

EL PASO ELECTRIC CO /TX/
Form 10-Q
August 05, 2016
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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, 2016

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, 2016, there were 40,520,871 shares of the Company's no par value common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

EL PASO ELECTRIC COMPANY
BALANCE SHEETS

	June 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
(In thousands)		
Utility plant:		
Electric plant in service	\$3,783,907	\$ 3,616,301
Less accumulated depreciation and amortization	(1,369,646)	(1,329,843)
Net plant in service	2,414,261	2,286,458
Construction work in progress	221,607	293,796
Nuclear fuel; includes fuel in process of \$54,224 and \$51,854, respectively	191,925	190,282
Less accumulated amortization	(75,546)	(75,031)
Net nuclear fuel	116,379	115,251
Net utility plant	2,752,247	2,695,505
Current assets:		
Cash and cash equivalents	9,607	8,149
Accounts receivable, principally trade, net of allowance for doubtful accounts of \$1,570 and \$2,046, respectively	105,443	66,326
Inventories, at cost	47,376	48,697
Under-collection of fuel revenues	30	—
Prepayments and other	15,062	9,872
Total current assets	177,518	133,044
Deferred charges and other assets:		
Decommissioning trust funds	248,240	239,035
Regulatory assets	116,617	115,127
Other	17,640	17,896
Total deferred charges and other assets	382,497	372,058
Total assets	\$3,312,262	\$ 3,200,607

See accompanying notes to financial statements.

Table of ContentsEL PASO ELECTRIC COMPANY
BALANCE SHEETS (Continued)

	June 30, 2016 (Unaudited)	December 31, 2015
CAPITALIZATION AND LIABILITIES		
(In thousands except for share data)		
Capitalization:		
Common stock, stated value \$1 per share, 100,000,000 shares authorized, 65,670,835 and 65,709,819 shares issued, and 157,520 and 118,834 restricted shares, respectively	\$65,828	\$ 65,829
Capital in excess of stated value	320,572	320,073
Retained earnings	1,059,398	1,067,396
Accumulated other comprehensive loss, net of tax	(13,300)	(13,914)
Treasury stock, 25,307,484 and 25,384,834 shares, respectively, at cost	1,432,498	1,439,384
Common stock equity	(421,558)	(422,846)
Long-term debt, net of current portion	1,010,940	1,016,538
Total capitalization	1,278,301	1,122,660
Current liabilities:	2,289,241	2,139,198
Short-term borrowings under the revolving credit facility	101,614	141,738
Accounts payable, principally trade	44,162	59,978
Taxes accrued	25,318	30,351
Interest accrued	13,267	12,649
Over-collection of fuel revenues	2,063	4,023
Other	41,950	28,325
Total current liabilities	228,374	277,064
Deferred credits and other liabilities:		
Accumulated deferred income taxes	502,677	495,237
Accrued pension liability	87,728	90,527
Accrued post-retirement benefit liability	55,677	54,553
Asset retirement obligation	85,363	81,621
Regulatory liabilities	23,930	24,303
Other	39,272	38,104
Total deferred credits and other liabilities	794,647	784,345
Commitments and contingencies		
Total capitalization and liabilities	\$3,312,262	\$ 3,200,607
See accompanying notes to financial statements.		

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STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands except for share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Operating revenues	\$217,865	\$219,508	\$375,674	\$383,254
Energy expenses:				
Fuel	43,143	49,813	77,462	87,542
Purchased and interchanged power	13,610	11,742	23,256	22,917
	56,753	61,555	100,718	110,459
Operating revenues net of energy expenses	161,112	157,953	274,956	272,795
Other operating expenses:				
Other operations	56,817	57,656	115,204	113,255
Maintenance	20,426	19,857	37,941	35,417
Depreciation and amortization	23,852	23,135	47,145	44,700
Taxes other than income taxes	15,320	15,433	30,132	29,591
	116,415	116,081	230,422	222,963
Operating income	44,697	41,872	44,534	49,832
Other income (deductions):				
Allowance for equity funds used during construction	2,133	2,268	4,469	6,543
Investment and interest income, net	3,591	1,398	6,520	6,652
Miscellaneous non-operating income	145	507	801	687
Miscellaneous non-operating deductions	(890)	(1,271)	(1,356)	(1,762)
	4,979	2,902	10,434	12,120
Interest charges (credits):				
Interest on long-term debt and revolving credit facility	18,298	16,495	34,897	32,978
Other interest	272	354	834	517
Capitalized interest	(1,253)	(1,261)	(2,495)	(2,550)
Allowance for borrowed funds used during construction	(1,375)	(1,391)	(3,033)	(4,012)
	15,942	14,197	30,203	26,933
Income before income taxes	33,734	30,577	24,765	35,019
Income tax expense	11,450	9,505	8,289	10,489
Net income	\$22,284	\$21,072	\$16,476	\$24,530
Basic earnings per share	\$0.55	\$0.52	\$0.41	\$0.61
Diluted earnings per share	\$0.55	\$0.52	\$0.41	\$0.61
Dividends declared per share of common stock	\$0.310	\$0.295	\$0.605	\$0.575
Weighted average number of shares outstanding	40,345,150	40,269,885	40,335,236	40,256,615
Weighted average number of shares and dilutive potential shares outstanding	40,399,491	40,302,694	40,380,640	40,284,757

See accompanying notes to financial statements.

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STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands except for share data)

	Twelve Months Ended	
	June 30,	
	2016	2015
Operating revenues	\$842,289	\$ 863,462
Energy expenses:		
Fuel	178,320	217,289
Purchased and interchanged power	53,884	51,678
	232,204	268,967
Operating revenues net of energy expenses	610,085	594,495
Other operating expenses:		
Other operations	244,899	235,664
Maintenance	67,747	70,819
Depreciation and amortization	92,269	86,391
Taxes other than income taxes	64,277	61,422
	469,192	454,296
Operating income	140,893	140,199
Other income (deductions):		
Allowance for equity funds used during construction	8,565	14,838
Investment and interest income, net	17,376	14,121
Miscellaneous non-operating income	2,176	2,655
Miscellaneous non-operating deductions	(3,922)	(4,943)
	24,195	26,671
Interest charges (credits):		
Interest on long-term debt and revolving credit facility	67,770	62,820
Other interest	1,630	1,306
Capitalized interest	(4,913)	(5,115)
Allowance for borrowed funds used during construction	(5,958)	(8,729)
	58,529	50,282
Income before income taxes	106,559	116,588
Income tax expense	32,695	35,341
Net income	\$73,864	\$ 81,247
Basic earnings per share	\$ 1.83	\$ 2.01
Diluted earnings per share	\$ 1.83	\$ 2.01
Dividends declared per share of common stock	\$ 1.195	\$ 1.135
Weighted average number of shares outstanding	40,314,032	40,236,466
Weighted average number of shares and dilutive potential shares outstanding	40,356,239	40,263,304

See accompanying notes to financial statements.

