



## El Paso Electric Announces Third Quarter Financial Results

EL PASO, Texas--(BUSINESS WIRE)-- El Paso Electric (NYSE:EE):

### Overview

- For the third quarter of 2011, EE reported net income of \$58.3 million, or \$1.41 and \$1.40 basic and diluted earnings per share. In the third quarter of 2010, EE reported net income of \$60.2 million, or \$1.40 and \$1.39 basic and diluted earnings per share, and income before extraordinary item of \$49.9 million, or \$1.16 and \$1.15 basic and diluted earnings per share, respectively.
- For the nine months ended September 30, 2011, EE reported net income of \$98.1 million, or \$2.33 and \$2.32 basic and diluted earnings per share. Net income for the nine months ended September 30, 2010 was \$93.1 million, or \$2.14 and \$2.13 basic and diluted earnings per share, and income before extraordinary item for the same period was \$82.9 million, or \$1.90 and \$1.89 basic and diluted earnings per share, respectively.

"Our strong third quarter results are primarily the result of the hotter than normal summer weather our service territory has experienced this year," said David W. Stevens, Chief Executive Officer. "We established a new native peak record of 1,711MW in August 2011 which is almost a 6% increase over the 2010 peak. The third quarter 2011 results also included a favorable \$4.5 million settlement in a dispute over transmission services."

### Earnings Summary

The table and explanations below present the major factors affecting 2011 net income relative to 2010 income before the extraordinary item in 2010.

|   | Quarter Ended  |                  |                | Nine Months Ended |                  |                |
|---|----------------|------------------|----------------|-------------------|------------------|----------------|
|   | Pre-Tax Effect | After-Tax Income | Basic EPS      | Pre-Tax Effect    | After-Tax Income | Basic EPS      |
| September 30, 2010                          |                | \$ 49,896        | \$ 1.16        |                   | \$ 82,852        | \$ 1.90        |
| Changes in:                                 |                |                  |                |                   |                  |                |
| Retail non-fuel base revenue                | \$13,566       | 8,547            | 0.21           | \$31,527          | 19,862           | 0.47           |
| Transmission revenues                       | 3,430          | 2,161            | 0.05           | 4,721             | 2,974            | 0.07           |
| Outside services                            | 490            | 309              | 0.01           | (2,169)           | (1,367)          | (0.03)         |
| AFUDC                                       | (1,761)        | (1,486)          | (0.04)         | (2,018)           | (1,717)          | (0.04)         |
| Taxes other than income taxes               | (503)          | (317)            | (0.01)         | (2,093)           | (1,319)          | (0.03)         |
| Deregulated Palo Verde Unit 3 revenues      | (101)          | (64)             | –              | (1,596)           | (1,006)          | (0.03)         |
| Retained off-system sales margins           | (66)           | (41)             | –              | (6,089)           | (3,836)          | (0.09)         |
| Elimination of Medicare Part D tax benefit  | –              | –                | –              | –                 | 4,787            | 0.11           |
| Other                                       |                | (684)            | (0.02)         |                   | (3,144)          | (0.08)         |
| September 30, 2011                          |                | <u>\$ 58,321</u> | 1.36           |                   | <u>\$ 98,086</u> | 2.25           |
| Change in weighted average number of shares |                |                  | 0.05           |                   |                  | 0.08           |
| September 30, 2011                          |                |                  | <u>\$ 1.41</u> |                   |                  | <u>\$ 2.33</u> |

### Third Quarter 2011

Earnings for the quarter ended September 30, 2011 when compared to the same period last year were positively affected by:

- Increased retail non-fuel base revenues due to a 3.9% increase in kWh sales to retail customers reflecting hotter

summer weather in the third quarter of 2011 as compared to the same period in 2010 and 1.7% growth in the average number of customers served. During the three months ended September 30, 2011, cooling degree days were over 11% above the same period in 2010 and 27% above the 30-year average.

- Increased transmission revenues due to a settlement agreement with Tucson Electric Power Company involving a transmission dispute that resulted in one-time income of \$4.5 million, pre-tax.
- A decrease in the weighted average number of shares outstanding as a result of our common stock repurchase program resulting in an increase in basic earnings per share of \$0.05.

Earnings for the quarter ended September 30, 2011 when compared to the same period last year was negatively affected by:

- Decreased allowance for funds used during construction (AFUDC) primarily due to lower balances of construction work in progress subject to AFUDC.

## **Year to Date**

Earnings for the nine months ended September 30, 2011 when compared to the same period last year, were positively affected by:

- Increased retail non-fuel base revenues due to a 3.2% increase in kWh sales to retail customers primarily due to hotter summer weather and a 1.5% growth in the average number of customers served in 2011 as compared to the same period in 2010. During the nine months ended September 30, 2011, cooling degree days were 15% above the same period in 2010 and 29% above the 30-year average. In addition, the increase reflects higher non-fuel base summer rates for Texas customers.
- Lower income taxes in 2011 due to a one-time charge to income tax expense in 2010 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.
- A decrease in the weighted average number of shares outstanding as a result of our common stock repurchase program resulting in an increase in basic earnings per share of \$0.08.
- Increased transmission revenues primarily due to a settlement agreement with Tucson Electric Power Company involving a transmission dispute that resulted in one-time income of \$4.1 million, pre-tax.

