El Paso Electric Announces Second Quarter Financial Results

Overview

- For the second quarter 2009, EE reported net income of $15.4 million, or $0.34 basic and diluted earnings per share. In the second quarter of 2008, EE reported net income of $19.2 million, or $0.43 basic and diluted earnings per share.
- For the six months ended June 30, 2009, EE reported net income of $25.0 million, or $0.56 basic and diluted earnings per share. Net income for the six months ended June 30, 2008 was $33.7 million, or $0.75 basic and diluted earnings per share.

“Overall, the second quarter 2009 earnings exceeded those for 2008 after adjusting for the impact of the scheduled refueling outage for Palo Verde Unit 3 and the impairments of investments in our decommissioning trust funds” said David W. Stevens, Chief Executive Officer. “From an operational perspective, we completed Phase 1 of the Newman Power Plant Unit 5 on time and on budget, providing an additional 140 MW of capacity to meet our service territory’s growing demand for electricity, as evidenced by a new native system peak of 1,571 MW established in July 2009.”

Earnings Summary

The table and explanations below present the major factors affecting 2009 net income relative to 2008 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, 2008		$ 19,234	$ 0.43		$ 33,722	$ 0.75
Changes in:						
Fossil fuel plant O&M	$ 1,335	841	0.02	$ 2,528	1,593	0.04
AFUDC and capitalized interest	987	907	0.02	1,545	1,549	0.03
Retail non-fuel base revenue	728	458	0.01	(1,045)	(658)	(0.01)
Deregulated Palo Verde Unit 3 revenues	(5,163)	(3,253)	(0.08)	(3,823)	(2,409)	(0.05)
Interest and investment income	(2,556)	(2,004)	(0.04)	(3,671)	(3,094)	(0.07)
Interest on long-term debt	(1,619)	(1,020)	(0.02)	(5,438)	(3,426)	(0.08)
Retained margins on off-system sales ...	(787)	(495)	(0.01)	(7,007)	(4,414)	(0.10)
Other		763	0.01		2,177	0.05
June 30, 2009		$ 15,431	$ 0.34		$ 25,040	$ 0.56

Second Quarter 2009

Earnings for the quarter ended June 30, 2009 when compared to the same period last year, were positively affected by:

- Lower O&M costs at our fossil-fueled generating plants as more planned major maintenance was performed in the second quarter 2008 (Newman Unit 3 and Four Corners Unit 5 generating units) than was performed in the second quarter 2009 (Newman Unit 4 and Rio Grande Unit 8 generating units).
- Increased AFUDC and capitalized interest in 2009 due to higher balances of construction work in progress subject to AFUDC partially offset by lower capitalized interest on nuclear fuel due to lower interest rates.
- Higher retail non-fuel base revenues in 2009 primarily due to a 4.4% increase in kWh sales to residential customers partially offset by a decline in sales to commercial and industrial customers.

Earnings for the quarter ended June 30, 2009 when compared to the same period last year were negatively affected by:

- Decreased revenues from retail sales of deregulated Palo Verde Unit 3 power as the unit did not operate for most of April and May 2009 due to its planned refueling outage and a lower proxy market price in June 2009.
- An increase in impairments and losses on equity securities in our Palo Verde decommissioning trust funds in 2009 compared to 2008.

- Increased interest expense on long-term debt as a result of the June 2008 issuance of $150 million of 7.5% Senior Notes partially offset by lower interest rates on the revolving credit facility used to finance nuclear fuel.
- Lower retained margins on off-system sales as a result of reduced margins per MWh due to lower market prices.

Year to Date

Earnings for the six months ended June 30, 2009 when compared to the same period last year, were positively affected by:

- Lower O&M costs at our fossil-fueled generating plants as more planned major maintenance was performed in the first six months of 2008 (Newman Unit 3, Four Corners Unit 5, and Copper generating units) than was performed in the first six months of 2009 (Rio Grande Unit 8 and Newman Unit 4 generating units).
- Increased AFUDC and capitalized interest in 2009 due to higher balances of construction work in progress subject to AFUDC partially offset by lower capitalized interest on nuclear fuel due to lower interest rates.