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EL PASO ELECTRIC COMPANY
 STATEMENTS OF COMPREHENSIVE OPERATIONS
 (Unaudited)
 (In thousands)

	Three Months Ended		Six Months Ended		Twelve Months Ended	
	June 30, 2016	2015	June 30, 2016	2015	June 30, 2016	2015
Net income	\$22,284	\$21,072	\$16,476	\$24,530	\$73,864	\$81,247
Other comprehensive income (loss):						
Unrecognized pension and post-retirement benefit costs:						
Net gain (loss) arising during period	—	—	—	—	5,429	(74,028)
Prior service benefit	—	—	—	—	824	34,200
Reclassification adjustments included in net income for amortization of:						
Prior service benefit	(1,664)	(1,662)	(3,330)	(3,325)	(6,579)	(7,455)
Net loss	1,222	2,250	2,445	4,500	6,567	7,730
Net unrealized gains/losses on marketable securities:						
Net holding gains (losses) arising during period	2,790	(1,563)	4,980	(549)	2,623	3,210
Reclassification adjustments for net (gains) losses included in net income	(2,110)	182	(3,498)	(3,563)	(11,049)	(7,946)
Net losses on cash flow hedges:						
Reclassification adjustment for interest expense included in net income	123	116	245	230	482	452
Total other comprehensive income (loss) before income taxes	361	(677)	842	(2,707)	(1,703)	(43,837)
Income tax benefit (expense) related to items of other comprehensive income (loss):						
Unrecognized pension and post-retirement benefit costs	166	(291)	222	(622)	(2,442)	14,761
Net unrealized losses (gains) on marketable securities	(149)	325	(322)	881	1,625	979
Losses on cash flow hedges	(46)	(43)	(128)	(115)	(216)	(197)
Total income tax benefit (expense)	(29)	(9)	(228)	144	(1,033)	15,543
Other comprehensive income (loss), net of tax	332	(686)	614	(2,563)	(2,736)	(28,294)
Comprehensive income	\$22,616	\$20,386	\$17,090	\$21,967	\$71,128	\$52,953
See accompanying notes to financial statements.						

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EL PASO ELECTRIC COMPANY
 STATEMENTS OF CASH FLOWS
 (Unaudited)
 (In thousands)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 16,476	\$ 24,530
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of electric plant in service	47,145	44,700
Amortization of nuclear fuel	21,957	21,379
Deferred income taxes, net	6,695	8,789
Allowance for equity funds used during construction	(4,469)	(6,543)
Other amortization and accretion	8,715	8,888
Gain on sale of land	(545)	—
Net gains on sale of decommissioning trust funds	(3,498)	(3,563)
Other operating activities	721	243
Change in:		
Accounts receivable	(39,117)	(20,782)
Inventories	1,315	(2,813)
Net over-collection (under-collection) of fuel revenues	(1,990)	10,833
Prepayments and other	(6,273)	(7,476)
Accounts payable	(9,345)	(15,528)
Taxes accrued	(5,437)	(2,990)
Interest accrued	618	107
Other current liabilities	13,625	2,669
Deferred charges and credits	(5,900)	(2,068)
Net cash provided by operating activities	40,693	60,375
Cash flows from investing activities:		
Cash additions to utility property, plant and equipment	(102,785)	(147,040)
Cash additions to nuclear fuel	(20,478)	(22,424)
Capitalized interest and AFUDC:		
Utility property, plant and equipment	(7,502)	(10,555)
Nuclear fuel	(2,495)	(2,550)
Allowance for equity funds used during construction	4,469	6,543
Decommissioning trust funds:		
Purchases, including funding of \$2.2 million and \$2.3 million, respectively	(44,937)	(41,029)
Sales and maturities	40,712	37,158
Proceeds from sale of land	596	—
Other investing activities	2,771	82
Net cash used for investing activities	(129,649)	(179,815)
Cash flows from financing activities:		
Dividends paid	(24,474)	(23,220)
Borrowings under the revolving credit facility:		
Proceeds	172,125	167,103
Payments	(212,249)	(53,563)
Proceeds from issuance of senior notes	157,052	—
Other financing activities	(2,040)	(1,020)

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Net cash provided by financing activities	90,414	89,300
Net increase (decrease) in cash and cash equivalents	1,458	(30,140)
Cash and cash equivalents at beginning of period	8,149	40,504
Cash and cash equivalents at end of period	\$9,607	\$10,364

See accompanying notes to financial statements.

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EL PASO ELECTRIC COMPANY
 NOTES TO FINANCIAL STATEMENTS
 (Unaudited)

A. Principles of Preparation

These condensed financial statements should be read in conjunction with the financial statements and notes thereto in the Annual Report of El Paso Electric Company on Form 10-K for the fiscal year ended December 31, 2015 (the "2015 Form 10-K"). Capitalized terms used in this report and not defined herein have the meaning ascribed to such terms in the 2015 Form 10-K. In the opinion of the Company's management, the accompanying financial statements contain all adjustments necessary to present fairly the financial position of the Company at June 30, 2016 and December 31, 2015; the results of its operations and comprehensive operations for the three, six and twelve months ended June 30, 2016 and 2015; and its cash flows for the six months ended June 30, 2016 and 2015. The results of operations and comprehensive operations for the three and six months ended June 30, 2016 and the cash flows for the six months ended June 30, 2016 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 (the "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. The Company evaluates its estimates on an on-going basis, including those related to depreciation, unbilled revenue, income taxes, fuel costs, pension and other post-retirement obligations and asset retirement obligations ("ARO"). Actual results could differ from those estimates.

Revenues. Revenues related to the sale of electricity are generally recorded when service is provided 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 recorded for estimated amounts of energy delivered in the period following the customer's billing cycle to the end of 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 \$36.5 million at June 30, 2016 and \$21.7 million at December 31, 2015. The Company presents revenues net of sales taxes in its statements of operations.

