

EL PASO ELECTRIC CO /TX/
Form 10-Q
August 03, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2012

OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 001-14206

El Paso Electric Company
(Exact name of registrant as specified in its charter)
Texas
(State or other jurisdiction of incorporation or organization)

74-0607870
(I.R.S. Employer Identification No.)

Stanton Tower, 100 North Stanton, El Paso, Texas
(Address of principal executive offices)
(915) 543-5711
(Registrant's telephone number, including area code)

79901
(Zip Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of July 31, 2012, there were 40,114,838 shares of the Company's no par value common stock outstanding.

EL PASO ELECTRIC COMPANY AND SUBSIDIARY

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

EL PASO ELECTRIC COMPANY AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	June 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
(In thousands)		
Utility plant:		
Electric plant in service	\$2,797,764	\$2,789,773
Less accumulated depreciation and amortization	(1,127,455)	(1,121,653)
Net plant in service	1,670,309	1,668,120
Construction work in progress	225,280	167,394
Nuclear fuel; includes fuel in process of \$47,354 and \$49,545, respectively	201,785	171,433
Less accumulated amortization	(71,378)	(59,882)
Net nuclear fuel	130,407	111,551
Net utility plant	2,025,996	1,947,065
Current assets:		
Cash and cash equivalents	10,084	8,208
Accounts receivable, principally trade, net of allowance for doubtful accounts of \$2,887 and \$3,015, respectively	95,545	76,348
Accumulated deferred income taxes	19,076	13,752
Inventories, at cost	41,692	40,222
Income taxes receivable	2,214	2,269
Undercollection of fuel revenues	—	9,130
Prepayments and other	9,014	4,810
Total current assets	177,625	154,739
Deferred charges and other assets:		
Decommissioning trust funds	178,279	167,963
Regulatory assets	101,554	101,027
Other	28,000	26,057
Total deferred charges and other assets	307,833	295,047
Total assets	\$2,511,454	\$2,396,851

See accompanying notes to consolidated financial statements.

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CONSOLIDATED BALANCE SHEETS (Continued)

	June 30, 2012 (Unaudited)	December 31, 2011
CAPITALIZATION AND LIABILITIES		
(In thousands except for share data)		
Capitalization:		
Common stock, stated value \$1 per share, 100,000,000 shares authorized, 65,493,993 and 65,295,888 shares issued, and 112,165 and 156,185 restricted shares, respectively	\$65,606	\$65,452
Capital in excess of stated value	308,360	309,777
Retained earnings	902,578	887,174
Accumulated other comprehensive income (loss), net of tax	(69,707	) (77,505
	1,206,837	) 1,184,898
Treasury stock, 25,492,919 shares at cost	(424,647	) (424,647
Common stock equity	782,190	760,251
Long-term debt	816,524	816,497
Total capitalization	1,598,714	1,576,748
Current liabilities:		
Current maturities of long-term debt	33,300	33,300
Short-term borrowings under the revolving credit facility	110,760	33,379
Accounts payable, principally trade	41,173	51,704
Taxes accrued	23,984	30,700
Interest accrued	12,127	12,123
Overcollection of fuel revenues	8,569	2,105
Other	22,696	21,921
Total current liabilities	252,609	185,232
Deferred credits and other liabilities:		
Accumulated deferred income taxes	329,468	299,475
Accrued pension liability	122,097	129,627
Accrued postretirement benefit liability	104,007	100,455
Asset retirement obligation	58,290	56,140
Regulatory liabilities	21,290	21,049
Other	24,979	28,125
Total deferred credits and other liabilities	660,131	634,871
Commitments and contingencies		
Total capitalization and liabilities	\$2,511,454	\$2,396,851
See accompanying notes to consolidated financial statements.		

