EL PASO ELECTRIC CO
Moderator: Lisa Budtke
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9:30 am CT

Lauren Peterson: Good day and welcome to the El Paso Electric Company Third Quarter 2016 Earnings call. Today's conference is being recorded. At this time, I would like to turn the conference over to Lisa Budtke. Please go ahead.

Lisa Budtke: Thank you Lauren. Good morning everyone. Thank you for joining the El Paso Electric Company Third Quarter 2016 Earnings conference call. My name is Lisa Budtke, and I am the Director of Treasury Services and Investor Relations. On the call today are CEO, Mary Kipp, CFO, Nathan Hirschi and other members of Senior Management.

Today we will discuss our third quarter financial performance, a refinement to our dividend policy, the results of our Texas Rate Case, a revised timeline for our next round of rate cases, key earnings drivers and our revised 2016 guidance range.

You should have a copy of our press release and today's presentation and if you do not, you can obtain them from our website on the Investor Relations page.

We currently anticipate that our Third Quarter 2016 Form 10-Q will be filed with the Securities and Exchange Commission (SEC) on or before this Friday, November 4, 2016.

We also would like to inform you that we will be attending the EEI Financial Conference on November 6th through November 8th in Phoenix, Arizona. Please refer to our website for all upcoming Investor Relations events.

A replay of today's call will be available shortly after our call ends, and will run through to November 16, 2016. The details as they relate to the replay are disclosed in our press release.

For forward-looking statements, on slide 2 of our presentation you will see our Safe Harbor provisions. In summary, our comments and answers to your questions may include forward-looking statements made pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks and other factors which may cause the Company's actual results in future periods to differ materially from those expressed here. Any such statement is qualified by reference to the risks and factors discussed in the Company's SEC filings. Our 10-Q and other SEC filings contain our forward-looking safe harbor statements and also lay out the risk factors that should be considered. These filings may be obtained upon request from the Company, on our website, or from the SEC.

The Company cautions that the risk factors discussed in these filings are not exhaustive and we do not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the Company. These statements, especially those made during the question and answer section of the call, are subject to risk and uncertainties that are difficult to predict. I will now turn the call over to Mary.

Mary Kipp: Thank you Lisa. Good morning to all of you. Thank you for joining our call today. Turning to slide 3, you will see that this was a pivotal quarter for El Paso Electric. First, our Texas Rate Case was resolved on August 25, 2016 when the Public Utility Commission of Texas issued a final order approving the unopposed settlement. We also completed the sale of the Four Corners Power Plant. The sale of our ownership in this plant not only allows us to become a cleaner, coal-free utility, but also limits the Company's financial obligations relating to potential environmental regulations. During the quarter, our commitment to provide our customers with clean and cost effective large-scale solar generation took another step forward when the New Mexico Public Regulation Commission approved our 5-megawatt solar project, which will be constructed at Holloman Air Force Base. This solar facility will be dedicated to the Base and will assist the Air Force in meeting its renewable energy goals. We also received approval for a 3 megawatt Community Solar Pilot Program from the Public Utility Commission of Texas on September 1, 2016. The community solar program will allow customers to voluntarily subscribe for the output from the solar generation plant, and will be constructed at the Montana Power Station. Cost for these solar projects will be directly assigned to the customers and accordingly, excluded from rate base.

The third quarter also marked a significant milestone for the Company as we completed our more than $1.4 billion construction program with the commercial operation of our newest power-generating unit at the Montana Power Station on September 15, 2016. Montana Unit 4 was completed on time, and on budget, and will provide enough electricity to power over 40,000 homes. I am also pleased to announce that the International Brotherhood of Electrical Workers Local 960, voted in favor of a new three-year Collective Bargaining Agreement with El Paso Electric as the old agreement was set to expire in September of this year. I would like to thank Felipe Salazar, Business Manager of IBEW Local 960, and Dave Hawkins, VP of System Operations, for their leadership and guidance in reaching this agreement with the continued focus and priority of providing clean, safe, reliable, and affordable power to our communities and families.

Another significant development was the review and refinement of our dividend policy. We continually seek to enhance shareholder value and, as a result, we have established a goal of achieving an annual dividend payout ratio in the range of 55 to 65 percent by the year 2020.

If you will now turn to slide 4, I would like to provide some details regarding the newly refined dividend policy.