Supplemental Cash Flow Disclosures (in thousands)

	Six Months Ended June 30,	
	2016	2015
Cash paid (received) for:		
Interest on long-term debt and borrowings under the revolving credit facility	\$35,252	\$30,922
Income tax paid, net	2,703	1,680
Non-cash investing and financing activities:		
Changes in accrued plant additions	(6,966)	(1,227)
Grants of restricted shares of common stock	1,236	1,106

New Accounting Standards. In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-03, Interest - Imputation of Interest (Topic 715) to simplify the presentation of debt issuance costs. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this ASU. ASU 2015-03 is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. In August 2015, the FASB issued ASU 2015-15, Interest - Imputation of Interest (Subtopic 835-30), to provide further clarification to ASU 2015-03 as it relates to the presentation and subsequent measurement of debt

issuance costs associated with line of credit arrangements. The Company implemented ASU 2015-03 and ASU 2015-15 in the first quarter of 2016, retrospectively to all prior periods presented in the Company's financial

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EL PASO ELECTRIC COMPANY

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

statements. The implementation of ASU 2015-03 did not have a material impact on the Company's results of operations. See Note J.

In May 2015, the FASB issued ASU 2015-07, Fair Value Measurement (Topic 820) to eliminate the requirement to categorize investments in the fair value hierarchy if the fair value is measured at net asset value ("NAV") per share (or its equivalent) using the practical expedient in the FASB's fair value measurement guidance. Reporting entities must still provide sufficient information to enable users to reconcile total investments in the fair value hierarchy and total investments measured at fair value in the financial statements. Additionally, the scope of current disclosure requirements for investments eligible to be measured at NAV will be limited to investments to which the practical expedient is applied. This ASU is effective in fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The ASU requires retrospective application. The Company implemented ASU 2015-07 in the first quarter of 2016, retrospectively to all prior periods presented in the Company's fair value disclosures. This guidance required a revision of the fair value disclosures but did not impact the Company's financial statements. The implementation of ASU 2015-07 did not have a material impact on the Company's results of operations. See Note J. In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes to simplify the presentation of deferred income taxes. ASU 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. ASU 2015-17 can be applied prospectively or retrospectively and is effective for financial statements issued for annual periods beginning after December 15, 2016 and interim periods within those annual periods and early adoption is permitted. The Company elected to early adopt ASU 2015-17 retrospectively in the first quarter of 2016. The implementation of ASU 2015-17 did not have a material impact on the Company's results of operations. See Note F.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) to provide a framework that replaces the existing revenue recognition guidance. ASU 2014-09 is the result of a joint effort by the FASB and the International Accounting Standards Board intended to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. Generally Accepted Accounting Principles ("GAAP") and International Financial Reporting Standards. ASU 2014-09 provides that an entity should recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 was originally intended to be effective for annual periods and interim periods within that reporting period beginning after December 15, 2016, for public business entities. In August 2015, FASB issued ASU 2015-14 to defer the effective date of ASU 2014-09 for all entities by one year. Public business entities will apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017 and interim periods within that reporting period. In March 2016, the FASB issued ASU 2016-08 to clarify the implementation guidance on principal versus agent consideration. In April 2016, the FASB issued ASU 2016-10 to clarify the implementation guidance on identifying performance obligations and licensing. In May 2016, the FASB issued ASU 2016-11, which rescinds certain SEC Staff Observer comments that are codified in FASB ASC Topic 605 (Revenue Recognition), effective upon adoption of Topic 606. In May 2016, the FASB issued ASU 2016-12, which makes narrow-scope amendments to ASU 2014-09, and provides practical expedients to simplify the transition to the new standard and to clarify certain aspects of the standard. Early adoption of ASU 2014-09 is permitted after December 15, 2016. The Company has not selected a transition method and is currently assessing the future impact of this ASU.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities to enhance the reporting model for financial instruments by addressing certain aspects of recognition, measurement, presentation, and disclosure. ASU 2016-01 generally requires entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income. The guidance for classifying and measuring investments in debt securities and loans is not changed by this ASU, but requires entities to record changes in other comprehensive income. Financial assets and financial liabilities must be separately presented by measurement

category on the balance sheet or in the accompanying notes to the financial statements. ASU 2016-01 clarifies the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The standard includes a requirement that businesses must report changes in the fair value of their own liabilities in other comprehensive income instead of earnings, and this is the only provision of the update for which the FASB is permitting early adoption. The remaining provisions of this ASU become effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently assessing the future impact of this ASU.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and requiring qualitative and quantitative disclosures on leasing agreements. ASU 2016-02 maintains a distinction between finance leases and operating leases similar to the distinction under previous leases guidance for capital leases and operating leases. The impact of leases reported in the Company's operating results and statement of cash flows are expected to be similar to previous GAAP. ASU 2016-02 requires the recognition

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EL PASO ELECTRIC COMPANY

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

in the statement of financial position, by the lessee, of a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. How leases are recorded in regard to financial position represents a significant change from previous GAAP. The lessee is permitted to make an accounting policy election to not recognize lease assets and lease liabilities for short-term leases. Implementation of the standard for public companies will be required for annual reporting periods beginning after December 15, 2018 and interim periods within that reporting period. Early adoption of ASU 2016-02 is permitted for all entities. Adoption of the new lease accounting standard will require the Company to apply the new standard to the earliest period using a modified retrospective approach. The Company is currently assessing the future impact of this ASU.

In March 2016, the FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting to simplify the accounting for share-based payment transactions, including the income tax consequences, classification of awards either as equity or liabilities, and classification on the statements of cash flows. This ASU is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company is currently assessing the future impact of this ASU.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326). ASU 2016-13 significantly changes how companies measure and recognize credit impairment for many financial assets. The new current expected credit loss model will require companies to immediately recognize an estimate of credit losses expected to occur over the remaining life of the financial assets that are in the scope of the standard. The ASU also makes targeted amendments to the current impairment model for available-for-sale debt securities. For public business entities, the provisions of ASU 2016-13 are effective for fiscal years and interim periods within that reporting period beginning after December 15, 2019. Early implementation is permitted as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. ASU 2016-13 will be applied in a modified-retrospective approach through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is implemented. The Company is currently assessing the future impact of this ASU.

Reclassification. Certain amounts in the financial statements for 2015 have been reclassified to conform to the 2016 presentation. The Company implemented ASU 2015-03 and ASU 2015-17 in the first quarter of 2016, retrospectively to all periods presented in the Company's financial statements. See Note J and Note F, respectively.

