El Paso Electric Announces Fourth Quarter and Annual Financial Results

Overview

- For the fourth quarter 2008, EE reported net income of $10.8 million, or $0.24 basic and diluted earnings per share. In the fourth quarter of 2007, EE had net income of $13.9 million, or $0.31 and $0.30 basic and diluted earnings per share, respectively.
- For the twelve months ended December 31, 2008, EE reported net income of $77.6 million, or $1.73 basic and diluted earnings per share. Net income for the twelve months ended December 31, 2007 was $74.8 million, or $1.64 and $1.63 basic and diluted earnings per share, respectively.

“Fourth quarter 2008 earnings declined relative to fourth quarter 2007 earnings largely as the result of an increase in interest expense reflecting a June 2008 debt issuance and increased rates on our Pollution Control Bonds, a decrease in retail revenues reflecting a softening economy and higher operating costs,” said David W. Stevens, Chief Executive Officer. “However, calendar year 2008 earnings were still $0.09 per share above 2007 even with the fourth quarter earnings impact.”

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

	Quarter Ended			Twelve Months Ended		
	Pre-Tax Effect	After-Tax Net Income	Basic EPS	Pre-Tax Effect	After-Tax Net Income	Basic EPS
December 31, 2007		$ 13,947	$ 0.31		$ 74,753	$ 1.64
Changes in:						
Deregulated Palo Verde Unit 3 proxy market pricing	$ 8,735	5,503	0.12	$18,949	11,938	0.26
Retained margins on off-system sales	2,674	1,684	0.04	6,623	4,172	0.09
AFUDC and capitalized interest	48	155	–	3,975	3,456	0.08
Interest on long-term debt	(4,789)	(3,017)	(0.07)	(10,761)	(6,779)	(0.15)
Retail non-fuel base revenue	(4,212)	(2,653)	(0.06)	5,630	3,547	0.08
Palo Verde O&M	(3,013)	(1,899)	(0.04)	(12,281)	(7,737)	(0.17)
Depreciation and amortization	(1,505)	(948)	(0.02)	(6,174)	(3,890)	(0.09)
Interest and investment income	(1,112)	(701)	(0.02)	(5,807)	(3,659)	(0.08)
Transmission wheeling revenue	(1,046)	(658)	(0.01)	4,195	2,643	0.06
Fossil fuel plant O&M	(220)	(138)	–	(5,762)	(3,630)	(0.08)
Other		(450)	(0.01)		2,807	0.06
December 31, 2008		$ 10,825	0.24		$ 77,621	1.70
Change in weighted average number of shares			–			0.03
December 31, 2008 earnings per share			$ 0.24			$ 1.73

Fourth Quarter 2008
Earnings for the quarter ended December 31, 2008 when compared to the same period last year were positively affected by:

- Increased retail sales of deregulated Palo Verde Unit 3 power as the unit did not operate in the fourth quarter of 2007 due to its refueling and replacement of steam generators.
- Higher retained margins on off-system sales as a result of higher margins per MWh along with a significant increase in MWh sales.

Earnings for the quarter ended December 31, 2008 when compared to the same period last year were negatively affected by:

- Increased interest expense on long-term debt as a result of the June 2008 issuance of $150 million of 7.5% Senior Notes and higher interest rates on auction rate pollution control bonds.
- Lower retail non-fuel base revenues of $4.2 million or 3.7% in 2008 primarily due to two factors. One, non-fuel revenues to public authorities decreased $2.0 million largely as a result of a non-recurring revenue adjustment in the fourth quarter of 2007 and two, non-fuel base revenues to large commercial and industrial customers decreased $1.4 million as

a result of a 24.7% decline in kilowatt-hour sales.
- Increased Palo Verde non-fuel operations and maintenance expenses in 2008 due to higher operating costs at all three units.

Full Year 2008

Earnings for the twelve months ended December 31, 2008, when compared to the same period last year, were positively affected by:

- Higher proxy market prices and increased sales of deregulated Palo Verde Unit 3 power to retail customers as the unit did not operate in the fourth quarter of 2007 due to its refueling and replacement of steam generators.
- Higher retained margins on off-system sales primarily as a result of increased sales and margins from off-system sales to a wholesale customer.
- Higher retail non-fuel base revenues in 2008 largely due to increased kilowatt-hour sales to small commercial and industrial customers and other public authorities.
- Increased AFUDC and capitalized interest in 2008 due to higher balances of construction work in progress subject to AFUDC and nuclear fuel inventory subject to capitalized interest.
- Increased revenues for transmission wheeling in 2008 largely due to increased wheeling of power in southern New Mexico and Arizona partially offset by the reversal of $2.5 million of 2006 wheeling revenues from Tucson Electric Power pursuant to an order of the Federal Energy Regulatory Commission.