As we previously stated, our goal is to move closer to a peer average payout ratio upon completion of our major construction program and after regulatory lag subsides. Therefore, in having completed our major generating additions and having obtained final orders in Texas and New Mexico, we have refined our dividend policy to achieve an annual 55 to 65 percent payout ratio by 2020, with the first increase above the $0.06 level to commence in the second quarter of 2017. The exact timing and amount of future dividend increases will be determined by our Board and will be based upon our operating performance, financial condition, capital needs and other relevant factors. We appreciate investor’s patience, as we executed our capital expenditures program over the past several years, and hope our refined policy now provides additional clarity on the target metric range and timeframe for future dividends.

If you will now turn to slide 5, I would like to briefly discuss the Final Order issued in our Texas Rate Case.

The Commission issued a Final Order in our Texas rate case on August 25, 2016, which approved all terms of the unopposed settlement agreement. As a result, we were able to record the impacts of the Texas rate case during the third quarter, which resulted in an after tax increase to net income of approximately $23.3 million or $0.58 per share. This increase includes relate back revenues for consumption beginning on January 12, 2016. Nathan will provide a little more detail regarding the financial impact of the Texas rate case a little later in the call. At this time, I would like to thank all the employees who worked so hard on the Texas and New Mexico rates cases. I am very proud to have such a dedicated team who worked diligently to bring these two cases to conclusion. However, there is little time for rest as we are already preparing for the next round of rate cases as can be seen on slide 6.

In Texas, we continue to anticipate filing a new rate case during the first quarter of 2017 using a historical test year ended September 30, 2016. Our timeline reflects a potential final order to be issued during the fourth quarter of 2017. With the relate back provision in Texas, the Company will have the ability to surcharge our customers for new rates relating back to consumption beginning on the 155th day after the rate case is filed. We anticipate rates relating back to early July 2017.

As you can see on this graphic, we've decided to stagger the New Mexico and Texas rate case. This will help us to maximize the efficiency of internal resources, as well as avoid filing rate cases at the same time as other utilities, which will help reduce the burden on the NMPRC staff. We now anticipate filing a rate case in New Mexico in the second quarter of 2017 using a historic test year ended December 31, 2016. A final order and new rates are anticipated to take effect during the second quarter of 2018.

Regarding our 2017 rate cases, we believe it is premature to anticipate or discuss the amount of rate relief we will be requesting. Obviously, upon the conclusion of those cases, we will carefully evaluate the results from both cases to ensure the Company is able to earn a fair and reasonable return and to determine if subsequent rate cases are necessary.

At this time, I would like to hand the call over to Nathan who will walk through the details of our third quarter financial results.

Nathan Hirschi: Thanks Mary, as you can see on slide 7, for the third quarter of 2016, we reported net income of $74.6 million or $1.84 per share compared to 2015 net income of $56.7 million or $1.40 per share. It is important to recognize that the income reported in the current quarter includes the financial impact of the Final Orders issued by the PUCT and NMPRC in our recent rate case proceedings. Although earnings looked favorable during the quarter, compared to prior year, our return on equity remains relatively low and illustrates the need for an additional round of rate cases, which will be filed in Texas and New Mexico in 2017.

Turning to slide 8, I will now discuss the main earnings drivers for the third quarter 2016 compared to 2015. Beginning with the positive drivers, earnings during the quarter increased by $0.52 per share primarily due to the recognition of $33.7 million in retail non-fuel base revenues as a result of the final order issued in our Texas rate case. As you may remember, interim rates took effect in Texas on April 1, 2016, and the relate-back provision allowed for revenues to relate back to January 12, 2016, which are both reflected in the $33.7 million increase as well as additional revenues associated with Four Corners. We also recorded a $0.02 per share increase in other revenues due primarily to the recognition of miscellaneous service charges related to the Texas rate case. I will go into further detail regarding the retail revenue drivers on the next slide.

Earnings were also positively impacted by $0.10 per share due to a decrease in depreciation and amortization expense as a result of the final orders issued in both Texas and New Mexico, which provided for depreciation rate reductions. The decrease was partially offset by a $1.1 million increase in depreciation due to an increase in depreciable plant including Montana Units 3 and 4, which were placed into service in May 2016 and September 2016, respectively. Decreased O&M expense, related to our fossil fuel generating plants, of $0.02 per share was principally due to the sale of our Four Corners Plant.

