EL PASO ELECTRIC CO
Moderator: Steven P. Busser
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10:00 am CT

Operator: Good day everyone. Welcome to the El Paso Electric Company 4th Quarter 2013 Earnings call. Today's conference is being recorded. At this time I would like to turn the call over to Steven Busser. Please go ahead, sir.

Steven Busser: Thank you and good morning everyone. Thank you for joining the El Paso Electric Company 4th Quarter 2013 Earnings conference call and Analyst Day. My name is Steve Busser and I am the Treasurer for El Paso Electric.

Also, here with me today is our CEO Tom Shockley, our Executive Vice President David Carpenter, our Chief Financial Officer Nathan Hirschi, our Senior Vice President, General Counsel and Chief Compliance Officer Mary Kipp, and our Senior Vice President of Operations Steve Buraczyk. In addition I would also like to recognize the Chairman of our Audit Committee, Mr. Edward Escudero who has joined us today. Thanks Ed.

Today we will provide an overview of our 2013 accomplishments and operational highlights, our shareholder return, our goals for 2014, an overall El Paso outlook, an update on Four Corners, and the remaining EPA or Environmental Protection Agency air permits that we are seeking for our Montana Power Station.

We'll also provide an update on our capital construction program, a revised estimate of our projected rate base, an update on the timing of our planned Texas and New Mexico rate case, an overview of our fourth quarter and year to date 2013 financial performance. And finally we will provide our 2014 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 if you do not you can obtain one from our website on the Investor Relations page. We currently anticipate that our 2013 Form 10-K will be filed with the Securities and Exchange Commission (SEC) no later than this Friday, February 28th.

We would also like to inform you that we plan on participating in the Williams Capital Group West Coast Utility Seminar in Las Vegas on March 19-20, 2014. Please feel free to call our Investor Relations department if you have any inquiries or require further information. A replay of today's call will be available shortly after the call ends and will run through March 10, 2014. The details as it relates to the replay are disclosed in our press release.

On Slide 4 of our presentation you will see our safe harbor statement. 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 Act filings. Our 10-K and other SEC filings contain forward-looking statements and also lay out the risk factors that should be considered. These filings may be obtained upon request from 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 portion of the call are subject to risks and uncertainties that are difficult to predict. Tom will now go over our 2013 accomplishments.

Tom Shockley: Thank you, Steve. I would like to point out that Steve did introduce the management team that we have here today. I'd like to put a little bit more color on it and point out that three of the faces, David's at the far end, Steve's right here, and mine are probably fairly familiar with virtually all of you.

We have three new members of our management team and it's Nathan Hirschi who was in October 2013 made the Chief Financial Officer responsible for the controller functions as well as the treasury functions. Next to Nathan is Steve Buraczyk. Steve is the Senior Vice President of Operations which includes all of our distribution and transmission operations, our generation operations as well as our fuels and marketing and the system operations. Then next to him is Mary Kipp, she's involved in compliance and HR not at the moment but compliance, HR, and general counsel. We have now put all of our regulatory activities under her so she's going to have the wonderful opportunity to position us for the rate cases that we'll be discussing about today.

The accomplishments that Steve referred to are in your packet. I'll go through them real quickly. I will start with the increase in our dividend of 6 percent that occurred in May 2013 at the time of our annual Board meeting. We also successfully completed union negotiations in September of 2013. This puts into place a new three year agreement which we are very pleased with. Also, last year we negotiated and started construction on a 50 MW photovoltaic facility in Macho Springs. We're excited about it. It will be owned by the developer and we will have 100 percent of the off take.

The most amazing thing to us was that the price to us is 5.79 cents per kilowatt hour which was one of the lowest prices ever that we had seen come across as a consequence of a Request of Proposal (RFP). We also filed the Certificates of Convenience and Necessity (CCN) for our last two units at the Montana Power Station, and expect to get those this year.

Another positive thing that happened is that in the process of starting the Montana Power Station the Far East El Paso Citizens United were very concerned and we've been working with them for the last year. And in December 2013 we were able to put in place a settlement where truly all parties are satisfied. As result, they have agreed to withdraw their objections and not oppose the construction of the units at the Montana Power Station.

As a consequence of that we did receive the final un-appealable air permit from the Texas Commission on Environmental Quality (TCEQ). Mary Kipp will have more information about the other permits that we're working on. Also, on the positive side, we recently received a one notch upgrade to our senior unsecured and issuer credit rating to Baa1 from Baa2 by Moody’s Investor Service.

Some operational highlights we're always pleased when you have a good reliability record. The State of Texas tracks the reliability of each of the investor owned utilities and rates us. And I am pleased to say that we have been rated Number 1. There are two different factors that they look at the frequency of interruptions and then the duration, the average frequency and the average duration.

We have been Number 1 this past year but also for the previous two years before that. So we're very, very pleased with that. In June 2013, we set a new Native Peak Demand

Record of 1,750 megawatts. We continue to see growth in our service territory prompting the need for additional generating capability. We have entered into another purchase power agreement that will add 10MW of solar generation from a solar facility that is being built next to our Newman Power Plant in northeast El Paso.

Also, in May 2013 the very first of our Aero-Derivative gas turbines which can respond very quickly to increases and decreases in load was completed, and put into commercial operation at our Rio Grande Plant Unit 9. It has been working very well and has been very constructive. The next slide pretty well speaks for itself. The one thing I would point out is over on the right hand side there is a graph that shows our return of capital to our shareholders. This shows a transition from 2009 and 2010 which all of the return of capital was by the repurchase of stock. In 2011 we reinstituted the dividend. So in 2011 that's a combination of repurchased stock plus the beginning of our dividend. And then we have increased as I mentioned earlier our dividend each year for the last two years.