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NOTES TO FINANCIAL STATEMENTS
(Unaudited)

B. Accumulated Other Comprehensive Income (Loss)

Changes in Accumulated Other Comprehensive Income (Loss) (net of tax) by component are presented below (in thousands):

	Three Months Ended June 30, 2016				Three Months Ended June 30, 2015			
	Unrecognized Pension and Post-retirement Benefit Costs	Net Unrealized Gains (Losses) on Marketable Securities	Net Losses on Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)	Unrecognized Pension and Post-retirement Benefit Costs	Net Unrealized Gains (Losses) on Marketable Securities	Net Losses on Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
Balance at beginning of period	\$ (30,256)	\$ 28,394	\$ (11,770)	\$ (13,632)	\$ (34,628)	\$ 36,782	\$ (12,032)	\$ (9,878)
Other comprehensive income (loss) before reclassifications	—	2,224	—	2,224	—	(1,191)	—	(1,191)
Amounts reclassified from accumulated other comprehensive income (loss)	(276)	(1,693)	77	(1,892)	297	135	73	505
Balance at end of period	\$ (30,532)	\$ 28,925	\$ (11,693)	\$ (13,300)	\$ (34,331)	\$ 35,726	\$ (11,959)	\$ (10,564)

	Six Months Ended June 30, 2016				Six Months Ended June 30, 2015			
	Unrecognized Pension and Post-retirement Benefit Costs	Net Unrealized Gains (Losses) on Marketable Securities	Net Losses on Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)	Unrecognized Pension and Post-retirement Benefit Costs	Net Unrealized Gains (Losses) on Marketable Securities	Net Losses on Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
Balance at beginning of period	\$ (29,869)	\$ 27,765	\$ (11,810)	\$ (13,914)	\$ (34,884)	\$ 38,957	\$ (12,074)	\$ (8,001)
Other comprehensive income (loss) before reclassifications	—	3,966	—	3,966	—	(369)	—	(369)

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Amounts reclassified from accumulated other comprehensive income (loss) Balance at end of period	(663)	(2,806)	117	(3,352)	553	(2,862)	115	(2,194)
	\$ (30,532)	\$ 28,925	\$ (11,693)	\$ (13,300)	\$ (34,331)	\$ 35,726	\$ (11,959)	\$ (10,564)

	Twelve Months Ended June 30, 2016				Twelve Months Ended June 30, 2015			
	Unrecognized Pension and Post-retirement Benefit Costs	Net Unrealized Gains (Losses) on Marketable Securities	Net Losses on Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)	Unrecognized Pension and Post-retirement Benefit Costs	Net Unrealized Gains (Losses) on Marketable Securities	Net Losses on Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
Balance at beginning of period	\$ (34,331)	\$ 35,726	\$ (11,959)	\$ (10,564)	\$ (9,539)	\$ 39,483	\$ (12,214)	\$ 17,730
Other comprehensive income (loss) before reclassifications	3,777	2,080	—	5,857	(24,775)	2,681	—	(22,094)
Amounts reclassified from accumulated other comprehensive income (loss) Balance at end of period	22	(8,881)	266	(8,593)	(17)	(6,438)	255	(6,200)
	\$ (30,532)	\$ 28,925	\$ (11,693)	\$ (13,300)	\$ (34,331)	\$ 35,726	\$ (11,959)	\$ (10,564)

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Amounts reclassified from accumulated other comprehensive income (loss) for the three, six and twelve months ended June 30, 2016 and 2015 are as follows (in thousands):

Details	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,		Affected Line Item in the Statement of Operations
	2016	2015	2016	2015	2016	2015	
Accumulated Other Comprehensive Income (Loss) Components							
Amortization of pension and post-retirement benefit costs:							
Prior service benefit	\$1,664	\$1,662	\$3,330	\$3,325	\$6,579	\$7,455	(a)
Net loss	(1,222)	(2,250)	(2,445)	(4,500)	(6,567)	(7,730)	(a)
Income tax effect	442	(588)	885	(1,175)	12	(275)	(a)
Net loss	(166)	291	(222)	622	(34)	292	Income tax expense
Income tax effect	276	(297)	663	(553)	(22)	17	(a)
Marketable securities:							
Net realized gain (loss) on sale of securities	2,110	(182)	3,498	3,563	11,049	7,946	Investment and interest income, net
Income tax effect	(417)	47	(692)	(701)	(2,168)	(1,508)	Income tax expense
Net income	1,693	(135)	2,806	2,862	8,881	6,438	Net income

Loss on cash flow hedge:							
Amortization of	(123)	(116)	(245)	(230)	(482)	(452)	Interest on long-term debt and revolving credit facility
loss	(123)	(116)	(245)	(230)	(482)	(452)	Income before income taxes
Income tax effect	46	43	128	115	216	197	Income tax expense
	(77)	(73)	(117)	(115)	(266)	(255)	Net income
Total reclassifications	\$1,892	\$(505)	\$3,352	\$2,194	\$ 8,593	\$ 6,200	

(a) These items are included in the computation of net periodic benefit cost. See Note I, Employee Benefits, for additional information.

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C. Regulation

General

The rates and services of the Company are regulated by incorporated municipalities in Texas, the Public Utility Commission of Texas ("PUCT"), the New Mexico Public Regulation Commission ("NMPRC"), and the Federal Regulatory Commission ("FERC"). Municipal orders, ordinances and other agreements regarding rates and services adopted by Texas municipalities are subject to review and approval by the PUCT. 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, the NMPRC and the FERC are subject to judicial review.

Texas Regulatory Matters

2012 Texas Retail Rate Case. On April 17, 2012, the El Paso City Council approved the settlement of the Company's 2012 Texas retail rate case and fuel reconciliation in PUCT Docket No. 40094. The PUCT issued a final order approving the settlement on May 23, 2012 and the rates were effective as of May 1, 2012. As part of the 2012 Texas retail rate settlement, the Company agreed to submit a future 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. The Company filed a fuel reconciliation request covering the period July 1, 2009 through March 31, 2013, as discussed below. The 2012 Texas retail rate settlement also provided for the continuation of the energy efficiency cost recovery factor and the military base discount recovery factor. Both of these surcharges require annual filings to reconcile and revise the recovery factors.

2015 Texas Retail Rate Case Filing. On August 10, 2015, the Company filed with the City of El Paso, other municipalities incorporated in its Texas service territory, and the PUCT in Docket No. 44941, a request for an annual increase in non-fuel base revenues of approximately \$71.5 million. On January 15, 2016, the Company filed its rebuttal testimony modifying the requested increase to \$63.3 million. The Company invoked its statutory right to have its new rates relate back for consumption on and after January 12, 2016, which is the 155th day after the filing. The difference in rates that would have been billed will be surcharged or refunded to customers after the PUCT's final order in Docket No. 44941. The PUCT has the authority to require the Company to surcharge or refund such difference over a period not to exceed 18 months. On January 21, 2016, the Company, the City of El Paso, the PUCT Staff, the Office of Public Utility Counsel and Texas Industrial Energy Consumers filed a joint motion to abate the procedural schedule to facilitate settlement talks. This motion was granted.