Turning to the negative drivers, earnings decreased by $0.13 per share due to an increase in the effective tax rate. Changes in accordance with the Company's regulators in recent rate cases resulted in a change to the effective tax rate due to the normalization of state income taxes. The tax rate also increased due to the loss of domestic production activities deduction, also known as the manufacturing credit. Earnings decreased by $0.04 per share due to lower realized gains on securities sold from the Company's Palo Verde decommissioning trust fund in the third quarter of 2016 compared to the third quarter of 2015. In addition, interest accrued on the $150 million senior notes issued on March 24, 2016 reduced earnings by $0.03 per share during the quarter. AFUDC decreased due to lower balances of construction work in progress, which was mainly attributable to Montana 3 & 4 being placed into service in May and September, respectively.

If you now turn to slide 9, I will walk you through the variances in third quarter retail and other revenues for the third quarter.

The quarter over quarter variance of $0.28 per share in the non-fuel base revenues for January 12, 2016 through June 30, 2016 consumption was related to two components; first, the amount which correlates to the $37 million Texas non-fuel rate increase which, net of tax, added $0.25 per share and second, the amount which correlates to the $3.7 million increase in Texas for Four Corners costs, which added $0.03 per share.

Clearly, non-fuel base revenues were also positively impacted by the rate increase allocated to consumption beginning on July 1, 2016 and running through the end of the third quarter on 30 September 30, 2016. The additional revenue recorded during this period-added $0.24 to earnings per share, as well as an additional $0.02 per share related to revenues associated with Four Corners. Excluding the Texas rate increase, non-fuel base revenues declined in the quarter by $0.02 per share, the key components of which will be discussed when we review slide 10. Another item that correlates to the $37 million Texas rate increase was the recognition of $1.1 million or $0.02 per share of miscellaneous services charges.

Now turning to slide 10, we have provided a comparative analysis of the changes in the average number of customers, megawatt hour sales by customer class, and retail non-fuel base revenues for the third quarter of 2016 compared to the same period in 2015. We continue to see consistent customer growth in our service territory as the average number of customers increase by 1.5 percent during the 3rd quarter of 2016. The increase in customers served is similar to the growth rate we have experienced in our service territory over the past 20 years, and is reflective of the positive long-term growth trend in our community.

The 3rd quarter of 2016 began with very hot summer weather, however; if you recall, the entire 3rd quarter of 2015 was record breaking. As a result, cooling degree-days ended the quarter 7.9 percent below the same period of 2015. The cooler summer weather recorded for the quarter was a driver behind the 1.7 percent reduction in total megawatt hour sales.

Excluding the $33.7 million Texas rate case impact, non-fuel base revenues decreased by $1.2 million compared to the third quarter of 2015. The decline in revenues was due to decreased revenues from large commercial and industrial customers of $1.9 million due partially to an interruptible rate surcharge to a large customer in 2015. However, after including the impacts from the rate cases, retail non-fuel base revenues increased by 16.5 percent.

On slide 11, we have illustrated the weather recorded in El Paso for the third quarter over the past 10 years. The third quarter of 2016 started out as a record breaker because the month of July was the warmest on record in over 70 years. We experienced 23 days of 100 plus degree weather in July, the second most since 1943. However, the hot summer weather quickly gave way to more mild weather for the remainder of the quarter. We ended the period slightly warmer than the 10-year average; however, we remained 7.9 percent below the cooling degree days recorded during the same period in 2015. If you recall, the third quarter of 2015 was the second hottest quarter on record for our service territory in the last 20 years.

Turning to slide 12, now that the summer is over, we have narrowed our 2016 earnings guidance range to $2.25 to $2.40 per share from the previous guidance range of $2.20 to $2.50 per share. Guidance includes the impacts of rate relief granted in Texas and New Mexico and the middle portion of the range assumes normal weather. However, earnings for the remainder of 2016 will continue to be impacted by regulatory lag associated with Montana Units 3& 4, until new rates become effective in our next rate cases.

If you will now turn to slide 13, I will provide some detail regarding our five-year capital expenditure forecast.

We currently anticipate that our capital expenditures program will approach $1 billion through 2020. The current five-year estimate includes early construction costs for a 320 megawatt combined cycle generating plant to be completed in 2023. This differs from our previous construction program estimates, which included costs associated with two combined cycle generating plants that were to be completed in 2022 and 2024.

We anticipate issuing an all-source request for proposal for generation resources in the first half of 2017, which may alter our current generation addition and a capital construction plan.

