El Paso Electric Announces First Quarter Financial Results

Overview

For the first quarter 2010, EE reported net income of $11.4 million, or $0.26 basic and diluted earnings per share. In the first quarter of 2009, EE reported net income of $9.6 million, or $0.21 basic and diluted earnings per share.

“The first quarter of 2010 was a strong quarter for El Paso Electric Company,” said David W. Stevens, Chief Executive Officer. “We were pleased with the continued growth in non-fuel base retail revenues. Non-fuel base retail sales increased 8.0% primarily as a result of customer growth and colder winter weather in 2010 compared to 2009. Overall, the first quarter 2010 earnings exceeded those for 2009 despite a $4.8 million charge associated with the impact of the recent tax law change eliminating the tax benefit of Medicare Part D subsidies.”

Earnings Summary

The table and explanations below present the major factors affecting 2010 net income relative to 2009 net income.

	Quarter Ended		
	Pre-Tax Effect	After-Tax Net Income	Basic EPS
March 31, 2009		$ 9,609	$ 0.21
Changes in:			
Retail non-fuel base revenue	$ 8,125	5,119	0.12
Investment and interest income	1,584	1,413	0.03
Interest on long-term debt	1,723	1,086	0.03
Elimination of Medicare Part D tax benefit	-	(4,787)	(0.11)
Depreciation and amortization	(1,605)	(1,011)	(0.02)
Fossil fuel plant O&M	(1,422)	(896)	(0.02)
Other		916	0.02
March 31, 2010		$ 11,449	$ 0.26

First Quarter 2010

Earnings for the quarter ended March 31, 2010 when compared to the same period last year, were positively affected by:

- Higher retail non-fuel base revenues in 2010 primarily due to a 6.8% increase in kWh sales to retail customers as a result of colder winter weather and 1.8% growth in customers served.
- Increased investment and interest income primarily due to recognizing a $2.5 million, pre-tax, loss for impairments of equity securities in our Palo Verde decommissioning trust funds in 2009 with no comparable loss in 2010.
- Decreased interest expense on long-term debt primarily as the result of lower interest rates on pollution control bonds. Two series of pollution control bonds were refunded in March 2009 at a fixed 7.25% interest rate which was lower than the variable interest rates applied to these bonds before refunding.

Earnings for the quarter ended March 31, 2010 when compared to the same period last year were negatively affected by:

- Increased tax expense to recognize a change in tax law enacted in the Patient Protection and Affordable Care Act to eliminate the tax benefit related to the Medicare Part D subsidies.
- Increased depreciation and amortization expense due to increased depreciable plant balances.
- Increased O&M costs at our fossil-fueled generating plants as more significant planned major maintenance was performed in the first quarter 2010 than was performed in the first quarter 2009.

Retail Non-fuel Base Revenues

Retail non-fuel base revenues increased by $8.1 million, pre-tax, or 8.0% in the first quarter of 2010 compared to the same period in 2009 primarily due to a 13.6% increase in kWh sales to residential customers reflecting colder winter weather in 2010 and 1.8% growth in the average number of customers served. During the first quarter of 2010, heating degree days were 36% above the same period in 2009 and 13% above the 10-year average. Retail non-fuel base revenues also increased due to a 2.3% increase in kWh sales to small commercial and industrial customers primarily due to a 2.1% increase in the average number of small commercial and industrial customers served. Retail non-fuel base revenues received from large commercial and industrial customers increased 18.0% due to an increase of 6.1% in kWh sales and the implementation of higher rates in new contracts with several large customers whose contracts had expired. Sales and revenues to public authorities increased 3.3% primarily reflecting increased revenues from military bases. Non-fuel base revenues and kilowatt-hour sales are provided by customer class on page 8 of the Release.

Patient Protection and Affordable Care Act

On March 23, 2010, the Patient Protection and Affordable Care Act was signed into law. A major provision of the law is that beginning in 2013 the income tax deductions for the cost of providing certain prescription drug coverage will be reduced by the amount of the Medicare Part D subsidies received. EE is required to recognize the impacts of the tax law change at the time of enactment and recorded a non-cash charge to income tax expense of approximately $4.8 million in the first quarter of 2010.

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, operated by Arizona Public Service Company. 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 65% of total Company generation in the first quarter of 2010. Palo Verde had a capacity factor of 95.6% in 2010 compared to 100.7% for the same period last year. Palo Verde operation and maintenance expenses increased $0.7 million, pre-tax, in the first quarter of 2010 compared to the first quarter of 2009 primarily due to higher pension and other post-retirement benefits costs.

