

**EL PASO ELECTRIC CO**  
**Moderator: Lisa Budtke**  
**August 11, 2015**  
**9:30 am CT**

Operator: Good day and welcome to the El Paso Electric Company Texas Rate Case Filing conference call. Today's conference is being recorded, and I'd like to turn the conference over to Lisa Budtke. Please go ahead.

Lisa Budtke: Thank you, Danny. Good morning everyone. Thank you for joining the El Paso Electric Company Texas Rate Case Conference Call. My name is Lisa Budtke, and I am the Assistant Treasurer for El Paso Electric. On the call today are CEO, Tom Shockley, President, Mary Kipp, CFO, Nathan Hirschi, Director of Regulatory Affairs, Jim Schichtl and other members of the senior management team. Today we will provide a summary of the rate case that was filed on August 10<sup>th</sup> simultaneously with the City of El Paso, other incorporated municipalities in our Texas service territory, and the Public Utility Commission of Texas.

If you will now turn to slide 2, 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 provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks and other factors which cause the Company's actual results and future periods to differ materially from those expressed here. Any such statement is qualified by reference to the risk and factors discussed in the Company's SEC (Securities Exchange Commission) filings. Our 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 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 section of the call are subject to risks and uncertainties that are difficult to predict. At this time, I will turn the call over to Tom.

Tom Shockley: Thank you, Lisa. Good morning everyone and thank you for joining our call. I would like to once again mention our second quarter earnings results, which we released last week. For the second quarter of 2015, we reported net income of \$21.1 million or \$0.52 per share compared to 2014 net income of \$30.1 million or \$0.75 per share.

During our quarterly call, we described the challenges we were facing in 2015 due to regulatory lag. The regulatory lag impact is due to the sizable investments that have been placed in service since 2009. The significant capital investments the company has made over the past several years were necessary to meet the growing needs of our service area and to maintain grid reliability. Evidence of this growth is reflected in the fact that we have set a new peak in 9 out of the past 10 years, and we continue to see consistent growth in the number of customers served. Since 2009, the Company has invested \$1.3 billion in new electric plant and added over 545 megawatts in new local generation. Since we have completed a major portion of our generation expansion plan, which was previously approved, we now are seeking rate relief in both our Texas and New Mexico jurisdictions.

As seen on slide 3 our Texas Rate Case was based on a historical test year ending March 31, 2015. As I just mentioned, the Company has invested in newer, more efficient and more operationally flexible generating units including Newman Unit 5 and Rio Grande Unit 9, however, the timing of the current filing is driven by new plant placed in service at the Montana Power Station including Units 1 and 2, common plant, and the related transmission and distribution infrastructure; also the Eastside Operations Center. These investments resulted in the Company filing for a non-fuel base rate increase of \$71.5 million. Based on the proposed increase, we estimate that the Texas residential customer's average monthly bill will increase by \$8.41. The Company has requested a return on equity of 10.1 percent and an equity ratio of 49.52 percent. The mid-point of our current guidance range for 2015 assumes a return on average common equity of 7.7 percent, which is significantly below our authorized ROE. This is the primary reason that we are seeking this rate relief in both jurisdictions.

For additional details regarding the current filing I will now turn the call over to Nathan.

Nathan Hirschi:

Thank you, Tom. If you will now turn to slide 4 I would like to discuss a summary of our requested rate base in Texas. Total company rate base for this filing is \$1.9 billion. The Texas allocation of that rate base is \$1.5 billion.