Earnings for the nine months ended September 30, 2011 when compared to the same period last year were negatively affected by:

- Decreased off-system sales margins due to lower average market prices for power and an increase in sharing of off-system sales margins with customers from 25% to 90% effective in July 2010. Off-system sales margins were negatively impacted by power purchases required for system reliability during extremely cold weather in February 2011 and when wildfires in June 2011 threatened key transmission lines in eastern Arizona and western New Mexico. The cost of this power was reserved pending a request for recovery.
- Decreased AFUDC primarily due to lower balances of construction work in progress subject to AFUDC.
- Increased outside services primarily related to regulatory activities and additional outside services related to software systems support and improvements.
- Increased taxes other than income taxes due to increased revenue-related taxes in Texas and estimated property taxes.
- Decreased deregulated Palo Verde Unit 3 revenues in 2011 due to lower proxy market prices, increased nuclear fuel prices, and decreased generation at Palo Verde Unit 3 in 2011.

## **Retail Non-fuel Base Revenues**

Retail non-fuel base revenues increased by \$13.6 million, pre-tax, or 7.6% in the third quarter of 2011 compared to the same period in 2010 primarily due to a 3.9% increase in kWh sales to retail customers reflecting hotter summer weather and 1.7% growth in the average number of customers served. During the three months ended September 30, 2011, cooling degree days were over 11% above the same period in 2010 and 27% above the 30-year average. kWh sales to residential customers and small commercial and industrial customers increased 9.8% and 3.9%, respectively, in the third quarter. Sales to other public authorities increased due to increased sales to Fort Bliss at higher non-fuel base rates. Non-fuel base revenues and kilowatt-hour sales are provided by customer class on page 10 of the Release.

For the nine months ended September 30, 2011, retail non-fuel base revenues increased by \$31.5 million, pre-tax, or 7.5% compared to the same period in 2010 primarily due to a 3.2% increase in kWh sales to retail customers, reflecting hotter

summer weather, and 1.5% growth in the average number of customers served. During the nine months ended September 30, 2011, cooling degree days were 15% above the same period in 2010 and 29% above the 30-year average. KWh sales to residential customers and small commercial and industrial customers increased 6.1% and 3.1%, respectively, during the nine months ended September 30, 2011 compared to the same period last year. The increase in retail non-fuel base revenues is also due to the seasonal non-fuel base rates which became effective July 1, 2010 in Texas and which are higher in the summer months of May to October and lower in the winter months of November to April. Sales to other public authorities increased due to increased sales to Fort Bliss at higher non-fuel base rates. Non-fuel base revenues and kilowatt-hour sales are provided by customer class on page 12 of the Release.

### **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 shared 25% of off-system sales margins with customers and retained 75% of off-system sales margins through June 30, 2010 pursuant to rate agreements in prior years. Effective July 1, 2010, we share 90% of off-system sales margins with customers and retain 10% of off-system sales margins. Off-system sales margins were negatively impacted by power purchases required for system reliability during extremely cold weather in February 2011 and when wildfires in June 2011 threatened key transmission lines in eastern Arizona and western New Mexico. We reserved for the cost of this power pending a request for recovery. Retained margins from off-system sales, including the reliability purchases, decreased approximately \$0.1 million and \$6.1 million for the three and nine months ended September 30, 2011, respectively, compared to the corresponding periods in 2010.

### **Palo Verde License Extension**

On April 21, 2011, the Nuclear Regulatory Commission granted extensions in the operating licenses for all three units at Palo Verde. The operating licenses for Units 1, 2 and 3 will now expire in 2045, 2046, and 2047, respectively. For the second and third quarters of 2011 combined, the extension of the operating licenses reduced depreciation and amortization expense by approximately \$5.3 million and reduced the accretion expense on the Palo Verde asset retirement obligation by approximately \$2.0 million.

### **Rate Matters**

On October 4, 2011, the El Paso City Council (the "City") adopted a resolution ordering us to show cause why our base rates for electric service within the city limits of El Paso should not be lowered (the "Show Cause Order") which the Company has appealed as discussed below. Pursuant to the Show Cause Order, we would be required to file a rate case with the City no later than February 1, 2012. The City would then have until the 185<sup>th</sup> day after the date that we file our rate case to make a determination regarding our base rates in the City of El Paso. On the same date we file our rate case with the City for rates inside the city limits, we plan to file a rate case with the other cities in our Texas service area and with the Public Utility Commission of Texas (PUCT) for rates outside any city limits.

The City conducted a hearing on temporary rates on October 25, 2011, and has scheduled an additional hearing on November 15, 2011. The revenues collected under temporary rates will be subject to true-up to the final rates approved by the PUCT. The ultimate authority to set our Texas electric rates is vested in the PUCT.

On October 27, 2011, we filed an appeal with the PUCT to set aside the City's Show Cause Order or in the alternative issue an order staying the City's Show Cause Order and corresponding jurisdictional deadlines until the City can establish that it has complied with Texas statutes. We intend to vigorously defend our rates, which were lawfully approved only last year by the City and the PUCT as just and reasonable. If the City succeeds in implementing lower rates, the resulting lower rates would have a negative impact on our revenues, net income, and cash from operations.

