El Paso Electric Announces Second Quarter Financial Results

Overview

- For the second quarter 2008, EE reported net income of $19.2 million, or $0.43 basic and diluted earnings per share. In the second quarter of 2007, EE had net income of $9.6 million, or $0.21 basic and diluted earnings per share.
- For the six months ended June 30, 2008, EE reported net income of $33.7 million, or $0.75 basic and diluted earnings per share. Net income for the six months ended June 30, 2007 was $24.7 million, or $0.54 and $0.53 basic and diluted earnings per share, respectively.

“Our strong second quarter 2008 results, relative to 2007, were largely driven by increased revenues from retail customers. This revenue growth was primarily the result of a return to more normal summer weather,” said J. Frank Bates, Interim President and Chief Executive Officer. “Increased revenues from sales to retail customers, including sales from the deregulated portion of Palo Verde Unit 3, more than offset operation and maintenance cost increases at the Palo Verde nuclear generating station and our coal and gas-fired generating stations.”

Earnings Summary

The table and explanations below present the major factors affecting 2008 net income relative to 2007 net income.

	Quarter Ended			Six Months Ended		
	Pre-Tax Effect	After-Tax Net Income	Basic EPS	Pre-Tax Effect	After-Tax Net Income	Basic EPS
June 30, 2007		$ 9,599	$ 0.21		$ 24,718	$ 0.54
Changes in:						
Retail base revenue	$ 11,573	7,291	0.16	$ 13,395	8,439	0.18
Deregulated Palo Verde Unit 3 proxy market pricing	5,504	3,467	0.08	8,387	5,284	0.12
Transmission wheeling revenue	2,280	1,437	0.03	3,540	2,230	0.05
Administrative and general	2,121	1,396	0.03	1,049	661	0.02
AFUDC and capitalized interest	1,181	1,012	0.02	2,886	2,362	0.05
Palo Verde O&M	(4,274)	(2,692)	(0.06)	(8,680)	(5,468)	(0.12)
Fossil fuel plant O&M	(2,099)	(1,322)	(0.03)	(4,732)	(2,981)	(0.06)
Depreciation and amortization	(1,691)	(1,065)	(0.02)	(3,257)	(2,051)	(0.05)
Interest on long-term debt	(1,489)	(938)	(0.02)	(2,648)	(1,668)	(0.04)
Retained margins on off-system sales	(1,346)	(847)	(0.02)	1,558	981	0.02
Other		1,956	0.04		1,215	0.03
June 30, 2008		$ 19,234	0.42		$ 33,722	0.74
Change in weighted average number of shares			0.01			0.01
June 30, 2008 earnings per share			$ 0.43			$ 0.75

Second Quarter 2008

Earnings for the quarter ended June 30, 2008 when compared to the same period last year were positively affected by:

- Higher retail non-fuel revenues in 2008 were primarily due to a 6.9% increase in kWh sales to retail customers. Kilowatt-hour sales increases were mostly the result of the return to normal summer weather in 2008 compared to cooler summer weather in the second quarter of 2007, but were also impacted by the 2% increase in the average number of customers served.
- Higher proxy market prices for deregulated Palo Verde Unit 3 power sold to retail customers.
- Increased revenues for transmission wheeling in 2008 largely due to increased revenues for wheeling power in southern New Mexico and for wheeling power in Arizona.
- Lower administrative and general expenses due to a decrease in pension and other post-retirement benefits expenses due primarily to an increase in the discount rate for the associated liabilities.
- Increased AFUDC (allowance for funds used during construction) and capitalized interest due to higher balances of construction work in progress subject to AFUDC and nuclear fuel inventory subject to capitalized interest in 2008.

