EL PASO ELECTRIC CO**  
**Moderator: Lisa Budtke**  
**May 6, 2015**  
**9:30 am CT**

Operator: Good day and welcome to the El Paso Electric Company 1<sup>st</sup> Quarter 2015 Earnings Call. Today's conference is being recorded. At this time, I'd like to turn the call over to Lisa Budtke. Please go ahead.

Lisa Budtke: Thank you, Tim. Good morning, everyone. Thank you for joining the El Paso Electric Company 1<sup>st</sup> Quarter 2015 Earnings conference call. My name is Lisa Budtke and I am the Assistant Treasurer for El Paso Electric. On the call are CEO, Tom Shockley; President, Mary Kipp, CFO, Nathan Hirschi, and other members of the senior management team. Today we will provide an overview of the Company's recent highlights, an update on our anticipated rate case filings in Texas and New Mexico, a brief summary of our recent regulatory filings, an update on our 1<sup>st</sup> quarter 2015 financial results and drivers, an update on our capital requirements and liquidity and finally we will discuss our 2015 earnings guidance.

I would like to cover some items that will be pertinent to our call. You should have a copy of our press release and today's presentation and if you do not, you can obtain them from our website on the Investor Relations page.

We currently anticipate that our 1<sup>st</sup> quarter 2015 Form 10-Q will be filed with the Securities and Exchange Commission (SEC) on or before of May 11, 2015.

A replay of today's call will be available shortly after our call ends and it will run through May 20, 2015. The details as it relates to the replay are disclosed in our press release.

For forward-looking statements, on page 2 of our presentation you will see our safe harbor provisions. In summary, our comments and answers to your questions may include forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, 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 10-K, 10-Q 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 requesting the Company, on our website, 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 risks 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. On slide 3, I would like to go over some of our recent highlights. The first two generating units at our

Montana Power Station have been completed and are in commercial operation. These two 88 MW simple-cycle combustion turbines began providing electricity to our customers in late March as scheduled. The efficient aero-derivative technology provides for quick start capabilities, allowing the units to go from zero to full output in less than 10 minutes. The quick start capability compliments our growing utility scale solar generation and increases overall power and grid stability. The second phase of the Montana Power Station Project Units 3 and 4 is currently underway. Once completed, these four units will add over 350 megawatts of efficient, reliable and clean burning natural gas generation, enough power to meet the needs of more than 160,000 homes.

We are also proud to remain committed to and focused on the reliability for our customers on our system. As such, we continue to be ranked favorably in Texas for the number and duration of outages.

The Palo Verde nuclear generation station had another banner year by setting a 2014 power production record of 32.3 million megawatt-hours. Palo Verde has achieved the title of the nation's largest power producer for 23 consecutive years.

The growing energy needs of our service territory materialized in an increased number of customers during the 1<sup>st</sup> quarter of 2015. The Company surpassed the 400,000 retail customer count during this quarter and has added approximately 100,000 customers since 2000.

Growth in the service territory and the benefits of replacing older, less efficient facilities supports the need for the Company to invest in new generation, transmission and distribution infrastructure. Since 2009, El Paso Electric has placed in service \$1.3 billion of new assets.

On April 15, the Company filed a request in Texas to decrease the fixed fuel factor by approximately 24 percent. This was due to the reduction in the natural gas prices that we have to pay. The filing was approved on April 30<sup>th</sup>, and the new rates went into effect on an interim basis on May 1<sup>st</sup>. As a result of this decrease, a typical residential customer in Texas can anticipate seeing a monthly decrease of \$3.74, or over 5 percent of their total bill.

I will now turn the call over to Mary, who will discuss the details regarding our rate case filings in New Mexico and Texas.

Mary Kipp:

Thank you, Tom. Turning to slide 4, in New Mexico, we've been working towards filing for a base rate increase in the second quarter of this year. As it currently stands, we anticipate filing our rate case next week. As soon as that case is filed, we will be hosting a webinar to answer your questions and provide additional details relating to the rate case.

While we do not intend to dive into the details of the anticipated filing at this time, we can tell you that the previously announced forecast at 8 to 12 percent range for requested overall average rate increase looks like it will be around 9 percent for residential customers. As a reminder, the New Mexico rate filing does not indicate similar rates or issues will be in our future Texas rate case filing. Again, please hold any questions you may have about the specifics of the unfiled rate case until next week's webcast. The need for rate recovery is necessitated by the significant capital investments the Company has made over the past several years, driven by the replacement of plant and equipment as well as load growth. In New Mexico, the Company will file the case using a test year ended December 31, 2014. However, precedent in New Mexico allows the Company to include into rate base Montana Power Station Units 1 and 2, common, the related transmission and distribution infrastructure and the Eastside Operations Center.

We still anticipate that new rates will become effective early in the second quarter of 2016. Our timeline for a Texas rate case filing remains unchanged. We still anticipate filing in Texas in either July or August of this year.

Our employees have already begun the process of developing the Texas rate case filing package, using the test year ended March 31, 2015. Similar to New Mexico, we anticipate that the new rates will become effective early in the second quarter of 2016.