### **Capital and Liquidity**

We continue to maintain a strong capital structure to ensure access to capital markets at reasonable rates. At September 30, 2011, common stock equity represented 48.4% of our capitalization (common stock equity, long-term debt and the current maturities of long-term debt, and short-term borrowings under the revolving credit facility). At September 30, 2011, we had a balance of \$7.7 million in cash and cash equivalents.

Cash flows from operations for the nine months ended September 30, 2011 were \$178.9 million compared to \$163.6 million in the corresponding period in 2010. The increase in cash flows from operations reflects the increase in net income before a non-cash extraordinary gain in 2010. Cash flows were also impacted by an increase in deferred income taxes, offset by the timing of collection of fuel revenues to recover actual fuel expenses in 2011 compared to 2010. The difference between fuel revenues collected and fuel expense incurred is deferred to be either refunded (over-recoveries) or surcharged (under-recoveries) to customers in the future. During the nine months ended September 30, 2011, the Company had an under-recovery of fuel costs, net of refunds, of \$29.6 million as compared to an under-recovery, net of refunds, of \$1.3 million during the nine months

ended September 30, 2010. At September 30, 2011, we had a net fuel under-recovery balance of \$10.6 million, including an under-recovery balance of \$12.2 million in Texas partially offset by an over-recovery balance of \$1.6 million in New Mexico.

During the nine months ended September 30, 2011, our primary capital requirements were for the construction and purchase of electric utility plant, purchases of nuclear fuel, the repurchase of common stock, and payment of common stock dividends. Capital requirements for new electric plant were \$129.7 million for the nine months ended September 30, 2011 compared to \$124.8 million for the nine months ended September 30, 2010.

On March 21, 2011, the Board of Directors authorized repurchases of up to 2.5 million additional shares of the Company's outstanding common stock (the "2011 Plan"). During the nine months ended September 30, 2011, we repurchased 2,502,066 shares of common stock in the open market at an aggregate cost of \$77.3 million including 1,591,317 shares repurchased in the third quarter at an aggregate cost of \$51.0 million as authorized under both our previously authorized plan and under the 2011 Plan. As of September 30, 2011, 674,205 shares remain available for repurchase under the 2011 Plan. The Company currently expects to continue to repurchase shares in the open market from time to time.

We maintain a \$200 million revolving credit facility for working capital and general corporate purposes and the financing of nuclear fuel through the Rio Grande Resources Trust ("RGRT"). RGRT is the trust through which we finance our portion of nuclear fuel for Palo Verde and is consolidated in the Company's financial statements. The revolving credit facility has a term ending September 2014. The total amount borrowed for nuclear fuel by RGRT was \$127.8 million at September 30, 2011 of which \$17.8 million had been borrowed under the revolving credit facility and \$110 million was borrowed through senior notes. At September 30, 2010, the total amount borrowed for nuclear fuel by RGRT was \$124.1 million of which \$14.1 million was borrowed under the revolving credit facility and \$110 million was borrowed through senior notes. Interest costs on borrowings to finance nuclear fuel are accumulated by RGRT and charged to us as fuel is consumed and recovered from customers through fuel recovery charges. No borrowings were outstanding at September 30, 2011 under the revolving credit facility for working capital and general corporate purposes.

On September 30, 2011, we paid \$9.2 million of quarterly dividends to shareholders. We have paid a total of \$18.4 million in cash dividends during the nine months ended September 30, 2011. We expect to pay total cash dividends of approximately \$27.6 million during 2011.

We believe we have adequate liquidity through our current cash balances, cash from operations, and our revolving credit facility to meet all of our anticipated cash requirements for the next twelve months. In addition, we may seek to issue debt in the capital markets to finance capital requirements.

In October 2011, we received approval from the New Mexico Public Regulation Commission and the Federal Energy Regulatory Commission to amend and restate our \$200 million revolving credit facility, which includes an option, subject to lenders' approval, to expand the size to \$300 million, and to incrementally issue up to \$300 million of long-term debt as and when needed. The amended and restated facility will reduce our borrowing costs and extend the maturity from September 2014 to September 2016. Obtaining the ability to issue up to \$300 million of new long-term debt, from time to time, provides us with the flexibility to access the debt capital markets when needed and when conditions are favorable.

## **2011 Earnings Guidance**

We are revising our 2011 earnings guidance to a range of \$2.40 to \$2.60 per basic share from a range of \$2.20 to \$2.50 per basic share.

## **Conference Call**

A conference call to discuss third quarter 2011 earnings is scheduled for 10:30 a.m. Eastern Time, November 2, 2011. The dial-in number is 888-466-4587 with a conference ID of 4631255. The conference leader will be Steven P. Busser, Vice President — Treasurer of EE. A replay will run through November 16, 2011 with a dial-in number of 888-203-1112 and a conference ID of 4631255. 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) our rates in El Paso following the El Paso City Council's resolution ordering EE to show cause why our base rates for El Paso customers should not be lower; (iii) recovery of capital investments and operating costs through rates in Texas and

New Mexico; (iv) uncertainties and instability in the general economy and the resulting impact on EE's sales and profitability; (v) unanticipated increased costs associated with scheduled and unscheduled outages; (vi) the size of our construction program and our ability to complete construction on budget and on time; (vii) costs at Palo Verde; (viii) deregulation and competition in the electric utility industry; (ix) possible increased costs of compliance with environmental or other laws, regulations and policies; (x) possible income tax and interest payments as a result of audit adjustments proposed by the IRS; (xi) uncertainties and instability in the financial markets and the resulting impact on EE's ability to access the capital and credit markets; and (xii) 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.

