

EL PASO ELECTRIC



Jefferies Marketing Tour June 2012

Safe Harbor Statement

Statements in this presentation, other than statements of historical information, are forward-looking statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (the “act”). Such statements are intended to be made as of the date of this presentation, and the company does not undertake to update any such forward-looking statement. Forward-looking statements involve known and unknown risks and other factors that may cause actual results to differ materially from those expressed in this presentation. In connection with the safe-harbor provisions of the act, the company has set forth below a number of important risks and factors that could cause actual results to differ materially from forward-looking information. Factors that could cause or contribute to such differences include, but are not limited to:

- 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
- The ability to increase rates to recover capital investments and operating costs in Texas and New Mexico
- Uncertainties and instability in the general economy and the resulting impact on EE’s sales and profitability
- Unanticipated increased costs associated with scheduled and unscheduled outages
- The size of our construction program and our ability to complete construction on budget and on time
- Costs at Palo Verde
- Deregulation and competition in the electric utility industry
- Possible increased costs of compliance with environmental or other laws, regulations and policies
- Possible income tax and interest payments as a result of audit adjustments proposed by the IRS
- Uncertainties and instability in the financial markets and the resulting impact on EE’s ability to access the capital and credit markets
- 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.

El Paso Electric Profile



| | | | | | | | |
|--------------------|--------------------------------------|--------------------------------|------------------|--|-------------------------------|-------------------------------|-------------------------------|
| NYSE Ticker Symbol | Net Dependable Generating Capability | 2011 Native System Peak Demand | Retail Customers | 12 Months Ended March 2012 EPS (Basic) | Credit Ratings | Estimated 2012 Dividend Yield | 2012 EPS Guidance (Basic) |
| EE | 1,785 MW | 1,711 MW | Approx 380,000 | \$2.45 | S&P BBB Moody's Baa2 | 3.27% | \$2.05 (Low) \$2.40 (High) |

EE Overview



Regional electric utility serving west Texas and southern New Mexico

Rate regulated business - no retail competition - fuel "pass through"

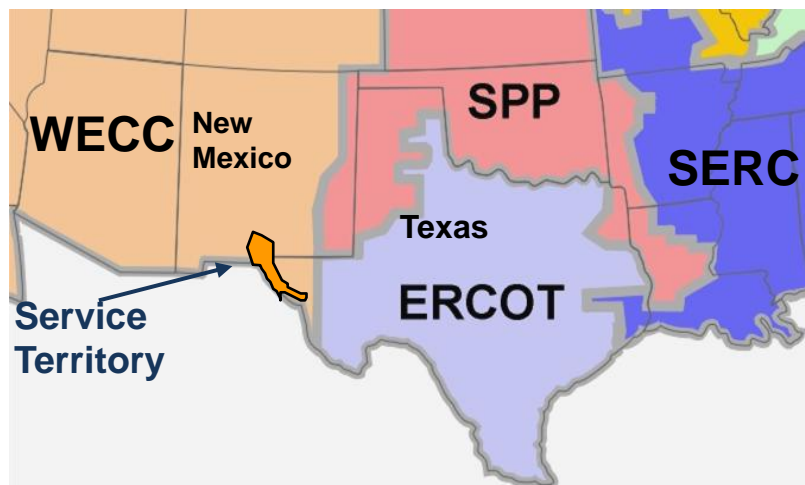
Above average customer and retail sales growth

Favorable environmental profile

Sizable capital expenditure plan and resulting rate base growth for the next several years

Financially strong utility with good credit metrics

Service Territory



- ❖ Approximately 380,000 retail customers
- ❖ Clean dependable generating capability 1,785 MW (net) - nuclear (36%), gas (58%) and limited coal (6%)

- ❖ No interconnection with ERCOT
- ❖ Interconnected with Mexico

12 Months Ended 03/31/2012

| | MWh Sales | | Operating Revenues, Net of Energy Expenses (\$000) | |
|--------------------------------|-------------------|-------------|--|-------------|
| Texas | 6,003,806 | 77% | \$448,418 | 76% |
| New Mexico | 1,710,078 | 22% | 123,663 | 21% |
| FERC | 62,810 | 1% | 1,970 | <1% |
| NM PV3 Stipulation | 0 | | 13,473 | 2% |
| Total Native Load Sales | 7,776,694 | 100% | \$587,524 | 100% |
| Other * | 0 | | 33,898 | |
| Off-System ** | 2,628,690 | | (359) | |
| Total | 10,405,384 | | \$621,063 | |

* Represents revenues with no related kWh sales


**Off-System Sales are sales made to power marketers and other utilities with the exception of the Rio Grande Electric Cooperative which is a full requirements customer.