Our goals for 2014 focus primarily on our Montana Power Station. We have to finalize the permit and move forward with construction. We've got everything ready to go and as soon as we get clearances we'll be able to move forward with that. We'll be finalizing the CCN required for Units 3 and 4. We have obviously all of the needed CCN requirements for Unit 1 and 2. So as a consequence of this fairly major building program for this year we will be toward the end of the year the last half of the year be raising debt.

We also took the opportunity to extend our revolving credit facility. So we've got quite a bit of flexibility on both counts. As we move into the beginning of the construction of these power plants it will give us an opportunity to very specifically start putting together timelines for the rate cases that will be coming up after their completion.

With regard to growth in the area we continue to see a major project developing on the base, it's the construction of the $1 billion William Beaumont Army Medical Center. At the same time a lot of the expansion that we've enjoyed at Bliss the last several years is starting to slow down.

Another very positive economic development is in a little suburb of El Paso called Santa Teresa. It's in southern New Mexico and the Union Pacific is building a major facility intermodal rail yard to continue to be able to take products and distribute them very efficiently across the United States.

In addition to the these new construction projects, the Texas Transportation Commission has approved over $800 million in highway projects in the El Paso area for which a portion of the construction will take place in 2014.

Also this year for the first time El Paso has a new Triple-A baseball team and to accommodate the team construction of a brand new stadium is being built in the middle of downtown El Paso. We can see it coming together and the team will start playing there toward the end of April. Everyone's excited about that.

Also of note, in 2012 the voters of El Paso approved a $473 million quality-of-life bond initiative that includes the construction of parks, museums, pools, hiking trails those things that we think will really make El Paso a destination that people will want to be involved in.

Finally the University of Texas at El Paso is currently undergoing a “Campus Transformation” which will add approximately $300 million in improvements and new buildings.

The last couple of comments that I will point out is that our Juarez situation continues to improve. The violence across the border has been dramatically reduced from what it was several years ago. Last year there was $86 billion worth of commerce between El Paso and Juarez which is to me kind of a staggering number.

We will also have a new port of entry which will facilitate continued growth in the transactions between the United States and Mexico, a new bridge Tornillo-Guadalupe International Bridge will add to the capacity of traffic being able to cross the border which has been a huge restraint in being able to move people. Every time you look and see the bridges they're just backed up forever and so this will be a very positive thing.

A 10 percent increase in the maquiladora output which is the plants that are supporting the U. S. companies but the work and labor forces in Juarez that 10 percent increase in their output leads to a 2.8 percent increase in El Paso total population. So historically the maquiladora industry has been important for El Paso and it continues to be so. We've seen an upswing in the amount of companies that are looking forward to and interested in growth in the maquiladoras.

So with that Mary has got some information for us. I'm sure all of you made notes on what questions you want to ask when we get to the Q&A but Mary.

Mary Kipp: Thank you, Tom and good morning everyone. As Tom mentioned I'm here to provide you with some updates on our Four Corners Generating Station as well as the air permit timing we're anticipating on our Montana Power Station. And then I'll also talk a little bit about the impacts of the air permit timing on our anticipated rate case strategy.

I also wanted to mention before I got any further that David Carpenter is continuing to work very, very closely with me as we formulate our rate case strategies going ahead. And in fact he'll talk to you a little bit later in a little bit more granularity about what we're planning to do.

Turning to slide 13 after a comprehensive analysis looking at a variety of factors we've decided that it's not in the best interest of our customers or our shareholders to continue with Four Corners. As most of you know, the Company owns 7 percent undivided interest in that plant and we're nearing the end of a 50 year participation agreement which was the original anticipated life of the plant. We will not be participating in Four Corners beyond July of 2016. One of the driving factors on this is the uncertainty surrounding environmental regulations and future costs of complying with them. We're in a fortunate situation where we own very little coal as it is and once we are out of the Four Corners station we will be a coal free utility in terms of ownership. Upon our exit however we are going to work very closely with our co-participants to facilitate their ability to move ahead with the plant. I think some of you probably are aware that APS has expressed an interest in buying our portion of the plant and we will be working with them to facilitate that. We're in very early discussions but we will keep working on that as we move ahead.

Turning to slide 14, I would like to give you an update on the Montana Power Station and our air permit application that's pending before the EPA. On this slide we have a graphic illustrating the steps that must occur before we can begin construction of the plant and ultimately the inclusion of plant and rate base in our service territories. Our goal as well as our expectation is that we will get a permit from the EPA by the end of August. We previously provided a May date for that and a couple of factors have caused us to extend that by three months. The first one is that we sought and received a 28 day extension on the comment period which enabled us to negotiate a settlement with the Far East El Paso Citizens United which was the local citizens group Tom talked about previously.

They are no longer opposing our permit so they are out of the process. The second is that the Sierra Club as some of you know has filed comments in our proceeding and so we added to the timeline a little bit more time for the Environmental Appeals Board to consider an appeal which we anticipate will be filed by the Sierra Club. With an August permit date we would anticipate completing construction of Units 1 and 2 by the end of May 2015. We would then file a rate case in Texas based on a June 2015 test year and we would anticipate that we would have rates taking effect early in the third quarter of 2016.

In New Mexico, we have a little bit more flexibility in terms of reaching forward so we would anticipate filing a rate case in New Mexico using an historic test year ended December 31, 2014. We would then use a post-test year adjustment to include the two Montana units and we would expect new rates in New Mexico to be in effect by April of 2016.