On March 29, 2016, the Company and other settling parties to PUCT Docket No. 44941 filed a Non-Unanimous Stipulation and Agreement and motion to approve interim rates (the "Non-Unanimous Settlement") with the PUCT. Four parties to the rate case opposed the Non-Unanimous Settlement but not the interim rates. Interim rates reflecting an annual non-fuel base rate increase of \$37 million were approved by the Administrative Law Judges ("ALJs") effective April 1, 2016 subject to refund or surcharge. Subsequent to filing the Non-Unanimous Settlement, the rate case was subject to numerous procedural matters, including a May 19, 2016 ruling by the PUCT that the Company's initial notice did not adequately contemplate the treatment of residential customers with solar generation contained in the Non-Unanimous Settlement.

Settlement discussions continued, and on July 21, 2016, the Company filed a Joint Motion to Implement Uncontested Amended and Restated Stipulation and Agreement with the PUCT, which was unopposed by parties to the rate case in Docket No. 44941 (the "Unopposed Settlement"). The terms of the Unopposed Settlement include: (i) an annual non-fuel base rate increase of \$37 million, lower annual depreciation expense of approximately \$8.5 million, a return on equity of 9.7% for AFUDC purposes, and including substantially all new plant in service in rate base; (ii) an additional annual non-fuel base rate increase of \$3.7 million related to Four Corners Generating Station costs; (iii) removing the separate treatment for residential customers with solar generation; and (iv) allowing the Company to recover most of the rate case expenses up to a date certain. The Unopposed Settlement is subject to approval by the PUCT. The settlement documents were filed with ALJs assigned to oversee the Company's Texas Rate case, who have

returned the settled case to the PUCT for approval. It is anticipated that the Unopposed Settlement will be considered by the PUCT at its meeting scheduled for August 18, 2016. The costs of serving residential customers with solar generation will be addressed in a future proceeding.

Given the uncertainties regarding the ultimate resolution of this rate case, the Company did not recognize the impacts of the Unopposed Settlement in the Statements of Operations for the second quarter of 2016. The additional revenues resulting from the implementation of the interim rates in the amount of \$10.8 million were deferred and included in other current liabilities on the Company's Balance Sheet at June 30, 2016. At this time, the Company believes the revenue and other impacts of the Unopposed

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Settlement for financial reporting purposes will be recognized during the second half of 2016. Regardless of the ultimate timing and amounts, new rates will relate back to consumption on and after January 12, 2016.

Energy Efficiency Cost Recovery Factor. The Company made its annual filing to establish its energy efficiency cost recovery factor for 2015 on May 1, 2014. In addition to projected energy efficiency costs for 2015 and true-up to prior year actual costs, the Company requested approval of a \$2.0 million bonus for the 2013 energy efficiency program results in accordance with PUCT rules. The PUCT approved the Company's request at its November 14, 2014 open meeting. The Company recorded the \$2.0 million bonus as operating revenue in the fourth quarter of 2014.

On May 1, 2015, the Company made its annual filing to establish its energy efficiency cost recovery factor for 2016. In addition to projected energy efficiency costs for 2016 and a true-up to prior year actual costs, the Company requested approval of a \$1.0 million bonus for the 2014 energy efficiency program results in accordance with PUCT rules. This case was assigned PUCT Docket No. 44677. A stipulation and settlement agreement was filed September 24, 2015 and the PUCT approved the settlement on November 5, 2015. The settlement approved by the PUCT includes a performance bonus of \$1.0 million. The Company recorded the performance bonus as operating revenue in the fourth quarter of 2015.

On April 29, 2016, the Company made its annual filing to establish its energy efficiency cost recovery factor for 2017. In addition to projected energy efficiency costs for 2017 and true-up to prior year actual costs, the Company requested approval of a \$668 thousand bonus for the 2015 energy efficiency program results in accordance with PUCT rules. This case was assigned PUCT Docket No. 45855. The Company expects the Commission will make a final decision in the proceeding before the end of 2016.

Fuel and Purchased Power Costs. The Company's actual fuel costs, including purchased power energy costs, are recovered from customers through a fixed fuel factor. The PUCT has adopted a fuel cost recovery rule (the "Texas Fuel Rule") that allows the Company to seek periodic adjustments to its fixed fuel factor. 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.

On April 15, 2015, the Company filed a request, which was assigned PUCT Docket No. 44633, to reduce its fixed fuel factor by approximately 24% to reflect reduced fuel expenses primarily related to a reduction in the price of natural gas used to generate power. The over-recovered balance was below the PUCT's materiality threshold. The reduction in the fixed fuel factor was effective on an interim basis May 1, 2015 and approved by the PUCT on May 20, 2015. As of June 30, 2016, the Company had over-recovered fuel costs in the amount of \$1.0 million for the Texas jurisdiction. **Fuel Reconciliation Proceeding.** Pursuant to the 2012 Texas retail rate settlement discussed above, on September 27, 2013, the Company filed an application with the PUCT, designated as PUCT Docket No. 41852, to reconcile \$545.3 million of fuel and purchased power expenses incurred during the 45-month period from July 1, 2009 through March 31, 2013. A settlement was reached and a final order was issued by the PUCT on July 11, 2014 with no significant adjustments. The PUCT's final order completes the regulatory review and reconciliation of the Company's fuel expenses for the period through March 31, 2013. The Company is required to file an application by the end of September 2016 for fuel reconciliation of the Company's fuel expenses for the period through March 31, 2016.

Montana Power Station ("MPS") Approvals. The Company has received a Certificate of Convenience and Necessity ("CCN") from the PUCT to construct four natural gas fired generating units at MPS in El Paso County, Texas. The Company also obtained air permits from the Texas Commission on Environmental Quality (the "TCEQ") and the U.S.

Environmental Protection Agency (the "EPA"). MPS Units 1 and 2 and associated transmission lines and common facilities were completed and placed into service in March 2015. MPS Unit 3 was completed and placed into service on May 3, 2016.

Community Solar. On June 8, 2015, the Company filed a petition with the PUCT to initiate a community solar program to include construction and ownership of a 3 MW solar photovoltaic system located at MPS. Participation will be on a voluntary basis, and customers will contract for a set capacity (kW) amount and receive all energy produced. This case was assigned PUCT Docket No. 44800. The Company filed a settlement agreement among all parties on July 1, 2016 which would approve the program, and the Company expects an order from the PUCT on or about August 18, 2016 approving the settlement agreement.