If you'll now turn to slide 5, I'd like to briefly discuss some of our recent regulatory filings that we've submitted to regulators over the last couple of weeks, or will file by the end of the second quarter. As Tom mentioned earlier, on April 15<sup>th</sup>, we filed for a 24 percent reduction to our fixed fuel factor in Texas and we received approval on April 30<sup>th</sup>. Also in late April, we filed for a Certificate of Convenience and Necessity in both Texas and New Mexico for a 20 megawatt solar facility at Fort Bliss, which if approved, would be considered a system resource.

We also recently filed with the New Mexico Commission to seek approval of the discontinuation of our involvement in and sale of our ownership interest in Units 4 and 5 of the Four Corners Generating Station. As we previously disclosed, on February 17<sup>th</sup>, the Company and Arizona Public Service Company (APS) entered into an asset purchase agreement, which provided for the purchase of our interest in Four Corners by APS in July 2016. The impact of this sale on rates is not included in the rate cases currently being prepared for either New Mexico or Texas. Once the necessary approval is received and the Four Corners sale is consummated, the Company will no longer have any ownership interest in coal generation.

We also plan to file by the end of the second quarter for approval to build and operate three additional solar facilities in our service territory. Our recent filings demonstrate the latest steps in the Company's evolution to diversify our generation portfolio in a responsible, cost effective, and environmentally conscious manner that will allow us to meet the growing demands of our service territory.

At this time, Nathan will discuss our financial results.

Nathan Hirschi:

Thank you, Mary. Turning to slide 6, I'll begin by summarizing our first quarter 2015 earnings results. For the first quarter of 2015, we reported net income of \$3.5 million or \$0.09 per share, compared to 2014 net income of \$4.6 million or \$0.11 per share.

Turning to slide 7, I will discuss the key earnings drivers for the quarter as compared to prior year, beginning with the negative drivers. We experienced a decline in earnings per share during the first quarter of 2015 of \$0.03 related to increased interest on long-term debt primarily due to the \$150 million senior notes that we issued in December 2014. We had a gain on the sale of land in the first quarter of 2014, which added \$0.02 per share with no comparable activity in the current quarter. Deregulated Palo Verde Unit 3 revenues also decreased earnings per share by \$0.02 in the quarter due to a 35 percent decrease in the proxy market price reflecting a decline in natural gas prices when compared to the same period of last year. Earnings also declined by \$0.01 per share during the quarter due to increased depreciation and amortization expense due to an increase in the depreciable plant.

On a positive side, net income for the first quarter of 2015 compared to the same period last year was positively impacted by an increase in AFUDC due to a higher average balance of construction work in process, which resulted in increased earnings per share of \$0.05. In addition, earnings per share for the first quarter of 2015 increased by \$0.02 per share as a result of decreased taxes other than income primarily due to an adjustment for

Arizona property tax during the first quarter of 2014 with no comparable adjustment in the current quarter. Earnings also increased during the quarter by \$0.01 due to an increase in retail non-fuel base revenues.

On slide 8, we have provided a comparative analysis of the changes in retail non-fuel base revenues and megawatt hour sales by customer class for the first quarter of 2015 as compared to the same period in 2014. The total retail megawatt hour sales increased by 2.6 percent and total retail non-fuel base revenues increased by 0.7 percent during the first quarter of 2015. The positive non-fuel base revenues driver during the quarter was revenues from the residential customer class. We experienced colder winter weather in 2015 as compared to 2014. However, the total heating degree days were still below the 10-year average for the period. In terms of customers, we continue to see consistent and solid growth in the number of customers served. During the quarter, we experienced a 1.4 percent increase in the average number of retail customer served. As Tom mentioned earlier, we surpassed the 400,000 customer mark during the quarter which again demonstrates the continued growth in our service territory.

Now turning to slide 9, our cash capital expenditures for the additions to electric utility plant were \$73.9 million during the first quarter 2015. In terms of cash dividends, the Board of Directors declared a quarterly cash dividend of \$0.28 per share on January 29, 2015, which was paid on March 31, 2015. During the first quarter of 2015, we paid \$11.3 million in cash dividends. The Board of Directors will re-evaluate the cash dividend policy during the second quarter of this year. On March 31, 2015, we had liquidity of approximately \$249.3 million including a cash balance of approximately \$8 million and available borrowings under our credit facility. In total, we expect to spend approximately \$259.5 million for cash capital expenditures in 2015. As we have previously communicated, we may seek to issue long-term debt later this year or early in 2016 to help fund our ongoing construction program.

Now turning to slide 10, we are reaffirming our 2015 earnings guidance range of \$1.75 per share to \$2.15 per share. As we have discussed in the past, the completion of Montana Units 1 and 2 will cause depreciation and operation expense to increase and AFUDC to decrease. This period of regulatory lag will continue until the completion of our upcoming New Mexico and Texas rate cases.

This concludes our first quarter 2015 earnings presentation. So I will now open the call for questions.