As detailed in Slide 15, our assumption is that to reach these timelines we would need to have EPA Region 6 issue a final permit subject to appeal by the end of the first quarter. We would also need the Environmental Appeals Board of the EPA to resolve any requested appeal by the end of the third quarter. As I mentioned previously the Sierra Club has filed comments on the draft permit and the assumption that they will appeal is reflected in our timeline. There's also a local landowner who owns some property adjacent to the site who's filed comments and we don't know if this person will appeal or not. We're continuing to work on a compromise but our anticipated timeline does not reflect the possibility of a settlement with the Sierra Club. Similarly it does not reflect items that could delay the effective date beyond the third quarter of 2014. The first would be internal delays at EPA Region 6 which would delay their issuances of final permit beyond the end of the first quarter. Second, would be if the Environmental Appeals Board or the EAB didn't resolve any appeal by the end of the third quarter. And then the third would be if there were an issue found by the Environmental Appeals Board which they felt required that our permit be revised. As I said rather the timeline reflects what we believe is the most likely outcome in terms of the timing for receipt of our permit.

We'll continue to work with the parties who have filed comments. We will continue to work with our regulators as we have to ensure that we have a very defensible permit and we will seek to provide you updates as the process plays out.

Now I would like to introduce Steve Buraczyk who is our Senior Vice President of Operations. He will give you an update on our Capital Construction Program.

Steve Buraczyk: Thank you, Mary. If you would please turn to Slide 17, you will see our Generation Addition Schedule through 2018 which includes all four units of the Montana Power Station. This schedule assumes that the final air permit is received from the EPA and construction for the first two units at the Montana Power Stations begins by September of 2014. As can be seen here, the first two units at Montana would be completed in 2015 and the third and fourth units would be completed in 2016 and 2017.

The retirement of Rio Grande Unit 6 is scheduled for December of this year; however the unit may be kept online for an additional period of time to cover our capacity reserve margin in the event of any delays associated with the EPA air permit for the Montana Power Station. Now as Mary previously mentioned in July of 2016, El Paso Electric will cease participating in the Four Corners Generating Station. However, by the end of 2017, El Paso Electric's net generation capability will have increased by 199 megawatts. Also illustrated on this slide is the upward trend of our peak low projections, which reflects the continued growth for our service territory. This also helps to explain the need for the additional generation as these plants will be used to meet this projected low growth.

Turning to Slide 18, you will see our anticipated cash capital expenditures over the next five years. We currently estimate that the 2014 Capital Expenditures will be $327 million and that's primarily due to the Montana Power Station construction and associated transmission and distribution costs occurring this year. On average we expect to spend $254 million per year from 2014 through 2018. In total, we anticipate we'll spend almost $1.3 billion through 2018. In the slides to follow I'll provide some additional detail on our capital construction program by functional area.

Turning to Slide 19, the generation expenditures through 2018 are detailed. We anticipate spending a total of $584 million in Generation Capital Expenditures consisting of $345 million for new generation plant, $179 million for Palo Verde related capital costs, and $60 million for other generation.

On Slide 20, you can see that we expect to spend a total of $510 million for Transmission and Distribution expenditures during the period spanning 2014 through 2018. The $510 million consists of $193 million for Transmission including Transmission necessary to interconnect the Montana Power Station and $317 million for Distribution related to customer growth and replace aging infrastructure.

On Slide 21, we detail the total General Capital Expenditures. We are currently projecting to spend approximately $180 million through 2018. The primary General Capital Expenditures are related to Information Technology, Transportation, Communications, and Facilities projects. The facilities expenditures include the construction of a new distribution operation center which will be located adjacent to the Montana Power Station. This facility will consolidate many of our warehousing fleet, line crew, and engineering personnel into one location that's closer to the portion of El Paso that is experiencing the majority of the growth. This will allow us to improve our response times as well as improve our efficiency of our operations. Now construction of the facility began in October of 2013 and the total cost is projected to be approximately $38 million. Approximately $33 million is projected to be spent in 2014 and 2015 and the distribution operations center is expected to be completed by March of 2015.

Next David Carpenter will provide some additional color on our capital construction program will impact the growth of our rate base as well as our regulatory strategy.

David Carpenter: Good morning. Thank you, Steve. Today I would like to provide everyone with a revised rate base projection based upon the new capital construction plan. The earliest and most likely timeframe for completion of Units 1 and 2 of the Montana Power Station is the second quarter of 2015 before the 2015 summer peak period. Steve just showed the construction expenditures based upon this schedule. We're providing Slide 23 to show our expected rate base after the completion of the Montana units. The first column shows the additions to rate base through the completion of Montana Units 1 and 2. Since the Montana Power Station Units 1 and 2 are expected to be completed in the second quarter of 2015 the column labeled MPS 1 and 2 shows the estimated corresponding rate base by the end of the second quarter of 2015.

As you can see we anticipate an increase in our rate base of approximately $400 million between now and the second quarter of 2015. As I will discuss in more detail on the next slide we anticipate filing rate cases in Texas and New Mexico in 2015 in order to reflect these plant additions in rate base. This slide also shows our anticipated rate base after the completion of Montana Unit 3 in the second quarter of 2016 and Montana Unit 4 in the second quarter of 2017. Currently, we anticipate filing a second rate case after the completion of Montana Power Station Unit 4 in 2017.

However, if it is determined that additional rate case is needed; we could file a rate case after the completion of Montana Unit 3 in 2016 and then file a third rate case after the completion of Montana Unit 4 in 2017. Given the nature of the growth in our service territory and ultimately our rate base it is paramount that we obtain rate relief in a timely manner in order to minimize the impact of regulatory lag.

On Slide 24, we show our expected timeline for the initial rate case filings in Texas and New Mexico assuming that Montana Power Station Units 1 and 2 are completed in the second quarter of 2015. The timing of filing the rate cases is dependent on completion of the first two units at the Montana Power Station. If we are able to obtain the air permits this summer and start construction by September this year we believe as Mary stated previously, that the first two units at MPS will be commercially operational by June 2015. We currently expect to file rate cases in both Texas and New Mexico using historic test years. As for New Mexico, the rules for post-test year adjustments will allow us to file a rate case using a historic test year ended December 31, 2014 and reflect both Montana Power Station 1 and 2 in rate base through a pro forma adjustment. We would file the rate case in May 2015 and would expect an order by April 2016. New Mexico also has the ability to suspend the effective date another three months, but we believe that by using a historic test year it will allow us to obtain rate relief in the minimum ten month suspension period. If the commercial operation date of the plants is delayed beyond May 2015 we would probably delay the New Mexico rate case filing.