On slide 14, we detail projected year-end rate base balances for 2016 and 2017 based on our current construction program. As you can see, rate base at the end of 2017 is projected to be approximately $2.2 billion. As we have previously indicated, we plan to file rate cases in both the Texas and New Mexico jurisdictions in the first half of 2017. However, if we are not able to recover an appropriate level of rate relief for the additions to rate base, we plan to file subsequent rate cases to seek the additional recovery.

At this time, I'd like to open the call up for questions.

Lauren Peterson: Thank you sir. If you would like to ask a question, please signal by pressing *1 on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again press *1 to ask a question. We will pause for just a moment to allow everyone an opportunity to signal for questions. Our first question comes from Joe Zhou with Avon Capital Advisors.

Andy Levi: Hi good morning, it's Andy Levy and Joe, how you doing?
Couple of questions, what was weather normalized retail electric sales for the quarter?

Nathan Hirschi: We don't provide the exact number about weather normalization, but for the quarter, we had a slightly above average quarter weather wise when you take in a very good July, and rather weak August and September. Therefore, it was about weather normal, but again, it was really tough comparative quarter on that sense from last year when we had an exceptional quarter that was the second hottest in the last 20 years. Therefore, it was a tough comparative quarter from that perspective, but it was about an average quarter for 2016.

Andy Levi: Well I'm just trying to figure out like if you know, it was apples to apples. So like you had normal weather in last year and this year, because you're showing down 1 percent residential sales and down C&I small at 0.4, but I'm just wondering if you, everything was kind of normalized. I assume that would be a positive number.

Nathan Hirschi: Oh yes, I think that's certainly true.

Andy Levi: Okay, and in line with what you were expecting for the year?

Nathan Hirschi: Yeah, that's right. I think that the customer count increased by 1.5 percent is very consistent with what we've seen in the past and that's kind of consistent with the general level that we anticipate. Of course, we had a big peak in the quarter; we had so much going on in the press release that we didn't mention everything. But we did have a peak this year that was 5.5 percent over last year's peak that occurred in the quarter, so yeah the trends continue. It's just that last year's 3rd quarter was such an anomaly from a weather statistic so it was a tough comparative.

Andy Levi: I understand. Okay and then just moving back to the dividends to your first slide or second slide. What board meeting will it be that the dividend gets addressed?

Mary Kipp: So it will be at our May board meeting and that is traditionally when our board looks at the dividend.

Andy Levi: Okay and that May board meeting typically we'll find out kind of right after the board meeting?

Mary Kipp: Almost contemporaneous.

Andy Levi: Okay and that'll be up and so that dividend gets paid when?

Nathan Hirschi: That's the end of June dividend.

Andy Levi: End of June. Okay and what was the thinking of not doing something out of sequence I guess?

Mary Kipp: We did a lot of analysis on the issue and we just decided that we would go ahead and do the increase at the time that we've typically done it. We talked about doing it out of sequence and given everything, we have going on, we decided just to leave it alone.

Andy Levi: Okay, I had to ask you that though.

Mary Kipp: Of course you did.

Andy Levi: Since we have discussed it in the past and then just as far as you’re obviously are going to try to trend the payout ratio and right now it's about 50 percent. You're gonna try to get it between 55-65 percent. Again, obviously the board is going to make these decisions, but in your thinking as CEO, are you going to look at what the 17 earnings power is, the 18? What 16 was? As far as determining the first jump in the dividend?

Mary Kipp: I think will be looking at all the factors that I talked about earlier on and will obviously see what our earnings are. See how our rate cases come out to over the longer term and all of these will go into the decision-making.

Nathan Hirschi: Clearly, we're not trying to get there in 2017, but the goal is to get there by 2020. So we have a three-year period of time, essentially to get there and so that will be the factors, how the earnings trend to 2020.

Andy Levi: I understand that, but your earnings are growing fairly rapidly over a multi-year period. So I guess again, if the board is going to make the decision, I'm not going to hold you to it because it's still several months off. Five months off, something like that, six months off. But, just in your kind of, a very high-level - as far as us trying to analyze what it may be. So we focus more on what the 17 earnings power is? What the 16 earnings power was? Or even maybe what the 18 earnings power is in our eyes?

Nathan Hirschi: Yes again, we'll have to look at it in context of the current environment there. But it will be again, above the $0.06 that we had been doing in recent years and the exact amount between there and this level we'll have to determine at the time.