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 Company currently shares 25% of off-system sales margins with customers and retains 75% of off-system sales margins. Pursuant to rate agreements in prior years, effective July 1, 2010, the Company will share 90% of off-system sales margins with customers and retain 10% of off-system sales margins. The table below shows off-system sales in MWh and the pre-tax margins realized and retained by us from sales for the quarter ended March 31, 2010 and 2009:

	Quarter Ended March 31, 2010	Quarter Ended March 31, 2009
MWh sales	847,738	1,058,403
Total margins (in thousands)................	$ 5,841	$ 6,722
Retained margins (in thousands)...........	$ 4,382	$ 5,043

For the quarter ended March 31, 2010, retained margins from off-system sales decreased approximately $0.7 million, pre-tax, over the corresponding period in 2009 due primarily to a 20% decrease in MWh sales partially offset a slight increase in margins per MWh as a result of higher 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 2010 and 2009.

Quarter Ended	Average Revenue Per MWh	Average Cost of Energy Per MWh	Pre-Sharing Average Margin Per MWh
March 31, 2009	$ 36.49	$ 30.13	$ 6.36
March 31, 2010	$ 45.65	$ 38.76	$ 6.89

Capital and Liquidity

We continue to maintain a strong capital structure. At March 31, 2010, common stock equity represented 46.1% of our permanent capitalization (common stock equity, long-term debt, financing obligations, and the current portion of long-term debt and financing obligations). At March 31, 2010, we had a balance of $56.4 million in cash and cash equivalents, most of which was in funds invested in United States Treasury securities.

Cash flows from operations for the three months ended March 31, 2010 were $25.5 million compared to $67.6 million in the corresponding period in 2009. The primary factor affecting the decreased cash flow was a net cash outflow in 2010 of $6.0 million from retail fuel revenues compared to the collection of retail fuel revenues of $34.7 million in 2009. The difference between fuel revenues and fuel expense is deferred for refund (over-recoveries) or surcharge (under-recoveries) to customers in the future. During the first quarter of 2010, we refunded $11.8 million of over-recoveries to Texas customers compared to recovering through a surcharge $12.3 million of under-recoveries for Texas customers in the first quarter 2009. Over-recoveries in New Mexico and from our FERC customer are refunded through fuel adjustment clauses with a two month lag. At

March 31, 2010, we had a fuel over-recovery balance of $12.0 million, including $11.4 million in Texas, $0.5 million in New Mexico, and $0.1 million from our FERC customer.

During the three months ended March 31, 2010, 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 $47.1 million for the three months ended March 31, 2010 compared to $47.3 million for the three months ended March 31, 2009.

We maintain a $200 million revolving credit facility to provide liquidity to the Company. Up to $120 million under the revolving credit facility is available through direct borrowings to a trust that is used to finance our nuclear fuel inventory. Borrowings by the trust for nuclear fuel were $118.1 million as of March 31, 2010 and $102.7 million as of March 31, 2009. The Company itself may borrow under the facility to finance nuclear fuel above the $120 million sublimit, but this reduces the amounts available for other purposes.

On February 19, 2010, the Board of Directors authorized additional repurchases of up to 2 million shares of the Company's outstanding common stock. During the first quarter of 2010, we repurchased 204,646 shares of common stock in the open market at an aggregate cost of $4.1 million under both the previously authorized program and under the recently authorized program. As of March 31, 2010, approximately 1,996,336 shares remain available for repurchase under the recently authorized program.

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 2010 based on current projections. In September 2009, we received approval from the FERC to enter into an additional credit facility within the two years following the date of the approval to supply additional liquidity. We could seek to obtain additional funds in 2010 to maintain liquidity or meet capital requirements through the issuance of additional long-term debt or an additional credit facility.

2010 Earnings Guidance

On December 9, 2009, the Company filed its first Texas rate case in 15 years. The outcome of this case could have a significant impact on results of operations in 2010. In light of the uncertainty created by the rate case, the Company has not provided earnings or earnings per share guidance. However, we will continue to provide management's outlook on key earnings drivers on the May 4, 2010 conference call.

Conference Call

A conference call to discuss first quarter 2010 earnings is scheduled for 10:30 a.m. Eastern Time, May 4, 2010. The dial-in number is 866-871-4881 with a conference ID of 1448904. The conference leader will be Steven P. Busser, Vice President – Treasurer and Chief Risk Officer of EE. A replay will run through May 18, 2010 with a dial-in number of 866-837-8032 and a conference ID of 1448904. 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) our rates in Texas following the five-year moratorium on rate increases which ends June 30, 2010; (ii) 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; (iii) fluctuations in off-system sales margins due to uncertainty in the economy power market and the availability of generating units; (iv) recovery of capital investments and operating costs through rates in Texas and New Mexico; (v) recovery of franchise fees and taxes through tax surcharges in New Mexico; (vi) uncertainties and instability in the general economy and the resulting impact of EE's sales and profitability; (vii) unanticipated increased costs associated with scheduled and unscheduled outages; (viii) the size of our construction program and our ability to complete construction on budget and on time; (ix) costs at Palo Verde; (x) deregulation and competition in the electric utility industry; (xi) possible increased costs of compliance with environmental or other laws, regulations and policies; (xii) possible income tax and interest payments as a result of audit adjustments proposed by the IRS; (xiii) uncertainties and instability in the financial markets and the resulting impact on EE's ability to access the capital and credit markets; and (xiv) 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.