Earnings for the twelve months ended December 31, 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 operating costs at all three units and higher maintenance costs during refueling outages in 2008 than during refueling outages in 2007.
- Increased interest expense on long-term debt due to the June 2008 issuance of $150 million of 7.5% Senior Notes and higher interest rates on auction rate pollution control bonds.
- Increased depreciation and amortization as a result of higher depreciable plant balances.
- A decline in interest and investment income in 2008 due to impairments of equity securities in our Palo Verde decommissioning trust funds and a decrease in the fair value of our investments in auction rate securities.
- Increased O&M costs at our fossil-fueled generating plants as planned major maintenance was performed at Newman Unit 3 and Four Corners Unit 5 in 2008. In 2007, no major maintenance was performed at our fossil-fueled generating units.

Retail Non-fuel Base Revenues

Retail non-fuel base revenues decreased by $4.2 million, pre-tax, or 3.7% in the fourth quarter of 2008 compared to the same period in 2007 reflecting a decline in weather-related sales and a decline in industrial sales. In addition, non-fuel base revenue from public authorities decreased primarily due to a non-recurring revenue adjustment in the fourth quarter of 2007. Kilowatt-hour sales to large commercial and industrial customers in the fourth quarter of 2008 decreased approximately 25% compared to the same quarter in 2007, reflecting the impact of the softening economy. Kilowatt-hour sales and non-fuel revenues for residential and small commercial and industrial customers declined relative to 2007, primarily as a result of milder fall and winter weather in 2008, partially offset by increased kWh sales and revenues from a 1.8% increase in the average number of customers served. Non-fuel base revenues and kilowatt-hour sales are provided by customer class on page 11 of the Release.

For the twelve months ended December 31, 2008, retail non-fuel base revenues increased $5.6 million, pre-tax, or 1.2% primarily as a result of a 1.9% increase in the average number of customers served, partially offset by declines in weather-related sales and sales to large commercial and industrial customers. Non-fuel base revenues and kilowatt-hour sales are provided by customer class on page 13 of the Release. During the twelve months ended December 31, 2008, retail kWh sales to residential customers were constrained by cooler than normal summer weather and warmer than normal winter weather. Cooling degree days in the twelve months ended December 31, 2008 were 10% lower and heating degree days were 5% lower than in the twelve months ended December 31, 2007. Non-fuel base revenues for public authority customers increased primarily as a result of increased sales to military bases and colleges and universities. Non-fuel base revenues to small commercial and industrial customers and other public authority customers also increased due to a full year of the base rate increase in New Mexico which became effective in July 2007. The decrease in large commercial and industrial sales reflects the decline in fourth quarter sales and the loss of several industrial customers earlier in 2008.

Palo Verde Operations

We own approximately 633 MW (undivided interest) of generating capacity in the three generating units at the Palo Verde Nuclear Generating 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 over 58% of total Company generation in 2008 and 55% of total Company generation in 2007. Megawatt-hours (MWh) generated by Palo Verde increased 32.2% in the fourth quarter of 2008 and 9.3% in the twelve months ended December 31, 2008 compared to the same periods in 2007.

Palo Verde operation and maintenance expenses increased $3.0 million, pre-tax, or 10.9% in the fourth quarter of 2008 compared to the fourth quarter of 2007. In the twelve months ended December 31, 2008, Palo Verde operation and maintenance expenses increased $12.3 million, pre-tax, or 13.8% compared to the same period in 2007. This increase is primarily due to increased operating costs at the plant and to a lesser extent increased maintenance costs incurred during the 2008 spring refueling outage at Palo Verde Unit 2 when compared to the spring refueling outage in 2007. The Nuclear Regulatory Commission (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. Operating costs at all three units have increased in response to the enhanced inspection regimen by the NRC and associated corrective actions.

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 in MWh and the pre-tax margins realized and retained by us from sales for the quarter and twelve months ended December 31, 2008 and 2007:

	Quarter Ended December 31,		Twelve Months Ended December 31,	
	2008	2007	2008	2007
MWh sales	938,333	490,891	3,506,770	2,201,294
Total margins (in thousands)	$ 5,165	$ 1,599	$ 29,479	$ 19,581
Retained margins (in thousands)	$ 3,875	$ 1,201	$ 22,137	$ 15,514

For the quarter ended December 31, 2008, retained margins from off-system sales increased approximately $2.7 million, pre-tax, over the corresponding period in 2007 due primarily to an increase in the average margin realized from off-system sales and a 91% increase in MWh sales.

For the twelve months ended December 31, 2008, our retained margins increased $6.6 million, pre-tax, over the corresponding period in 2007. The increase in off-system sales margins was primarily the result of increased sales and margins on off-system sales to the Imperial Irrigation District (IID). In May 2007, the Company began selling 100 MW of firm capacity and energy and 50 MW of contingent energy to IID. The firm portion of this sale is made through a 100 MW purchase of firm capacity and energy from CreditSuisse, LLC and the contingent portion is generally from our generating plants. The table below shows on a per MWh basis, pre-tax revenues, costs and margins from off-system sales for 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
September 30, 2007	$ 57.61	$ 50.26	$ 7.35
December 31, 2007	$ 58.57	$ 55.32	$ 3.26
March 31, 2008	$ 66.07	$ 52.60	$ 13.47
June 30, 2008	$ 88.78	$ 84.89	$ 3.89
September 30, 2008	$ 71.07	$ 63.07	$ 8.01
December 31, 2008	$ 48.52	$ 43.02	$ 5.50

Capital and Liquidity

We continue to maintain a strong capital structure. At December 31, 2008, common stock equity represented 45.4% of our permanent capitalization (common stock, long-term debt and the current portion of long-term debt and financing obligations). At December 31, 2008, we had a balance of $91.6 million in cash and cash equivalents, most of which was invested in federally insured accounts.