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CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands except for share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Operating revenues	\$228,252	\$242,605	\$396,830	\$418,717
Energy expenses:				
Fuel	49,366	61,318	88,800	104,077
Purchased and interchanged power	14,522	16,297	27,081	34,771
	63,888	77,615	115,881	138,848
Operating revenues net of energy expenses	164,364	164,990	280,949	279,869
Other operating expenses:				
Other operations	58,805	57,209	113,222	111,316
Maintenance	14,806	16,760	30,774	28,996
Depreciation and amortization	19,603	19,524	40,121	40,460
Taxes other than income taxes	14,638	13,376	28,278	26,503
	107,852	106,869	212,395	207,275
Operating income	56,512	58,121	68,554	72,594
Other income (deductions):				
Allowance for equity funds used during construction	2,214	2,011	4,170	5,062
Investment and interest income, net	102	1,590	1,878	3,975
Miscellaneous non-operating income	131	1	201	271
Miscellaneous non-operating deductions	(421	) (698	) (903	) (1,413
	2,026	2,904	5,346	7,895
Interest charges (credits):				
Interest on long-term debt and revolving credit facility	13,605	13,526	27,168	27,024
Other interest	278	237	478	534
Capitalized interest	(1,299	) (1,290	) (2,668	) (2,546
Allowance for borrowed funds used during construction	(1,310	) (1,180	) (2,463	) (3,029
	11,274	11,293	22,515	21,983
Income before income taxes	47,264	49,732	51,385	58,506
Income tax expense	16,370	16,742	17,147	18,741
Net income	\$30,894	\$32,990	\$34,238	\$39,765
Basic earnings per share	\$0.77	\$0.78	\$0.85	\$0.94
Diluted earnings per share	\$0.77	\$0.78	\$0.85	\$0.94
Dividends declared per share of common stock	\$0.25	\$0.22	\$0.47	\$0.22
Weighted average number of shares outstanding	39,958,149	41,853,552	39,934,590	42,079,568
Weighted average number of shares and dilutive potential shares outstanding	40,040,776	42,076,659	40,020,143	42,298,716

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands except for share data)

	Twelve Months Ended	
	June 30,	
	2012	2011
Operating revenues	\$896,126	\$880,403
Energy expenses:		
Fuel	208,230	204,061
Purchased and interchanged power	67,459	78,288
	275,689	282,349
Operating revenues net of energy expenses	620,437	598,054
Other operating expenses:		
Other operations	231,476	233,895
Maintenance	63,870	55,584
Depreciation and amortization	80,992	82,020
Taxes other than income taxes	57,336	56,079
	433,674	427,578
Operating income	186,763	170,476
Other income (deductions):		
Allowance for equity funds used during construction	7,269	10,631
Investment and interest income, net	3,567	7,352
Miscellaneous non-operating income	815	1,486
Miscellaneous non-operating deductions	(2,677)	(3,731)
	8,974	15,738
Interest charges (credits):		
Interest on long-term debt and revolving credit facility	54,259	53,408
Other interest	933	723
Capitalized interest	(5,299)	(4,547)
Allowance for borrowed funds used during construction	(4,282)	(6,599)
	45,611	42,985
Income before income taxes and extraordinary item	150,126	143,229
Income tax expense	52,114	46,103
Income before extraordinary item	98,012	97,126
Extraordinary gain related to Texas regulatory assets, net of tax	—	10,286
Net income	\$98,012	\$107,412
Basic earnings per share:		
Income before extraordinary item	\$2.42	\$2.28
Extraordinary gain related to Texas regulatory assets, net of tax	—	0.24
Net income	\$2.42	\$2.52
Diluted earnings per share:		
Income before extraordinary item	\$2.41	\$2.27
Extraordinary gain related to Texas regulatory assets, net of tax	—	0.24
Net income	\$2.41	\$2.51

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Dividends declared per share of common stock	\$0.91	\$0.22
Weighted average number of shares outstanding	40,285,248	42,376,298
Weighted average number of shares and dilutive potential shares outstanding	40,455,626	42,595,011

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE OPERATIONS

(Unaudited)

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	2012	2011	2012	2011	2012	2011
Net income	\$30,894	\$32,990	\$34,238	\$39,765	\$98,012	\$107,412
Other comprehensive income (loss):						
Unrecognized pension and postretirement benefit costs:						
Net loss arising during period	—	—	—	—	(77,678)	(9,874)
Prior service benefit	—	—	—	—	—	26,605
Reclassification adjustments included in net income for amortization of:						
Prior service benefit	(1,437)	(1,450)	(2,880)	(2,905)	(5,787)	(4,282)
Net loss	2,860	1,778	5,985	3,253	9,237	4,940
Net unrealized gains (losses) on marketable securities:						
Net holding gains (losses) arising during period	(2,341)	416	5,817	2,589	4,798	13,232
Reclassification adjustments for net (gains) losses included in net income	1,447	2	1,234	(203)	2,795	(490)
Net losses on cash flow hedges:						
Reclassification adjustment for interest expense included in net income	95	88	189	176	374	348
Total other comprehensive income (loss) before income taxes	624	834	10,345	2,910	(66,261)	30,479
Income tax benefit (expense) related to items of other comprehensive income (loss):						
Unrecognized pension and postretirement benefit costs	(541)	(124)	(1,096)	(131)	29,169	(6,306)
Net unrealized gains (losses) on marketable securities	189	(157)	(1,370)	(517)	(1,416)	(2,588)
Losses on cash flow hedges	(36)	(33)	(81)	(66)	(218)	(128)
Total income tax benefit (expense)	(388)	(314)	(2,547)	(714)	27,535	(9,022)
Other comprehensive income (loss), net of tax	236	520	7,798	2,196	(38,726)	21,457
Comprehensive income	\$31,130	\$33,510	\$42,036	\$41,961	\$59,286	\$128,869