**EI Paso Electric Company and Subsidiary  
Consolidated Statements of Operations  
Quarter Ended September 30, 2011 and 2010  
(In thousands except for per share data)  
(Unaudited)**

|   | <u>2011</u>      | <u>2010</u>      | <u>Variance</u>   |
|---|------------------|------------------|-------------------|
| Operating revenues, net of energy expenses:   |                  |                  |                   |
| Base revenues   | \$ 192,948       | \$ 179,641       | \$ 13,307 (a)     |
| Off-system sales margins, net of sharing  | 157              | 223              | (66)              |
| Deregulated Palo Verde Unit 3 revenues  | 3,790            | 3,891            | (101)             |
| Other   | 11,859           | 8,064            | 3,795 (b)         |
| <b>Operating Revenues Net of Energy Expenses</b>  | <b>208,754</b>   | <b>191,819</b>   | <b>16,935</b>     |
| Other operating expenses:   |                  |                  |                   |
| Other operations and maintenance  | 48,715           | 49,189           | (474)             |
| Palo Verde operations and maintenance   | 20,881           | 21,722           | (841)             |
| Taxes other than income taxes   | 16,628           | 16,125           | 503               |
| Other income (deductions)   | 83               | 1,210            | (1,127)           |
| <b>Earnings Before Interest, Taxes, Depreciation and Amortization</b>                       | <b>122,613</b>   | <b>105,993</b>   | <b>16,620 (c)</b> |
| Depreciation and amortization   | 20,315           | 20,685           | (370)             |
| Interest on long-term debt  | 13,571           | 12,936           | 635               |
| AFUDC and capitalized interest  | 3,505            | 4,744            | (1,239)           |
| Other interest expense  | 243              | 48               | 195               |
| <b>Income Before Income Taxes and Extraordinary Item</b>                                    | <b>91,989</b>    | <b>77,068</b>    | <b>14,921</b>     |
| Income tax expense  | 33,668           | 27,172           | 6,496             |
| <b>Income Before Extraordinary Item</b>   | <b>58,321</b>    | <b>49,896</b>    | <b>8,425</b>      |
| Extraordinary gain related to Texas regulatory assets, net of income tax expense of \$5,769 | -                | 10,286           | (10,286)          |
| <b>Net Income</b>   | <b>\$ 58,321</b> | <b>\$ 60,182</b> | <b>\$ (1,861)</b> |
| <b>Basic Earnings per Share:</b>  |                  |                  |                   |
| Income before extraordinary item  | \$ 1.41          | \$ 1.16          | \$ 0.25           |
| Extraordinary gain related to Texas regulatory assets, net of tax                           | -                | 0.24             | (0.24)            |
| Net Income  | <b>\$ 1.41</b>   | <b>\$ 1.40</b>   | <b>\$ 0.01</b>    |
| <b>Diluted Earnings per Share:</b>  |                  |                  |                   |
| Income before extraordinary item  | \$ 1.40          | \$ 1.15          | \$ 0.25           |
| Extraordinary gain related to Texas regulatory assets, net of tax                           | -                | 0.24             | (0.24)            |
| Net Income  | <b>\$ 1.40</b>   | <b>\$ 1.39</b>   | <b>\$ 0.01</b>    |
| <b>Dividends declared per share of common stock</b>   | <b>\$ 0.44</b>   | <b>\$ -</b>      | <b>\$ 0.44</b>    |

|   |        |        |         |
|---|--------|--------|---------|
| Weighted average number of shares outstanding                               | 41,308 | 42,921 | (1,613) |
| Weighted average number of shares and dilutive potential shares outstanding | 41,565 | 43,104 | (1,539) |

- (a) Base revenues exclude fuel recovered through New Mexico base rates of \$23.6 million and \$22.3 million, respectively.  
(b) Includes \$4.5 million related to the settlement of a transmission dispute with Tucson Electric Power Company.  
(c) EBITDA is a non-GAAP financial measure and is not a substitute for net income or other measures of financial performance in accordance with GAAP.

**EI Paso Electric Company and Subsidiary**  
**Consolidated Statements of Operations**  
**Nine Months Ended September 30, 2011 and 2010**  
(In thousands except for per share data)  
(Unaudited)

