EL PASO ELECTRIC CO.

Moderator: Steven Busser
February 22, 2012
9:30 am CT

Operator: Good day and welcome to the El Paso Electric fourth quarter earnings conference call. Today's conference is being recorded.

At this time I'd like to turn the conference over to Mr. Steven Busser. Please go ahead, sir.

Steven Busser: Thank you, Anna. Good morning, everyone.

Thank you for joining the El Paso Electric Company's fourth quarter 2011 earnings conference call. Also on the call with me today I have our CEO, David Stevens, our Interim CEO, Tom Shockley and our CFO, David Carpenter.

Today we'll provide an update on our fourth quarter 2011 and year-to-date performance highlights and we will discuss our key earnings drivers. In addition, we'll discuss our 2012 earnings guidance and capital allocation strategy. Finally, we will provide an update on our recent Texas rate case filing.

Before we get started, I would like to cover some items that will be pertinent to our call. You should have a copy of our press release. If you do not, you can obtain one from our website at www.epelectric.com on the Investor Relations page.

We currently anticipate that our fourth quarter 2011 Form 10-K will be filed with the Securities and Exchange Commission on or before February 29, 2012.

Please call our Investor Relations department if you have any inquiries or require further information.

A replay of today's call will be made available shortly after our call ends and will run through March 7, 2012. The details as it relates to the replay are disclosed in our press release.

Let me cover the safe harbor provisions before I turn the call over to David Stevens.

On page two of our presentation you will see our safe harbor statement. In summary, our comments and answers to your questions may include forward-looking statements made pursuant to the safe harbor provisions 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 Act filings. Our 10-K and other SEC filings contain our forward-looking 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 exclusive and we do not undertake to update any forward-looking statement that we may make 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 risks and uncertainties that are difficult to predict.

Now I'd like to turn the call over to David Stevens.

David Stevens: Thank you, Steve. Good morning and thank you for joining our call. This is David Stevens, CEO of El Paso Electric.

Turing to slide 3, on January 30, 2012 I notified our Board of Directors of my intention to resign my position as the CEO of El Paso Electric effective March 2, 2012 in order to pursue another opportunity. After careful and thoughtful deliberation, I felt it was in mine and my family's best interest to move on. Three-plus years that I've spent at El Paso Electric have been extremely challenging, but yet rewarding. The dedication and tireless efforts of every single employee during my tenure helped us to overcome many hurdles and achieve an elevated level of success. Even though I'm stepping down, I'm comforted by the fact that I'm leaving behind a workforce that is extremely competent and dedicated to continuously improving the Company and the community that they serve while delivering superior value to the shareholders.

Fortunately, the Board was in a position where they were able to name Tom Shockley as the interim CEO. I have the utmost respect for Tom. Tom has been a valuable member of the Company's Board since May of 2010 and was formally the Vice Chairman and Chief Operating Officer of American Electric Power Company. He also served as President and Chief Operating Officer of Central and South West Corporation, which is now part of American Electric Power. He has held several executive and management positions in utility and energy industries. Tom will serve as interim CEO while the Board of Directors conducts its search for a permanent replacement.

Finally, I would once again like to thank each and every employee for giving me their very best each day and for all the kind words that I've received. It is truly been an honor and a blessing. In addition, I want to thank the shareholders and the analysts who have continuously followed us for these past three past years and I know you will continue to see good things from El Paso Electric. Thank you.

I'm now going to turn the call over to Tom and drop off the call.

Tom Shockley: Thank you David and good morning everyone. My name is Tom Shockley and as David mentioned, I will be serving as the interim CEO at El Paso Electric until our Board has identified a permanent successor. On behalf of the Board of Directors and all of the employees at El Paso Electric, we would like to thank David for his leadership these last three years and wish him the very best in all of his future endeavors.

I'm looking forward to working with the many talented employees of El Paso Electric in my role as interim CEO. To date, the Board has not set a timetable for the replacement to be named, but the Board has indicated that both internal and external candidates will be considered. I am confident that the board will make its decision only after a thorough and thoughtful process.

If you will now turn to slide 4, I would like to go over our fourth quarter 2011 highlights. I am pleased with the fourth quarter earnings of $0.14 per basic share and the year-to-date 2011 earnings of $2.49 per basic share. Year-to-date earnings represent a $0.41 per basic share increase over 2010 earnings results.

The fourth quarter earnings were primarily driven by increased kilowatt hour sales to our large commercial and industrial and public authority customers. The increased consumption by these customer classes helped increase total kilowatt hour sales in the fourth quarter by 2.5 percent over the same period in 2010. In addition, we continue to experience growth in our overall customer base. The average number of retail customers served grew by approximately 1.3 percent when compared to the same period in 2010.