Earnings for the quarter ended June 30, 2008 when compared to the same period last year were negatively affected by:

- Increased Palo Verde non-fuel operation and maintenance expenses in 2008 due to higher maintenance costs at Palo Verde Unit 2, including some unscheduled preventive maintenance during refueling of the unit, and increased operating costs at all three units.
- Increased O&M costs at our fossil-fueled generating plants as planned major maintenance was performed at Four Corners Unit 5 and Newman Unit 3 in 2008. In the second quarter of 2007 no major maintenance was performed at our fossil-fueled generating units.
- Increased depreciation and amortization expense primarily due to higher depreciable plant balances.
- Increased interest expense on long-term debt due to higher interest rates on pollution control bonds and the issuance of $150 million of 7.5% Senior Notes in June 2008. The interest rates on two series of pollution control bonds are reset through weekly auctions, and uncertainties in the auction markets have resulted in higher interest rates on these two series of bonds.
- Reduced margins on off-system sales in the second quarter of 2008 primarily due to the timing of Palo Verde refueling outages. The 2008 Spring outage began on time (late March) when off-system sales margins are typically higher than they are in late Spring and Summer. The 2007 Spring outage began in mid-May 2007. This timing difference in Spring outages led to tighter sales margins in 2008.

Year to Date
Earnings for the six months ended June 30, 2008 when compared to the same period last year were positively affected by:

- Higher retail non-fuel revenues in 2008 were primarily due to a 4.7% increase in kWh sales to retail customers. Kilowatt-hour sales increases were mostly the result of the return to normal summer weather in the second quarter of 2008 compared to cooler summer weather in the second quarter of 2007, but were also impacted by the 2.1% increase in the average number of customers served.
- Higher proxy market prices for deregulated Palo Verde Unit 3 power sold to retail customers.
- Increased AFUDC and capitalized interest due to higher balances of construction work in progress subject to AFUDC and nuclear fuel inventory subject to capitalized interest in 2008.
- Increased revenues for transmission wheeling in 2008 largely due to increased revenues for wheeling power in southern New Mexico and for wheeling power in Arizona.
- Higher retained margins on off-system sales as a result of higher margins from an off-system sales transaction in the first quarter of 2008 partially offset by lower margins on second quarter 2008 off-system sales, largely the result of the relative timing of Palo Verde refueling outages.

Earnings for the six months ended June 30, 2008 when compared to the same period last year were negatively affected by:

- Increased Palo Verde non-fuel operations and maintenance expenses in 2008 due to higher maintenance costs at Palo Verde Unit 2 associated with refueling the unit, including some unscheduled preventive maintenance, and increased operating costs at all three units.
- Increased O&M costs at our fossil-fueled generating plants as planned major maintenance was performed at Four Corners Unit 5 and Newman Unit 3 in 2008. In 2007 no major maintenance was performed at our fossil-fueled generating units.
- Increased depreciation and amortization primarily due to increased depreciable plant balances.
- Increased interest expense on long-term debt due to higher interest rates on pollution control bonds and the issuance of $150 million of 7.5% Senior Notes in June 2008. The interest rate on two series of pollution control bonds are reset through weekly auctions, and uncertainties in the auction markets have resulted in substantially higher interest rates in the first half of 2008 on these two series of bonds.

Key Earnings Drivers
Historically, our earnings are largely influenced by base revenues from retail electric customers, operations at Palo Verde, and off-systems sales margins.

Retail Non-fuel Base Revenues

Retail non-fuel base revenues increased by $11.6 million, pre-tax, or 10.4% in the second quarter of 2008 compared to the same period in 2007. KWh sales and non-fuel base revenues for residential, small commercial and industrial and public authority customers were all positively impacted by a return to normal summer weather in the second quarter of 2008 as compared to cooler than normal summer weather in the second quarter of 2007, as can be seen on page 11 of 15 of the Release. During the second quarter of 2008, cooling degree days were 20% above last year and 2% above the 10-year average. The increase in kWh sales was also impacted by a 2.0% increase in the number of customers served in the second quarter of 2008 as compared to 2007. Revenues from residential, small commercial and industrial and public authority customers also benefited from a non-fuel base rate increase in New Mexico effective July 1, 2007.

For the six month period ended June 30, 2008, retail non-fuel base revenues increased $13.4 million, pre-tax, or 6.3% and kWh sales grew 4.7%, compared to the same period in 2007, as can be seen on page 13 of 15 of the Release. Year to date non-fuel base revenues and kWh sales also benefited from the return to normal summer weather in the second quarter of

2008. In the first six months of 2008, cooling degree days were 18% above last year and 3% above the 10-year average. Revenues from residential, small commercial and industrial and public authority customers also benefited from a non-fuel base rate increase in New Mexico effective July 1, 2007.