Andy Levi: Okay, and then I think we also discussed in the past that the dividend, the yield is below 3 percent. Again, that's based on the current stock price. But how does that play kind of in your thinking as far as the yield relative to the average yield of the group and also, if I'm not mistaken, there may be investors who can’t invest in your stock unless the yield is above 3 percent. So can you maybe talk about that a little bit?

Nathan Hirschi: Really, what we tried to clarify here is that our target will be the targeted peer payout ratio and that's the matrices or the metrics that we're really looking at here. You know, of course dividend yield is a component of that but the primary way that we'll be looking at dividend going forward, is the peer average pay-out ratio.

Andy Levi: Okay, thank you very much.

Nathan Hirschi: Thanks Andy.

Lauren Peterson: Our next question comes from Anthony Crowdell with Jefferies.

Anthony Crowdell: Hey good morning, a couple of questions. To follow-up on Andy I guess, is the difference in the refined dividend policy that you now have a targeted 2020. Is that correct?

Nathan Hirschi: Yes, it's more specific. This is relatively consistent with what we've been saying for the last few years. We're just trying to be more specific here with telling you exactly what we think our peer payout is the 55-65 payout ratio. It's going to begin with the 2017 payout ratio and then our target is to get there in 2020.

Mary Kipp: Anthony, I would add that we realize that we're going to have to do greater than the $0.06 annual increase that we've been delivering. So we wanted to let you know that this is going to start happening in the May, June timeframe.

Anthony Crowdell: Okay, moving to my favorite state of New Mexico. I know you're really concerned about the NMPRC being overloaded, so you've delayed your case and I know that you guys had a great outcome last decision, why not go then for a future test year if you want to delay it even a quarter?

Mary Kipp: You know Anthony; we think that we in all likelihood have a better shot at getting a case done quickly and as painlessly as possible using a historic test year. Also because we'll be filing one in Texas, because Texas as you know doesn't have the possibility of using a future test year, it's a lot easier from a staffing perspective for us to use historic test years in both jurisdictions. I just wanted to clarify that while we are concerned about the staffing levels at the New Mexico Commission and we don't want to add to their burden. More importantly, we wanted to time the cases from our own staffing level so that we don't have a lot of RFI responses and things to do simultaneously. Obviously if you know Texas is the much bigger part our jurisdiction. So we thought let's go ahead and really get focused on Texas, get that thing filed and then turn to New Mexico.

Anthony Crowdell: Will you request Palo Verde in rates? And is it included in this slide on rate base?

Nathan Hirschi: We are still analyzing that issue on the Palo Verde units, popular question in New Mexico at the moment. So it is excluded from that slide, right Lisa.

Lisa Budtke: So on slide 14 Anthony, what we did to update this slide, is we added one additional year, 2017 and we took off 2015, but the biggest change we did is we re-class from the beginning rate base into the pro-forma number down at the bottom. You can see New Mexico power Palo Verde Unit 3 rate base of $27 and $28 million in 2016 and 2017 respectively. To get you a pro-forma rate base. That way it will allow you all to calculate normalized earnings on the year-end at 2017, or the beginning of 2018.

Anthony Crowdell: Okay, last two questions.

Lisa Budtke: The only reason we're putting it in there as a pro-forma adjustment, is so that you can get a clear picture of what normalized earnings would be.

Anthony Crowdell: Sure, when I go to slide 13, CAPEX has come down in every year but 17.

Nathan Hirschi: That's right. So it came down a total of about $76 million over what we put down in the 10-K early in the year and that primarily has to do with us pushing out that combined cycle from the first of the combined cycles, from 2022 to 2023 based on our current load forecast. So that it really is, a one-year slide in the CAPEX associated with that relatively large 320-megawatt combined cycle.

Anthony Crowdell: And just last question, I promise. You said you push it out based on your load forecast. We had seen New Mexico push out a peaker and downside the peaker. You guys are pushing it out and also downsizing it. I guess what is the difference in your load forecast from what was in a 10-K to now?

Nathan Hirschi: Well it really is a number of issues. Actually, with the really high peak we had this summer our peak is again 5.5 percent over last year's peak, so. Relatively substantive growth, it has to do with other things also, Anthony. It has to do with the size of that combined cycle. This is a bigger combined cycle than the first one we had coming in, then we also are extending the life of some of the gas units too that we're looking at. So it's not directly related to our load forecast, but it has to do with our load and resource estimations.