In the fourth quarter, we continued our common stock repurchase program. Approximately $9.2 million was spent to repurchase just over 280,000 shares in the open market in the fourth quarter of 2011. Additionally, a $0.22 per share dividend or approximately $8.8 million in cash dividends was paid to shareholders in the fourth quarter of 2011 which exemplifies our commitment to enhancing shareholder value.

Our 2011 financial, regulatory and operational accomplishments are on slide 5. 2011 was an extraordinary year on the financial and regulatory front. Our accomplishments illustrate our continued commitment to our customers and shareholders alike. In 2011, earnings per basic share increased by approximately 20 percent from earnings before extraordinary item of $2.08 per basic share in 2010 to $2.49 per basic share in 2011. Another major financial accomplishment that was achieved in 2011 was that El Paso Electric paid its first common stock dividend since 1989. The new dividend policy demonstrates our commitment to returning value to shareholders on a consistent basis and it provides us with another option to balance our capital structure. The company also repurchased approximately 2.8 million shares of common stock at a cost of $86.5 million which enhanced shareholder value and also helped to balance our capital structure. We also extended the term and lowered the borrowing costs of our revolving credit facility during 2011. This lowered our debt cost service and ultimately benefits our customers.

In 2011, we also completed several regulatory proceedings. Notably, we were able to settle a long-standing dispute with Tucson Electric Power over transmission rights on our transmission system. This settlement agreement resulted in a one-time income of $3.9 million pre-tax and additional annual revenue of $1.1 million per year. Another major regulatory accomplishment of 2011 was the successful obtainment of all the necessary regulatory approvals to construct Rio Grande Unit 9. The next phase of generation expansion allows us to continue our commitment to meeting the energy demands of our growing service territory.

We completed the construction and the commencement of commercial operation of the steam turbine completing the combined cycle Newman Power Plant Unit 5 in April of 2011.

Now, let me turn the call over to David Carpenter.

David Carpenter: Thank you, Tom.

Now, turning to slide 6 of our presentation, we reported net income of $5.5 million or $0.14 per basic share for the fourth quarter of 2011, compared to our fourth quarter 2010 net income of 7.5 million or $0.18 per basic share. For the twelve months ended December 31, 2011, we posted net income of $103.5 million or $2.49 per basic share, compared to net income of $90.3 million or $2.08 per basic share before an extraordinary item for the twelve months ended December 31, 2010.

Now, if you turn to slide 7, I would like to discuss the main earnings drivers for the fourth quarter of 2011 compared to the fourth quarter of 2010. Both the positive and negative earnings drivers are listed here and detailed in our earnings release.

Similar to 2010, retail revenue growth continued to be the primary earnings driver in the fourth quarter of 2011. Fourth quarter 2011 retail non-fuel base revenues were approximately $2.1 million pre-tax higher than the fourth quarter of 2010 which positively affected earnings by approximately $0.03 per share. This increase in retail non-fuel base revenues was due to a 2.5 percent increase in kilowatt hour sales primarily to large commercial and industrial customers. Another contributing factor is the 1.3 percent growth in average number of retail customers served that we experienced in the fourth quarter of 2011 versus the same period in 2010. Various items negatively impacted earnings in the fourth quarter of 2011 compared to the fourth quarter of 2010, which resulted in a slight decline in earnings for the quarter.

The primary negative earnings drivers were increased planned maintenance outages and freeze protection upgrades at our local generating plants; decreased allowance for funds used during construction due to lower balances of construction work in progress, subject to allowance for funds used during construction; and increased customer case expenses due to an increase in uncollectable accounts expense and increased costs for other customer-related activities including uncollectible accounts expense.

On slide 8 of the presentation, we list the key positive earnings drivers for the twelve months ended December 31, 2011 compared to the twelve months ended December 2010. The primary driver behind the increase in earnings in 2011 was the increase in retail non-fuel base revenues, which increased by almost $34 million pre-tax and contributed $0.51 per share of earnings for the year.

Retail non-fuel base revenues increased primarily due to a 3.1 percent increase in kilowatt hour sales reflecting 1.4 percent growth in average number of retail customers served. Kilowatt hour sales increased due to hot summer weather improving local economic conditions and the continued expansion activity at Fort Bliss.

Cooling degree days were approximately 14 percent higher for the twelve months ended December 31, 2011 compared to the same period in 2010 and 30 percent higher than the 30-year average. Revenues were also positively affected by the implantation of higher non-fuel base summer rates for Texas customers in July of 2010.

Several other earnings drivers that positively impacted net income for the twelve months ended December 31, 2010 compared to the same period in 2010 included lower income taxes due to the one-time charge to income tax expense in 2010 recognizing the elimination of tax benefits related to Medicare Part D subsidies with no comparable activity in 2011; the decrease in the weighted average number of shares outstanding as a result of common stock repurchases; and increased transmission revenues due primarily to a settlement agreement that was reached with Tucson Electric Power which resulted in one-time income of $3.9 million pre-tax.

