EL PASO ELECTRIC CO
Moderator: Lisa Budtke
May 3, 2017

Operator: Good day and welcome to the El Paso Electric Company's First Quarter 2017 Earnings call. Today's conference is being recorded. At this time, I would like to turn the call over to Lisa Budtke. Please go ahead.

Lisa Budtke: Thank you, Shayla. Good morning everyone. Thank you for joining the El Paso Electric Company's First Quarter 2017 Earnings Conference call. My name is Lisa Budtke, and I'm the Director of Treasury Services and Investor Relations. On the call today are CEO, Mary Kipp and CFO, Nathan Hirschi, and other members of Senior Management team.

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 first quarter 2017 Form 10-Q will be filed with the Securities and Exchange Commission (SEC) on or before Friday, May 5, 2017.

We would also like to inform you that we will be attending the Citi Global Energy and Utilities Conference in Boston on May 10th and 11th, the UBS West Coast Mini-Conference in Los Angeles and San Francisco on May 31st and June 1st, and the Jefferies Utility Summit in Boston on June 15th. 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 May 17, 2017. The details as they relate to the replay are disclosed in our press release.

For forward-looking statements, on page 2 of our presentation you will see our safe harbor provisions. In summary, comments and answers to your questions may include statements that are not historical facts and thus constitute forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may causes the Company's actual results in future periods to differ materially from those expectations stated here. As the format of this presentation does not permit a full discussions of these risks, please refer to our Form 10-K, 10-Q and other SEC filings for the discussion of the risk factors that should be considered. These filings maybe 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 statements that may be made from time to time, by and on behalf of the Company. Now I'd like to turn the call over to Mary.

Mary Kipp: Thanks Lisa, good morning everyone. On slide 3 of the presentation, I'd like to begin by summarizing our 2017 first quarter financial performance. On our last earnings call, we mentioned that negative earnings for the first quarter of 2017 was a distinct possibility. In fact, we are reporting a net loss of $4 million or $0.10 per share. This compares to a net loss of $5.8 million or $0.14 per share for the first quarter of 2016. Earnings for the twelve month period ended March 31, 2017 were $2.43 per share. Our first quarter results reflect the need to complete the second half of our rate relief process so we can recover our infrastructure investment in the region.

The loss also reflects that most of our sales occurred during the summer months. Although earnings were negative for the quarter, we continue to see positive economic growth in our region and to experience growth in the number of customers served. We expect the implementation of new rates following our 2017 Texas rate case will help reduce the impact of regulatory lag. So now I'd like to take a moment to review our 2017 Texas rate case filing on the next slide.

On February 13th, we filed a general rate case with the City of El Paso, the other incorporated municipalities in our Texas service territory, and, at the same time, with the Public Utility Commission of Texas. This case is based on a historical test year ended September 30, 2016. The filing was necessary to bring into rate base approximately $444 million of new plant that has been placed into service since March 2015, which was the end of the test year for our last Texas rate case. The need for the requested rate relief is due to the additions to plant that were required to meet the needs of our growing customer base and due to the continued load growth that we have experienced in our service territory. We also made investments to maintain and improve the reliability of our electric system. As a result, the Company is requesting a non-fuel base revenue increase of $42.5 million. We will have the ability to surcharge our customers for new rates relating back to consumption beginning on July 18, 2017. At this time, if you'll turn to slide 5, I'll walk through some key dates on the procedural schedule that was adopted for our Texas rate case.

On March 14th, the Administrative Law Judges in our case issued an order adopting a procedural schedule for our Texas rate case. As the schedule indicates, we are currently immersed in the discovery process and we have been busy responding to numerous requests for information. The deadline for discovery has been set for June 9, 2017. Intervenor direct testimony is due by June 23rd. PUCT staff will then have one week to review the intervenor testimony and file their direct testimony on June 30th. A hearing on the merits of our case has been scheduled to begin on August 21st and conclude by September 1st. Although it is difficult to anticipate a firm date when a final order could be issued, the Texas Utility Code allows for new rates to relate back to energy consumed 155 days after the rate case is filed which as I said is July 18th of this year.

Turning to slide 6, I will now discuss some other recent developments.