|   | 2011             | 2010             | Variance          |
|---|------------------|------------------|-------------------|
| Operating revenues, net of energy expenses:   |                  |                  |                   |
| Base revenues   | \$ 452,592       | \$ 420,863       | \$ 31,729 (a)     |
| Off-system sales margins, net of sharing  | (697)            | 5,392            | (6,089)           |
| Deregulated Palo Verde Unit 3 revenues  | 11,644           | 13,240           | (1,596)           |
| Other   | 25,084           | 19,645           | 5,439 (b)         |
| <b>Operating Revenues Net of Energy Expenses</b>  | <b>488,623</b>   | <b>459,140</b>   | <b>29,483</b>     |
| Other operating expenses:   |                  |                  |                   |
| Other operations and maintenance  | 140,061          | 133,064          | 6,997             |
| Palo Verde operations and maintenance   | 69,847           | 69,724           | 123               |
| Taxes other than income taxes   | 43,131           | 41,038           | 2,093             |
| Other income (deductions)   | 2,916            | 2,413            | 503               |
| <b>Earnings Before Interest, Taxes, Depreciation and Amortization</b>                       | <b>238,500</b>   | <b>217,727</b>   | <b>20,773 (c)</b> |
| Depreciation and amortization   | 60,775           | 60,136           | 639               |
| Interest on long-term debt  | 40,595           | 37,378           | 3,217             |
| AFUDC and capitalized interest  | 14,142           | 13,578           | 564               |
| Other interest expense  | 777              | 113              | 664               |
| <b>Income Before Income Taxes and Extraordinary Item</b>                                    | <b>150,495</b>   | <b>133,678</b>   | <b>16,817</b>     |
| Income tax expense  | 52,409           | 50,826           | 1,583 (d)         |
| <b>Income Before Extraordinary Item</b>   | <b>98,086</b>    | <b>82,852</b>    | <b>15,234</b>     |
| Extraordinary gain related to Texas regulatory assets, net of income tax expense of \$5,769 | -                | 10,286           | (10,286)          |
| <b>Net Income</b>   | <b>\$ 98,086</b> | <b>\$ 93,138</b> | <b>\$ 4,948</b>   |
| <b>Basic Earnings per Share:</b>  |                  |                  |                   |
| Income before extraordinary item  | \$ 2.33          | \$ 1.90          | \$ 0.43           |
| Extraordinary gain related to Texas regulatory assets, net of tax                           | -                | 0.24             | (0.24)            |
| Net Income  | <b>\$ 2.33</b>   | <b>\$ 2.14</b>   | <b>\$ 0.19</b>    |
| <b>Diluted Earnings per Share:</b>  |                  |                  |                   |
| Income before extraordinary item  | \$ 2.32          | \$ 1.89          | \$ 0.43           |
| Extraordinary gain related to Texas regulatory assets, net of tax                           | -                | 0.24             | (0.24)            |

|   |                |                |                |
|---|----------------|----------------|----------------|
| Net Income  | <u>\$ 2.32</u> | <u>\$ 2.13</u> | <u>\$ 0.19</u> |
| <b>Dividends declared per share of common stock</b>                         | <u>\$ 0.44</u> | <u>\$ -</u>    | <u>\$ 0.44</u> |
| Weighted average number of shares outstanding                               | <u>41,819</u>  | <u>43,370</u>  | <u>(1,551)</u> |
| Weighted average number of shares and dilutive potential shares outstanding | <u>42,051</u>  | <u>43,505</u>  | <u>(1,454)</u> |

- (a) Base revenues exclude fuel recovered through New Mexico base rates of \$57.2 million and \$55.9 million, respectively.
- (b) Includes \$4.1 million related to the settlement of a transmission dispute with Tucson Electric Power Company.
- (c) EBITDA is a non-GAAP financial measure and is not a substitute for net income or other measures of financial performance in accordance with GAAP.
- (d) Income tax expense for the nine months ended September 30, 2010 includes a charge of \$4,787 related to the Patient Protection and Affordable Care Act which eliminated of the tax benefit associated with the Medicare Part D subsidies beginning in 2013.

**El Paso Electric Company and Subsidiary**  
**Cash Flow Summary**  
**Nine Months Ended September 30, 2011 and 2010**  
**(In thousands and Unaudited)**

|   | <u>2011</u>                   | <u>2010</u>                    |
|---|-------------------------------|--------------------------------|
| <b>Cash flows from operating activities:</b>                            |                               |                                |
| Net income  | \$ 98,086                     | \$ 93,138                      |
| Adjustments to reconcile net income to net cash provided by operations: |                               |                                |
| Depreciation and amortization of electric plant in service              | 60,775                        | 60,136                         |
| Extraordinary gain on Texas regulatory assets, net of tax               | -                             | (10,286)                       |
| Deferred income taxes, net  | 46,338                        | 17,088                         |
| Other   | 38,438                        | 27,701                         |
| Change in working capital items:  |                               |                                |
| Net recovery (deferral) of fuel revenues                                | (29,608)                      | (1,322)                        |
| Accounts receivable   | (43,709)                      | (42,661)                       |
| Other   | 8,555                         | 19,810                         |
| <b>Net cash provided by operating activities</b>                        | <u><b>178,875</b></u>         | <u><b>163,604</b></u>          |
| <b>Cash flows from investing activities:</b>                            |                               |                                |
| Cash additions to utility property, plant and equipment                 | (129,651)                     | (124,839)                      |
| Cash additions to nuclear fuel  | (33,925)                      | (33,889)                       |
| Decommissioning trust funds   | (9,473)                       | (8,271)                        |
| Other   | (7,065)                       | (5,877)                        |
| <b>Net cash used for investing activities</b>                           | <u><b>(180,114)</b></u>       | <u><b>(172,876)</b></u>        |
| <b>Cash flows from financing activities:</b>                            |                               |                                |
| Repurchase of common stock  | (64,783)                      | (30,217)                       |
| Dividends paid  | (18,415)                      | -                              |
| Borrowings under the revolving credit facility                          | 13,089                        | (92,898)                       |
| Proceeds from issuance of long-term private placement notes             | -                             | 110,000                        |
| Other   | (92)                          | (2,455)                        |
| <b>Net cash used for financing activities</b>                           | <u><b>(70,201)</b></u>        | <u><b>(15,570)</b></u>         |
| <b>Net decrease in cash and cash equivalents</b>                        | <u><b>(71,440)</b></u>        | <u><b>(24,842)</b></u>         |
| <b>Cash and cash equivalents at beginning of period</b>                 | <u><b>79,184</b></u>          | <u><b>91,790</b></u>           |
| <b>Cash and cash equivalents at end of period</b>                       | <u><u><b>\$ 7,744</b></u></u> | <u><u><b>\$ 66,948</b></u></u> |