Now turning to slide 9 of the presentation we will discuss the negative drivers that offset our year-to-date 2011 earnings. A significant negative earnings driver for the twelve months ended December 31, 2011 when compared to the same period in 2010 was decreased off -system sales margins. Off-systems sales margins declined due to lower average market prices for power and increased margin sharing with customers resulting in a $0.10 decline in earnings per share.

Other negative earnings drivers included decreased allowance for funds used during construction due to lower balances of construction work in progress subject to allowance for funds used during construction; increased maintenance expense at our local generating plants for freeze related damage and freeze protection upgrades; increased customer care expenses due to increases in uncollectible customer accounts and higher payroll costs for customer-related activities; and increased transmission and distribution expenses for wheeling, a reliability study for the North American Electric Reliability Corporation and payroll cost.

On slide 10, you will see a comparison by customer class of our revenues and megawatt hour sales for both the fourth quarter and for the year-to-date period. As can be seen on this slide, the fourth quarter 2011 non-fuel base revenue increase was driven primarily by increased megawatt sales to our large commercial and industrial customers as compared to the same period in 2010. During this period, megawatt hour sales to our large commercial and industrial customers increased 6.8 percent which led to an increase in non-fuel base revenues of just under $1 million or 8.2 percent.

As previously stated, our year-to-date 2011 non-fuel base revenues increased approximately $34 million or 6.3 percent as compared to the same period in 2010. The growth in revenues is primarily attributable to the 5 percent increase in megawatt hour sales to residential customers.

As a result, residential non-fuel base revenues increased 7.6 percent or $16.5 million in 2011. In addition, revenues for the other public authorities customer class increased approximately 9.1 percent or $8 million over the same period in 2010 primarily due to Fort Bliss.

We also saw increased megawatt hour sales to both our small and large commercial and industrial customers of 2.5 and 0.8 percent, respectively. The continued growth of our customer base throughout our service territory, hotter summer weather, and the expansion at Fort Bliss were significant factors driving these megawatt hour sales and revenue increases.

Now turning to slide 11, I would now like to provide a brief summary of the Texas Rate Case that was filed on February 1, 2012. On October 4, 2011 the El Paso City Council adopted a resolution requiring El Paso Electric to show cause why base rates for customers in El Paso should not be reduced. El Paso Electric filed a rate case with the City of El Paso, the Public Utility Commission of Texas and other incorporated cities within its Texas service territory in response to this resolution and to maintain system-wide rates. The rate case was based upon a historical test year ended September 30, 2011 adjusted for known and measurable items. As part of the filing, El Paso Electric is requesting a return on equity of 10.6 percent. The test year-end capital structure was comprised of 53.4 percent common stock equity. In total, the Company is requesting a non-fuel base rate increase of $26.3 million including a $17.6 million increase in base rates and other electric revenues and $8.7 of rate case expenses to be surcharged over twelve months.

Now turning to slide 12 of the presentation. On November 15, 2011, the El Paso City Council adopted a resolution which established El Paso Electric's current rates as temporary for customer residing within the El Paso city limits. The temporary rates will remain as such until a final determination in the rate case is rendered by the Public Utility Commission of Texas (PUCT). If the PUCT approves an increase in base rates, then the PUCT shall authorize the Company to surcharge bills for the amount under collected. However, should the PUCT approve a rate decrease, then they may order a refund to customers for the amounts over collected. Since our proposed rates include increases for some customer classes and decreases for other customer classes, it is likely that all rates will be trued-up retroactive to November 15, 2011.

Now turning to slide 13, we are initiating 2012 earnings guidance of $2.15 to $2.55 per share, which does not include any impact for the 2012 Texas Rate Case.

The first key variable that will drive earnings guidance for 2012 will be revenues. Revenues for earnings guidance reflect normal weather conditions. Since 2011 included one of the hottest summers on record, we expect lower sales growth under normal weather conditions. We are expecting a range of revenues for 2012 that would be slightly lower than 2011 on the low end of guidance to 1.5 percent higher than 2011 on the high end of guidance.

In terms of operation and maintenance, we expect that total operation and maintenance will increase by between 1 and 2 percent in 2012 over 2011 amounts. In addition, depreciation expense and property taxes are also expected to increase in 2012 due to increases in plant in service.

Finally, we expect capital expenditures for 2012 to be approximately $242 million which includes the majority of expenditures for Rio Grande Unit 9 for which construction started in January of this year. As a result, the amount of allowance for funds used during construction will vary with the actual construction expenditures. Overall, allowance for funds used during construction should decline due to a lower balance of construction work in progress since the completion of Newman 5 in April 2011.

