

Texas Rate Case Summary

August 11, 2015



Safe Harbor Statement

This presentation 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:

- Full and timely recovery of capital investments and operating costs through rates in Texas and New Mexico
- 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
- 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
- Unanticipated increased costs associated with scheduled and unscheduled outages of generating plant
- The size of our construction program and our ability to complete construction on budget
- 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 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>



Texas Rate Case Filing Requests

- EE filed a general rate case, Docket No. 44941, with the Public Utility Commission of Texas (PUCT) on August 10, 2015
- Summary of request included:
 - Historical test year ended March 31, 2015
 - Case filed primarily to reflect new plant in service
 - Generation plant including Montana Power Station Units 1 & 2 and related substation & transmission lines
 - Eastside Operations Center
 - Requested non-fuel base revenue increase of \$71.5mm
 - Average Texas residential bill will increase by approximately \$8.41
 - Total residential revenue will increase by 11.78%
 - Return on Equity of 10.1% with equity ratio of 49.52%



Texas Rate Base Summary

- Total Rate Base
 - Total Company \$1,931.6mm
 - Texas jurisdictional \$1,476.6mm
- Approximately \$1,341mm of plant has been added since the last rate case in Texas (July 2009)
 - Significant plant additions to rate base include:
 - Palo Verde Capital Improvements - \$234.7mm
 - Phase II of Newman Unit 5 - \$164.1mm
 - Rio Grande Unit 9 - \$94.3mm
 - Transmission and Distribution - \$418.0mm
 - MPS and Eastside Operations Center - \$261.6mm*

* MPS includes Units 1 & 2, common, substation and transmission lines



Texas Rate Base

(\$000's)

	2015	2009	
	Rate Case	Rate Case*	Change
Plant In Service	\$ 2,722,639	\$ 1,679,664	\$ 1,042,975
Accumulated Depr. & Amort.	(969,888)	(619,920)	(349,968)
Net Plant in Service	\$ 1,752,751	\$ 1,059,744	\$ 693,007
Working Capital	40,785	40,460	325
Accumulated Deferred FIT	(316,739)	(129,023)	(187,716)
Other	(173)	(1,942)	1,769
Total Rate Base	\$ 1,476,624	\$ 969,239	\$ 507,385

*As filed in the 2009 Texas Rate Case (docket no. 37690)



Requested Cost of Capital

	Balance as of 3/31/2015 (\$000's)	Percent of Total	Cost of Capital	Rate of Return
Long-term Debt	\$ 1,009,350	50.478%	6.0960%	3.077%
Common Equity	990,237	49.522%	10.1000%	5.002%
	<u>\$ 1,999,587</u>	<u>100.0000%</u>		<u>8.079%</u>



Projected Rate Base & CWIP

Pro forma Rate Base Balances (\$000)

	YE 2015 Including MPS 1 & 2	YE 2016 Including MPS 3 & 4
Beginning Rate Base ⁽¹⁾⁽²⁾	\$1,642	\$1,935
Plant Additions:		
MPS Transmission and Substations	17	13
New Eastside Operations Center	41	-
Other	137	145
New Generating Units:		
Montana Common Plant	53	10
Montana Unit 1	79	-
Montana Unit 2	75	-
Montana Unit 3	-	78
Montana Unit 4	-	79
Total	402	325
Depreciation Expense	(91)	(94)
Change in Deferred Income Taxes & Other	(18)	20
Total Rate Base ⁽³⁾	<u>\$1,935</u>	<u>\$2,186</u>
	<u>2015</u>	<u>2016</u>
Ending CWIP Balances (\$ in millions)	\$306	\$167

(1) Includes Palo Verde Unit 3 rate base of approximately \$26mm and \$27mm for each pro-forma filing in 2015 and 2016, respectively

(2) Beginning rate base is December 31, 2014 and year end balances exclude CWIP

(3) Represents a pro-forma rate base projection that is subject to change based on actual rate filings



Proposed Structural Rate Design Changes

- Reduce/Eliminate rate class subsidies
 - Gradual approach to moving customer classes closer to full cost of service
 - Increase fixed charges
- Expand use of seasonal and Time Of Use (TOU) charges to promote conservation
- Combine similar rate classes and create new partial requirements class for residential DG customers

Total Revenue Impact for Selected Rate Classes	
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Residential Service	11.78%
Small General Service	11.78%
Partial Requirements Service	23.56%
Government Street Lighting Service	23.56%
Municipal Pumping TOU	3.72%
Electrolytic Refining Service	2.07%
Irrigation Service	11.78%
General Service	11.78%
Large Power Service	7.28%
Petroleum Refinery Service	10.47%
Area Lighting Service	8.02%
Military Reservation Service	8.27%



Texas Rate Making Process

- Incorporated municipalities have 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



Illustrative Texas Rate Case Schedule

- Potential Procedural Schedule and Timeline
 - Texas Rate Case Filing – August 10, 2015
 - Discovery Process – August – December 2015
 - Intervenors and Staff Testimony – November/December 2015
 - Rebuttal Testimony – December 2015
 - Hearings – December 2015/January 2016
 - Potential PUCT Decision – 1st quarter 2016
 - Anticipate new rates will become effective by early 2nd quarter 2016
- House Bill 1535 allows for rates to relate back to the 155th day after a rate case is filed



New Mexico Rate Case Schedule

- EE filed a general rate case with the New Mexico Public Regulatory Commission (NMPRC) on May 11, 2015
- New Mexico Rate Case Procedural Schedule
 - Discovery Process – May – Nov. 2015
 - Deadline for Intervention – Aug. 3, 2015
 - Direct Testimony of NMPRC and Intervenors – Sept. 30, 2015
 - Rebuttal Testimony – Oct. 28, 2015
 - Hearing Begins – Nov. 16, 2015
- Anticipate new rates will become effective by early 2nd quarter 2016



Q & A