As for Texas the rules for post-test year adjustments are not as advantageous as in New Mexico. Therefore, we would likely wait until after the units are completed and file a rate case using a historic test year ended June 30, 2015. This will allow the rate case to be filed in November 2015. Rates would be expected to become effective in Texas by July 1, 2016 assuming the statutory 185 day suspension period. All total we estimate that we will be able to implement new rates in Texas and New Mexico to recover these costs by the third quarter of 2016 and in New Mexico rates could become effective as early as April 2016. I will continue to work closely with Mary and Nathan to ensure continuity of our rate case strategy. At this time I will turn the call over to Nathan Hirschi, our Chief Financial Officer, to discuss the financial results for the quarter and year-to-date periods ended December 31, 2013. Thank you.

Nathan Hirschi: Thank you, David and good morning everyone. I would like to go over the fourth quarter earnings results on Slide 26. The fourth quarter of 2013, we reported net income of $1.2 million or $0.03 per basic share as compared to fourth quarter 2012 where we reported net income of $4.8 million or $0.12 per basic share. For the year to date period we reported net income of $88.6 million or $2.20 per basic share as compared to $90.8 million or $2.27 per basic share for 2012.

Looking at the Slide 27 we can go over the key drivers for the earnings for the fourth quarter of 2013. On the negative side we saw a decline in basic earnings per share for the quarter of $0.07 resulting from increased O&M due to a one time refund in 2012 of transmission wheeling expense without an offsetting amount in the current year, plus we had increased level of planned generation maintenance and an increased level of consulting services relating to our future involvement in the Four Corners Generating Station. We also experienced decline in basic earnings per share $0.04 per share as a result of decreased retail non-fuel base revenues due to milder weather and the effects of the federal government sequestration and shutdown in October 2013. Also negatively effecting quarterly earnings was increased interest expense related to our senior notes that were issued in December of 2012. The increased interest had a $0.01 per basic share effect on that income. In addition lower Palo Verde Unit 3 revenues associated with the fall 2013 refueling outage and decreased AFUDC due to lower levels of construction balances each accounted for $0.01 per basic share decline in net income.

On the positive side, we had an income tax benefit related to positive developments in state income tax audits and settlements partially offset by a tax benefit recorded last year which had a $0.03 per basic share benefit in the fourth quarter of 2013 when compared to 2012. Looking at revenue changes for the quarter total retail sales declined by 1.1 percent partially as a result of cooler weather we experienced in the fourth quarter of 2013 as compared to 2012. Cooling degree days decreased approximately 51 percent as compared to last year and were lower than the ten year average by 28 percent.

Non-fuel based revenues for residential class remained relatively flat when compared to the fourth quarter. Although the decline in non-fuel base revenues was experienced in other customer classes the decline in residential class was mitigated by our robust customer growth. During the quarter the average number of retail customers grew by 1.3 percent which is largely in line with the customer growth rate we've seen in recent years. The increase in the average number of customers helped to offset the milder effects of weather. Our public authority's class was impacted by the fiscal sequestration, the government shutdown, and the increased use of renewable energy at the military bases we serve. We will discuss the impact of weather on our fourth quarter results a little bit more in a moment.

Looking at the key earnings drivers for the year we see that we had one of the negative earnings drivers was an increase in O&M expense which was primarily due to increased outside services for software support and upgrades and increased consulting services related to our future involvement of the Four Corners Generating Station. Although the level of O&M negatively impacted our year over year results overall O&M was nearly flat for the year with only a 0.4 percent increase. As a result we see the relatively flat O&M as a positive development for the year. We experienced a decline in basic earnings per share of $0.06 resulting primarily from decreased retail non-fuel base revenues reflecting the reduction of our non-fuel base rates in Texas that went into effect on May 1, 2012 and a decline in revenues from our public authority’s customers. For 2013, earnings were negatively impacted by an increase in interest expense associated with the senior notes that were issued in December 2012. The increased interest on long-term debt resulted in a $0.07 per basic share reduction in net income.

On a positive side we see deregulated Palo Verde Unit 3 revenues increase by $0.02 per basic share which was primarily due to a 19 percent increase in power prices in 2013. The increase in power prices were partially offset by an 8.5 percent increase in nuclear fuel costs and a 3.8 percent reduction in the amount of generation in 2013 as compared to 2012. Increased AFUDC due to higher balances of construction work in progress increased earnings by $0.02 per basic share. The higher balances were largely related to the construction of Rio Grande 9 which was placed in service in May of 2013. We also recognized an income tax benefit related to positive developments in the state income tax audits and settlements which benefited the year to date period by $0.03 per basic share for 2013 when compared to 2012.

Looking at year to date sales information on slide 30, we see that for 2013 total megawatt hour sales increased while revenues declined slightly. The decline in revenues in the commercial and industrial small and large customer classes is primarily attributable to the reduction in our non-fuel base rates resulting from the 2012 rate case settlement which reduced year over year revenues by approximately $3.3 million. The decline in revenues in the public authority's customer's class also reflects the impact of recently installed photovoltaic generation at Fort Bliss and for the White Sands Missile Range. Additionally 2013 revenues were negatively impacted by the federal government shutdown in October.

We continue to see growth in mega-watt hour sales and revenues from our residential customers. Overall the average number of retail customers increased by 1.3 percent for 2013 in comparison to prior year, which is again, is in-line with our longer term trends.