Turning to slide 14, I will provide more detail as to our cash capital expenditures for the next five years which were also included as part of our Texas rate case filing. During 2011, we spent $178 million on construction expenditures and we anticipate that number to grow sizably to approximately $242 million in 2012. We anticipate that we will expend an average of $278 million annually through 2016 to meet the growing needs of our service territory and provide safe and reliable service.

The majority of these expenditures will be utilized for the completion of Rio Grande Unit 9 and LMS 100 aero derivative gas turbine peaking unit. Four additional LMS 100 peaking units are projected to be constructed and placed in commercial operation before the end of 2016. In addition, we will incur capital expenditures for the initial phases of construction for two combined cycle combustion turbine generating units that are currently scheduled to come online in 2018 and 2019. These generating units are not only being built to meet increased load growth, but also to replace 225 megawatts of older fossil fueled generation that is expected to be retired by the end of 2016. We will also spend approximately $400 million on transmission and distribution plant to meet customer growth during the 2012 to 2016 period.

Turing to slide 15, I will briefly cover our capital requirements and liquidity position. In 2011, in addition to the $178 million that was spent for additions to plant, El Paso Electric paid approximately $27.2 million to shareholders in the form of cash dividend payments and repurchased $86.5 million of common stock. We remain focused on enhancing long-term shareholder value while managing our capital structure through a combination of cash dividends and share repurchases.

We declared a cash dividend of $0.22 per share in the first quarter of 2012 payable on March 30, 2012. While the Board of Directors reviews the payment of a dividend quarterly, the Board of Directors plans to review the Company's dividend policy annually, in conjunction with the annual shareholders meeting held in the second quarter of each year. Our current expectation is that our payout ratio will trend upward from its current level with a payout ratio of approximately 45 percent being the anticipated target for 2012.

Our cash dividends and share repurchases are both beneficial to our customers and investors, with share repurchases reducing the Company’s overall cost of capital. This, in turn, translates into lower costs for the Company and lower costs for customers. The dividend and share repurchase programs also ensure that we have a properly balanced capital structure. We anticipate that we can achieve our target capitalization ratios in 2012 primarily through dividend payments and the issuance of some long-term debt.

At December 31, 2011, the company had liquidity of $174.4 million including cash of $8.2 million. While we believe that the available liquidity we have, along with the cash from operations will be sufficient to finance our capital requirement for the majority of 2012, we may seek to issue long-term debt in the form of a fixed rate debt issuance later in 2012. The timing and extent of such debt issuance is not known at this time.

This now concludes our fourth quarter 2011 earnings presentation and I will now hand the call back over to Steve to open up the call for questions.

Steve Busser: Anna, at this point we normally take questions and answers.

Operator: Okay. Thank you, sir. If you would like to ask a question please signal by pressing the star key followed by the digit one 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. Once again that is star one if you would like to ask a question.

And our first question will come from Anthony Crowdell with Jefferies.

Anthony Crowdell: Good morning. I have a question regarding the Texas Rate Case. It looks like historically you guys have settled with the City Council or any cases other than El Paso that make it to the PUCT. Most of them end in settlements. Do you think the PUCT would approve a settlement without the City Council signed on to it?

David Carpenter: Well, there have been cases, where the Commission has approved non-unanimous settlements. And when they've addressed what we call non-unanimous settlements, the party that does not agree to the settlement has an opportunity to have a hearing on the settlement and to present their evidence.

And so if there was a settlement that they did not include the City of El Paso, that would be the process that the PUCT would go with to determine whether the settlement was reasonable or not.

Of course our goal would be that if we reach a settlement it would be with all parties, including the City of El Paso. And so I think you would have to determine that it's impossible to reach a settlement without the City before you would want to move forward with any kind of non-unanimous settlement.

Anthony Crowdell: Okay. Next question is it seems in just some of the language that had to come out I guess with Dave Stevens stepping down, I don't know if it's the right word to use, but to be more proactive in maybe reaching a settlement with the City Council, than some of the statements you guys made previous as the show-cause issue was going on. Is that a fair assessment of what's occurred?

David Carpenter: You know, I don't know that I would completely say that's a fair assessment. I think even before David left I think there was probably more of an emphasis to try to find a solution.

But I think that what you also have to understand is that this is a process and part of the process is going forward and putting out your best case and putting out the facts and once you had an opportunity to do that, and the parties have had an opportunity to review it, then it always becomes more opportunistic at that point in time to pursue settlement negotiation. I think that's a lot of what we're seeing at this point in time.

Anthony Crowdell: Great. Thank you for your time, guys.

Operator: And now our next question comes from Brian Russo with Ladenburg Thalmann.

Brian Russo: Hi, good morning.

Tom Shockley: Good morning, Brian.