Effective July 1, 2010, 90% of off-system sales margins are shared with retail customers.

Regulatory Overview



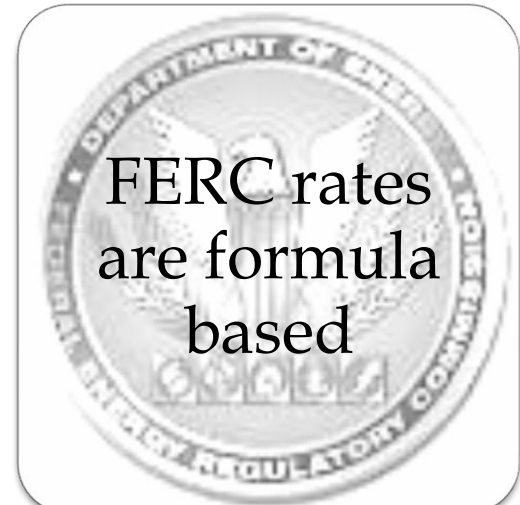
Regulated in Texas by PUCT (~75%), in New Mexico by NMPRC (~25%) and by FERC (<1%)



No current plans for a Texas rate case prior to 2013



No current plans for a New Mexico rate case prior to 2013



FERC rates are formula based

Recap of Texas 2012 Rate Reduction



- ❖ Settlement approved by the El Paso City Council on April 17, 2012
- ❖ Public Utility Commission of Texas issued a Final Order approving the settlement on May 23, 2012
 - ✓ Resolves the City of El Paso's show cause resolution of October 4, 2011
 - ✓ Implements new rates within the city limits of El Paso commencing with bills rendered on and after May 1, 2012
 - ✓ Reduces non-fuel base rates for Texas customers by \$15 million annually
 - ✓ Lowers depreciation expense by \$4.1 million annually for gas generating units and transmission and distribution plant
- ❖ The Company will be allowed to file its next fuel reconciliation request covering the period starting July 1, 2009 and ending no later than June 30, 2013 by December 31, 2013 or in a rate case filing, if earlier