Earnings for the six months ended June 30, 2009 when compared to the same period last year were negatively affected by:

- Lower retained margins on off-system sales primarily as a result of reduced margins per MWh due to lower market power prices.
- 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 pollution control bonds partially offset by lower interest rates on the revolving credit facility used to finance nuclear fuel.
- Decreased revenues from retail sales of deregulated Palo Verde Unit 3 power as the unit did not operate for most of April and May 2009 due to its planned refueling outage.
- An increase in impairments and losses on equity securities in our Palo Verde decommissioning trust funds in 2009 compared to 2008.
- Lower retail non-fuel base revenues in 2009 primarily due to a 17.4% decrease in kWh sales to large commercial and industrial customers and a 1.5% decrease in kWh sales to small commercial and industrial customers partially offset by a 0.8% increase in kWh sales to residential customers.

Retail Non-fuel Base Revenues

Retail non-fuel base revenues increased by $0.7 million, pre-tax, or 0.6% in the second quarter of 2009 compared to the same period in 2008 primarily reflecting a 4.4% increase in kWh sales to residential customers. Kilowatt-hour sales to residential customers in the second quarter of 2009 reflect a 1.7% increase in the average number of customers served compared to the second quarter of 2008. This increase in revenues was partially offset by recession-related declines in revenues from small commercial and industrial customers of 1.5% and large commercial and industrial customers of 9.5%. Kilowatt-hour sales to small commercial and industrial customers and large commercial and industrial customers in the second quarter of 2009 decreased approximately 2% and 17%, respectively, compared to the same quarter in 2008, reflecting the impact of the recession on our service territory economy. Non-fuel base revenues and kilowatt-hour sales are provided by customer class on page 10 of the Release.

For the six months ended June 30, 2009, retail non-fuel base revenues decreased by $1.0 million, pre-tax, or 0.5% primarily reflecting a recession-related decline in sales to large commercial and industrial customers and, to a lesser extent, small commercial and industrial customers. Kilowatt-hour sales to large commercial and industrial customers decreased 17.4% in the six months ended June 30, 2009 compared to the same period in 2008 and kWh sales to small commercial and industrial customers decreased 1.5%. These decreases were partially offset by an increase of 0.8% in kWh sales to residential customers and a 0.5% increase in kWh sales to public authorities. The increase in revenues from residential customers of $1.3 million or 1.5% reflected a 1.7% increase in the average number of customers served in 2009 compared to the same period in 2008. Heating degree days in 2009 were approximately 12% below 2008 and the 10-year average while cooling degree days were close to last year and the 10-year average. Non-fuel base revenues and kilowatt-hour sales are provided by customer class on page 12 of the Release.

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 almost 59% of total Company generation in the second quarter of 2009. A scheduled Spring refueling outage at Palo Verde Unit 3 began April 3, 2009 and was completed May 28, 2009. The 2008 scheduled Spring refueling outage at Palo Verde Unit 2 began March 29, 2008 and was completed June 5, 2008. Megawatt-hours (MWh) generated by Palo Verde increased 8.9% in the second quarter of 2009 compared to the same period in 2008.

Off-system Sales

We 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 six months ended June 30, 2009 and 2008:

	Quarter Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
MWh sales	634,078	564,119	1,692,481	1,676,805
Total margins (in thousands)	$ 1,143	$ 2,192	$ 7,865	$ 17,175
Retained margins (in thousands)	$ 857	$ 1,644	$ 5,900	$ 12,907

For the quarter ended June 30, 2009, retained margins from off-system sales decreased approximately $0.8 million, pre-tax, over the corresponding period in 2008. For the six months ended June 30, 2009, our retained margins decreased $7.0 million, pre-tax, over the corresponding period in 2008. These decreases were due to reduced margins per MWh as a result of lower average market prices for power. The table below shows on a per MWh basis, pre-tax revenues, costs and margins from off-system sales for 2009 and 2008.