Brian Russo: Would you guys be willing to share with us what the mid-point of your guidance implies in terms of earned ROE?

David Carpenter: Yes. The mid-point of guidance for earned ROE is going to be approximately 11percent.

Brian Russo: Some of the other assumptions, just to clarify, the 1 to 2 percent O&M expense growth that's off the actual reported O&M because it looks like you've got some one-time storm-related expenses that would be non-recurring in 2012. Just want to know if that should be backed out or if we should just grow O&M off the actual?

David Carpenter: No. Brian, the mid-point of the O&M of 1 to 2 percent is off of the 2011 actual O&M expenses. One of the factors I didn't mention in the presentation, but one of the factors that we're dealing with is because interest rates have gone down so low, we have a very significant increase in the pensions and other post-employment benefits expenses which is really driving our O&M to increase in 2012.

Probably if it wasn't for those increases in pensions and benefits expenses, we would probably be seeing a decrease compared to 2011 actual. But you have some expenses go away and you have some that increase. That's what we're seeing.

Brian Russo: So does that lead to kind of a higher base O&M? Or is it unrecoverable in this rate case, you know, you'll have to wait till the next rate case? Or, how should we view the kind of the ongoing pension expense?

David Carpenter: We reflect it as a pro forma adjustment in the rate case, the increase in pensions and benefits expense. So I think that the O&M expense level that's requested in the rate case is fairly representative of the budgeted expenses or the projected expenses for 2012.

Brian Russo: So the drag in pension expense in 2012 could be recovered when new rates go into effect?

David Carpenter: That's correct.

Brian Russo: Great. And just when is there a proposed procedural schedule out for the Texas rate case and I'm just wondering, excluding the possibility of any sort of settlement, when are interveners including the City expected to file testimony?

David Carpenter: Yes, Brian, the procedural schedule has not been officially adopted yet but I can tell you what the kind of the preliminary schedule is. And that would include having interveners file their testimony in May, the company file rebuttal in early June and then probably have a hearing in mid-June.

Brian Russo: Mid-June hearing, okay. And I know your guidance excludes any impact from the rate case. I guess it's kind of tricky because if you get a rate increase that's going to positively impact 2012 through the retroactive rates. Is that correct?

David Carpenter: Right.

Brian Russo: But also if new rates go into effect in late 2012 I guess, the seasonal low winter rates makes kind of that impact, you know, much more muted.

David Carpenter: Well now remember the rates. I thought you said the rates are retroactive to 2011 and so if you got an increase, the increase would be in effect for the whole year of 2012. Likewise if you received a decrease, it's likely to be in effect for the whole year of 2012.

Brian Russo: Then lastly, do you have a year-end fully diluted share count? What's the average share count you're using in 2012?

Steve Busser: Yes. I think the share repurchase activity that we're expecting for 2012, the capital structure is mainly going to be balanced through dividends as we've said in the past. And so I don't think we're anticipating a real material change in the outstanding share counter in 2011.

David Carpenter: Yes and so basically, Brian, it's about 40 million shares, maybe slightly over for - would be a fully diluted share count.

Brian Russo: Okay, great. Thank you very much.

David Carpenter: Thanks.

Operator: And once again that is star one if you would like to ask a question. And we'll now move on to our next caller which is Maury May with Power Insight.

Maury May: Yes, good morning, folks.

David Carpenter: Good morning.

Tom Shockley: Good morning, Maury.

Maury May: Just a couple of questions here. Your all systems sales margin in 2011, you gave us the difference between 2011 over 2010, but what was the margin in 2011?

David Carpenter: The retaining margin, Maury?

Maury May: Yes, retaining margin. The 10 percent.

David Carpenter: Yes, for 2011 the retaining margin was really a negative $560,000 because we had some losses earlier in the year when we had to buy some power for reliability purposes and then matched it up with all systems sales. So we really had no margin in 2011.

Maury May: Do you have any idea will it be negative again in 2012? Do you think?

David Carpenter: Well no, I don't think so. I think we would expect some positive margin. But going forward, because we only retained 10 percent of the margins, the top end you're probably talking $1 to $2 million of margin that contributed to income going forward.

Maury May: And then on the unregulated earnings from proxy sales from Palo Verde 3, what were those earnings in 2011?

Steve Busser: Pre-tax after considering the cost, Maury, I'll just confirm its 14.8 million.

David Carpenter: Fourteen point eight million dollars.

Maury May: Fourteen point eight million. And, you know, going into 2012 do you think it'll be, flat?

David Carpenter: I think it will be flat. Actually I think will decline slightly in 2012 because gas prices are so low. In 2011 we did not have a refueling outage for Palo Verde 3. We will have a refueling outage in 2012, so the output will be lower in 2012 than 2011 also.