Palo Verde Operations

We own approximately 633 MW (undivided interest) of generating capacity in the three generating units at the Palo Verde nuclear power station. The operation of Palo Verde not only affects our ability to make off-system sales but also impacts fuel costs to native load customers and represents a significant portion of our non-fuel operation and maintenance expenses. Palo Verde generation accounted for almost 55% of total Company generation in both the second quarters of 2008 and 2007. A spring refueling outage at Palo Verde Unit 2 began March 29, 2008 and was completed June 5, 2008. The 2007 Spring refueling outage at Palo Verde Unit 1 began May 19, 2007 and was completed July 19, 2007.

Palo Verde operation and maintenance expenses increased $4.3 million, pre-tax, in the second quarter of 2008 and $8.7 million, pre-tax, for the six months ended June 30, 2008 when compared to the same periods last year. These increases are primarily due to increased maintenance costs incurred during the 2008 Spring refueling outage at Palo Verde Unit 2 and increased operating costs at all three units in response to an enhanced inspection regimen by the Nuclear Regulatory Commission (NRC). The NRC placed Palo Verde Unit 3 in the “multiple/repetitive degraded cornerstone” column of the NRC’s action matrix in February 2007 which has resulted in an enhanced NRC inspection regimen for the entire plant. This enhanced inspection regimen and associated corrective actions have resulted in increased operating costs at the plant.

Off-system Sales

We continue to make off-system sales in the wholesale power markets when competitively priced excess power is available from our generating plants and purchased power contracts. The table below shows off-system sales MWh and the pre-tax margins realized and retained by us from sales for the quarter and six month periods ended June 30, 2008 and 2007:

	Quarter Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
MWh sales	564,119	498,995	1,676,805	1,174,006
Total margins (in thousands)	$2,192	$3,699	$17,175	$14,040
Retained margins (in thousands)	$1,644	$2,990	$12,907	$11,349

For the quarter ended June 30, 2008, retained margins from off-system sales decreased approximately $1.3 million, pre-tax, over the corresponding period in 2007 due primarily to the aforementioned difference in the timing of Palo Verde outages which resulted in higher costs of energy to make off-system sales. The average retained margin per MWh decreased $3.08.

For the six months ended June 30, 2008, our retained margins increased $1.6 million, pre-tax, over the corresponding period in 2007. The increase in off-system sales margins was primarily the result of an off-system sale transaction. In May 2007, the Company began selling 100 MW of firm energy and 50 MW of contingent energy to the Imperial Irrigation District. The firm portion of this sale is made through a 100 MW purchase of firm energy from CreditSuisse, LLC and the contingent portion is generally from our generating plants. During the first six months of 2008, the net margin from this transaction resulted in $7.5 million in gross off-system sales margin compared to $0.7 million during the same period last year. This increase was offset by reduced retained margins on our other off-system sales due to higher costs of energy to make off-system sales, due primarily to the previously discussed difference in the timing of refueling outages. The table below shows on a per MWh basis, pre-tax revenues, costs and margins from off-system sales for the first two quarters of 2008 and 2007.

Quarter Ended	Average Revenue Per MWh	Average Cost of Energy Per MWh	Pre-Sharing Average Margin Per MWh
March 31, 2007	$54.24	$38.92	$15.32
June 30, 2007	$59.53	$52.12	$7.41
March 31, 2008	$66.07	$52.60	$13.47
June 30, 2008	$88.78	$84.89	$3.89

Capital and Liquidity

At June 30, 2008, common stock equity comprised 45.1% of our permanent capitalization (common stock, long-term debt and the current portion of long-term debt and financing obligations). The Company issued $150 million of 7.5% Senior Notes in June 2008 to fund construction expenditures and for general corporate purposes, which resulted in a reduction in our common equity ratio. The Senior Notes issuance should, however, provide the remaining liquidity necessary for the Company to fund its capital program for the next 12 to 18 months.