On April 12, 2017, the New Mexico Commission approved our joint motion to delay a rate case filing up to a date no later than July 31, 2019. We decided to delay the filing of our New Mexico rate case to focus our attention on our Texas rate case, which covers the largest portion of our service territory. Staggering the Texas rate case and New Mexico rate case filings will help us maximize the efficiency of our internal resources. A delay will also help us avoid filing rate cases at the same time as other utilities in New Mexico, which will reduce the burden on the Commission staff. Additionally, rate case expenses in New Mexico can be significant and the estimated revenue deficiency does not justify the time and expense to file. Finally, we believe the delay will allow us the opportunity to fully analyze our options regarding our investment in Palo Verde Unit 3.

Also during the quarter, we continue to work towards the settlement of our current fuel reconciliation proceeding in Texas. The final settlement agreement will be subject to approval by the PUCT. We currently anticipate that the Commission will consider the proposed settlement in the second quarter.

I'm pleased to announce that we finalized certain agreements with the Air Force to construct a large scale solar facility at Holloman Air Force Base. We anticipate the project will be completed in the fourth quarter of this year or early next year.

Now turning to slide 7, I could not be happier to announce that a significant milestone has been achieved by the Company in support of a long-term goal of providing affordable large scale solar generation to our region. Construction of the Company's Texas Community Solar facility is nearing completion and is expected to be operational in the second quarter of 2017. We are extremely pleased that the Texas Community Solar project was fully subscribed within one month after enrollment began. This is extremely impressive as this community solar facility is the largest utility owned community solar project in Texas. This 3 megawatt facility, which is located at the Montana Power Station, provides customers with a clean alternative that is fair to all customers as it does not rely on inter or intra class subsidies.

There are about 1,500 customers subscribed to the solar output and almost 400 customers on the waiting list, which demonstrates our community's commitment to solar power.

The community solar facility at the Montana Plant is the first large scale solar facility to be owned and operated by the Company. This project along with the Holloman Air Force Base project demonstrates the Company's commitment to evaluating, investing in innovative ideas and technologies that benefit our communities and the environment.

In addition, we continue to believe that getting regulatory approval for grid modernization infrastructure in Texas would allow us to improve operational efficiencies for our customers, enhance customer service, and provide our customers with knowledge and information to make better energy usage decisions including accessing the true value of private solar generation. The deployment of the smart grid technology would require legislative change and so we'll continue to advocate for the benefit of our customers.

Turning to slide 8, I cannot remember a time in which so many large scale development projects have been announced in our region in such a short period of time.

One of the latest projects to be announced is a massive $350 million entertainment complex coming to Northwest El Paso. The Franklin Galleria development will include retail stores, multi-family developments, hotels and premium dining. In addition, plans were unveiled for a four-acre resort to be located within a west side development called Montecillo. A Marriott-brand hotel and resort would be located near a Top Golf facility that is already under construction nearby. The Canyons at Cimarron is another west side development that will consist of approximately 900 total acres, over 2,000 homes, commercial and office space, 25 acres of parks, and seven miles of bike and walking trails.

These new developments are in addition to other large scale projects already under construction in our region including the restoration of several downtown buildings and hotels. It is not difficult to see why I'm so optimistic about the future growth in our region, and why it's so important that we continue to plan for this growth in a responsible manner. We have an obligation to serve and therefore, it's imperative that we work together with our communities as they continue to expand. We must plan for this continued growth in a prudent manner to ensure the safe, clean, reliable, and affordable delivery of electricity to all our customers. At this time, I will hand the call over to Nathan who will discuss our financial results.

Nathan Hirschi: Thank you, Mary. Before I jump into the key drivers for the quarter, I wanted to point out that the net loss we recorded for the quarter is a result of both the seasonality of our business and the negative impact of regulatory lag. We earn a substantial portion of our annual net income in the second and third quarters when our revenues are highest.

Additionally, we conduct more of our maintenance activities in the "shoulder months" when we have fewer demands on our system. As such, it is better to look at our operations on an annual basis than it is on a quarterly basis.

Now turning to slide 9, I'll discuss the key drivers for the quarter as compared to prior year beginning with negative drivers. We experienced a decline in earnings per share during the first quarter of 2017 of $0.05 per share due to decreased AFUDC. The primary reason for the decline in AFUDC was lower balances of construction work in progress due to Montana Units 3 & 4 being placed into service in 2016. Since Montana Units 3 & 4 are not currently earning a return in rate base, this decline is a component of regulatory lag discussed above.