Maury May: Okay, good. Then on another matter, on your pension plan, what is the discount rate you're using for the pension plan in 2012?

David Carpenter: 4.3 percent, I believe.

Maury May: 4.3 percent, okay. And then the last question, it's kind of a nit picking question, the 6 cents of other in fourth quarter earnings, what was that positive 6 cents?

David Carpenter: It's a whole group of things, Maury, just from lower expenses to in some cases some slightly higher miscellaneous revenue that you've collected. I don't think there's any one item that's significant, it's why it's all grouped together.

Maury May: Okay. That's it. I just wanted to say, to the departing, David, I wish you well.

David Stevens: Thanks.

Operator: We'll now move on to our next question from Neil Mehta with Goldman Sachs.

Neil Mehta: How it's going, guys?

Tom Shockley: Morning, Neil.

David Carpenter: Good, thank you.

Neil Mehta: So at the end of 2011, where were you in terms of your regulated equity to capital percentage?

David Carpenter: At the end of 2011?

Neil Mehta: Yes.

David Carpenter: I believe it was approximately 50.7 percent. That may be off a little bit. I think that's approximately where it is. Part of the reason why it decreased pretty materially between September and December, is that because of the lower discount rate that was used for pension and other post-employment benefits, we had a pretty big hit to other comprehensive income in December but I believe it is 50.7 percent.

Neil Mehta: But off that 50.7 base you still think you have the flexibility, both in terms of raising the dividend and also issuing incremental debt in 2012 and still keep your equity to cash around the targeted range of 50-50, at least what was authorized?

David Carpenter: Yes, we do.

Neil Mehta: And in the rate case you filed for a 53 percent equity layer, but the capital structure doesn't necessarily justify it based on year-end 2011 levels?

Steve Busser: Yes, the test year was September 2011. Zero.

Neil Mehta: Okay and then on the dividend, guys, when do you think you can get to the 45 percent payout level?

David Carpenter: Well I think what we said is that we would expect the Board to address it at our annual meeting or in the second quarter and we would be targeting that 45 percent really going forward from there.

Neil Mehta: Okay. So if our math is right, 235 mid-point, kind of a 45 percent payout that implies something like a 20 percent plus dividend rate in the second quarter. Is there anything funky with our math?

David Carpenter: No, sir.

Neil Mehta: All right. Tom, question for you. Can you talk about what you're thinking about and the Board is thinking about in the new CEO selection process? What are you looking for and what do you value?

Tom Shockley: David Stevens put in place some really good changes here at El Paso Electric and I think that we're certainly in the process of making sure we hold onto those are we go forward.

We'd be looking for someone that has got experience and brings to the job a good understanding of the issues that we've got, the regulated process, the - and the one area that I think we feel like it's going to be extremely important, is we need to reach out to the El Paso community and start working very closely with them moving forward.

As we help El Paso grow, everyone benefits, including El Paso Electric. So we're hopeful to be able to identify somebody that can walk on water, I guess.

Neil Mehta: And then finally, what's your future rate case schedule? CAPEX obviously got bumped up at the Analyst's Day here, so how do you think about the next rate case after this one and then potentially the one after that as well?

David Carpenter: I think what we've always said is that we expected to have a rate case after the completion of Rio 9 in 2013. You know, obviously whatever happens in this rate could impact that.

I think going forward from there with the capital expenditures that we see, I think our expectation is that we would probably be looking at rate cases every other year, probably best case would be every third year.

And certainly kind of the worst cases, if you didn't have the growth that you were expected, you possibly could have to accelerate the schedule a little bit. But I think, realistically, I think our goal is to not be in more often than every other year.

Neil Mehta: All right, thank you Tom. Thank you, Dave.

Operator: And we'll now move on to our next question from Michael Klein with Sidoti & Company.

Michael Klein: Hi, guys.

Tom Shockley: Good morning.

David Carpenter: Hi, Michael.

Michael Klein: When we met at the beginning of the month you said there was a small amount maybe 2 to 3 million in expenses that had been incurred for the rate case expense.

Has that changed materially? And I guess is there a time period when those costs might materially pick up closer to, the 8.7 million that you're estimating?

David Carpenter: Yes, Michael, maybe give you a little bit of an update there. We probably right now have about $1.5 to $2 million of expenses that doesn't reflect the expenses that we would have to pay for the City of El Paso.

I think what you really see is that we're entering a period of discovery where parties can ask questions of each other, primarily to us, and that's where you incur a lot of expenses in responding to questions.

And the other part of the case that you incur a lot of expenses is when you go to hearings because then you have all your attorneys and consultants engaged for a couple-of-week period.

And really a couple of weeks before that putting together the rebuttal testimony. That's probably the most expensive phase of the case. And probably by the time you finished hearings, you've incurred probably 80 percent of your estimated expenses.