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Four Corners Generating Station ("Four Corners"). On February 17, 2015, the Company and Arizona Public Service Company ("APS") entered into an asset purchase agreement (the "Purchase and Sale Agreement") providing for the purchase by APS of the Company's interests in Four Corners. The Four Corners transaction closed on July 6, 2016. See Note D for further details on the sale of Four Corners.

On June 10, 2015, the Company filed an application in Texas requesting reasonableness and public interest findings and certain rate and accounting findings related to the Purchase and Sale Agreement. This case was assigned PUCT Docket No. 44805. Subsequent to the filing of the application, the case has been subject to numerous procedural matters, including a March 23, 2016 order in which the PUCT determined not to dismiss the reasonableness and public interest issues in this docket but to consider the requested rate and accounting findings, including mine reclamation costs, in the Company's next rate case, which is expected to be filed in early 2017. The procedural schedule related to the public interest issues calls for a hearing to be held on October 6-7, 2016. At June 30, 2016, the regulatory asset associated with mine reclamation costs for our Texas jurisdiction approximated \$7.7 million.

The Company currently continues to recover its mine reclamation costs in Texas under previous orders and decisions of the PUCT. If any future determinations made by our regulators result in changes to how existing regulatory assets or previously incurred costs for Four Corners are recovered in rates, any such changes would be recognized only when it becomes probable future cash flows will change as a result of such regulatory actions.

Other Required Approvals. The Company has obtained other required approvals for tariffs and approvals as required by the Public Utility Regulatory Act (the "PURA") and the PUCT.

New Mexico Regulatory Matters

2009 New Mexico Stipulation. On December 10, 2009, the NMPRC issued a final order conditionally approving the stipulated rates in NMPRC Case No. 09-00171-UT. The stipulated rates went into effect with January 2010 bills. The stipulated rates provide for an Efficient Use of Energy Factor Rate Rider to recover energy efficiency expenditures which are updated annually for adjustment to the recovery factors.

2015 New Mexico Rate Case Filing. On May 11, 2015, the Company filed with the NMPRC in Case No. 15-00127-UT, for an annual increase in non-fuel base rates of approximately \$8.6 million or 7.1%. The filing also requested an annual reduction of \$15.4 million, or 21.5%, for fuel and purchased power costs. Subsequently, the Company reduced its requested increase in non-fuel base rates to approximately \$6.4 million. On June 8, 2016, the NMPRC issued its final order approving an annual increase in non-fuel base rates of approximately \$1.1 million and a decrease in the Company's allowed return on equity to 9.48%. The final order concludes that all of the Company's plant additions are in service and used and useful, and that the costs were prudently incurred, and therefore would be recoverable and included in rate base. The Company's rates were approved by the NMPRC effective July 1, 2016.

Fuel and Purchased Power Costs. On January 8, 2014, the NMPRC approved the continuation of the Fuel and Purchased Power Cost Adjustment Clause (the "FPPCAC") without modification in NMPRC Case No. 13-00380-UT. Historically, fuel and purchased power costs were recovered through base rates and a FPPCAC that accounts for changes in the costs of fuel relative to the amount included in base rates. Effective July 1, 2016, with the implementation of the final order of Case No. 15-00127-UT, fuel and purchase power costs will no longer be recovered through base rates but will be completely recovered through the FPPCAC. Fuel and purchased power costs are reconciled to actual costs on a monthly basis and recovered or refunded to customers the second succeeding month. The Company recovers costs related to Palo Verde Unit 3 capacity and energy in New Mexico through the FPPCAC as purchased power using a proxy market price approved in Case No. 13-00380-UT. At June 30, 2016, the Company had a net fuel over-recovery balance of \$1.1 million in New Mexico.

Montana Power Station Approvals. The Company has received a CCN from the NMPRC to construct four units at MPS and the associated transmission lines. The Company also obtained all necessary air permits from the TCEQ and the EPA. A final order in NMPRC Case No. 13-00297-UT approving the CCN for MPS Units 3 and 4 was issued on June 11, 2014. MPS Units 1 and 2 and MPS to Caliente and MPS In & Out transmission lines were completed and

placed into service in March 2015. MPS Unit 3 was completed and placed into service on May 3, 2016. Four Corners. On February 17, 2015, the Company and APS entered into the Purchase and Sale Agreement providing for the purchase by APS of the Company's interests in Four Corners. On April 27, 2015, the Company filed an application in NMPRC Case No. 15-00109-UT requesting all necessary regulatory approvals to sell its ownership interest in Four Corners. On February

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2, 2016, the Company filed a joint stipulation with the NMPRC reflecting a settlement agreement among the NMPRC's Utility Division Staff, the Company and the New Mexico Attorney General proposing approval of abandonment and sale of its seven percent minority ownership interest in Four Corners Units 4 and 5 and common facilities to APS. An addendum to the joint stipulation was subsequently filed and the joint stipulation was unopposed. A hearing in the case was held on February 16, 2016, and the Hearing Examiner issued a Certification of Stipulation on April 22, 2016 recommending approval of the joint stipulation without modification. On June 15, 2016, the NMPRC issued its final order approving the stipulation. See Note D for further details on the sale of Four Corners. 5 MW Holloman Air Force Base ("HAFB") Facility CCN. On June 15, 2015, the Company filed a petition with the NMPRC requesting CCN authorization to construct a 5 MW solar-powered generation facility to be located at HAFB in the Company's service territory in New Mexico. The new facility will be a dedicated Company-owned resource serving HAFB. This case was assigned NMPRC Case No. 15-00185-UT. On October 7, 2015, the NMPRC issued a final order accepting the Hearing Examiner's Recommended Decision to approve the CCN, as modified. The Company and HAFB are in discussions for a power sales agreement for the facility to replace the existing load retention agreement.

Issuance of Long-Term Debt and Guarantee of Debt. On October 7, 2015, the Company received approval in NMPRC Case No. 15-00280-UT to issue up to \$310 million in new long-term debt; and to guarantee the issuance of up to \$65 million of new debt by Rio Grande Resources Trust ("RGRT") to finance future purchases of nuclear fuel and to refinance existing nuclear fuel debt obligations. This approval supersedes prior approvals. Under this authorization, on March 24, 2016, the Company issued \$150 million in aggregate principal amount of 5.00% Senior Notes due December 1, 2044. The net proceeds from the issuance of these senior notes, after deducting the underwriters' commission, were \$158.1 million. These proceeds include accrued interest of \$2.4 million and a \$7.1 million premium before expenses. These senior notes constitute an additional issuance of the Company's 5.00% Senior Notes due 2044, of which \$150 million was previously issued on December 1, 2014, for a total principal amount outstanding of \$300 million.