**El Paso Electric Company and Subsidiary**  
**Quarter Ended September 30, 2011 and 2010**  
**Sales and Revenues Statistics**

|   | 2011              | 2010              | Increase (Decrease) |                |
|---|-------------------|-------------------|---------------------|----------------|
|   |                   |                   | Amount              | Percentage     |
| <b><u>MWh sales:</u></b>                                  |                   |                   |                     |                |
| Retail:   |                   |                   |                     |                |
| Residential   | 899,708           | 819,294           | 80,414              | 9.8%           |
| Commercial and industrial, small                          | 703,479           | 676,894           | 26,585              | 3.9%           |
| Commercial and industrial, large                          | 279,339           | 300,845           | (21,506)            | (7.1%)         |
| Sales to public authorities                               | 452,370           | 450,895           | 1,475               | 0.3%           |
| Total retail sales  | <u>2,334,896</u>  | <u>2,247,928</u>  | <u>86,968</u>       | <u>3.9%</u>    |
| Wholesale:  |                   |                   |                     |                |
| Sales for resale  | 21,046            | 17,019            | 4,027               | 23.7%          |
| Off-system sales  | 726,753           | 804,558           | (77,805)            | (9.7%)         |
| Total wholesale sales                                     | <u>747,799</u>    | <u>821,577</u>    | <u>(73,778)</u>     | <u>(9.0%)</u>  |
| Total MWh sales   | <u>3,082,695</u>  | <u>3,069,505</u>  | <u>13,190</u>       | <u>0.4%</u>    |
| <b><u>Operating revenues (in thousands):</u></b>          |                   |                   |                     |                |
| Non-fuel base revenues:                                   |                   |                   |                     |                |
| Retail:   |                   |                   |                     |                |
| Residential   | \$ 82,465         | \$ 75,411         | \$ 7,054            | 9.4%           |
| Commercial and industrial, small                          | 64,929            | 61,857            | 3,072               | 5.0%           |
| Commercial and industrial, large                          | 13,597            | 13,126            | 471                 | 3.6%           |
| Sales to public authorities                               | 31,570            | 28,601            | 2,969               | 10.4%          |
| Total retail non-fuel base revenues                       | <u>192,561</u>    | <u>178,995</u>    | <u>13,566</u>       | <u>7.6%</u>    |
| Wholesale:  |                   |                   |                     |                |
| Sales for resale  | <u>387</u>        | <u>646</u>        | <u>(259)</u>        | <u>(40.1%)</u> |
| Total non-fuel base revenues                              | <u>192,948</u>    | <u>179,641</u>    | <u>13,307</u>       | <u>7.4%</u>    |
| Fuel revenues (a):  |                   |                   |                     |                |
| Recovered from customers during the period (b)            | 49,636            | 52,600            | (2,964)             | (5.6%)         |
| Under (over) collection of fuel                           | 3,786             | (9,703)           | 13,489              | -              |
| New Mexico fuel in base rates                             | 23,626            | 22,312            | 1,314               | 5.9%           |
| Total fuel revenues                                       | <u>77,048</u>     | <u>65,209</u>     | <u>11,839</u>       | <u>18.2%</u>   |
| Off-system sales:   |                   |                   |                     |                |
| Fuel cost   | 23,258            | 26,119            | (2,861)             | (11.0%)        |
| Shared margins  | 1,310             | 1,879             | (569)               | (30.3%)        |
| Retained margins  | 157               | 223               | (66)                | (29.6%)        |
| Total off-system sales                                    | <u>24,725</u>     | <u>28,221</u>     | <u>(3,496)</u>      | <u>(12.4%)</u> |
| Other (c)   |                   |                   |                     |                |
| Total operating revenues                                  | <u>\$ 307,633</u> | <u>\$ 280,342</u> | <u>\$ 27,291</u>    | <u>9.7%</u>    |
| <b><u>Average number of retail customers:</u></b>         |                   |                   |                     |                |
| Residential   | 336,738           | 332,920           | 3,818               | 1.1%           |
| Commercial and industrial, small                          | 38,292            | 36,150            | 2,142               | 5.9%           |
| Commercial and industrial, large                          | 51                | 48                | 3                   | 6.3%           |
| Sales to public authorities                               | 4,637             | 4,420             | 217                 | 4.9%           |
| Total   | <u>379,718</u>    | <u>373,538</u>    | <u>6,180</u>        | <u>1.7%</u>    |
| <b><u>Number of retail customers (end of period):</u></b> |                   |                   |                     |                |
| Residential   | 337,088           | 333,162           | 3,926               | 1.2%           |



|                                  |                |                |              |        |
|----------------------------------|----------------|----------------|--------------|--------|
| Commercial and industrial, small | 38,441         | 36,592         | 1,849        | 5.1%   |
| Commercial and industrial, large | 51             | 49             | 2            | 4.1%   |
| Sales to public authorities      | 4,601          | 4,803          | (202)        | (4.2%) |
| Total                            | <u>380,181</u> | <u>374,606</u> | <u>5,575</u> | 1.5%   |