Quarter Ended	Average Revenue Per MWh	Average Cost of Energy Per MWh	Pre-Sharing Average Margin Per MWh
March 31, 2008	$ 66.07	$ 52.60	$ 13.47
June 30, 2008	$ 88.78	$ 84.89	$ 3.89
March 31, 2009	$ 36.49	$ 30.13	$ 6.36
June 30, 2009	$ 35.43	$ 33.63	$ 1.80

Capital and Liquidity

We maintain a strong capital structure and cash position to support required investments in electric utility plant. At June 30, 2009, common stock equity represented 46.3% of our capitalization (common stock equity, long-term debt, financing obligations, and the current portion of long-term debt and financing obligations). At June 30, 2009, we had a balance of $83.7 million in cash and cash equivalents, most of which was invested in federally insured accounts.

Cash flows from operations for the six months ended June 30, 2009 increased $62.5 million to $111.3 million from $48.8 million in the corresponding period in 2008. The primary factor affecting the increased cash flow was the collection of deferred fuel revenues in 2009 net of associated income taxes. The collection of deferred fuel revenues included the over-recovery of fuel costs by $36.6 million in 2009 and the collection of $16.3 million of deferred fuel revenues, including interest, through two fuel surcharges implemented in 2008. In April 2009, we received approval from the Public Utility Commission of Texas (PUCT) to terminate the remaining fuel surcharge effective in May 2009. Fuel over-recoveries in the first six months of 2009 offset the remaining balance of the fuel surcharge. In addition, on July 30, 2009, we received approval from the PUCT to reduce our fixed fuel factor effective in August 2009. At June 30, 2009, we had a net fuel over-recovery balance of $4.8 million, including a $5.8 million over-recovery in Texas, $1.2 million under-recovery in New Mexico, and a $0.2 million over-recovery from our FERC customer. 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. The current period fuel over-recoveries in Texas are the result of a significant decline in natural gas prices since the current Texas fixed fuel factor was implemented in October 2008.

During the six months ended June 30, 2009, our primary capital requirements were for the construction and purchase of electric utility plant and purchases of nuclear fuel. Capital requirements for new electric plant were $99.8 million for the six months ended June 30, 2009 compared to $94.7 million for the six months ended June 30, 2008. Cash flows from operations funded all of our capital requirements through the first six months of 2009.

We finance our nuclear fuel inventory through a trust that borrows under our $200 million credit facility to acquire and process nuclear fuel. Borrowings under the credit facility for nuclear fuel were $103.5 million as of June 30, 2009 and $95.1 million as of June 30, 2008. 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 borrowings were outstanding at June 30, 2009 for general corporate purposes. We believe that we will have adequate liquidity through our current cash balances, cash from operations, and our credit facility to meet all of our anticipated cash requirements through 2009 based on current projections. We anticipate the need for additional external funds to finance capital requirements in 2010. We could seek to issue additional long-term debt or obtain funds through an additional credit facility to finance capital requirements in addition to funds from operations and our existing credit facility.

No shares of common stock were repurchased during the first or second quarters of 2009. As of June 30, 2009, approximately 1,521,366 shares remain available for repurchase under the currently authorized program.

2009 Earnings Guidance

We are reiterating our 2009 earnings guidance of a range of $1.00 to $1.50 per basic share.

Conference Call

A conference call to discuss second quarter 2009 earnings is scheduled for 10:30 a.m. Eastern Time, August 5, 2009. The dial-in number is 866-802-4328 with a conference ID of 1373393. The conference leader will be David Stevens, Chief Executive

Officer of EE. A replay will run through August 19, 2009 with a dial-in number of 866-837-8032 and a conference ID of 1373393. 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) uncertainties and instability in the general economy and the resulting impact of EE's sales and profitability; (iv) unanticipated increased costs associated with scheduled and unscheduled outages; (v) the size of our construction program and our ability to complete construction on budget and on time; (vi) costs at Palo Verde; (vii) deregulation of the electric utility industry; (viii) possible increased costs of compliance with environmental or other laws, regulations and policies; (ix) possible income tax and interest payments as a result of audit adjustments proposed by the IRS; (x) uncertainties and instability in the financial markets and the resulting impact on EE's ability to access the capital and credit markets; 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.