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended	
	June 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$34,238	\$39,765
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of electric plant in service	40,121	40,460
Amortization of nuclear fuel	21,807	17,958
Deferred income taxes, net	18,630	12,647
Allowance for equity funds used during construction	(4,170)	(5,062)
Other amortization and accretion	6,804	11,772
Other operating activities	937	(216)
Change in:		
Accounts receivable	(19,197)	(35,772)
Inventories	(1,087)	(2,741)
Net overcollection (undercollection) of fuel revenues	15,594	(25,827)
Prepayments and other	(5,456)	(5,713)
Accounts payable	(4,748)	4,934
Taxes accrued	(6,661)	6,326
Interest accrued	4	9
Other current liabilities	775	(1,412)
Deferred charges and credits	(5,695)	(7,547)
Net cash provided by operating activities	91,896	49,581
Cash flows from investing activities:		
Cash additions to utility property, plant and equipment	(99,929)	(86,950)
Cash additions to nuclear fuel	(38,155)	(24,140)
Capitalized interest and AFUDC:		
Utility property, plant and equipment	(6,633)	(8,091)
Nuclear fuel	(2,668)	(2,546)
Allowance for equity funds used during construction	4,170	5,062
Decommissioning trust funds:		
Purchases, including funding of \$2.3 and \$4.3 million, respectively	(64,011)	(42,641)
Sales and maturities	59,513	36,406
Other investing activities	978	188
Net cash used for investing activities	(146,735)	(122,712)
Cash flows from financing activities:		
Repurchases of common stock	—	(26,320)
Dividends paid	(18,834)	(9,248)
Borrowings under the revolving credit facility:		
Proceeds	121,964	65,770
Payments	(44,583)	(30,832)
Other financing activities	(1,832)	(317)
Net cash provided by (used for) financing activities	56,715	(947)
Net increase (decrease) in cash and cash equivalents	1,876	(74,078)

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Cash and cash equivalents at beginning of period	8,208	79,184
Cash and cash equivalents at end of period	\$10,084	\$5,106
See accompanying notes to consolidated financial statements.		

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EL PASO ELECTRIC COMPANY AND SUBSIDIARY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

A. Principles of Preparation

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Annual Report of El Paso Electric Company on Form 10-K for the year ended December 31, 2011 (the "2011 Form 10-K"). Capitalized terms used in this report and not defined herein have the meaning ascribed for such terms in the 2011 Form 10-K. In the opinion of the Company's management, the accompanying consolidated financial statements contain all adjustments necessary to present fairly the financial position of the Company at June 30, 2012 and December 31, 2011; the results of its operations and comprehensive operations for the three, six and twelve months ended June 30, 2012 and 2011; and its cash flows for the six months ended June 30, 2012 and 2011. The results of operations and comprehensive operations for the three and six months ended June 30, 2012 and the cash flows for the six months ended June 30, 2012 are not necessarily indicative of the results to be expected for the full calendar year.

Pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"), certain financial information has been condensed and certain footnote disclosures have been omitted. Such information and disclosures are normally included in financial statements prepared in accordance with generally accepted accounting principles.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenues. Revenues related to the sale of electricity are generally recorded when service is rendered or electricity is delivered to customers. The billing of electricity sales to retail customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. Unbilled revenues are estimated based on monthly generation volumes and by applying an average revenue/kWh to the number of estimated kWhs delivered but not billed. Accounts receivable included accrued unbilled revenues of \$29.1 million and \$19.6 million at June 30, 2012 and December 31, 2011, respectively. The Company presents revenues net of sales taxes in its consolidated statements of operations.

Extraordinary Item. As a regulated electric utility, the Company prepares its financial statements in accordance with the FASB guidance for regulated operations. FASB guidance for regulated operations requires the Company to show certain items as assets or liabilities on its balance sheet when the regulator provides assurance that these items will be charged to and collected from its customers or refunded to its customers. In the final order for PUCT Docket No. 37690, the Company was allowed to include the previously expensed loss on reacquired debt associated with the refinancing of first mortgage bonds in 2005 in its calculation of the weighted cost of debt to be recovered from its customers. The Company recorded the impacts of the re-application of FASB guidance for regulated operations to its Texas jurisdiction in 2006 as an extraordinary item. In order to establish this regulatory asset, the Company recorded an extraordinary gain of \$10.3 million, net of income tax expense of \$5.8 million, pursuant to the final order received from the PUCT, in its statements of operations for the quarter ended September 30, 2010. The regulatory asset will be amortized over the remaining life of the Company's 6% Senior Notes due in 2035.