Above Average Customer and Retail Sales Growth

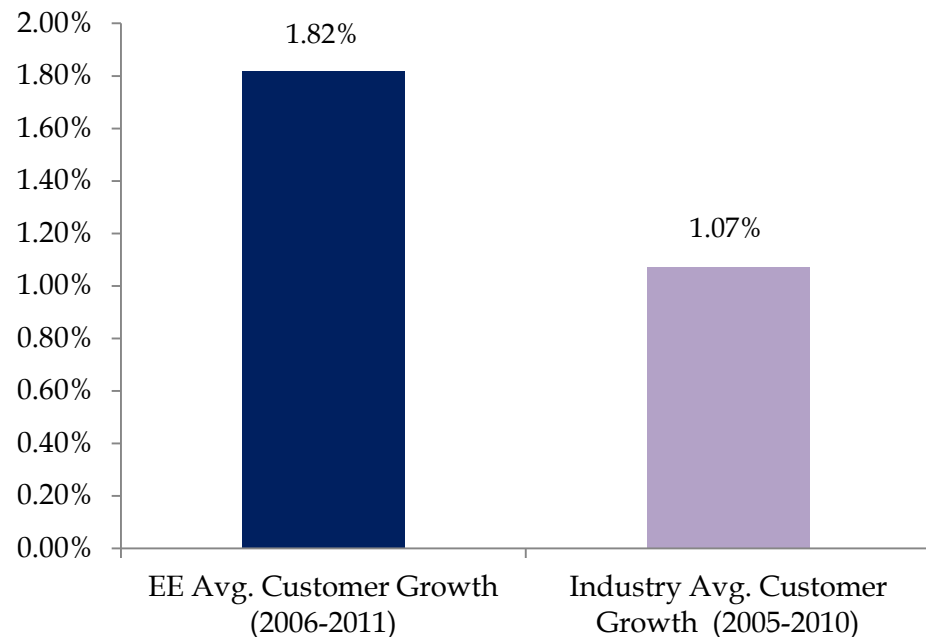


EE continues to have above average growth
as compared to the industry

Retail Customer & kWh Sales Growth

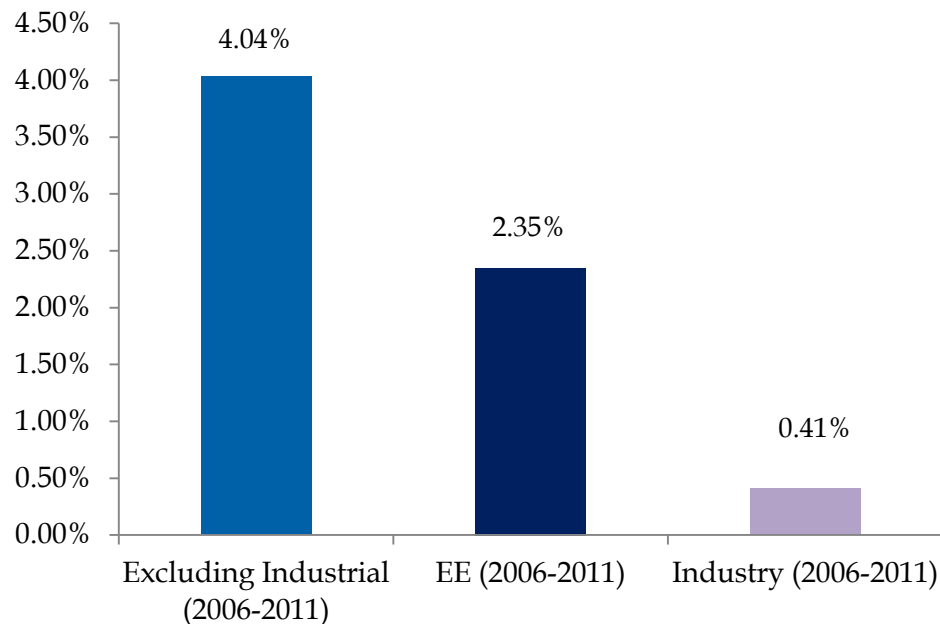


5-Year Retail Customer Growth



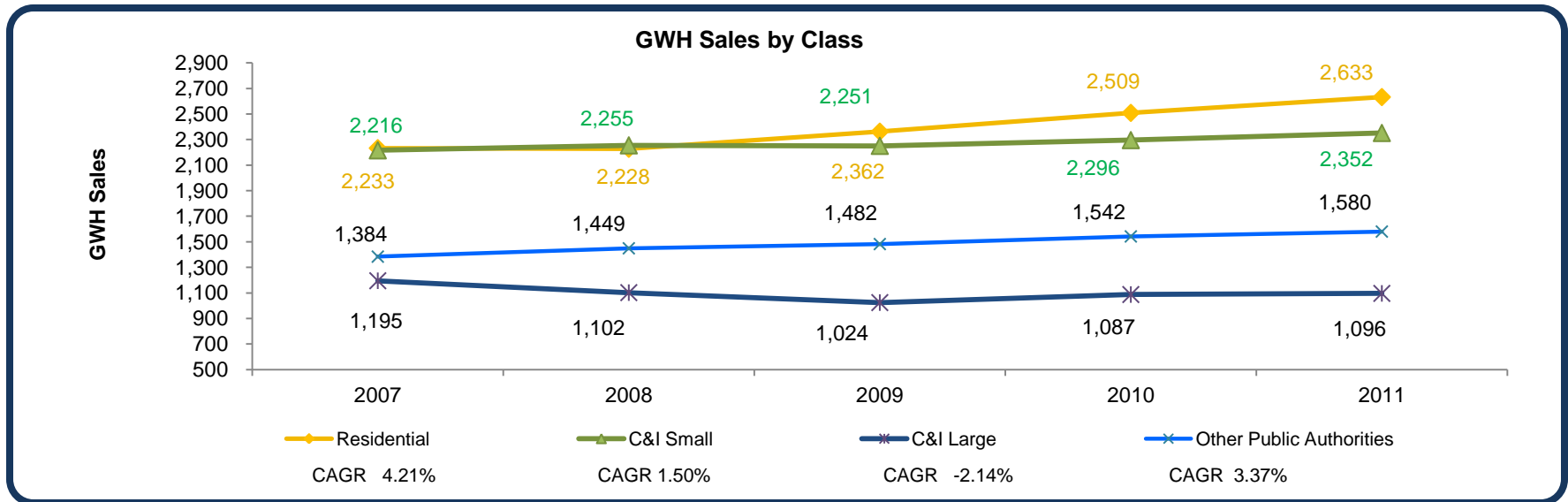
Source: Industry customer data detailed in *EEI-2010 Financial Review Report*.