As Tom mentioned, the need for rate recovery in Texas is primarily due to significant capital investments made by the Company to replace older less efficient facilities and to meet the growing needs of our region. Approximately \$1.3 billion of plant additions have been placed into service since July 2009. Although a subsequent Texas rate case was filed and settled in 2012, the parties in that case and the Commission deferred consideration of the reasonableness of invested capital for that case. Therefore, a list of the major assets that we've placed in service since 2009 is provided on slide 4 along with the respective rate base impact. New assets included in rate base are Palo Verde capital improvements, Newman Unit 5 Phase II, Rio Grande Unit 9, and transmission and distribution infrastructure. This is in addition to the Eastside Operations Center and the Montana Power Station Units 1 and 2 and the associated common plant and transmission and distribution infrastructure. While El Paso Electric works hard to keep expenses down, we remain committed to meeting demand and providing safe, reliable, and efficient service to our region. The Company's recent investment 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 5 I would like to walk you through a table that summarizes rate base in Texas. The Company's 2009 rate case was the most recent case in which plant in service was added to rate base. Since that case, total rate base in Texas has increased by approximately \$507 million or 52 percent. In Texas, the Company's plant in service continues to exceed the increase in accumulated depreciation and amortization of \$350 million by over \$693 million. Similar to the case in New Mexico, accelerated tax deductions, including bonus depreciation have funded approximately \$188 million of the increase in net plant. However, total rate base has increased from \$969 million in the 2009 rate case to \$1.5 billion through March 31, 2015.

Turning to slide 6 the capital structure requested in this rate case represents the actual capital structure at March 31, 2015. The capital structure reflects 49.52 percent common stock equity and 50.48 percent long-term debt. As a reminder, our regulatory capital excludes the Rio Grande Resource Trust debt, which is used to finance our Company's nuclear fuel; thus, we have a higher regulatory common stock equity ratio than we have for SEC reporting purposes. We believe our requested rate of return on equity of 10.1 percent is fair and reasonable and is in line with major rate case decisions recently authorized for vertically integrated utilities. Based on our capital structure at the end of

March 2015 and our requested rate of return on equity, the Company's overall requested rate of return is 8.079 percent.

On slide 7, you can see that rate base at the end of 2015 is projected to be approximately \$1.9 billion which is comparable to this Texas filing. After the completion of Montana Power Station Units 3 and 4, total company rate base is anticipated to grow by approximately \$251 million to reach \$2.2 billion at the end of 2016. These projections are in line with our previously disclosed rate base projections. As we have previously mentioned, we plan to seek rate relief in subsequent rate cases to recover the additions to rate base.

At this point I will now turn the call over to Mary who will discuss some of the structural rate design changes that we have proposed in the current case.

Mary Kipp:

Thanks Nathan. Turning to slide 8, I'll discuss a couple of the structural rate design changes we are proposing. In the filing, we've taken a gradual approach in our proposed revenue allocation that will move customer classes closer to their full cost of service. Based on the current proposal, all rate classes would see an increase over current rate levels. By moving towards full cost-based rates, we will reduce the level of inter-class subsidies that currently exist. We're also proposing to increase fixed charges to help reduce intra-class subsidies by decreasing the portion of fixed costs that are recovered through variable energy charges. Both the rate class movement and the increase in fixed charges proposed in the current case are steps toward the long-term goal of eliminating inter- and intra-class subsidies.

We're also proposing to modify all of our current Time of Use rates to incentivize energy conservation and encourage reduced on-peak usage. Our proposal to modify the on-peak and off-peak differentials for all Time of Use rates to reflect our current avoided cost of generation will help to provide an effective incentive for customers to shift load.

Additionally, in an effort to ensure that our rate classes distinguish customers with unique load profiles and accurately allocate costs, we are proposing to combine similar customer classes and to establish a new rate class for Residential customers who own or lease distributed generation systems behind their meter, which we will refer to as Partial Requirements customers. Creating a partial requirements class will assist us in designing rates that recover the cost of services provided to those customers and will allow them to receive the full value of their distributed generation system while also limiting inter- and intra-class subsidies.

A breakdown of the proposed total revenue impact for our major rate classes has been provided on the slide. It's important to note that rate increases produced by the revenue increases illustrated on the slide reflect an average increase for each class and individual customer impacts will vary according to each customer's usage.