Supplemental Cash Flow Disclosures (in thousands)

	Six Months Ended	
	June 30,	
	2012	2011
Cash paid for:		
Interest on long-term debt and borrowing under the revolving credit facility	\$25,106	\$24,256
Income taxes paid (refund), net	3,159	(3,101)
Non-cash financing activities:		

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Grants of restricted shares of common stock	2,331	3,193
Issuance of performance shares	1,193	565
Acquisition of treasury stock for options exercised	—	500

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EL PASO ELECTRIC COMPANY AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

B. New Accounting Standards

In June 2011, the FASB issued new guidance to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The new guidance required an entity to present the total of comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both presentations, an entity would have been required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. Historically, the Company used the consecutive two-statement approach; however, this new guidance would have required additional disclosure on the Company's statement of operations and related notes. In December 2011, the FASB issued new guidance to defer the effective date for amendments to the presentation of reclassification of items out of accumulated other comprehensive income. Deferring the effective date will allow the FASB time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While the FASB is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, the Company will continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before the guidance issued in June 2011 until further guidance becomes available.

C. Regulation

General

The rates and services of the Company are regulated by incorporated municipalities in Texas, the PUCT, the NMPRC, and the FERC. The PUCT and the NMPRC have jurisdiction to review municipal orders, ordinances and utility agreements regarding rates and services within their respective states and over certain other activities of the Company. The FERC has jurisdiction over the Company's wholesale (sales for resale) transactions, transmission service and compliance with federally-mandated reliability standards. The decisions of the PUCT, NMPRC and the FERC are subject to judicial review.

Texas Regulatory Matters

2012 Texas Retail Rate Case. The Company filed a rate increase request with the PUCT, Docket No. 40094, the City of El Paso, and other Texas cities on February 1, 2012. The rate filing was made in response to a resolution adopted by the El Paso City Council (the "Council") requiring the Company to show cause why its base rates for customers in the El Paso city limits should not be reduced. The rate filing used a historical test year ended September 30, 2011. The filing at the PUCT also included a request to reconcile \$356.5 million of fuel expense for the period July 1, 2009 through September 30, 2011. On November 15, 2011, the Council adopted a resolution which established current rates as temporary rates for the Company's customers residing within the city limits of El Paso.

On April 17, 2012, the Council approved the settlement of the Company's 2012 Texas retail rate case and fuel reconciliation in PUCT Docket No. 40094. The settlement reflects discussions with the PUCT, the City of El Paso and other intervenors in Docket No. 40094. The approval by the Council (i) resolves the local City of El Paso rate proceeding that commenced with the October 4, 2011 show cause order of the Council, (ii) implements new rates within the city limits of El Paso commencing with bills rendered on and after May 1, 2012, and (iii) rescinds and

withdraws the temporary rate order that the Council issued on November 15, 2011.

For Texas service areas outside of the city limits of El Paso, the settlement was filed with the PUCT on April 19, 2012, and no intervenors opposed the settlement. On April 26, 2012, the administrative law judges issued an order (i) implementing the settlement rates as temporary rates effective May 1, 2012, and (ii) dismissing the case before the State Office of Administrative Hearings, sending the settlement to the PUCT for final approval. The PUCT issued a final order approving the settlement on May 23, 2012.

Under the terms of the settlement, among other things, the Company has agreed to:

A reduction in its current non-fuel base rates of \$15 million annually, with the decrease being allocated primarily to Texas retail commercial and industrial customer classes. The rate decrease was effective as of May 1, 2012 and is the same rate decrease approved by the El Paso Council described above;

New tariffs that will include an Economic Development Rate Rider that provides discounts in the demand charge

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

and is intended to spur new business development in the Company's Texas service area;

- Revised depreciation rates for the Company's gas-fired generating units and for transmission and distribution plant that will lower depreciation expense by \$4.1 million annually;

- Continuation of the 10.125% return on equity for the purpose of calculating the allowance for funds used during construction;

- A two-year amortization of rate case expenses, none of which will be included in future regulatory proceedings; and
- Palo Verde decommissioning funding of \$3.6 million annually on a Texas jurisdictional basis, which will be subject to review and adjustment on a going-forward basis in future proceedings.