5-Year Retail kWh Sales Growth



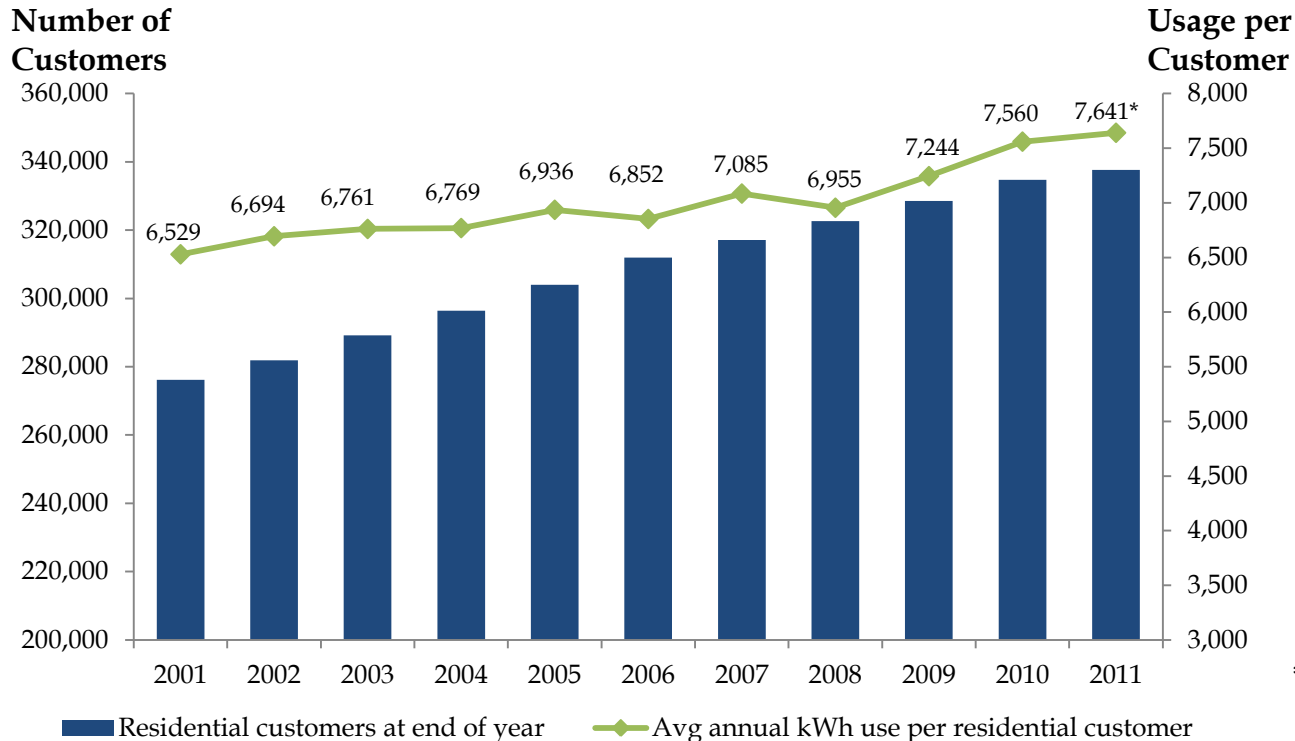
Source: Industry retail kWh sales data obtained from the Energy Information Administration website: <http://www.eia.doe.gov>

Sales Growth by Class



- ❖ Above-average customer and retail kWh sales growth exceeds the industry average, reflecting the expansion at Fort Bliss and economic growth in the service territory
 - ❖ Fort Bliss currently represents approximately 70 MW's of load
 - ❖ Current active duty soldier population of approximately 30,000
 - ❖ Single-family building permits – a leading indicator for the housing sector – increased 10% in 2011 over 2010

Residential Customer and Usage per Customer Growth



10-Year CAGR
 kWh Usage 1.59%
 Customers 2.03%

*2011 annualized data has been weather normalized

- Refrigerated air conditioning is being installed in 99% of new homes; approximately 35% of El Paso residences have refrigerated air conditioning
- Refrigerated air conditioning uses 15% less water and 3 times more electricity than evaporative coolers