Steve Busser: The other thing to think about from a rate-case-expense perspective, Michael, is that we're currently deferring those items. So those items aren't going to hit or they're not going to affect current year earnings until we get to some type of resolution on how those costs that will be collected.

Michael Klein: Understood. Okay. Away from the rate case now, are you still seeing growth driven by Fort Bliss or has that sort of leveled off? And now growth is coming just kind of from the region, not necessarily attributable to the army base? I guess where's the growth coming from?

David Carpenter: You're still seeing growth from Fort Bliss. There's a lot of peripheral activities there. They literally just broke ground last fall on a $1 billion hospital complex.

As you've had troops deployed and as those troops come back to Fort Bliss, then you'll see a pickup there. I think there's still a couple of thousand troops that are still to be deployed to Fort Bliss.

And so as you have all the troops get into Fort Bliss and they get into their full training mode and stuff, going forward you'll see development related to Fort Bliss from contractors moving in.

And because Fort Bliss will be a testing center for advanced weapons systems, that's why I said its safe going forward. And so you'll see a lot of contractor activity related to the base. So we think that there's still several more years of activity related the base that will impact our growth.

Michael Klein: With the O&M guidance, just with the expected increase in pension funding, I guess does that imply a drop-off somewhere.

You know, is that necessarily related to - or what can we expect in terms of the related O&M? Should we expect that to drop off at a quicker pace than it did this year, year-over-year?

David Carpenter: No, I don't think so. I think you're going to see we hope a continuing decline in costs for Fort Bliss but it's not going to be at any significant level. And I would think that kind of the level that you've seen for the last couple of years will also be kind of a consistent level that you'll see this year in kind of reduction in expenses.

Michael Klein: Okay. Thanks a lot.

Operator: And we'll now move on to Uthman Arogundade with Catapult Capital Management.

Uthman Arogundade: Hi, I just want to piggyback off of Brian's question. I think you guys said at the midpoint of your guidance it implies an 11 percent ROE. Is that right?

David Carpenter: Approximately, yes.

Uthman Arogundade: Got it. And how does that reconcile with I guess your allowed ROE?

David Carpenter: How does it compare to our allowed ROE?

Uthman Arogundade: Yes.

David Carpenter: We don't have a stipulated ROE that we've had resulting from a previous rate case.

Uthman Arogundade: Got it. Great. That was it. Thank you.

David Carpenter: Thank you.

Operator: And once again that is star one if you would like to ask a question. And our next question will come from Tim Winter with Gabelli & Company.

Tim Winter: Good morning, guys. Congrats on a good year. And I too want to wish David the best in his future endeavors.

David Stevens: Thank you.

Tim Winter: I had a question do you have weather normalized earned ROE by the two jurisdictions for 2011?

David Carpenter: No, we don't have that number.

Tim Winter: Can you talk a little bit about where the New Mexico jurisdiction is relative to its allowed ROE and sort of what the rate case strategy is for that jurisdiction?

David Carpenter: Well right now we are looking at New Mexico. See just like Texas, we don't see any need to file a rate case in New Mexico. And New Mexico has a little bit different rate structure than Texas in that you've added a lot or you are adding a lot of solar that is recovered through fuel charges in New Mexico.

And so we'll have to take a look at New Mexico after we've added the solar investments and see whether the timing of the next rate case should be, whether you go ahead and file a case in 2013 or whether you could delay a case for New Mexico to kind of the next generation plant addition.

Tim Winter: David, is it of your opinion that you could file for a forward look in test year in New Mexico?

David Carpenter: Yes, you could.

Tim Winter: Okay. Have they got the rule-making set for that yet or are you still working on that?

David Carpenter: They have started a rule-making for that and it would be my expectation is that they would have that completed before we would ever file. But I think we would always have to analyze it and determine whether we think a forward test year is in our best interest or whether a historical test year works just as well for us because you can, in New Mexico, you can go out and reach out five months after the end of your test year and bring in new plant.

And oftentimes that's just as effective a way to bring plant into rates as using the forward test year.

Tim Winter: Okay, thank you.

David Carpenter: You're welcome.

Operator: And our next question will come from Chris Shelton with Millennium Partners.

Chris Shelton: Hey, guys, good morning.

David Carpenter: Hey, Chris, good morning.

Chris Shelton: Good morning. Just had a quick follow-up question or two. I guess I wanted to clarify on the payout ratio of 45 percent is that the ratio the Board is approximate is targeting for 2012 or is that sort of a long term - or maybe not long term but next few year payout ratio while you're building out the Rio plants and whatnot?

David Carpenter: I believe we're targeting that ratio for 2012. As, you know, recognizing that we're going to adjust it in the second quarter.