#### **Weather statistics**

|                     |       |       |                             |
|---------------------|-------|-------|-----------------------------|
|                     |       |       | <b><u>30 Yr Average</u></b> |
| Heating degree days | -     | -     | 3                           |
| Cooling degree days | 1,787 | 1,603 | 1,406                       |

(a) Includes deregulated Palo Verde Unit 3 revenues for the New Mexico jurisdiction of \$3.8 million and \$3.9 million, respectively.

(b) Excludes \$11.5 million refund in 2010 related to prior periods Texas deferred fuel revenues.

(c) 2011 includes \$4.5 million related to the settlement of a transmission dispute with Tucson Electric Power Company.

### **El Paso Electric Company and Subsidiary Quarter Ended September 30, 2011 and 2010 Generation and Purchased Power Statistics**

|                                       | 2011             | 2010             | Increase (Decrease) |            |
|---------------------------------------|------------------|------------------|---------------------|------------|
|                                       |                  |                  | Amount              | Percentage |
| Generation and purchased power (MWh): |                  |                  |                     |            |
| Palo Verde                            | 1,322,790        | 1,375,883        | (53,093)            | (3.9%)     |
| Four Corners                          | 174,628          | 173,298          | 1,330               | 0.8%       |
| Gas plants                            | 1,190,045        | 957,079          | 232,966             | 24.3%      |
| Total generation                      | 2,687,463        | 2,506,260        | 181,203             | 7.2%       |
| Purchased power                       | 616,113          | 768,878          | (152,765)           | (19.9%)    |
| Total available energy                | 3,303,576        | 3,275,138        | 28,438              | 0.9%       |
| Line losses and Company use           | 220,881          | 205,633          | 15,248              | 7.4%       |
| Total MWh sold                        | <u>3,082,695</u> | <u>3,069,505</u> | <u>13,190</u>       | 0.4%       |
| Palo Verde capacity factor            | 96.3%            | 100.2%           | (3.9%)              |            |
| Four Corners capacity factor          | 79.6%            | 75.5%            | 4.1%                |            |

### **El Paso Electric Company and Subsidiary Nine Months Ended September 30, 2011 and 2010 Sales and Revenues Statistics**

|                                  | 2011             | 2010             | Increase (Decrease) |            |
|----------------------------------|------------------|------------------|---------------------|------------|
|                                  |                  |                  | Amount              | Percentage |
| <b><u>MWh sales:</u></b>         |                  |                  |                     |            |
| Retail:                          |                  |                  |                     |            |
| Residential                      | 2,078,247        | 1,958,670        | 119,577             | 6.1%       |
| Commercial and industrial, small | 1,816,081        | 1,762,224        | 53,857              | 3.1%       |
| Commercial and industrial, large | 817,549          | 826,553          | (9,004)             | (1.1%)     |
| Sales to public authorities      | 1,200,597        | 1,180,222        | 20,375              | 1.7%       |
| Total retail sales               | <u>5,912,474</u> | <u>5,727,669</u> | <u>184,805</u>      | 3.2%       |
| Wholesale:                       |                  |                  |                     |            |
| Sales for resale                 | 52,045           | 43,534           | 8,511               | 19.6%      |
| Off-system sales                 | 2,162,793        | 2,163,766        | (973)               | -          |
| Total wholesale sales            | <u>2,214,838</u> | <u>2,207,300</u> | <u>7,538</u>        | 0.3%       |
| Total MWh sales                  | <u>8,127,312</u> | <u>7,934,969</u> | <u>192,343</u>      | 2.4%       |

**Operating revenues (in thousands):**

## Non-fuel base revenues:

## Retail:

|                                     |            |            |           |       |
|-------------------------------------|------------|------------|-----------|-------|
| Residential                         | \$ 186,376 | \$ 170,399 | \$ 15,977 | 9.4%  |
| Commercial and industrial, small    | 155,203    | 148,294    | 6,909     | 4.7%  |
| Commercial and industrial, large    | 34,703     | 33,947     | 756       | 2.2%  |
| Sales to public authorities         | 74,588     | 66,703     | 7,885     | 11.8% |
| Total retail non-fuel base revenues | 450,870    | 419,343    | 31,527    | 7.5%  |

## Wholesale:

|                              |         |         |        |       |
|------------------------------|---------|---------|--------|-------|
| Sales for resale             | 1,722   | 1,520   | 202    | 13.3% |
| Total non-fuel base revenues | 452,592 | 420,863 | 31,729 | 7.5%  |