Expanding Rate Base



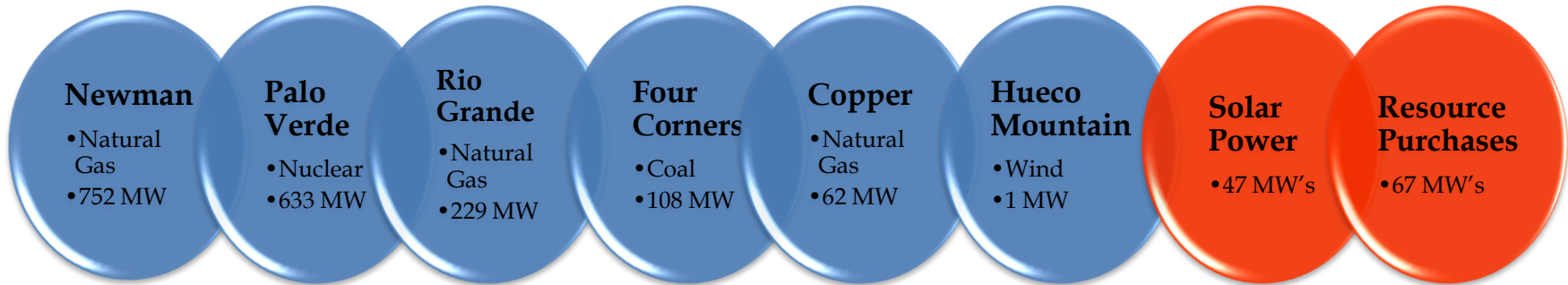
Capital requirements are being driven by the need to build infrastructure to meet customer demand

Load and Resources



Company Owned Generation 1,785 MW's

Solar & Purchases
114 MW's



2012 Total Energy Resources 1,899 MW's

2012 Projected Native Peak 1,658 MW's (excludes Interruptible Requirement)

Capacity Additions



- ❖ Above average customer growth is driving EE's need to modernize its power plant and replace its aging units
- ❖ Approximately 440 MWs of new generation additions and 229 MWs of retirements from 2012-2016
- ❖ New Generating Plant Additions
 - Rio Grande Unit 9 peaking unit (87MWs) under construction for commercial operation by May 2013
 - Four Additional LMS 100 units to come on line before end of 2016
 - Initial construction of two CCGT's to come on line in 2018 & 2019



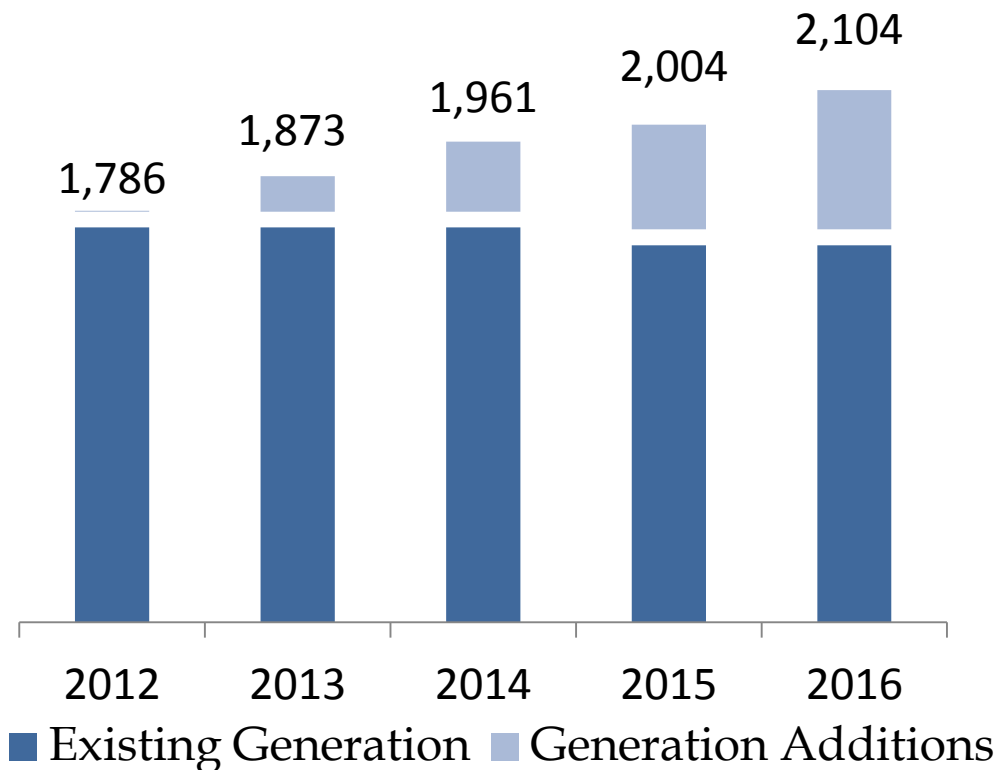
Rio Grande Unit 9 Rendering



Generation Additions Schedule



Generating Capacity (MW)