Earnings also declined in the quarter by $0.04 per share due to increased operations and maintenance expense as a result of planned outages at our Newman plant and increased routine maintenance at our Montana and Rio Grande power plants. We conducted a substantial portion of our generation maintenance activities in the first quarter of 2017, as there were certain efficiencies in conducting the maintenance activities at Newman 1, 3 and 4 simultaneously.

Earnings also declined by $0.03 per share due to increased interest expense on the $150 million senior notes issued toward the end of March 2016.

On the positive side, earnings increased by $0.08 per share due to an increase in retail non-fuel base revenues primarily due to the non-fuel base rate increase approved in our 2015 Texas Rate Case. It is important to note that the first quarter of 2016 did not include approximately $5.9 million of retail non-fuel base revenues for the period January 12, 2016 through March 31, 2016, which were not recognized until the final order was approved in August 2016. In addition to the increase in rates, an increase in the number of customer served during the period also contributed to the increase in non-fuel base revenues. However, as I will discuss in more detail mild weather during the quarter partially offset the increase in non-fuel base revenues.

Another positive driver for the quarter was the change in depreciation rates that were approved in our 2015 Texas and New Mexico rate cases. The new depreciation rates, combined with the sale of Company's interest in the Four Corners Power Plant, increased earnings by $0.02 per share.

Also during the quarter, an increase in investment and interest income, primarily due to higher realized gains on securities sold from the Company's Palo Verde decommissioning trust increased earnings by $0.02 per share. Please refer to pages 2 and 3 of our earnings release for additional earnings drivers and detail for the quarter.

Although we were pleased to see higher retail non-fuel base revenues during the first quarter, this increase was partially offset by very mild weather in our region. Turning to slide 10 of the presentation, I will talk about the un-seasonally warm weather we experienced during the first quarter.

As you can see on the chart, we only recorded 810 heating degree days during the first quarter of 2017. The first quarter was 28.6 percent below the 10-year average and 23.1 percent below the same period in 2016. In fact, the heating degree days recorded in the first quarter of 2017 were the lowest on record in our region in more than 70 years. The early arrival of spring like weather began in January and continued throughout the whole quarter. All three months of the quarter were significantly below their 10-year averages.

Now, turning to slide 11, we have provided an analysis of the changes in megawatt hour sales by customer class for the first quarter of 2017 as compared to the same period in

2016. Retail megawatt hours sales decreased by 1.6 percent for the quarter. The decrease in sales was primarily driven by the historically mild weather I described in the previous slide, which had a significant impact on our Residential customers. As you can see, we continued to experience growth in the total number of customers served. Total retail customers served increased by a solid 1.7 percent, which is in line with our recent trends.

Now, turning to slide 12, our additions to electric utility plant were approximately $54 million during the first quarter of 2017. In total, we expect to spend approximately $215 million for cash capital expenditures in 2017. We also want to reiterate the Company's plans to issue an all-source request for proposal for generation resources in 2017, which may cause our capital expenditure projections to change in the future.

In terms of cash dividends, on slide 13, the Board of Directors declared a quarterly cash dividend of $0.31 per share on January 26, 2017, which was paid on March 31, 2017. As we mentioned previously, the Company's goal is to move towards achieving an annual 55 to 65 percent payout ratio by 2020. The Board will discuss the magnitude of the annual increase at their May 25, 2017 meeting.

A final note before we open the call for questions is that we have two tranches of debt for a total of $83 million that will mature or be subject to mandatory tender for purchase during the third quarter of this year. We believe that we have adequate liquidity through our cash balances, cash from operations and available borrowings under our Revolving Credit Facility to meet all of our anticipated cash requirements for the next 12 months, including the repayment of these tranches of debt.

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

Operator: 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. Once again, that is *1 at this time to ask a question. We'll pause briefly to allow everyone the opportunity.

Our first question comes from Anthony Crowdell of Jefferies. Your line is open.

Anthony Crowdell: Hi, good morning.

Lisa Budtke: Good morning.