However during 2013 we experienced milder weather as evidenced by a 3.6 percent decline in cooling degree days. The weather trends have the impact of reducing our residential, commercial, and small commercial industrial revenues.

Looking at our capital requirements and liquidity on slide 31, we spent approximately $237 million for additions to plant during 2013 which was approximately $35 million or 17 percent more than we spent on capital additions in prior year. Although we have not yet begun construction on the Montana Power Station we have spent approximately $99 million on materials and turbines for the new power plant since 2012.

In regards to the dividend payments, we paid $42 million to our shareholders in 2013. As Tom mentioned earlier the quarterly cash dividend was increased by 6 percent in 2013 and we anticipate growing the dividend at a rate of 4 to 6 percent annually while keeping our payout ratio in the range of 45 to 55 percent over the long term. Our Board of Directors revisits the dividend policy in conjunction with its annual meeting which occurs in the second quarter. At the end of 2013, our liquidity was approximately $311 million which consisted of a cash balance of $25.6 million and an available balance on our credit facility of approximately $285 million. In addition to the available liquidity and our expected cash from operations, we may need to access debt capital markets in the second half of the year.

Turning to slide 32, I would now like to focus on our results for 2013 versus the guidance we previously provided. Despite a 0.4 percent increase in total retail sales and a 1.3 percent increase in total customers served for 2014 as compared to prior year basic earnings per share of $2.20 was approximately $2 million or $0.05 per basic share below the low end of our 2013 earnings guidance mainly due to lower than expected retail non-fuel base revenues. We attribute the decrease in non-fuel base revenues to lower than average cooling degree days and the federal sequestration, federal government shutdown and the resulting furloughs as well as solar installations at the military bases we serve. Weather for the fourth quarter of 2013 was cooler than experienced in the fourth quarter of 2012. The last October with less than 80 cooling degree days experienced in our service territory was in 2006. October 2013 had 84 cooling degree days less than prior year and 31 cooling degree days less than the 10 year average. The decrease in cooling degree days occurred in the first half of the month, which we believe was one of the primary factors for the reduced revenues we saw for the quarter. Typically when weather starts to cool down people do not rely on their air conditioners. As the temperature increases later in the month people who own evaporative coolers winterize or convert their coolers when temperatures drop. And this was a relatively extensive and time consuming process. People typically will not turn the evaporative coolers back on until the following spring therefore we believe the October weather trends resulted in lower than anticipated revenues for the quarter.

Again October is still a summer peak billing month for us and so the cooler weather trends had a significant impact on our fourth quarter. Government actions also affect our fourth quarter and on slide 33 we see that our customers in the public authority’s class reduce their spending and shutdown certain operations from October 1 through October 17 per the government mandate, which impacted energy sales to those customers.

This was compounded by the fact that government employment in El Paso service territory was estimated to be 25 percent of total employment so government employment in El Paso was estimated to be 25 percent of total employment. We estimate that 4600 federal employees or approximately 27 percent of federal employees were furloughed during that period in October as a result of the government shutdown. All of these factors led to less than anticipated retail sales during the fourth quarter.

Turning to slide 34, we'll finish up by looking at the Earnings Guidance for 2014. We are initiating 2014 earnings guidance of $2.10 to $2.50 per basic share. This slide rolls forward our 2013 earnings of $2.20 to the midpoint of our range of $2.30 per share.

The majority of these items that we'll be talking here soon are very similar to the items that we've already addressed today, our increased construction activities, the growth of our service territory, and the increase in AFUDC that's associated with that.

As you can see the 2014 projected earnings are expected to be negatively impacted by Taxes other than income which is projected increase by $0.09 due to higher property taxes associated with Rio Grande 9 which was placed in service in May of 2013 plus other property additions and also higher revenues will result in higher revenue related taxes. Depreciation and amortization expenses are also expected to increase by approximately $0.08 per share which is related to the increased level of depreciable plant in service including a full year of Rio Grande 9 and our other plant additions.

In addition, Operating and Maintenance expenses are anticipated to increase by approximately $0.08 due to higher Palo Verde outage costs, an additional Four Corners planned outage expenses, as well as increased maintenance and sub-contractor costs. This represents approximately 1.7 percent increase in O&M expense.

The Other category includes higher interest primarily related to the anticipated debt issuance that is likely to occur in the later part of 2014. On the positive side we anticipate earnings to increase in 2014 by $0.17 per share due to continued growth in our service territory. The midpoint of guidance assumes normal weather.

The low and the high end of guidance takes into account considerations of fluctuations in base revenues due to weather. It is important to note that our revenue assumptions do not include in extraordinary events such as the government shutdown which could potentially have a negative impact on our service territory. We believe that the base revenues associated with the government shutdown that was experienced in the fourth quarter of 2013 was largely a onetime event and we do not anticipate to see a repeat of those factors. We also anticipate higher construction work in progress balances subject to AFUDC mainly related to construction expenditures for the Montana Power Station as well as the East Side Distribution Center, which is expected to increase earnings by $0.22 per share. As David mentioned earlier we will continue to build new electric plant to meet the demand, which will also add to our rate base over time. And that concludes my presentation.

I'll turn it back over to Steve to go through questions.

Steven Busser: Thank you, Nathan. We just want to do the questions and answers in an orderly process. So what we'll do is we'll start with those in the room here and then we'll turn it over to the operator to take questions from those of you on the phone. Lisa has the microphone and so if you’re in the room we ask you to state your name prior to asking your questions so that we can get it properly transcribed since the call is being recorded.

Neil Mehta from Goldman Sachs.

Neil Mehta: I just want to explore demand a little bit. What was weather normalized demand in the fourth quarter for on average in 2013? And then what is imbedded in the 2014 guidance?