❖ Existing Capacity 1785 MW

Additions

- ❖ 2012 Newman Solar (1 MW)
- ❖ 2013 Rio Grande 9 (87 MW)
- ❖ 2014 LMS Unit 1 (88 MW)
- ❖ 2015 LMS Unit 2 (88 MW)
- ❖ 2016 LMS Units 3 & 4 (88MW each, total 176 MW)

Unit Retirements (a)

- ❖ 2014 Rio Grande 6 (45 MW)
- ❖ 2015 Newman 2 (76 MW)
- ❖ 2016 Four Corners 4 & 5 (108 MW)

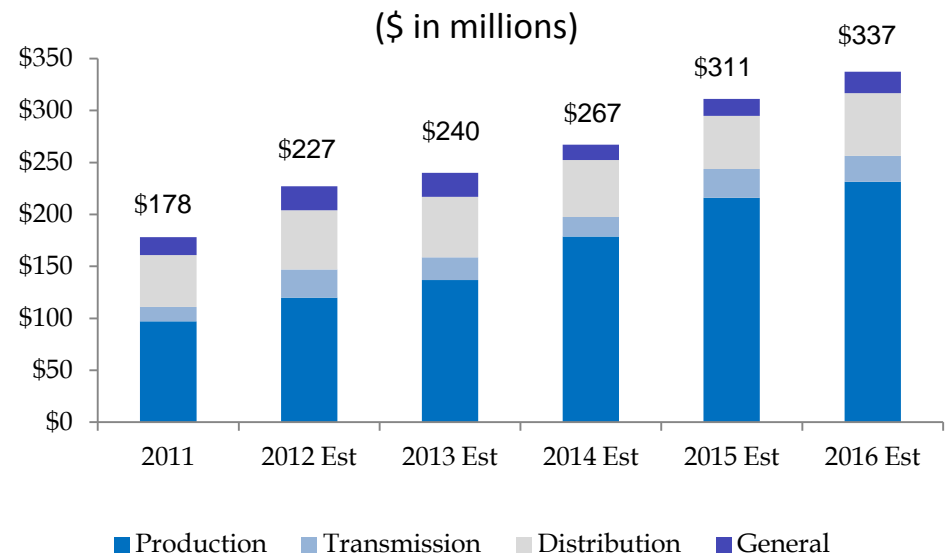
(a) Unit retirements occur in December, and impact capacity available in the following year

Cash Capital Expenditures



- ❖ Construction work in progress of \$189mm at March 31, 2012
- ❖ Primary additions to rate base through 2016 include:
 - New Generating Plant additions - \$691mm
 - T&D construction necessary to meet customer growth - \$401mm
 - Capex at Palo Verde - \$154mm

EE Actual and Estimated Costs



Rate Base and CWIP



Projected Rate Base Balances for Future Rate Case Filings (\$ in millions)

| | Adjusted <u>Dec. 2012</u> | Adjusted <u>Dec. 2013</u> | Adjusted <u>Dec. 2014</u> |
|--|------------------------------|------------------------------|------------------------------|
| Beginning Rate Base ⁽¹⁾ | \$1,524 | \$1,621 | \$1,747 |
| Plant Additions: | | | |
| Excluding New Generating Units | 162 | 138 | 137 |
| Adjustment for New Generating Units: | | | |
| Rio Grande Unit 9 (expected in-service May 2013) | 79 | | |
| Montana Plant- LMS Unit 1 (expected in-service May 2014) | | 113 | |
| Montana Plant- LMS Unit 2 (expected in-service May 2015) | | | 95 |
| Total Plant Additions | <u>241</u> | <u>251</u> | <u>232</u> |
| Depreciation Expense | (84) | (89) | (95) |
| Change in Deferred Income Taxes & Other | <u>(60)</u> | <u>(36)</u> | <u>2</u> |
| Total Rate Base ⁽²⁾ | <u><u>\$1,621</u></u> | <u><u>\$1,747</u></u> | <u><u>\$1,886</u></u> |
| Year End CWIP Balances (\$ in millions) | <u>\$260</u> | <u>\$289</u> | <u>\$324</u> |

(1) Includes Palo Verde Unit 3 rate base of approximately \$35mm.