- Operator: At this time to ask a question please press star and the number 1 on your telephone keypad. Once again, that's star 1 to ask a question. We'll take our first question from Anthony Crowdell with Jefferies.
- Anthony Crowdell: Good morning. Mary, I have a couple of questions but one quick one is, I know you want to save the highlights of the rate cases for a webinar. But you stated that there is an expected 9 percent increase in residential rates. Would you tell us what the increase would be for the other two classes?
- Mary Kipp: Anthony, all of that is still pretty fluid and even the residential is an estimate at this point. So, we're not prepared to talk about that today but we'll be able to talk about it right after we file.
- Anthony Crowdell: Okay, great. On Page 7, where you guys give the drivers and I'm not really sure where the land was sold in the first quarter 2014. But is the gain on the sale of land in '14 also related to the positive property tax adjustment or are they separate items?

- Nathan Hirschi: They were separate items. One was an adjustment to the Arizona property tax rate and the other was a sale of land here in El Paso.
- Anthony Crowdell: Okay and lastly, I believe the city council yesterday voted to continue its opposition on a proposed bill for non-ERCOT Texas utilities, I believe House Bill 1535 and I know it's only a proposal but could you tell the impact that it would have when Montana 3 and 4 are completed?
- Does that enable you to get interim rate treatment until you file rates or as that stands now that bill, how would that impact going forward Montana 3 and 4 of getting that in rates?
- Tom Shockley: Tony, this is Tom and you're exactly right, it's a work in progress and the stakeholders have been involved in formulating the bill for several months and it does seem to change pretty frequently. But as it stands now, this would not have any impact specifically on units three and four. We would be filing a separate rate case to cover units three and four some years after we finish with the rate case that we anticipate filing this summer, basically driven by units one and two.
- Overall, we're looking at an opportunity to decrease slightly the regulatory lag by about 30 days and it allows for a post-test year adjustment of up to 90 days the way it's currently structured. We would be able to include additional plant as long as it is placed into service within 30 days of filing the actual rate case. On the other side, our stakeholders are concerned with us overreaching, so there's been provisions to look at ways and when rate cases might need to be filed, but it's still so fluid that it's way too soon to have any expectation of what the final outcome might be, if there is any final outcome.
- Anthony Crowdell: Great. Thanks for taking my questions.
- Nathan Hirschi: Thanks Anthony.
- Operator: As a reminder, it's star 1 if you'd like 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, you know, putting House Bill 1535 aside, what's the timing of when MPS 3 and 4 go into service in 2016 and would you expect a similar type of regulatory lag, when those go into service relative to what you are experiencing on one and two?
- Tom Shockley: Yes, exactly. Right now we anticipate Unit 3 would be finished mid-year of '16 and four, we're anticipating and scheduling it to be finished by year end of '16. That would drive most likely a test year ending in '16 and we would be on the same schedule that we've communicated for Units 1 and 2, as far as a time-line from when you file.
- Nathan Hirschi: There would be similar regulatory lag compared to what we'll soon see in Texas and New Mexico. But the magnitude of the additions related to Montana 3 and 4 and the other assets are much smaller than what we're seeing with our anticipated filing in New Mexico.
- Brian Russo: Okay and the abandonment and sale of Four Corners' interest in four and five, any more details? I mean, is there a net book value on that and are you bringing in any cash from that?

Nathan Hirschi: The amount of cash will be relatively small but the net book value will be offset by some liabilities related to the coal reclamation liability and the asset retirement obligation. So the amount of cash will be relatively small associated with that.

Brian Russo: Okay and it looks like you guys have identified some new solar investment opportunities. Can you maybe quantify it or put some timing around these investments and is that upside to your previously disclosed CAPEX?

Nathan Hirschi: That's true, the solar projects have not been included as we are now just filing the CCNs for those projects, and we have not included them in our current CAPEX projections. So these would be an addition to what we previously disclosed.

Mary Kipp: And specifically, those were a 3-megawatt facility out at the Montana Power Station, a 5-megawatt facility at Holloman Air Force Base in New Mexico and then possibly a 2-megawatt facility in Las Cruces as well.

Brian Russo: In addition to the 20-megawatt investment at Fort Bliss?

Mary Kipp: Yes a 20-megawatt addition at Fort Bliss that we've already filed for, yes.

Brian Russo: Okay. Thank you very much.

Nathan Hirschi: Thanks Brian.

Operator: And at this time, there are no other questions in queue. I'll turn it back over to Lisa Budtke for any closing remarks.

Lisa Budtke: Before we close today's call, I would like reiterate what Mary mentioned earlier. We plan to file our New Mexico rate case next week, perhaps as early as Monday.

We will distribute a press release once the date and time of the webcast have been determined or you can check the Investor Relations section of the Company's website for more details.

Additionally, you are welcome to join us at our 2015 Annual Shareholders Meeting, which is scheduled for May 28 in El Paso. Thank you for joining us on today's call. We look forward to speaking with you soon. Have a great day and be safe.

Operator: And that does conclude today's conference call. We appreciate your participation.

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