As part of the settlement, the Company agreed to withdraw its request to reconcile fuel costs for the period from July 1, 2009 through September 30, 2011. The Company will file a fuel reconciliation request covering the period beginning July 1, 2009 and ending no later than June 30, 2013 by December 31, 2013 or as part of its next rate case, if earlier.

Fuel and Purchased Power Costs. The Company's actual fuel costs, including purchased power energy costs, are recoverable from its customers. The PUCT has adopted a fuel cost recovery rule ("Texas Fuel Rule") that allows the Company to seek periodic adjustments to its fixed fuel factor. The Company received approval in PUCT Docket No. 37690, to implement a formula to determine its fuel factor which adjusts natural gas and purchased power to reflect natural gas futures prices. The Company can seek to revise its fixed fuel factor based upon the approved formula at least four months after its last revision except in the month of December. The Texas Fuel Rule requires the Company to request to refund fuel costs in any month when the over-recovery balance exceeds a threshold material amount and it expects fuel costs to continue to be materially over-recovered. The Texas Fuel Rule also permits the Company to seek to surcharge fuel under-recoveries in any month the balance exceeds a threshold material amount and it expects fuel cost recovery to continue to be materially under-recovered. Fuel over and under-recoveries are considered material when they exceed 4% of the previous twelve months' fuel costs. All such fuel revenue and expense activities are subject to periodic final review by the PUCT in fuel reconciliation proceedings.

The Company has filed the following petitions with the PUCT to refund recent fuel cost over-recoveries, due primarily to fluctuations in natural gas markets and consumption levels. The table summarizes the docket number assigned by the PUCT, the dates the Company filed the petitions and the dates a final order was issued by the PUCT approving the refunds to customers. The fuel cost over-recovery periods represent the months in which the over-recoveries took place, and the refund periods represent the billing month(s) in which customers received the refund amounts shown, including interest:

Docket No.	Date Filed	Date Approved	Recovery Period	Refund Period	Refund Amount (In Thousands)
38253	May 12, 2010	July 15, 2010	December 2009 – March 2010	July – August 2010	\$11,100
38802	October 20, 2010	December 16, 2010	April – September 2010	December 2010	12,800
39159	February 18, 2011	May 3, 2011	October – December 2010	April 2011	11,800
40622	August 3, 2012	Pending Approval	January 2011- June 2012	September 2012	6,600

The Company has filed the following petitions with the PUCT to revise its fixed fuel factor pursuant to the fuel factor formula authorized in PUCT Docket No. 37690:

Docket No.	Date Filed	Date Approved	Increase (Decrease) in Fuel Factor	Effective Billing Month
38895	November 23, 2010	January 6, 2011	(14.7)%	January 2011
39599	July 15, 2011	August 30, 2011	9.4%	August 2011
40302	April 12, 2012	April 25, 2012	(18.5)%	May 2012

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EL PASO ELECTRIC COMPANY AND SUBSIDIARY
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(Unaudited)

Application of El Paso Electric Company to Amend its Certificate of Convenience and Necessity ("CCN") for Five Solar Powered Generation Projects. On December 9, 2011, the Company filed a petition seeking a CCN to construct five solar powered generation projects, totaling approximately 2.6 MW, at four locations within the City of El Paso and one location in the Town of Van Horn. This case was assigned PUCT Docket No. 39973. A hearing was conducted on June 20, 2012, and a final order is expected in the fourth quarter of 2012.

Generation CCN Filing. On May 2, 2012, the Company filed a petition with the PUCT requesting a CCN to construct a new generation facility to be located at a new plant site, the Montana Power Station, in far east El Paso. The new facility will initially consist of two 88 MW simple-cycle aeroderivative combustion turbines, which will be powered by natural gas. The first unit is scheduled to become operational in 2014. This case was assigned PUCT Docket No. 40301. On August 2, 2012, the administrative law judge established a September 2012 deadline for filing a settlement agreement or a request for hearing.

Energy Efficiency Cost Recovery Factor. On April 30, 2012, the Company filed an application to revise its Energy Efficiency Cost Recovery Factor ("EECRF") and to establish revised energy efficiency goals and cost caps, pursuant to Public Utility Regulatory Act ("PURA") Section 39.905 and PUC Substantive Rule 25.181. The expenditures, revised energy efficiency goals, cost caps proposed by the Company for 2013, a half year of amortization of the prior year deferred costs, and a refund of over-recovery of costs for 2011 result in a decrease in the currently effective EECRF. The State Office of Administrative Hearings established a procedural schedule designed to produce a final order in September 2012. The Company and all parties have agreed to a settlement in principle in this case and have notified the administrative law judge that they intend to file a settlement agreement on or before August 8, 2012.