Nathan Hirschi: The guidance for 2013 is thought to be weather normalized. So we had a decline of about $2.5 million in October revenues is what we focus our primary thought is that the October weathers of 2013 was below normal and the below average. So that would be the

$2.5 million in October was primarily the difference between our variance in fourth quarter revenues.

Neil Mehta: If I was to think about 2014 versus 2013 what's imbedded in there in terms of the growth rate as a percentage? Is it typical doubly 2 to 2 ½ percent assumption in terms of load growth is the way to think about it?

Nathan Hirschi: That's right, for residential we lowered the load growth expectations for our military bases to be lower than that or lower than our historic trend so it is for the residential the 2.25 is the trend we've been anticipating.

Neil Mehta: Okay, so for the total weather normal do you have the number for 2014 versus 2013?

Nathan Hirschi: It's about 2 percent.

Neil Mehta: Two percent.

Nathan Hirschi: Two percent is revenue growth projected.

Neil Mehta: And then the other piece I want to explore was solar at Fort Bliss how many megawatts of solar is there? And how big of an impact was that in the quarter and then on a go forward basis? I'm just trying to strip that out relative to the furloughs see what the relative impact is.

Nathan Hirschi: Fourth quarter Fort Bliss revenues were down approximately I think it was $500,000 for the quarter Fort Bliss revenues were down and for the year it was down about $1 million for the year. How much of that is weather versus the solar versus the shutdown is hard to determine although we are seeing that Fort Bliss is not hitting the peaks that it has historically. And so it's hard to judge which one of the factors at Fort Bliss is seeing that.

Christopher Kovacs: Hi, Chris Kovacs from Levin Capital, just a couple of quick questions. Just want to clarify you said that you spent $99 million to date on Montana Power Station equipment and such so when I look at your Slide 23 divide $200 million between the other common plant and 1 and 2. So should we think about, you know, spending over the next two years about $100 million incremental of that or is that the way we should be kind of modeling your cap actuated MPS?

Steven Busser: For the Montana Power Station?

Christopher Kovacs: Yes.

Steven Busser: This is Steve Busser. I think the total cost for the Montana Power Station including common facilities is about $340 million in total by the time we get it done in 2017.

Christopher Kovacs: Okay, yes I was just talking about Units 1 and 2 because its $200 million it looks like on here for those two with the common. And then you spend $99 million to date so I'm just wondering is this shedding of additional $100 million over the next years?

Steven Busser: Yes, I think you're doing the math probably a little bit more than $100 million Chris.

Christopher Kovacs: Then how do you think about how that's split between ‘14 and ‘15?

Steven Busser: As to how we'll spend the majority of that money is going to be incurred - the majority of the money for the materials has already been incurred so that represents the $99 million. There still are other components that need to be procured for those two units but I think depending on when we get the air permits that those dollars could move.

If you go with Mary's timeline that she mentioned earlier about getting the permits in the third quarter of 2014, you know, obviously that'll start to ramp up in construction. And once you start that it's a fairly ratable process to spend the rest of the money on those units.

Christopher Kovacs: Do these numbers include any extra costs I would put in here to accelerate the timeline because you have that delay of a few months? You still want to get it done by the middle of next year?

Steven Busser: We have not - in these numbers we don't have any cost acceleration. There will be some cost acceleration that goes into building the units relative to a normal 12 month schedule. So I think that maybe the way to think about it some of the numbers that we've talked about internally is that if you accelerate it from an 11 or 12 month normal schedule it's about $800,000 per unit per month. So if you want to do them in nine months it'd be $800,000 for three months times two units.

Christopher Kovacs: Okay. Thank you very much.

Brian Russo: Hi, Brian Russo, Ladenburg Thalmann. Historically you've been able to avoid rate cases with the positive load growth which seem to more than offset your operating expenses, but when we look at the earnings drivers for ‘14 versus ‘13 your operating expenses are not exceeding your sales growth. And I'm just curious, you know, what type of earned ROE are you assuming in '14 and, you know, are the operating expenses going to continue to create incremental regulatory lag until the timing of when new rates go into effect?

Nathan Hirschi: I think we're projecting revenue growth to be a tad ahead of our O&M expense increases so that is what we're hoping for. And then our ROE we had one item that you can see in our press releases. We had an increase in other comprehensive income during the quarter so we had a relatively large increase in our equity during the fourth quarter. But at the $2.30 midpoints of the range you can see that's a tad below 10 percent ROE. That's book ROE, that's not regulatory ROE.

Brian Russo: And what's the net book value of Four Corners? And how should we think about the regulatory treatment if you were to sell that?

Nathan Hirschi: That net book value is currently approximately $25 million in our net book value and that's being depreciated at a relatively higher rate than our other plants as it was anticipated to be fully depreciated by 2016. The current rates we have in rates will not get it to zero in 2016, but that's the approximate amount.

Brian Russo: And what's the tax rate you're assuming in 2014?

Nathan Hirschi: 2014 we're using a 31.5 percent. We think that without bonus depreciation we will have some manufacturing credits that will help us during the quarter and then as the AFUDC grows up our tax rate goes down a little bit.

Brian Russo: Okay, and then just lastly when looking at the trend in your peak load it looks like '17 and '18 or '18 is flat to '17, on slide 17 I'm just wondering can you elaborate a little bit on that? You're showing growth looks like 2071. I'm sorry I think I'm misreading it that's the generation not the projected peak. So I guess to tie into that question are we seeing kind of an organic slowdown in the Fort Bliss as we've seen historically or is that kind of trend trajectory still intact?

Nathan Hirschi: Yes, we've enjoyed significant growth at Fort Bliss for the last several years and although there's still construction going on out there we don't think that the Fort Bliss will increase as much as it has in the past.

Brian Russo: Okay, thank you.

Matt Fallon: Hi, Matt Fallon with Talon Capital. Just in thinking about the 2017 average CWIP balance can you give us some guidance on that?