Anthony Crowdell: Great, thanks for taking my questions.

Nathan Hirschi: Thanks Anthony.

Lauren Peterson: Once again it is *1 to signal for questions please. Our next question comes from Brian Russo with Ladenburg Thalmann.

Brian Russo: Hi, good morning.

Nathan Hirschi: Hey Brian.

Brian Russo: Just back on the dividends, so at least $0.06 based off of the current dividend of $1.24. So the way to look at it is at least a 4.8 percent dividend increase at the very least next year?

Nathan Hirschi: That's right. I think the 4.8 would give you the six cents, right? Our goal, and we have to get to that payout ratio with our anticipated earnings growth, we'll have to be above that, yeah.

Brian Russo: Okay and if we just take the $1.24 on the mid-point of your updated guidance, you are at about 53 percent on a payout ratio. Can we assume that that payout ratio won't drift lower as we move into 17 and 18, as you look to ramp it up to 2020?

Nathan Hirschi: Well, the goal there is to achieve that by 2020. So that, really the goal is not to necessarily to have a specific guideline on a year-to-year basis, but to have a more normalized level of income, and to do that we will move up and hopefully our earnings will be growing over that same period of time. That really wasn't how we looked at it; to say that it could never go down, but again, that's our goal is to get to the 55 percent in 2020.

Mary Kipp: I think directionally that's the proper inference to make, Brian.

Lisa Budtke: The only other thing I'd like to add, Brian, this is Lisa, just that of course, our payout ratio is a little bit higher now because we have regulatory lag.

Brian Russo: Got it and then just why was the $21 million for the solar project not included in the rate base? I think I might have missed that earlier in the call.

Nathan Hirschi: Well, they're just allocated to specific customers, and so they're not in the general jurisdictional rate base.

Mary Kipp: This is something new that we're doing, Brian, is we're trying to help individual customers who may have renewable goals. So, in the case of Holloman Air Force Base, we have a contract with them for that power over the long term. The other one, which is Community Solar, it's a relatively small project, it's a pilot project. There are customers that we have who otherwise may want rooftop solar, for whatever reason, want a greater mix of solar generation than we currently have, even though, as you know, ours is very high. So we wanted to give them an opportunity to purchase more, and we're excited about that. If it goes well, we will look at doing one in New Mexico and I'm anticipating we will be fully subscribed relatively quickly. But, stay tuned.

Brian Russo: Okay, got it. So you are earning a return on that investment, it's just technically not in a rate base?

Nathan Hirschi: That's right.

Brian Russo: Okay and we should just assume a regulated utility type return?

Nathan Hirschi: That's fair to say.

Mary Kipp: Exactly.

Brian Russo: Then, the $0.13 effective tax rate negative driver year-over-year, was that contemplated in the existing guidance or is it captured in new rates?

Nathan Hirschi: Well, it is both captured in new rates and it was an existing guidance. If you remember, we went out early in the year and talk about this 36 percent effective tax rate that we've talked about for the last couple of quarters that we were going towards. And last year we had closer to a 30 percent effective tax rate, and that was partially mandated by the two recent rate orders in both Texas and New Mexico, plus kind of a shift in earnings in the bonus depreciation had us lose the manufacturing credit. It was caused by that, that change occurred at the end of last year. So, but it was always anticipated, we tried to clarify that in some of the previous calls.

Brian Russo: And this 36 percent a good run rate going forward?

Nathan Hirschi: Yes, closer to that, yes.

Brian Russo: Okay and then, with the revised NMPRC timeline, it's understandable why you would revise it to focus on Texas, I guess. Is the way we should look at next year from a quarter-to-quarter basis, it should look kind of similar to this year, in terms of lag in the first three quarters until you get a final order on the fourth quarter and then you can do the look-back? Is that a good way to look at it?

Mary Kipp: That's exactly right. One thing that I think we probably should add is, obviously, while we anticipate an order in the fourth quarter in Texas, there is always a chance that could slip to the first quarter. But, as it is, we're anticipating it at the first quarter of the 18, I'm sorry. But, as it is, we're anticipating it in the fourth quarter 17 and your analysis is right.

Brian Russo: Okay and should we assume that you are going to refrain from issuing 2017 guidance until you get more clarity, or a settlement, possibly; or a final order in Texas next year?