Military Base Discount Recovery Factor. On July 16, 2012, the Company filed a petition to revise its Military Base Discount Recovery Factor ("MBDRF"), pursuant to PURA Section 36.354, which requires that each electric utility, in an area where customer choice is not available, provide discounted charges to military bases. The Company's rates provide for the 20% discount required by PURA for eligible customers, and assess a surcharge designed to recover the cost of the discount from all other Texas customers. The MBDRF is assessed on the base rate portion of customer bills, and the Company has proposed to increase the surcharge from 0.936% to 1.319%.

New Mexico Regulatory Matters

Application for Approval to Recover Regulatory Disincentives and Incentives. On August 31, 2010, the Company filed an application for approval of its proposed rate design methodology to recover regulatory disincentives and provide incentives associated with the Company's energy efficiency and load management programs in New Mexico. On March 18, 2011, the Company entered into an uncontested stipulation which would provide for a rate per kWh of energy efficiency savings that would be recovered through the efficient use of energy rider. A hearing on the uncontested stipulation was held on April 26, 2011 and briefs were filed on September 26, 2011. A final order was issued on November 22, 2011 in which the NMPRC did not adopt the unopposed stipulation, but modified the structure of the energy rider to reduce the return to two percent and made the mechanism temporary. The Company filed a Notice of Appeal with the Supreme Court of the State of New Mexico on January 20, 2012 on the grounds that the NMPRC's decision is arbitrary and without substantial evidence. However, in accordance with the final order issued on November 22, 2011, the efficient use of energy rider was implemented for New Mexico customers on February 1, 2012. The Supreme Court suspended the appeal pending further NMPRC final order in the Company's 2011 Application for rate rider.

Application for Approval of 2011 New and Modified Energy Efficiency Programs. On February 15, 2011, the Company filed an Application for Approval of New and Modified Energy Efficiency Programs for 2011 with the NMPRC. On June 22, 2011, parties to this case entered into a partial stipulation, agreeing on all issues, except for a military base free-ridership issue. On June 24, 2011, the New Mexico Attorney General filed a statement in opposition to the proposed partial stipulation. On January 25, 2012, a hearing examiner issued a recommended decision

modifying the stipulation by approving the Energy Efficiency programs and budgets with the exception of the Commercial Lighting Program, approving the adder for 2011 but not for 2012 or 2013 and excluding the Military Research & Development Class from participation in the rate rider and reducing the Company's required saving goals accordingly. On February 2, 2012, the Company filed exceptions to the recommended decision and requested an interim order related to this matter. The NMPRC issued a final order approving the partial stipulation and rejecting the Company's exceptions on February 21, 2012. On March 5, 2012, the Company filed an unopposed motion to immediately implement the approved programs and to initiate further proceedings to allow the parties to supplement the record to support the stipulated adders for 2012 and 2013. On March 20, 2012 the NMPRC issued an order granting the unopposed motion. On April 4, 2012, the hearing examiner issued a procedural order requiring additional information supporting the stipulated adders and recovery of regulatory disincentives. The Company filed direct testimony on April 25, 2012 in response to the procedural order. A public hearing was held on July 5 and July 6, 2012. A final order is expected in the fourth quarter of 2012.

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Generation CCN Filing. On May 2, 2012, the Company filed a petition with the NMPRC requesting a CCN to construct a new generation facility to be located at a new plant site, the Montana Power Station, in far east El Paso. The new facility will initially consist of two 88 MW simple-cycle aeroderivative combustion turbines, which will be powered by natural gas. The first unit is scheduled to become operational in 2014. This case was assigned NMPRC Case No. 12-00137-UT. No party has intervened in the proceeding. The procedural schedule adopted by the NMPRC established August 10, 2012 for Staff testimony, and August 13, 2012 as the deadline for protest.

Revolving Credit Facility and Guarantee of Debt. On October 13, 2011, the Company received final approval from the NMPRC in Case No. 11-00349-UT to amend and restate the Company's \$200 million revolving credit facility, which includes an option, subject to lender's approval, to expand the size to \$300 million, and to incrementally issue up to \$300 million of long-term debt as and when needed. Obtaining the ability to issue up to \$300 million of new long-term debt, from time to time, provides the Company with the flexibility to access the debt capital markets when needed and when conditions are favorable.