Other Required Approvals. The Company has obtained other required approvals for other tariffs, securities transactions, recovery of energy efficiency costs through a base rate rider and other approvals as required by the NMPRC.

Federal Regulatory Matters

Four Corners. On June 26, 2015, APS filed an application requesting authorization from FERC to purchase 100% of the Company's ownership interest in Units 4 and 5 of Four Corners and the associated transmission interconnection facilities and rights. On December 22, 2015, FERC issued an order approving the proposed transaction. The Four Corners transaction closed on July 6, 2016. See Note D for further details on the sale of Four Corners.

Public Service Company of New Mexico ("PNM") Transmission Rate Case. On December 31, 2012, PNM filed with FERC to change its method of transmission rate recovery for its transmission delivery services from stated rates to formula rates. The Company takes transmission service from PNM and is among the PNM transmission customers affected by PNM's shift to formula rates. On March 1, 2013, the FERC issued an order rejecting in part PNM's filing, and establishing settlement judge and hearing procedures. On March 20, 2015, PNM filed with FERC a settlement agreement and offer of settlement resolving all issues set for hearing in the proceeding. On March 25, 2015, the Chief Judge issued an order granting PNM's motion to implement the settled rates. On March 17, 2016, FERC issued an order approving the settlement.

Revolving Credit Facility; Issuance of Long-Term Debt and Guarantee of Debt. On October 19, 2015, the FERC issued an order in Docket No. ES15-66-000 approving the Company's filing to issue short-term debt under its existing revolving credit facility ("RCF") up to \$400 million outstanding at any time, to issue up to \$310 million in long-term debt, and to guarantee the issuance of up to \$65 million of new long-term debt by RGRT to finance future nuclear fuel purchases. The authorization is effective from November 15, 2015 through November 15, 2017. This approval

supersedes prior approvals. Under this authorization, on March 24, 2016, the Company issued \$150 million in aggregate principal amount of 5.00% Senior Notes due December 1, 2044. The net proceeds from the issuance of these senior notes, after deducting the underwriters' commission, were \$158.1 million. These proceeds include accrued interest of \$2.4 million and a \$7.1 million premium before expenses. These senior notes constitute an additional issuance of the Company's 5.00% Senior Notes due 2044, of which \$150 million was previously issued on December 1, 2014, for a total principal amount outstanding of \$300 million.

Other Required Approvals. The Company has obtained required approvals for rates and tariffs, securities transactions and other approvals as required by the FERC.

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D. Palo Verde and Four Corners

Spent Nuclear Fuel and Waste Disposal. Pursuant to the Nuclear Waste Policy Act of 1982, as amended in 1987 (the "NWPA"), the U.S. Department of Energy (the "DOE") is legally obligated to accept and dispose of all spent nuclear fuel and other high-level radioactive waste generated by all domestic power reactors by 1998. The DOE's obligations are reflected in a contract for Disposal of Spent Nuclear Fuel and/or High-Level Radioactive Waste (the "Standard Contract") with each nuclear power plant. The DOE failed to begin accepting spent nuclear fuel by 1998.

On December 19, 2012, APS, acting on behalf of itself and the Palo Verde Participants, filed a second breach of contract lawsuit against the DOE. This lawsuit sought to recover damages incurred due to the DOE's failure to accept Palo Verde's spent nuclear fuel for the period beginning January 1, 2007 through June 30, 2011. On August 18, 2014, APS and the DOE entered into a settlement agreement, stipulating to a dismissal of the lawsuit and payment of \$57.4 million by the DOE to the Palo Verde Participants for certain specified costs incurred by Palo Verde during the period January 1, 2007 through June 30, 2011. On October 8, 2014, the Company received approximately \$9.1 million, representing its share of the award. The majority of the award was credited to customers through the applicable fuel adjustment clauses.

On October 31, 2014, APS, acting on behalf of itself and the Palo Verde Participants, submitted to the government an additional request for reimbursement of spent nuclear fuel storage costs for the period July 1, 2011 through June 30, 2014. The accepted claim amount was \$42.0 million. On June 1, 2015, the Company received approximately \$6.6 million, representing its share of the award. The majority of the award was credited to customers through the applicable fuel adjustment clauses in March 2015. Thereafter APS will file annual claims for the period July 1 of the then-previous year to June 30 of the then-current year.

On November 2, 2015, APS filed a \$12.0 million claim for the period July 1, 2014 through June 30, 2015. In February 2016, the DOE notified APS of the approval of the claim. Funds related to this claim were received in the first quarter of 2016. The Company's share of this claim is approximately \$1.9 million. The majority of the award was credited to customers through the applicable fuel adjustment clauses in March 2016. APS's next claim pursuant to the terms of the August 18, 2014 settlement agreement will be submitted to the DOE in the fourth quarter of 2016, and payment is expected in the second quarter of 2017.

Four Corners. On February 17, 2015, the Company and APS entered into the Purchase and Sale Agreement providing for the purchase by APS of the Company's interests in Four Corners. Four Corners continued to provide energy to serve the Company's native load up to the closing date, and is classified as held for use in the Company's June 30, 2016 financial statements. The net book value of the utility plant related to Four Corners was \$31.9 million at June 30, 2016. Included in the Company's Balance Sheet at June 30, 2016 are obligations of \$7.0 million and \$19.5 million for plant decommissioning and mine reclamation costs, respectively, which were assumed by APS as part of the sale.

The Four Corners transaction closed on July 6, 2016. The sales price was \$32.0 million based on the net book value as defined in the Purchase and Sale Agreement. The sales price was adjusted downward by \$7.0 million and \$19.5 million, respectively, to reflect APS's assumption of the Company's obligation to pay for future plant decommissioning and mine reclamation expenses. The sales price was also adjusted downward by approximately \$1.3 million for closing adjustments and other assets and liabilities assumed by APS. At the closing, the Company received approximately \$4.2 million in cash, subject to post-closing adjustments. No significant gain or loss was recorded upon the closing of the sale. APS will assume responsibility for all capital expenditures made after July 6, 2016. In addition, APS will indemnify the Company against liabilities and costs related to the future operation of Four Corners. See Note C for a discussion of regulatory filings associated with Four Corners.