Nathan Hirschi: We will have to look at that when we get there and see how comfortable we are, although the size of the regulatory lag that we are talking about going forward will be less than what we had. What we saw this last round of rate cases.

Mary Kipp: The Texas case is obviously smaller than the last Texas case, we don't know the exact amount yet, so the lag will be smaller.

Brian Russo: Okay, got it, right. So, starting next year, even despite rate lag, it's less than this year so your earned returns will start trending higher?

Nathan Hirschi: Yes

Brian Russo: Okay, great. Thanks very much.

Nathan Hirschi: Thanks.

Operator: And once again, it is *1 to signal for a question. We have a follow-up question from Joe Zhou with the Avon Capital Advisors.

Andy Levi: Hey, it’s Andy Levi again, just back on my favorite subject, the dividend. So, just to understand, by 2020 we should be in the 55 to 65 percent range?

Mary Kipp: Yes.

Andy Levi: Right? Okay. And so, if I use kind of a mid-point, 60 percent, and I was kind of looking at your CAPEX and all of that. You would have, I would think, by 2020 at least $3.00 in earnings if not more. So if we took the $3.00 number at 60 percent, that's like $1.80? Again, I'm not asking you to give guidance or anything like that, but just for an analysis basis first, taking $3.00, $3.10 in earnings, $3.15 based on your forecast and reasonable outcomes in your rate cases. That would be the way to analyze and look at it? Whatever the number is, I mean, whether, it could be it could have $1.00 of earnings. But you understand what I'm saying.

Nathan Hirschi: Well, again, we're just trying to give directionally where we're going, trying to get more specifics. I think that's a little bit more specific than we're comfortable getting into at the moment. But again, that's what we hope to do with this refined dividend policy, was to provide some more specifics and to be able to answer some of those questions, although we can't really get into those kinds of projections. We've got a lot of work to do over the next few years.

Mary Kipp: Exactly what our payout ratio will be between the 55 and 65 percent in 2020 is obviously going to be dependent on our financial condition, the outcome of our future rate cases, and a lot of other factors. But we are committed to delivering a competitive return to our shareholders, and we'll continually assess our future dividend increases accordingly.

Andy Levi: Okay. Then, how are you guys thinking as far as consolidation in the industry and how that plays in for El Paso? Any thoughts on that? Are you comfortable going it alone, or are you too small a company in the longer term to go it alone?

Mary Kipp: So, obviously, we are aware of the consolidation that's happening in the industry and we keep an eye on it. We recognize the importance of delivering the best shareholder value we can, whatever that may be and we're continually looking at it.

Nathan Hirschi: But we do think our business plan, as it exists, is reasonable and fair and we think we can provide those returns as a standalone company and that's what we're working towards.

Andy Levi: Well, you have – I mean, things are starting to accelerate for you guys. Obviously, we're starting to see it in the earnings, which is nice. In the next couple of months, we'll start seeing it in the dividend and then the earnings, the dividend then the earnings, the dividend. So it should get into a nice cycle for the next couple of years.

Mary Kipp: That's our plan.

Andy Levi: So, thank you very much.

Nathan Hirschi: Thank you.

Andy Levi: That's my plan and that's my plan for you! Thank you.

Nathan Hirschi: Thanks, Andy.

Operator: Our next question comes from Peter Hark with Shelter Harbor Advisors. Peter, your line is open. Please check your mute button.

Peter Hark: Thank you. Nathan, I think you mentioned that your earned returns are still sub-standard. What are your earned returns on a trailing 12 in both jurisdictions, if you have that?

Nathan Hirschi: Well, I just think the GAAP earnings on the trailing 12 months is about an 8.6 percent. So there's a lot of little bits of changes that go down to the jurisdictional rate of return. But on a GAAP basis, we're in 8.6 percent, which is, of course, below our authorized returns in both Texas and New Mexico. So, that kind of shows that we have some room to work there.

Peter Hark: Okay, and then absent rate relief for 17 and excluding any look-back or relate-back provision, what will the ROEs do in 17? Can you give us some sense? They will be trending higher, but materially higher, or are they going to be capped below the 9 percent level for 17?

Nathan Hirschi: Well, I'm not sure exactly about the 9 percent level, but clearly the reason why we're following the rate cases is to get closer to our reasonable allowed rate of return, so that we need to file those rate cases and keep executing them effectively to get closer to the allowed rate. That's the driver for our next round of rate cases. The exact level that we will file next year is yet to be determined, and a lot of factors with weather and how these rate cases timing, are executed. But that's the goal in following these rate cases, to get closer to that allowed rate of return.