On November 15, 2011, the Company and Rio Grande Resources Trust ("RGRT") amended and restated the \$200 million unsecured RCF with JP Morgan Chase Bank, N.A., as administrative agent and issuing bank, and Union Bank, N.A., as syndication agent, and various lending banks party thereto. The amended and restated revolving credit facility ("RCF") reduces borrowing costs and extends the maturity from September 2014 to September 2016.

On March 29, 2012, the Company and The Bank of New York Mellon Trust Company, N.A., as trustee of the Rio Grande Resources Trust, entered into the Incremental Facility Assumption Agreement (the "Assumption Agreement") related to the RCF discussed above with JPMorgan Chase Bank, N.A., as administrative agent and issuing bank, Union Bank, N.A., as syndication agent, and various lending banks party thereto. The Assumption Agreement provides for the Company's exercise in full of the accordion feature provided for under the RCF, increasing the aggregate unsecured borrowing available from \$200 million to \$300 million. In addition, the Assumption Agreement reflects the addition of a new lender under the RCF. No other material modifications were made to the terms and conditions of the RCF.

2012 Annual Procurement Plan Pursuant to the Renewable Energy Act. On June 29, 2012, the Company filed its application for approval of its 2012 Annual Procurement Plan pursuant to the New Mexico Renewable Energy Act and NMPRC rule 17.9.572 New Mexico Administrative Code ("NMAC"). The plan sets out the Company's procurement of renewable resources and estimated costs for 2013 and 2014 to meet Renewable Portfolio Standards ("RPS") and resource diversity requirements. Concurrently, the Company filed its Annual Renewable Energy portfolio report for 2011. The Company will meet 2013 and 2014 RPS requirements using previously approved resources. Hearings are scheduled for October and a final order is expected in the fourth quarter of 2012.

2012 Integrated Resource Plan ("IRP"). On July 16, 2012, the Company filed its IRP pursuant to the requirements of the NMPRC IRP Rule, 17.7.3 NMAC. This document discusses the Company's integrated resource planning process and develops an integrated resource portfolio to cost-effectively meet the energy needs of its customers for the next twenty years and specifically identifies the Company's resource needs and plans for resource additions during the next four years. The Company's 2012 IRP and Four-Year Action Plan build upon the initial IRP and four-year action plan, submitted to the Commission on July 16, 2009.

Pollution Control Bond Refunding. On April 12, 2012, the Company filed an application with the NMPRC requesting authority for long-term securities transactions necessary to refund and reissue certain Pollution Control Refunding Revenue Bonds (the "PCBs"). On May 31, 2012, the Company received final approval from the NMPRC in case No. 12-00108-UT, which granted the Company the authority to enter into the securities transactions necessary to refund and reissue the 4.00% 2002 Series A refunding bonds in a principal amount of \$33.3 million and the 4.80% 2005 Series A refunding bonds in a principal amount of \$59.2 million.

Federal Regulatory Matters

Transmission Dispute with Tucson Electric Power Company (“TEP”). On August 31, 2011, the FERC issued an order approving the settlement of a long standing transmission dispute between TEP and the Company that became effective November 1, 2011. The settlement reduces TEP’s transmission rights under the Transmission Agreement from 200 MW to 170 MW and TEP and the Company have entered into two new firm transmission agreements under which TEP is purchasing from the Company new transmission service at the Company's applicable tariff rates for a total of 40 MW. Those two new service agreements were entered into and became effective November 1, 2011. Also under the terms of the settlement, TEP made a lump-sum cash payment to the Company of approximately \$5.4 million for the period February 1, 2006 through September 30, 2011, including interest income. This adjustment was recorded in the three months ended September 30, 2011. The Company shared with its Texas customers 25% of the transmission revenues earned before July 1, 2010, or approximately \$0.7 million, through a credit to Texas fuel recoveries.

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Revolving Credit Facility and Guarantee of Debt. On October 13, 2011, the Company received final approval from the FERC in Docket No. ES11-43-000 to amend and restate the Company's \$200 million RCF, which includes an option, subject to lender's approval, to expand the size to \$300 million, and to incrementally issue up to \$300 million of long-term debt as and when needed. Obtaining the ability to issue up to \$300 million of new long-term debt provides the Company with the flexibility to access the debt capital markets when needed and when conditions are favorable. The Company has two years in which to issue this newly-authorized long-term debt. As noted above, on November 15, 2011, the RCF was amended and restated, and on March 29, 2012, the aggregate unsecured borrowing available under the RCF was increased to \$300 million.