Turning to slide 9, I would also like to discuss the Texas rate making process as it differs quite substantially from the New Mexico process.

As many of you are aware, incorporated municipalities like the City of El Paso, have original jurisdiction over rates in their city limits. The Public Utility Commission of Texas has original jurisdiction of rates in unincorporated areas and municipalities that have ceded their original jurisdiction to the Commission. The cities and towns in our Texas service territory maintain their right to original jurisdiction. Regardless, the Commission has appellate jurisdiction over municipalities' decisions on rates. Because we want to respect the Commission's policy to maintain uniform rates across our Texas service territory inside and outside city limits, on August 10<sup>th</sup> we filed for a rate increase

with the City of El Paso, the other incorporated municipalities in our Texas service territory, and, at the same time, with the Commission.

The Commission reviews rate cases on a *de novo* basis, meaning the Commission decides the rate request without giving deference to decisions made by the municipalities. Any municipality in our Texas service territory can participate in the proceeding before the Commission as an intervening party.

Based on this process I'd like to walk through an illustrative Texas procedural schedule that is provide on slide 10.

The first step in the process will be for the Commission to refer the case to the Texas State Office of Administrative Hearings, which will appoint an Administrative Law Judge to oversee the case, and who will then establish a procedural schedule. We anticipate that the discovery process and direct testimony will conclude sometime around the end of November. We certainly anticipate that we will receive a number of different intervening parties in our case and we welcome the opportunity to communicate with and engage them as we move forward. The procedural schedule issued by the appointed administrative law judge will give us a better indication of the timeline for the rate case to be finalized; however, we've estimated that a potential decision by the Commission could be reached during the first quarter of 2016. We would then anticipate new non-fuel base rates to become effective in the second quarter of 2016.

Recent changes in the law give us the right to surcharge customers for new rates relating back to consumption beginning on the 155<sup>th</sup> day after the rate case is filed. This means that even if the schedule of the rate case were extended, the Company would be able to collect on new rates upon conclusion of the case via a surcharge as if the rates would have taken effect on or after January 12, 2016, which is 155 days after the rate case was filed. Turning to slide 11 I would now like to provide a brief update of our current New Mexico Rate Case filing.

Our New Mexico Rate Case was filed on May 11, 2015, and the hearing examiner in our case has issued a procedural schedule which we've included on slide 11.

We're currently in the discovery process as we are providing responses to interrogatories and all requested documentation to the Commission and intervenors. The discovery period is anticipated to last into November. The deadline for interested stakeholders to intervene in the rate case process was August 3<sup>rd</sup>. We have estimated that a potential decision by the Commission could be reached by the first quarter of 2016. We believe that using a historical test year will allow the case to be completed in the initial 10 month suspension period, and that new non-fuel base rates would become effective early in the second quarter of 2016, similar to Texas. We look forward to working towards a beneficial resolution in both cases for all of our stakeholders.

At this time, I'd like to take a moment to thank my fellow employees who have dedicated themselves to the challenges inherent to every rate case filing and have worked so hard putting together not one, but two rate case filings over the past several months. I would also like to thank our operations employees who have worked through the storm season to keep the lights on. Your hard work and dedication has not gone unnoticed.

I will now turn the call back over to Lisa for questions.

Lisa Budtke:

Thanks Mary. This concludes our Texas Rate Case presentation. Danny please open the call for questions.

Operator: Thank you. Ladies and gentlemen if you would like to ask a question please signal us by pressing Star 1 on your telephone keypad. If you are joining us today using a speakerphone please make sure your mute function is turned off to allow your signal to reach our equipment. Once again that is Star 1 if you would like to ask a question, and we'll pause for a moment to allow everyone an opportunity to signal.

We will take our first question from Anthony Crowdell from Jefferies, please go ahead.