(2) Total rate base balances represent end of the previous year balances rolled forward to the middle of the next year based on the closing of new generating units.

Financial Stability



EE has solid credit metrics, which should allow continued access to capital markets, while at the same time providing for cash and non-cash returns to investors

Capital Allocation and Liquidity



- ❖ At March 31, 2012, EE had liquidity of \$213.1mm including a cash balance of \$6.1mm and the revolving credit facility which was upsized to \$300 million early in 2012
- ❖ Capital expenditures in 2012 are anticipated to be \$227mm (previously \$242mm)
- ❖ EE dividend payments were \$27.2mm in 2011
- ❖ Increased the quarterly cash dividend from \$0.22 per share to \$0.25 per share in the 2nd Quarter of 2012

Commitment to Credit Quality



Capital Structure

As of 03/31/2012 *
(thousands)

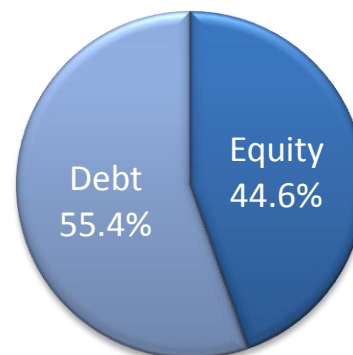
| | |
|--|--------------------|
| Common Stock Equity | \$ 760,157 |
| Long-term & short-term debt, net of RGRT | <u>792,840</u> |
| Total Capitalization Before RGRT | \$1,552,997 |
| RGRT - LT & ST Debt - Excluding working capital borrowings for the RCF | <u>149,540</u> |
| Total Capitalization After RGRT | <u>\$1,702,537</u> |

*Capital structure includes current maturities and short-term borrowings

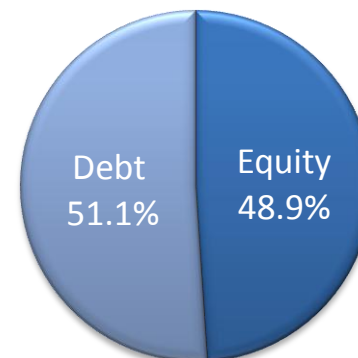
❖ Well positioned to finance planned investments

- ❑ Investment grade credit ratings
- ❑ S&P reaffirmed its BBB rating and Stable Outlook in September 2011
- ❑ Moody's reaffirmed its A3 rating and Stable Outlook in October 2011

Book Capitalization



Regulatory Capitalization**



| | Moody's | S&P |
|----------------|---------|--------|
| EE (unsecured) | Baa2 | BBB |
| | Stable | Stable |

**Regulatory Capitalization excludes borrowings for NF by the Rio Grande Resources Trust (RGRT), while book capitalization includes nuclear fuel borrowings in the debt portion of capitalization.

2012 Earnings Guidance



- ❖ Current earnings guidance range is \$2.05 to \$2.40 per basic share
 - Includes effects of Texas rate case settlement

Favorable Environmental Profile

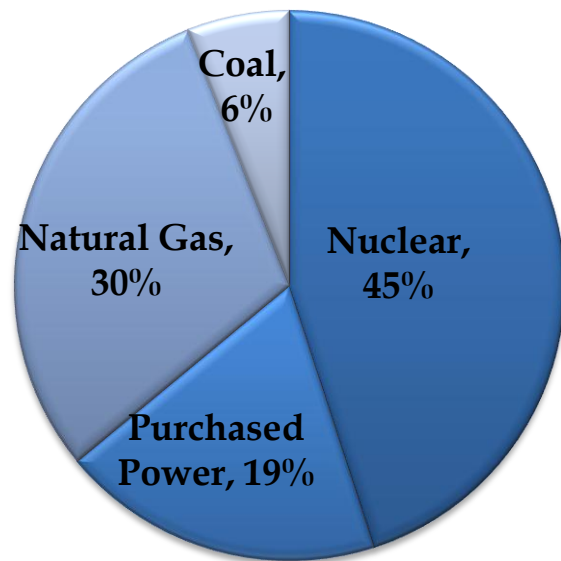


EE has a favorable environmental profile and is well-positioned to comply with proposed environmental regulations

