



El Paso Electric

El Paso Electric Company Texas Rate Case Summary February 2017

Safe Harbor Statement

This presentation includes statements that are forward-looking statements made pursuant to the safe harbor provisions of the Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. This information may involve risks and uncertainties that could cause actual results to differ materially from such forward-looking statements. Additional information concerning factors that could cause actual results to differ materially from those expressed in forward-looking statements is contained in EE's most recently filed periodic reports and in other filings made by EE with the U.S. Securities and Exchange Commission (the "SEC"), and include, but is 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
- Full and timely recovery of capital investments and operating costs through rates in Texas and New Mexico
- Uncertainties and instability in the general economy and the resulting impact on EE's sales and profitability
- Changes in customers' demand for electricity as a result of energy efficiency initiatives and emerging competing services and technologies, including distributed generation
- Unanticipated increased costs associated with scheduled and unscheduled outages of generating plant
- Unanticipated maintenance, repair, or replacement costs for generation, transmission, or distribution facilities and the recovery of proceeds from insurance policies providing coverage for such costs
- The size of our construction program and our ability to complete construction on budget and on time
- Potential delays in our construction schedule due to legal challenges or other reasons
- 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 or state taxing authorities
- Uncertainties and instability in the financial markets and the resulting impact on EE's ability to access the capital and credit markets
- Possible physical or cyber attacks, intrusions or other catastrophic events
- Other factors of which we are currently unaware or deem immaterial

EE's filings are available from the SEC 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. Management cautions against putting undue reliance on forward-looking statements or projecting any future results based on such statements or present or prior earnings levels. Forward-looking statements speak only as of the date of this news release, and EE does not undertake to update any forward-looking statement contained herein.

2017 Texas Rate Case

- On February 13, 2017 EE filed general rate case, Docket No. 46831, with the Public Utility Commission of Texas (PUCT)
- Primarily filed rate case to reflect new plant in service to:
 - Meet customer and load growth*
 - Maintain and improve electric system
- Montana Power Station (MPS) Units 3 & 4 were placed in service in May 2016 and September 2016, respectively, to help continue to:
 - Reliably serve customers
 - Modernize EE's aging local generation fleet
 - Improve efficiencies
 - Enhance operational flexibility

* EE's 2016 summer peak increased by 5.5% over the system peak established in 2015



2017 Texas Rate Case Request

- Based on historical test year ended September 30, 2016
- Rate case request includes:
 - Non-fuel base revenue increase of \$42.5 million
 - Investment in new plant of approximately \$444.3 million since the 2015 Texas rate case
 - Return on Equity of 10.50% with an equity ratio of 48.35%
 - Baseline revenue requirements for transmission and distribution to enable future application of cost recovery factors
 - New three part rate structure for residential and small commercial distributed generation (DG) customers
 - Propose separate rate class for residential DG customers
 - Final rates relating back to July 18, 2017*

* 155 days after the rate case was filed on February 13, 2017



Texas Rate Base Summary

- Rate Base
 - Total Company \$2,176.9 million
 - Texas jurisdictional \$1,693.8 million
- Approximately \$444.3 million* of plant has been added since the last rate case in Texas (test year ended March 31, 2015)
 - Significant plant additions to rate base include:
 - Montana Power Station (MPS) Units 3 & 4 and associated common plant - \$151.3 million
 - Transmission and Distribution - \$139.8 million*
 - Palo Verde Capital Improvements - \$59.4 million
 - Investment in existing local generation - \$50.3 million*
 - General and intangible and other plant - \$43.5 million

* Capital additions include \$5.1 million of costs for Four Corners, which has been excluded from rate base

Texas Rate Base Request

(\$000's)	2017 Rate Case	2015 Rate Case ⁽¹⁾	Variance	% Increase
Plant In Service	\$ 3,000,987	\$ 2,722,639	\$ 278,348	
Accumulated Depr. & Amort.	(984,536)	(969,888)	\$ (14,648)	
Net Plant in Service	\$ 2,016,451	\$ 1,752,751	\$ 263,700	
Working Capital	46,143	40,785	\$ 5,358	
Accumulated Deferred FIT	(364,630)	(316,739)	\$ (47,891)	
Other	(4,180)	(173)	\$ (4,007)	
Total Rate Base	\$ 1,693,784	\$ 1,476,624	\$ 217,160	14.7%

(1) As filed in the 2015 Texas Rate Case (Docket No. 44941)



Texas Cost of Capital Request

	Balance as of 9/30/2016 (\$000's)	Percent of Total	Cost of Capital	Rate of Return
Long-term Debt	\$ 1,166,916	51.652%	5.922%	3.059%
Common Equity	1,092,259	48.348%	10.500%	5.077%
	<u>\$ 2,259,175</u>	<u>100.000%</u>		<u>8.136%</u>



Texas Proposed Rate Design Changes

- Eliminate rate class subsidies by moving all customer classes to full cost of service
- Create new rate class for residential DG customers with three part rate structure (customer, demand and time of use (TOU) charges) to make sure all customers pay their fair share
- Expand use of seasonal and TOU charges to promote conservation and encourage reduced on-peak demand