Peter Hark: Okay, then, maybe a couple of housekeeping items, I think for the Texas rate increase, you broke that out nicely for the third quarter, and then the $0.28 for the period of January 12 through June 30. Can you break that out between first and second quarter?

Nathan Hirschi: We haven't done that.

Lisa Budtke: Really, the way we broke it out, especially on the earnings release, Peter this is Lisa, is on page 17 of the earnings release is really we broke it out for the relate-back period, which, is basically January 12 through June 30, and then the three months ended September 30. When I say relate back period, you have to take into account that basically, our interim rates went into effect on April 1, but that's why we broke it out, so we didn't really truly break out the first and second quarters of 2016.

Peter Hark: Okay, but is there a volumetric relationship between what you would book between the quarters?

Nathan Hirschi: Yes there is.

Peter Hark: Okay, and so, is there a fourth-quarter impact? Clearly, you are giving guidance for the fourth quarter implicit in your revised guidance. So is there, included in that, a contribution in the fourth quarter?

Nathan Hirschi: Yeah, there certainly is. There certainly is, yes.

Peter Hark: You don't have it, though?

Nathan Hirschi: No, it's one of the components of the fourth quarter, yeah.

Peter Hark: Okay. Then, on slide 14, where you lay out rate base and CWIP. First on depreciation expense, the change from 16 to 17, could you break that out, if possible, between the decline under the depreciation case and the lowering of the returns on those assets? Forgive me for wording this improperly, but I was hoping you could break out the components and then, how much of the change will be impacted by Montana's 3 and 4?

Nathan Hirschi: Well, there will be some additional disclosure on the change in the rates on our 10-Q that we will file at the end of the week, so that's in there. Then, on Montana, we've said in the past that's about a 40-year asset for depreciation purposes. So, that probably is the best way to model that out.

Peter Hark: So, take that $143 million and spread it out over 40 years, and that will be the change related to 3 and 4?

Nathan Hirschi: Yes.

Peter Hark: The full-year impact in 17, and then there's a partial in 16?

Nathan Hirschi: Yes.

Peter Hark: Okay, and then, the AFUDC earnings, what's the expectation for 17? Will it be another stepdown because of where CWIP balances are going, or is there a right way to think about how that contribution will change in 17?

Nathan Hirschi: That's right. It will trend down because of the closings of Montana 3 and 4 and without a comparative CAPEX in other generation assets, so it should anticipate drift down.

Lisa Budtke: Peter, just so you know, this is Lisa, our AFUDC rates on our 10-K in 2015 was about 7.18 percent. But as Nathan said, that will drop down, also because we'll be borrowing more on our revolving credit facility.

Peter Hark: Oh, okay. Well, thanks for clarifying that, Lisa. Thanks. Then maybe, just lastly to wrap up on earnings guidance for 17. You provided it for 16, with some thoughts on the relate-back benefit. At what point would you do that for 17? Knowing, at what point would you feel comfortable coming out with some type of earnings guidance incorporating a look-back provision for 17?

Nathan Hirschi: Well, the ratemaking process is obviously quite volatile and so, we hesitated to provide those guidances this year until essentially we provided the first guidance at the end of the second quarter. So, that our August call is when we provided our first full-year guidance this year. I wouldn't anticipate that we'd be able to really forecast earlier than that next year and that's at the earliest, right? We will have to see how the rate cases go. But as we did this year, we were a little hesitant to get out ahead of the rate cases and estimate how they would be actually resolved.

Peter Hark: Okay. Well, thanks very much for your time. I appreciate it.

Lisa Budtke: Thank you, Peter.

Nathan Hirschi: Thanks.

Operator: It appears there are no further questions at this time. I would like to turn the conference back to Mary for any additional or closing remarks.

Mary Kipp: Thanks, I'd like to wrap up today's call by reiterating, it was a pivotal quarter for the Company. We completed our $1.4 billion construction program when Montana Unit 4 was placed into commercial operation. We recorded the revenues related to our Texas rate case and we became a coal free utility when we completed the sale of Four Corners. So, thanks for joining today's call and I look forward to meeting you at EEI next week. Have a great day and be safe.

Operator: This concludes today's conference. Thank you for your participation. You may now disconnect.