Diversified Energy Portfolio and Low Carbon Footprint



2011 Energy Sources



EE vs. U.S. Carbon Footprint

(Short tons CO₂ equivalent emissions/MWH)



Renewable energy purchases represent 1% of total purchased power

Environmental Regulations



❖ Recent Environmental Rulemaking

- Cross State Air Pollution Rule (CSAPR) reduces interstate transport of ozone and fine particle air pollution
 - Only EE's Texas jurisdiction must comply, Four Corners is excluded
 - These were to become effective January 1, 2012, but the rule was stayed on December 30, 2011 and is in litigation
 - Minimal impact to EE due to natural gas-fired generation in Texas
 - Anticipate compliance through a combination of the purchase of NOx allowances, unit retirements, and new additions
- Mercury and Air Toxics Standards (Utility MACT) requires significant reductions in emissions of mercury and other air toxics
 - EPA finalized standards December 2011; final rule effective April 16, 2012
 - This rule will not apply to EE's local generation due to natural gas-fired units; fuel oil for back-up/emergency usage will be below rule applicability levels
 - No modifications expected at Four Corners due to this rule
 - Must comply with new standards in 3-5 years

2012 Initiatives



- ❖ Settle Texas Rate Case – Done
- ❖ Prepare to begin construction of next LMS 100 generation addition at the Montana Power Station
- ❖ Work with El Paso community leaders to improve regulatory relations and promote economic development
- ❖ Earn a fair return for shareholders
- ❖ Continue construction of Rio Grande 9
- ❖ Assist Fort Bliss in achieving Net Zero initiatives
- ❖ Fair and equitable treatment for solar initiatives



Appendix

Texas Renewables



❖ Requirements

- Texas mandates EE to obtain renewable energy proportionate to its market share of Texas energy sales or approximately 2% of Texas energy sales; renewable energy requirement can be met through renewable generation or purchase of Renewable Energy Credits (REC's)



❖ Compliance

- EE primarily purchases REC's

❖ Cost Recovery

- REC costs recovered through base rates
- EE capital investments included in rate base
- Purchased energy costs (including REC's) recovered through fuel

New Mexico Renewables



❖ Requirements

- EE is required to meet 10% of its current retail energy sales in New Mexico via renewables; escalates to 15% in 2015 and to 20% in 2020
- Must be from diverse sources – at least 20% solar, 20% wind, 10% other and 1.5% renewable distributed generation (increases to 3% in 2015)



❖ Compliance

- Historically met requirement via purchasing wind RECs from PNM Resources (PNM) and Southwestern Public Service (SPS)
- EE began purchasing 25MW of solar energy in mid 2011 and will purchase an additional 22MWs of solar photovoltaic energy in 2012

❖ Cost Recovery

- Renewable energy with RECs recovered through fuel clause; RECs without energy recovered through base rates

State Regulatory Commissioners



Public Utility Commission of Texas - Appointed by Governor

| Name | Position | Term Ends | Party |
|---------------------|--------------|------------|------------|
| Donna L. Nelson | Chair | 08/31/2015 | Republican |
| Kenneth W. Anderson | Commissioner | 08/31/2017 | Republican |
| Rolando Pablos | Commissioner | 08/31/2013 | Republican |

New Mexico Public Regulation Commission - Elected

| Name | Position | Term Ends | Party |
|--------------------------|--------------|------------|-------------|
| Patrick Lyons | Chair | 12/31/2014 | Republican |
| Theresa Bencenti-Aguilar | Commissioner | 12/31/2014 | Democrat |
| Jason Marks | Commissioner | 12/31/2012 | Democrat |
| Ben Hall | Commissioner | 12/31/2014 | Republican |
| Dr. Doug Howe | Commissioner | 12/31/2012 | Independent |

EE Contact Information



Tom Shockley
Chief Executive Officer
(915) 521-5721
tom.shockley@epelectric.com

David G. Carpenter
Senior Vice President - Chief Financial Officer
(915) 543-5945
david.carpenter@epelectric.com

Steven P. Busser
Vice President -Treasurer
(915) 543-5983
steve.busser@epelectric.com

El Paso Electric Headquarters
Stanton Tower
100 North Stanton
El Paso, Texas 79901
(800) 592-1634