Pollution Control Bond Refunding. On April 13, 2012, the Company filed an application with the FERC requesting authority for long-term securities transactions necessary to refund and reissue certain PCBs. On May 30, 2012, the Company received final approval from the FERC in Docket No. ES12-34-0000, granting authority to enter into the securities transactions necessary to refund and reissue the 4.00% 2002 Series A refunding bonds in a principal amount of \$33.3 million and the 4.80% 2005 Series A refunding bonds in a principal amount of \$59.2 million.

D. Common Stock

Repurchase Program. No shares of common stocks were repurchased during the first six months of 2012. Details regarding the Company's stock repurchase program are presented below:

	Since 1999 (a)	Authorized Shares
Shares repurchased (b)	25,406,184	
Cost, including commission (in thousands)	\$423,647	
Total remaining shares available for repurchase at June 30, 2012		393,816

(a) Represents repurchased shares and cost since inception of the stock repurchase program in 1999.

(b) Shares repurchased does not include 86,735 treasury shares related to employee compensation arrangements outside of the Company's repurchase programs.

The Company may in the future make purchases of its common stock pursuant to its authorized programs in open market transactions at prevailing prices and may engage in private transactions where appropriate. The repurchased shares either will be available for issuance under employee benefit and stock incentive plans, or may be retired.

Dividend Policy. On July 25, 2012, the Board of Directors declared a quarterly cash dividend of \$0.25 per share payable on September 28, 2012. On June 29, 2012, the Company paid \$10.0 million in dividends to shareholders. The Company paid a total of \$18.8 million and \$36.8 million in cash dividends during the six and twelve months ended June 30, 2012, respectively. The Company paid a total of \$9.2 million in cash dividends during the six and twelve months ended June 30, 2011.

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Basic and Diluted Earnings Per Share. The basic and diluted earnings per share are presented below (in thousands except for share data):

	Three Months Ended June 30,	
	2012	2011
Weighted average number of common shares outstanding:		
Basic number of common shares outstanding	39,958,149	41,853,552
Dilutive effect of unvested performance awards	64,698	195,078
Dilutive effect of stock options	17,929	28,029
Diluted number of common shares outstanding	40,040,776	42,076,659
Basic net income per common share:		
Net income	\$30,894	\$32,990
Income allocated to participating restricted stock	(83	) (157
Net income available to common shareholders	\$30,811	\$32,833
Diluted net income per common share:		
Net income	\$30,894	\$32,990
Income reallocated to participating restricted stock	(83	) (157
Net income available to common shareholders	\$30,811	\$32,833
Basic net income per common share:		
Distributed earnings	\$0.25	\$0.22
Undistributed earnings	0.52	0.56
Basic net income per common share	\$0.77	\$0.78
Diluted net income per common share:		
Distributed earnings	\$0.25	\$0.22
Undistributed earnings	0.52	0.56
Diluted net income per common share	\$0.77	\$0.78

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	Six Months Ended June 30,	
	2012	2011
Weighted average number of common shares outstanding:		
Basic number of common shares outstanding	39,934,590	42,079,568
Dilutive effect of unvested performance awards	65,450	182,252
Dilutive effect of stock options	20,103	36,896
Diluted number of common shares outstanding	40,020,143	42,298,716
Basic net income per common share:		
Net income	\$34,238	\$39,765
Income allocated to participating restricted stock	(104	) (179
Net income available to common shareholders	\$34,134	\$39,586
Diluted net income per common share:		
Net income	\$34,238	\$39,765
Income reallocated to participating restricted stock	(104	) (178
Net income available to common shareholders	\$34,134	\$39,587
Basic net income per common share:		
Distributed earnings	\$0.47	\$0.22
Undistributed earnings	0.38	0.72
Basic net income per common share	\$0.85	\$0.94
Diluted net income per common share:		
Distributed earnings	\$0.47	\$0.22
Undistributed earnings	0.38	0.72
Diluted net income per common share	\$0.85	\$0.94

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	Twelve Months Ended June 30,	
	2012	2011
Weighted average number of common shares outstanding:		
Basic number of common shares outstanding	40,285,248	42,376,298
Dilutive effect of unvested performance awards	148,256	164,636
Dilutive effect of stock options	22,122	54,077
Diluted number of common shares outstanding	40,455,626	42,595,011
Basic net income per common share:		
Net income	\$98,012	\$107,412
Income allocated to participating restricted stock	(379)	) (458)
Net income available to common shareholders	\$97,633	\$106,954
Diluted net income per common share:		
Net income	\$98,012	\$107,412
Income reallocated to participating restricted stock	(378)	) (456)
Net income available to common shareholders	\$97,634	\$106,956
Basic net income per common share:		
Distributed earnings	\$0.91	\$0.22
Undistributed earnings		