Anthony Crowdell: Good morning, just two quick questions. One thought, it's not a major difference, but you filed for a different ROE in Texas versus New Mexico. It's only I think 15 basis points difference, but the thought is on the different ROE and then lastly you gave an illustrative example of a Texas rate case filing on slide 10, and that assumes a scenario as if you're going through the PUCT. You haven't, and maybe there are no mile markers in the process through the City Council, but it seems that you are leaning towards a fully litigated track in the PUCT by only providing that information.

Nathan Hirschi: Let me answer the ROE question first. The ROE was up by 15 basis points between the two cases, and it primarily had to do with changes in the underlying interest rates that occurred during the period of the two filings, so it was just an interest rate change there Anthony.

Mary Kipp: Anthony good morning, this is Mary. I'll take the second question. Obviously in either case or both cases we would like to have a settlement if we can get a settlement on terms that we find mutually beneficial. That said you're right, in our timeline we've indicated a fully litigated case. It's been a while since we've had a case where we've gotten clarity on rate base, and so we see some advantages in having a fully litigated case, but we're always open to a beneficial settlement.

Anthony Crowdell: Are there mile markers you could give on when the City Council holds hearings or something? Is that something that's already stated or do you have to wait until the City Council puts out a schedule just to mark those down in the calendar of when the City Council will be taking up the El Paso case.

Mary Kipp: You know we can't give you any mile markers as we sit here today. I can tell you however that the City Council does have our rate case on their agenda for Executive Session in today's meeting so we may know more after today.

Anthony Crowdell: Great thank you.

Operator: Ladies and gentlemen as a reminder if you would like to ask a question please signal us by pressing Star 1 on your telephone keypad. We'll take our next question from Brian Russo with Ladenburg Thalmann.

Brian Russo: Hi good morning.

Nathan Hirschi: Good morning, Brian.

Brian Russo: Tom I think you mentioned earlier when discussing the incremental net plant additions and you characterized a lot of these projects as pre-approved, and I just wanted to maybe go through that on slide 4. I guess technically which of these projects or investments did you receive CCN's for?

Tom Shockley: Hang on just a minute, Brian.

Brian Russo: Obviously MPS (Montana Power Station).

- Tom Shockley: Right. As a matter of fact the Newman unit, the Rio Grande unit, and Units 1 and 2 at the new Montana Station and additionally we had a major transmission line we put in service that also had a CCN associated with it as well. Typically distribution doesn't require CCN's. We didn't have to have a CCN for the Eastside Operation Center.
- Brian Russo: Okay got it and then just to follow up on the last topic on the illustrative Texas Rate Case schedule, it's been a while since you filed a case, and I want to understand the filing with the City Council better. I guess you file simultaneously with both the PUCT and the City Council and then you work with the City Council over time to possibly reach a settlement and present that settlement to the PUCT; that's one scenario. And another scenario is you work with the City Council and can't find common ground. Then you litigate it at the PUCT and the City Council becomes an intervenor, is that how to look at it?
- Tom Shockley: That's correct Brian, you got it exactly right. The process will be proceeding in parallel in both jurisdictions, but all of the data regarding RFI's and the information available to those that have interest will become available to all of the intervenors. Even if or when it were possible to reach a settlement with the City I'm sure they'll be other intervenors that we will need to make sure are a part of that process. When we reached the settlement in 2010 when we last raised rates and in 2012 when we lowered rates, it's not only the City that's a part of those discussions. They certainly have a lead role, but the other intervenors also get involved in that process so we take something that we feel all of the stakeholders can support when we go back to the Commission.
- Brian Russo: Okay great thank you.
- Nathan Hirschi: Thank you, Brian.
- Operator: Ladies and gentlemen as a reminder that's Star 1 if you would like to ask a question. It appears at this time there are no further questions in our queue. I'd like to turn the call back over to our speakers for any closing and additional remarks.
- Lisa Budtke: I would like to thank everyone again for joining us on today's call. Thank you very much please be safe.
- Operator: Ladies and gentlemen that concludes today's presentation we appreciate everyone's participation.

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