Cash flows from operations for the six months ended June 30, 2008 decreased to $48.8 million from $88.1 million in the corresponding period in 2007. The primary factors affecting the change in cash flow were the 2008 increases in net deferred fuel revenues and increased accounts receivable associated with June 2008 sales. Cash requirements increased $43.1 million in the first six months of 2008 compared to the first six months of 2007 due to the under-recovery of fuel costs. In the first six months of 2008, prices for natural gas increased significantly, resulting in significant increases in fuel costs and the balance of fuel under-recoveries. These cost increases have not yet been reflected in our Texas fuel factor. In addition, post-February 2008 cost increases in New Mexico are being deferred for collection beginning in October 2008. As a result, at June 30, 2008, the Company had a fuel under-recovery balance of $66 million including $56 million in Texas and $10 million in New Mexico. The Company is seeking to collect the balance of fuel under-recoveries in Texas through fuel surcharges including a $30.1 million twelve-month surcharge that was placed into effect in May 2008, and a second twelve-month surcharge which was filed in Texas in July 2008 with a proposed effective date of October 2008.

During the six months ended June 30, 2008, our primary capital requirements were for construction and purchase of electric utility plant, purchases of nuclear fuel, and the repurchase of common stock. Capital requirements for new electric plant were $94.7 million for the six-month period ended June 30, 2008 compared to $55.2 million for the six-month period ended June 30, 2007. During the first six months of 2008, we repurchased $9.9 million of common stock compared to common stock repurchases of $14.1 million in the first six months of 2007. We issued $150 million of 7.5% Senior Notes in June 2008 to meet our current and expected future cash requirements. The net proceeds from the 7.5% Senior Notes of $148.7 million were used to pay down $44.0 million of working capital borrowings under our credit facility and the remaining proceeds are expected to fund our construction program and ensure adequate liquidity for the next 12 to 18 months. In addition, during the first six months of 2008, we liquidated $16.0 million of temporary investments. At June 30, 2008, we had a balance of $94.0 million in cash and cash equivalents.

Our capital requirements for nuclear fuel increased substantially in 2007 and 2008 as a result of increases in prices for uranium concentrates and an increase in our inventory of nuclear fuel feedstock. We finance our nuclear fuel inventory through a trust that borrows under our $200 million credit facility to acquire and process the nuclear fuel. Borrowings under the credit facility for nuclear fuel were $95.1 million as of June 30, 2008 and $55.1 million as of June 30, 2007. Up to $120 million of the credit facility may be used to finance nuclear fuel. Amounts not drawn for nuclear fuel are available for general corporate purposes.

No shares of common stock were repurchased during the second quarter of 2008. As of June 30, 2008, approximately 1,521,366 shares remain available for repurchase under the currently authorized program.

2008 Earnings Guidance
We have revised our earnings guidance for 2008 to a range of $1.60 to $1.95 per basic share from previous guidance of $1.50 to $1.90 per basic share.

Conference Call
A conference call to discuss second quarter 2008 earnings is scheduled for 4 p.m. Eastern Time, August 6, 2008. The dial-in number is 866-244-4517 with a conference id of 1260226. The conference leader will be Scott Wilson, Executive Vice President, Chief Financial and Administrative Officer of EE. A replay will run through August 20, 2008 with a dial-in number of 866-837-8032 and a conference id of 1260226. The conference call and presentation slides will be webcast live on EE's website found at http://www.epelectric.com. A replay of the webcast will be available shortly after the call.

Safe Harbor
This news release includes statements that may constitute forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. This information may involve risks and uncertainties that could cause actual results to differ materially from such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to: (i) increased prices for fuel and purchased power and the possibility that regulators may not permit EE to pass through all such increased costs to customers or to recover previously incurred fuel costs in rates; (ii) fluctuations in off-system sales margins due to uncertainty in the economy power market and the availability of generating units; (iii) unanticipated increased costs associated with scheduled and unscheduled outages; (iv) costs at Palo Verde, including additional costs relating to an enhanced NRC oversight and inspection regimen; (v) deregulation of the electric utility industry; (vi) possible increased costs of compliance with environmental or other laws, regulations and policies; (vii) possible income tax and interest payments as a result of audit adjustments proposed by the IRS; and (viii) other factors detailed by EE in its public filings with the Securities and Exchange Commission. EE's filings are available from the Securities and Exchange Commission or may be obtained through EE's website, http://www.epelectric.com. Any such forward-looking statement is qualified by reference to these risks and factors. EE cautions that these risks and factors are not exclusive. EE does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of EE except as required by law.