Steven Busser: I think if you look at the rate base slide, Slide 23 Matt we actually give a projected year end CWIP balance. So if you're looking 2017 you probably look in the MPS 4 column and that's your earning CWIP balance there. And if I can read this right I think that's $244 million.

Matt Fallon: So that's the year end so I mean is it kind of the $316 plus $244, you know the average of those two numbers?

Steve Busser: Yes, I think the units are MPS 4 and this schedule is assumed to come in the May, June timeframe of 2014. So obviously you have some ramp up from the end of the prior year up until the point where that goes into service and then the cost of that unit gets placed in plant and obviously the CWIP balance goes down after that.

I don't think, Matt, to answer your question a little bit more specifically I don't think it's as easy as a simple average of the numbers.

Matt Fallon: Okay, so should I look more towards $244?

Steven Busser: For the end of the year?

Matt Fallon: No, for average ‘17.

Steven Busser: I think if you're doing it on a weighted average basis it's probably going to be higher than that.

Matt Fallon: Okay, and then the other question was just in terms of the New Mexico fuel filing, you know, and the related Palo Verde revenue is there any update as to that filing and kind of what's happening in terms of the formula?

David Carpenter: You're talking about the fuel continuation filing?

Matt Fallon: Right.

David Carpenter: That's been approved and that was approved in January and the Palo Verde pricing mechanism proxy market price was approved to continue the mechanism we've been using for the last several years. So it's a gas index time’s heat rate plus $9.25 per month KW capacity charge.

Matt Fallon: Okay, thank you.

Anthony Crowdell: Anthony Crowdell from Jefferies. First I wanted to jump on Neil's question. You don't have a break up between what the impact for the quarter weather versus sequestration? And then the second question I had was I guess on David's talk on when we get new rates in Texas - I'm not sure if he said July or June. I know the slide says June but I guess maybe I'd phrase it as when those rates go into effect what's the benefit for the year? Do you get like 60 percent of the benefit for a rate case? Or because I know you're more summer weighted you get 65 percent. Just trying to find out what the difference is.

Nathan Hirschi: On the first issue, Anthony, is both the government shutdown and the weather conditions in October occurred at about the same period so we really do not have a clear breakdown of how much was revenue related to the cooler October weather at the same period that we had the higher summer rates and then the shutdown. Since those things happened almost simultaneously or did happen simultaneously it was not possible for us to really figure out the difference between them.

David Carpenter: Yes, as it relates to the light we say June there. If you look at the pure 185 day period it would put the rates into effect in June I think for certain reasons we've kind of generally assumed certainly you have them in effect by July 1. I think if you look maybe traditionally about 60 percent of the rate relief would probably be occurred after July 1 but I want to caution that the allocation of or where you put the rate increase is always a big debate and that your final rate design may shift more that to a different period or it may shift more of it into the summer. So that's kind of maybe a historical ratio but that doesn't mean that's going to be the result of the rate case.

Maury May: Maury May of Wellington Shields. Again on Slide 23 which is the CWIP in rate base just want to make sure these columns are the end of '15, '16, and '17 right?

Steven Busser: No.

Maury May: Year-in-end in millions for '15, '16, and '17.

Steven Busser: Yes, that is the only item that's year end. The numbers that are in the schedule above that represent what rate base would be upon those units going into service.

Maury May: Right, Okay. And then the $244 at the end of 2017 is just CWIP for the other general stuff?

Steven Busser: Yes, that's a total.

Maury May: The amount of non-generation. Okay, then just to I might have missed the answer to this before, but page 30 this is a return to the weather question. Page 30 where it says cooling degree days were down 6.3 percent this year that is year over year right? That's 2013 over 2012 is that correct?

Nathan Hirschi: That's correct.

Maury May: So what was it relative to normal? Did you give that number out?

Nathan Hirschi: No, but it was about at normal. So but we saw an 8 percent decline in 2011 to 2012 and then another 6 percent decline 2012 to 2013.

Maury May: So 2013 was above normal?

Nathan Hirschi: In cooling degree days, yes.

Maury May: All right, okay. Good enough thank you.

Male: Just a nit question, how much cash are you putting into pensions in 2013, '14, '15?

Nathan Hirschi: It'll be about $15 million.

Male: And what did you put in 2013?

Nathan Hirschi: Thirteen I think it was $18 million for pension.

Male: And just a gut on how you thought about this Fortis coming in and buying that company in Tucson? What was your reaction to that when you heard that? You probably knew about it but tell us your reaction anyway.

Tom Shockley: Well, you know, we saw the merger thing earlier in the year and we do have the twofer in our area of the country. I think there are some interesting advantages in both of those the way they apparently end up running them after they're through such that they for the most part stay fairly independent. I guess they take advantage of creating capital and some advantages on the debt. But as far as management and the facilities pretty much stay intact. As we've looked at M&A activity and opportunities we have a very, very unusual regulatory environment that I think some of the ones that would look like operationally would be very natural. We probably have a lot of headwind from a regulatory perspective whether it was PNM or now Tucson has found a home I suppose but the folks in El Paso city of which is the original jurisdiction where we'd have to go are very pleased that we are one of the only public businesses there and so I think there's just would be a lot of headwind in any kind of an operation that changed that in any way. But it was a nice premium that they got.

Male: I'll just make a comment about that. Those two transactions one was good; one was not so good for shareholders. So follow the good one in case that ever comes about. Nathan, I didn't hear anything about equity. Do you want to just make a comment about equity for the future?

Nathan Hirschi: Yes, we still anticipate that we will not be issuing - we do not need any debt issuance - equity issuances to get through this construction period.

Steven Busser: That's what I wanted to hear.

Nathan Hirschi: We still are.

Chris Ellinghaus: Chris Ellinghaus from Williams Capital. The dividend payout is a little on the low side relative to peers. Is that for you is that a construction period payout? Or is that your real long term thinking?