## Fuel revenues (a):

|  |         |          |          |         |
|--|---------|----------|----------|---------|
| Recovered from customers during the period (b) | 109,171 | 135,881  | (26,710) | (19.7%) |
| Under (over) collection of fuel                | 17,524  | (21,795) | 39,319   | -       |
| New Mexico fuel in base rates                  | 57,151  | 55,894   | 1,257    | 2.2%    |
| Total fuel revenues                            | 183,846 | 169,980  | 13,866   | 8.2%    |

## Off-system sales:

|                        |        |        |          |         |
|------------------------|--------|--------|----------|---------|
| Fuel cost              | 60,777 | 75,642 | (14,865) | (19.7%) |
| Shared margins         | 2,722  | 3,600  | (878)    | (24.4%) |
| Retained margins       | (697)  | 5,392  | (6,089)  | -       |
| Total off-system sales | 62,802 | 84,634 | (21,832) | (25.8%) |

## Other (c)

|                          |            |            |           |      |
|--------------------------|------------|------------|-----------|------|
| Total operating revenues | \$ 726,350 | \$ 695,907 | \$ 30,443 | 4.4% |
|--------------------------|------------|------------|-----------|------|

**Average number of retail customers:**

|                                  |         |         |       |        |
|----------------------------------|---------|---------|-------|--------|
| Residential                      | 335,792 | 331,210 | 4,582 | 1.4%   |
| Commercial and industrial, small | 37,484  | 36,479  | 1,005 | 2.8%   |
| Commercial and industrial, large | 50      | 49      | 1     | 2.0%   |
| Sales to public authorities      | 4,675   | 4,695   | (20)  | (0.4%) |
| Total                            | 378,001 | 372,433 | 5,568 | 1.5%   |

**Number of retail customers (end of period):**

|                                  |         |         |       |        |
|----------------------------------|---------|---------|-------|--------|
| Residential                      | 337,088 | 333,162 | 3,926 | 1.2%   |
| Commercial and industrial, small | 38,441  | 36,592  | 1,849 | 5.1%   |
| Commercial and industrial, large | 51      | 49      | 2     | 4.1%   |
| Sales to public authorities      | 4,601   | 4,803   | (202) | (4.2%) |
| Total                            | 380,181 | 374,606 | 5,575 | 1.5%   |

**Weather statistics**

|                     |       |       |                      |
|---------------------|-------|-------|----------------------|
|                     |       |       | <b>30 Yr Average</b> |
| Heating degree days | 1,305 | 1,478 | 1,376                |
| Cooling degree days | 2,997 | 2,607 | 2,317                |

(a) Includes deregulated Palo Verde Unit 3 revenues for the New Mexico jurisdiction of \$11.6 million and \$13.2 million, respectively.

(b) Excludes \$12.0 million and \$23.3 million of refunds in 2011 and 2010, respectively, related to prior periods Texas deferred fuel revenues.

(c) 2011 includes \$4.1 million related to the settlement of a transmission dispute with Tucson Electric Power Company.

## Generation and Purchased Power Statistics

|                                       | 2011      | 2010      | Increase (Decrease) |            |
|---------------------------------------|-----------|-----------|---------------------|------------|
|                                       |           |           | Amount              | Percentage |
| Generation and purchased power (MWh): |           |           |                     |            |
| Palo Verde                            | 3,834,651 | 3,748,164 | 86,487              | 2.3%       |
| Four Corners                          | 486,607   | 461,332   | 25,275              | 5.5%       |
| Gas plants (a)                        | 2,663,827 | 2,276,456 | 387,371             | 17.0%      |
| Total generation                      | 6,985,085 | 6,485,952 | 499,133             | 7.7%       |
| Purchased power                       | 1,677,081 | 1,924,621 | (247,540)           | (12.9%)    |
| Total available energy                | 8,662,166 | 8,410,573 | 251,593             | 3.0%       |
| Line losses and Company use           | 534,854   | 475,604   | 59,250              | 12.5%      |
| Total                                 | 8,127,312 | 7,934,969 | 192,343             | 2.4%       |
| <br>                                  |           |           |                     |            |
| Palo Verde capacity factor            | 94.1%     | 92.0%     | 2.1%                |            |
| Four Corners capacity factor          | 76.8%     | 68.4%     | 8.4%                |            |

(a) Includes 193,460 MWhs for pre-commercial testing of Newman Unit 5 Phase II.

### El Paso Electric Company and Subsidiary Financial Statistics

At September 30, 2011 and 2010

(In thousands, except number of shares, book value per share, and ratios)

| Balance Sheet   | 2011         | 2010         |
|---|--------------|--------------|
| Cash and cash equivalents                                 | \$ 7,744     | \$ 66,948    |
| Common stock equity                                       | \$ 812,852   | \$ 790,763   |
| Long-term debt  | 816,484      | 849,733      |
| Total capitalization                                      | \$ 1,629,336 | \$ 1,640,496 |
| <br>  |              |              |
| Current maturities of long-term debt                      | \$ 33,300    | \$ -         |
| Short-term borrowings under the revolving credit facility | \$ 17,793    | \$ 14,100    |
| <br>  |              |              |
| Number of shares - end of period                          | 40,249,088   | 42,612,026   |
| <br>  |              |              |
| Book value per common share                               | \$ 20.20     | \$ 18.56     |
| <br>  |              |              |
| Common equity ratio                                       | 48.4%        | 47.8%        |
| Debt ratio  | 51.6%        | 52.2%        |

El Paso Electric

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