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E. Common Stock

Dividends. The Company paid \$12.5 million and \$11.9 million in quarterly cash dividends during the three months ended June 30, 2016 and 2015, respectively. The Company paid a total of \$24.5 million and \$48.4 million in quarterly cash dividends during the six and twelve months ended June 30, 2016, respectively. The Company paid a total of \$23.2 million and \$45.8 million in quarterly cash dividends during the six and twelve months ended June 30, 2015, respectively. On July 21, 2016, the Board of

Directors declared a quarterly cash dividend of \$0.31 per share payable on September 30, 2016 to shareholders of record as of the close of business on September 14, 2016.

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,	
	2016	2015
Weighted average number of common shares outstanding:		
Basic number of common shares outstanding	40,345,150	40,269,885
Dilutive effect of unvested performance awards	54,341	32,809
Diluted number of common shares outstanding	40,399,491	40,302,694
Basic net income per common share:		
Net income	\$22,284	\$ 21,072
Income allocated to participating restricted stock	(65)	(65)
Net income available to common shareholders	\$22,219	\$ 21,007
Diluted net income per common share:		
Net income	\$22,284	\$ 21,072
Income reallocated to participating restricted stock	(65)	(65)
Net income available to common shareholders	\$22,219	\$ 21,007
Basic net income per common share:		
Distributed earnings	\$0.310	\$ 0.295
Undistributed earnings	0.240	0.225
Basic net income per common share	\$0.550	\$ 0.520
Diluted net income per common share:		
Distributed earnings	\$0.310	\$ 0.295
Undistributed earnings	0.240	0.225
Diluted net income per common share	\$0.550	\$ 0.520

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	Six Months Ended	
	June 30,	
	2016	2015
Weighted average number of common shares outstanding:		
Basic number of common shares outstanding	40,335,236	40,256,615
Dilutive effect of unvested performance awards	45,404	28,142
Diluted number of common shares outstanding	40,380,640	40,284,757
Basic net income per common share:		
Net income	\$ 16,476	\$ 24,530
Income allocated to participating restricted stock	(66)	(71)
Net income available to common shareholders	\$ 16,410	\$ 24,459
Diluted net income per common share:		
Net income	\$ 16,476	\$ 24,530
Income reallocated to participating restricted stock	(66)	(71)
Net income available to common shareholders	\$ 16,410	\$ 24,459
Basic net income per common share:		
Distributed earnings	\$0.605	\$ 0.575
Undistributed earnings	(0.195)	0.035
Basic net income per common share	\$0.410	\$ 0.610
Diluted net income per common share:		
Distributed earnings	\$0.605	\$ 0.575
Undistributed earnings	(0.195)	0.035
Diluted net income per common share	\$0.410	\$ 0.610

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(Unaudited)

	Twelve Months Ended June 30,	
	2016	2015
Weighted average number of common shares outstanding:		
Basic number of common shares outstanding	40,314,032	40,236,466
Dilutive effect of unvested performance awards	42,207	26,838
Diluted number of common shares outstanding	40,356,239	40,263,304
Basic net income per common share:		
Net income	\$ 73,864	\$ 81,247
Income allocated to participating restricted stock	(210)	(253)
Net income available to common shareholders	\$ 73,654	\$ 80,994
Diluted net income per common share:		
Net income	\$ 73,864	\$ 81,247
Income reallocated to participating restricted stock	(210)	(253)
Net income available to common shareholders	\$ 73,654	\$ 80,994
Basic net income per common share:		
Distributed earnings	\$ 1.195	\$ 1.135
Undistributed earnings	0.635	0.875
Basic net income per common share	\$ 1.830	\$ 2.010
Diluted net income per common share:		
Distributed earnings	\$ 1.195	\$ 1.135
Undistributed earnings	0.635	0.875
Diluted net income per common share	\$ 1.830	\$ 2.010

The amount of restricted stock awards and performance shares at 100% performance level excluded from the calculation of the diluted number of common shares outstanding because their effect was antidilutive is presented below:

	Three Months Ended June 30,		Six months ended June 30,		Twelve Months Ended June 30,	
	2016	2015	2016	2015	2016	2015
Restricted stock awards	42,759	48,669	51,111	58,432	52,714	59,380
Performance shares (a)	62,995	59,898	62,995	59,898	56,089	48,136

(a) Certain performance shares were excluded from the computation of diluted earnings per share as no payouts would have been required based upon performance at the end of each corresponding period.

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F. Income Taxes

The Company files income tax returns in the United States ("U.S.") federal jurisdiction and in the states of Texas, New Mexico and Arizona. The Company is no longer subject to tax examination by the taxing authorities in the federal and New Mexico jurisdictions for years prior to 2011. The Company is currently under audit in Texas for tax years 2007 through 2011. In June 2016, the Arizona Department of Revenue discontinued their audits for tax years 2009 through 2012. The discontinuance of the audits did not have a material impact on the Company's results of operations or financial position.

For the three months ended June 30, 2016 and 2015, the Company's effective tax rate was 33.9% and 31.1%, respectively. For the six months ended June 30, 2016 and 2015, the Company's effective tax rate was 33.5% and 30.0%, respectively. For the twelve months ended June 30, 2016 and 2015, the Company's effective tax rate was 30.7% and 30.3%, respectively. The Company's effective tax rate for all periods differs from the federal statutory tax rate of 35.0% primarily due to capital gains in the decommissioning trusts which are taxed at the federal rate of 20.0%, the allowance for equity funds used during construction ("AEFUDC"), and state taxes.

In November 2015, the FASB issued new guidance (ASU 2015-17, Balance Sheet Classification of Deferred Taxes) to simplify the presentation of deferred income taxes. ASU 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. ASU 2015-17 can be applied prospectively or retrospectively and is effective for financial statements issued for annual periods beginning after December 15, 2016 and interim periods within those annual periods and early adoption is permitted. The Company elected to implement ASU 2015-17 on a retrospective basis for financial statements issued beginning March 31, 2016. The implementation of ASU 2015-17 did not have a material impact on the Company's results of operations. The impact of ASU 2015-17 on the Company's Balance Sheet was to reclassify \$21.6 million of current deferred tax assets to long-term deferred tax liabilities at December 31, 2015.

G. Commitments, Contingencies and Uncertainties

For a full discussion of commitments and contingencies, see Note K of the Notes to Financial Statements in the 2015 Form 10-K. In addition, see Notes C and D above and Notes C and E of the Notes to Financial Statements in the 2015 Form 10-K regarding matters related to wholesale power sales contracts and transmission contracts subject to regulation and Palo Verde, including decommissioning, spent nuclear fuel and waste disposal, and liab