Cash flows from operations for the twelve months ended December 31, 2008 decreased to $169.7 million from $182.3 million in the corresponding period in 2007. The primary factor affecting cash flow was the increase in under-recovered fuel costs in 2008, partially offset by associated tax reductions. Cash requirements due to under-recovered fuel increased $19.2 million, partially offset by a $7 million decrease in associated income taxes in 2008 compared to 2007 due to this under-recovery of fuel costs. At December 31, 2008, we had a fuel under-recovery balance of $46.9 million, including $39.2 million in Texas and $7.7 million in New Mexico. Fuel under-recoveries increased through August 2008 before we could reflect higher fuel costs in fuel rates. Since August 2008, deferred fuel under-recoveries have declined as we have implemented fuel surcharges and increased fuel rates while natural gas prices have declined. In October 2008, we implemented an increase in fuel charges in New Mexico, to recover fuel under-recoveries accumulated during the summer of 2008 as a result of a voluntary cap on fuel clause revenues. The Public Utility Commission of Texas (PUCT) approved the recovery of fuel under-recoveries in Texas through two fuel surcharges, including a $30.1 million twelve-month surcharge that was placed into effect in May 2008 and a $39.5 million eighteen-month surcharge which was placed into effect in October 2008. The PUCT also approved an increase in our fixed fuel factor effective in October 2008. The collection of fuel under-recoveries via surcharges will increase our cash flow in 2009.

During the twelve months ended December 31, 2008, our primary capital requirements were for the construction and purchase of electric utility plant, purchases of nuclear fuel and the repurchase of common stock. Capital requirements for new electric plant were $198.7 million for the twelve months ended December 31, 2008 compared to $144.6 million for the twelve months ended December 31, 2007. During 2008, we repurchased $9.9 million of common stock compared to common stock repurchases of $31.4 million in 2007. Cash flows from operations financed over 70% of our capital requirements. We also issued $150 million of 7.5% Senior Notes in June 2008 to meet our current and 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 through most of 2009. We believe that we will have adequate liquidity through our current cash balances, cash from operations, our credit facility, and capital markets, if necessary, to meet all of our anticipated cash requirements for the next 12 months. In addition, during 2008, we liquidated $16.0 million of temporary investments.

Our capital requirements for nuclear fuel increased substantially in 2007 as a result of increases in prices for uranium concentrates and an increase in our inventory of nuclear fuel feedstock. This higher balance of nuclear fuel inventory was maintained in 2008. 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 $93.7 million as of December 31, 2008 and $83.0 million as of December 31, 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 fourth quarter of 2008. As of December 31, 2008, approximately 1,521,366 shares remain available for repurchase under the currently authorized program.

2009 Earnings Guidance

We have revised our earnings guidance for 2009 to a range of $1.00 to $1.60 per basic share from previous guidance of $1.55 to $1.95 per basic share. The revision in earnings guidance is primarily a result of materially slower growth in demand in our service territory as a result of negative changes in the economic environment. The revised guidance range also includes a provision for impairments of equity securities held in our nuclear decommissioning trusts based on sustained declines in market values since our previous guidance was issued. At current market prices, we would expect to recognize impairment losses in 2009 of $0.17 per share, and we have adjusted the low end of guidance by this amount. The upper end of guidance reflects impairment losses of approximately $0.05 per share. In light of the extraordinary volatility in the financial markets, we are unable to estimate the actual impairments that will be recognized during 2009.

Conference Call

A conference call to discuss fourth quarter 2008 earnings is scheduled for 10:30 a.m. Eastern Time, February 25, 2009. The dial-in number is 866-835-8906 with a conference id of 1328563. The conference leader will be Scott Wilson, Executive Vice President, Chief Financial and Administrative Officer of EE. A replay will run through March 11, 2009 with a dial-in number of 866-837-8032 and a conference id of 1328563. 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) the size of our construction program and our ability to complete construction on budget and on a timely basis; (v) costs at Palo Verde, including additional costs relating to an enhanced NRC oversight and inspection regimen; (vi) deregulation of the electric utility industry; (vii) possible increased costs of compliance with environmental or other laws, regulations and policies; (viii) possible income tax and interest payments as a result of audit adjustments proposed by the IRS; (ix) uncertainties and instability in the financial markets and the resulting impact on EE's ability to access the capital and credit markets; (x) uncertainties and instability in the general economy and the resulting impact of EE’s sales and profitability; and (xi) 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.