Average Texas Residential Bill Increase

- Average monthly summer bill would increase by approximately \$9.27
- Average monthly winter bill would increase by approximately \$7.24
- According to the Energy Information Administration (EIA), the Company's average Texas monthly residential bills are well below the state and national averages



Texas Rate Making Process

- Incorporated municipalities have original jurisdiction over rates in their city limits
- PUCT has original jurisdiction in unincorporated areas and appellate jurisdiction over municipal rates
- EE filed simultaneously with El Paso, other incorporated municipalities in Texas service territory, and the PUCT
- PUCT reviews rate case on a de novo basis

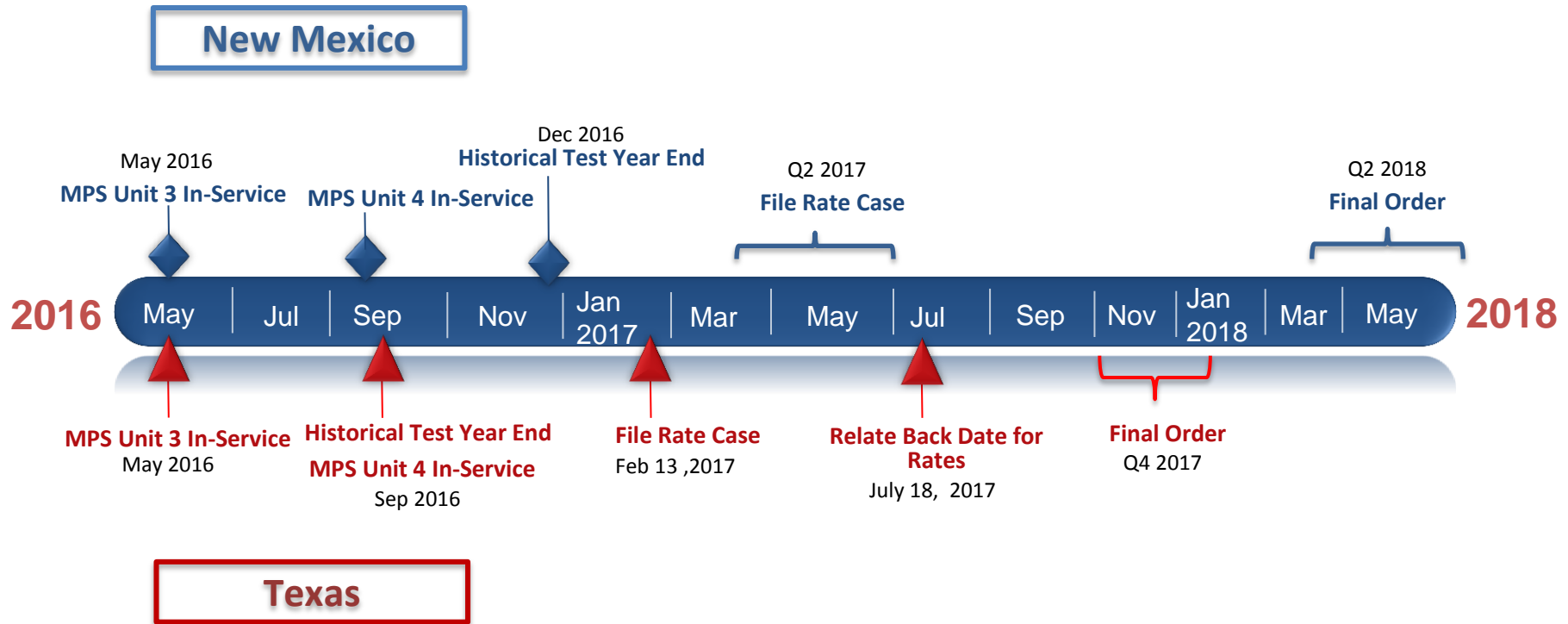


Texas Illustrative Rate Case Schedule

- Potential Procedural Schedule and Timeline
 - Texas Rate Case Filing – February 13, 2017
 - Discovery Process – February – July 2017
 - Interveners and Staff Testimony – July/August 2017
 - Rebuttal Testimony – August 2017
 - Hearings – August/September 2017
 - Potential PUCT Decision – 4th quarter 2017
- Authorized revenue requirement will relate back to July 18, 2017 pursuant to Texas Utilities Code Section 36.211



Tentative Timeline – 2017 Rate Cases*



- Anticipate filing New Mexico Rate Case using a historical test year ended December 2016 as currently contemplated in Case No. 15-00109-UT
- Texas Rate Case filing uses a historical test year ended September 2016
- Section 36.211 of the Texas Utilities Code, which was added in 2015, allows for rates to relate back to the 155th day after a rate case is filed. For financial reporting purposes, the revenues and other impacts will be recognized when a resolution is reached in the Texas Rate Case.

* Assuming EE receives a favorable outcome, additional rate cases may not be needed in the near term.



Q & A