Tom Shockley: I think we'll have to readdress that at the end of the construction period. But of course we'll do that in the same quarter of every year. But yes, for the construction period obviously that'll change our net income and it'll change things.

Chris Ellinghaus: Okay. The rate base slide, let's come back to you for a second Steve. You've given a sort benchmark to think about New Mexico versus Texas rate base in the past. Can you just give us an update on your thinking about how New Mexico and Texas break out for those numbers?

Steven Busser: In terms of the companies?

Chris Ellinghaus: Yes.

David Carpenter: Yes, I think generally what you have to think about here is that because New Mexico had a renewable portfolio standard and we've built about 50 megawatts of solar to meet the New Mexico rate base or to meet the New Mexico portfolio standard what that does that gets allocated first to New Mexico.

So it reduces your need for rate base in New Mexico from our other generating facilities. And so in the past where maybe you've thought about New Mexico being at 24, 25 percent of the total probably because of the solar it drops down to more like 22 percent, 21, 22 percent of the total. And so when we look at what's likely to happen we're likely looking at a significantly larger rate increase in Texas than we are in New Mexico.

Chris Ellinghaus: So nothing is really radically changed last couple of years in terms of your thinking?

David Carpenter: More gradual. More gradual.

Chris Ellinghaus: Do you know what the book value for your ownership on Four Corners is at the moment?

Tom Shockley: It's the $25 million.

Chris Ellinghaus: Okay, I think that's it.

Steven Busser: Operator, this is Steve Busser. It doesn't look like we have any more questions in the room at this point. If there are any questions on the call we'll go ahead and take those at this time.

Operator: Thank you very much. If you would like to ask a question over the phone lines please press star 1 on your telephone keypad. Once again it's star 1 to ask a question.

We'll take our first question from Ashar Khan with Visium

Ashar Khan: Hi, good afternoon. Steve could you just tell us because we're going to be having this construction which is and then the rate increases are going to come nearly a year after the plans come online which will I guess impact earnings because we're going to have a recovery of DNA and everything until the rate cases. What is the earnings power from the rate base that you've given us on that slide? What is the earnings power of the corporation assuming you get that rate increases and that rate base? And based on the currently allowed ROEs that you have in the two jurisdictions can you just give us some sense of what the earnings power is because I guess you'll have to wait two years until probably 2017 to really get a bump in earnings. Am I thinking to that correctly?

Steven Busser: Ashar, this is Steve. I'll give a portion of that answer and then we'll let David Carpenter add to that as well. I think from an earnings power perspective if you look at the total rate base of the company after the first two units of $1.9 billion or so our target capital structure from a regulatory perspective is going to be in the 48 to 50 percent range for equity. And so I think if you thought about up to half of that rate base being capitalized with equity and look at returns that are being granted by commissions in both Texas and New Mexico probably in the 9 ½ percent range at this time that would give you a feel as it relates to where we think earnings are going going forward. I don't know, David if you have anything you want to add to that.

David Carpenter: No, I think that sounds good. And then as far as timing I think what we would be seeing is that as we said we think that we could get rates into effect in New Mexico by April of 2016 and June 2016 for Texas assuming the kind of the current expectations. And so that would give you a pretty significant portion of your rate relief in effect in 2016 probably a little bit more than half and then the rest of it in 2017.

Ashar Khan: Okay, but apart from the rate base I should also be adding the CWIP balance right because you will be getting some kind of earnings on that CWIP balance as well into earnings is that correct?

Steven Busser: Sure, I think in addition to the CWIP balances you're going have earnings from Palo Verde 3 which as David mentioned a little bit earlier in response to a question we just got an okay, an approval from the New Mexico commission to continue the pricing structure for Palo Verde 3. So if you're looking at a total earnings power of the Company outside of rate base I think you're right in thinking about AFUDC earnings and Palo Verde 3 deregulator revenues in New Mexico earnings as well.

Ashar Khan: Okay. Thank you so much.

Operator: As a reminder it's star 1 to ask a question.

Anthony Crowdell: What's the earnings power of Palo Verde 3?

Steven Busser: Anthony Crowdell at Jefferies. The earnings power of Palo Verde 3, last year I think we had a refueling outage at Palo Verde 3.

David Carpenter: I think one way to put it Anthony, is that at Palo Verde 3 at current gas prices in New Mexico and remember this is just a portion of Palo Verde 3, at current gas prices it is probably about breakeven - well I say current I should say maybe the last month is not current but in the $4 range it's about break even with a regulated return. I don't think we've put it on this slide but in the past, oh we did, $36 million of equity or investment in PV3 then if half of that is equity and then you're earning approximately an unregulated return on that. So that would put you know, I'm using 10 percent return equity that puts you about $1.8 million right. Just the contribution to net income. If gas prices are, you know, above the $4, what we've seen recently it's probably a little bit more than that.

Steven Busser: Do we have any other questions waiting on the call?

Operator: There are no phone questions at this time.

Steven Busser: Okay.

Operator: And we do have one that just came in. We'll take a question from Rocky Bacchus from Efficiency Power.

Rocky Bacchus: Yes, I'd like to ask Mr. Carpenter what the probability of the CCN is for the Montana 3 and 4 units.

David Carpenter: Yes, I'd be happy to answer that. For full disclosure Mr. Bacchus has intervened in our CNN requirement for Units 3 and 4. I think that the likelihood of approval is very high and that we'll see the approval of Units 3 and 4 at Montana Power Station probably - I think it has to be approved by September. I think we'll probably see it in the third quarter.

Rocky Bacchus: Thank you.

Operator: And we have no further questions in the queue.

Steven Busser: Thank you all for joining us today. We enjoyed having you.

Operator: All right, thank you so much. This does conclude today's conference. We thank you for your participation.

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