Chris Shelton: And so for your targeting kind of 45 percent for the second quarter increase, but then was that sort of the target going forward as well or is there a different ratio that you guys are headed towards, I guess?

David Carpenter: I think the way to characterize it would be that's our target for right now and that that's the anticipated target for 2012. And I think what the Board's saying is that they'll address that on an annual basis kind of in conjunction with the annual meeting.

But for right now it's safe to assume that's our target going forward until it's addressed again.

Chris Shelton: Okay. Thanks for that clarification. And then I guess at that level do you, given the kind of sizeable CAPEX you guys have coming up, does that kind of allow you to balance the capital structure paying out 45 percent equity ratio going forward?

Or, you know, is there also room to buy back some shares this year as well as increase the dividend; can you just kind of update the thoughts on that balance I guess?

David Carpenter: Yes. Going forward as you have already identified, with the construction expenditures that we'll be spending, we'll have a requirement to issue debt. And really it will always depend on kind of what actual earnings are, but with the 45 percent payout with anticipated debt issuances, we think that will pretty much allow us to keep our capital structure in line with our target equity ratios subject to change in the future.

But right now that does look like a pretty good ratio to balance our capital structure.

Chris Shelton: Got it. And I know you have kind of another 300,000 left from the authorization which is generally a time when the Board sort of discusses maybe refreshing that, that authorization. Is that potential for discussion at this meeting as well, I guess, or?

David Carpenter: I think going forward certainly it will be something that will be discussed, going forward we expect to primarily balance our capital structure with dividend payments. And so I don't think we'll see the kind of repurchases that we've seen in the past.

And it may be that the amount of shares that remain authorized are sufficient to cover us for a period of time here. And I don't know. I can't give you a prediction of when we might authorize any additional shares.

Chris Shelton: Understood. Okay. And then just finally real quick, I guess first of all, best of luck to David, been great working with him. But I was curious if there was some sort of an estimate for the conclusion of a new CEO search.

Or if you just wait to find someone who meets all your criteria and until then you're management is well-suited to get us through the case and things.

Tom Shockley: Well this is Tom and the Board certainly will start the process and be putting in place what it will be doing in regards to identifying candidates to be evaluated. And they'll be moving hard with that pretty quickly. We don't have any date at this point when we think that will have been completed, but it's something that the process will begin.

Chris Shelton: Great. Well thanks a lot and that's all for now.

David Carpenter: Thank you.

Tom Shockley: Thanks, Chris.

Operator: A final reminder that is star one if you would like to ask a question. And our next question comes from Ashar Khan with Visium Asset Management.

Ashar Khan: Hi. Good morning. I was just going to slide 13 which gives the 2012 earnings guidance. I guess the delta between the bottom and the top is about 40 cents.

And I was just trying to get a better sense. You said base revenue growth could be like negative to the positive. And if I take that 2 percent from the base revenue number that you provided in 2011 that comes out to 18 cents.

And then if I do the 1 percent increase in O&M from the combined O&M with Palo Verde included, that's about 4 cents. So that gives me like a 22 cents variance. Can I ask you where the remaining 18 cents comes in?

David Carpenter: I think that's a pretty straight-forward, Ashar, that's a very good question because it is a fairly wide range. But the primary factor that you're leaving out there is the range of revenue growth that we're expecting. There's about a 2 percent range between the low and the high cases there and...

Ashar Khan: That I equate to being 18 cents, the way I do my math.

David Carpenter: Right. And I think that's a good number. The other drivers there are going to be your Palo Verde 3 numbers depending on how much the unit runs. We have an assumed level of outages at the low end and the high end which represents about five additional weeks of outages between those two.

And so the range of potential outcomes is about $8 or $9 million as well. So there's a fairly wide range in the Palo Verde 3 numbers that are driving that range as well. And that's just a bit over 20 to 23 cents on a pre-tax basis.

Ashar Khan: The Palo Verde stuff?

David Carpenter: Yes, the Palo Verde 3 sales. So those are the two primary drivers, the O&M expenses and other items that are combined, are going to make up the difference.

Ashar Khan: Can you tell us when the Palo Verde outages are exactly?

David Carpenter: There will be a spring outage that starts in March of this year.

Steve Busser: Late March.

David Carpenter: Late March and is expected to be approximately 30 days.

Ashar Khan: Approximately 30 days, okay. So then this impact will show up in the second quarter than, usually in terms of rate.

David Carpenter: Yes, that is correct, Ashar.

Ashar Khan: Okay. Thank you so much.

Tom Shockley: You're welcome.

David Carpenter: Thank you.

Operator: Gentlemen, it appears there are no further questions.

Steve Busser: Thank you, everyone, for joining the call today. We hope to be speaking to you soon. Have a great day.

Operator: And that does conclude today's conference. We thank you for your participation.

END