Anthony Crowdell: I guess a couple of questions. Just thoughts on, I know you've previously said it's been challenging reaching a settlement with the City Council. Do you think that's possible and also given that you've withdrawn your rate filing in New Mexico and the Mayor's very opinionated piece in the paper this past weekend, it seems that maybe El Pasoans think they're financing maybe stuff that's not for them. Does that really cloud the ability to get a settlement or there was really no ability to get it in to begin with?

Mary Kipp: Anthony...This is Mary. That was an unfortunate piece, but I don't think we can extrapolate from one piece that that's the sentiment of all of the people in El Paso. Like you, those of us who have been involved in this business for a long time know that a rate case is always a political lightning rod and obviously that's compounded when we're in the middle of a number of mayoral and city council races. So, we're going to always work towards getting a settlement and we do view our regulators as a partner. But that said, as we know, we have a number of things that we'd like to get accomplished this time. So if we need to take this case to full litigation, we will and our objective will be not to delay any of the procedural deadlines.

Anthony Crowdell: The mayoral race is in May. Are the city council elections also in May?

Nathan Hirschi: Yes.

Mary Kipp: Yes. It's all at the same time.

Anthony Crowdell: Oh, okay.

Mary Kipp: We just finished early voting yesterday. The general election is Saturday, May 6. We have seven candidates who are running for Mayor and we have a lot of seats open on City Council, including Courtney Niland's seat, she recently resigned. And if nobody gets a majority in the mayoral election, then we'll have a runoff on Saturday June 10th and it's my understanding that if there's a runoff, the new mayor would take office on the last Tuesday of June which is the 27th.

Anthony Crowdell: Great. Moving to hopefully a more interesting topic. Is there any given the variability in earnings due to weather, is there any thought or appetite in Texas of getting like revenue decoupling or some type of weather normalization rider there because of the variability especially in El Paso, your weather?

Nathan Hirschi: Well, the weather on a quarter-to-quarter basis does vary a lot. On an annual basis, there is a lot less variability, obviously, we're filing these rate cases for the full year and we adjust for normal weather when we file the rate case. So there hasn't been a great deal of discussion of that and I think it's probably a better, just so we kind of educate the investment community and keep in mind that it does change on a short-term basis. Obviously, as you know Anthony, it can go either way, positive or negative and so, no, there hasn't been a lot of talk about that, and primarily we're just trying to educate the investment community on the weather effects.

Anthony Crowdell: On the tranches of debt, Nate, are you rolling them over or you're going to just pay them down?

Nathan Hirschi: Well, look, there're two relatively $50 million on the Rio Grande Resource Trust debt and $33 million of Farmington, which is Four Corners Pollution Control Bond. So they're relatively small amounts. So we thought we'd finance them on the Revolving Credit Facility and then look for options in the future to do more long-term, maybe larger scale debt issuances.

Anthony Crowdell: Great. Let's hope your Chihuahuas turn it around, tough loss to the Isotopes.

Nathan Hirschi: Thanks, Anthony.

Operator: As a reminder, if you would like to ask a question please press star 1 at this time. We will take our next question from Brian Russo of Ladenburg Thalmann.

Brian Russo: Hi, good morning.

Nathan Hirschi: Hi, Brian.

Mary Kipp: Good morning, Brian.

Brian Russo: Just, you know, what's the general rate case strategy following the conclusion of this current Texas rate case and, you know, the approval of the delay in the New Mexico rate case till at the latest 2019? When might we expect you to file again in both jurisdictions?

Mary Kipp: So obviously Brian, this is Mary. Texas, it's going to be contingent on our outcome in this case. If we have, you know, a good outcome, a decent outcome, I would imagine that we would try to stay out for at least a couple of years, several years.

New Mexico, we're still doing an assessment on when we'd like to go in, but as I said earlier, really last time trying to prosecute two rate cases simultaneously, it was just really tough on our staff and I think that we'll obviously file it before the deadline, but we're not sure exactly when it will be yet.

Brian Russo: Okay.

Nathan Hirschi: And I might add that in Texas, we might try to use transmission cost recovery factors or distribution cost recovery factors, not to file full rate cases as we go forward. Most of our CAPEX coming up in the next couple of years are T&D related. And so that will give us the opportunity perhaps to do that.

Mary Kipp: And in this case, we've filed for the baseline for that.

Nathan Hirschi: Yes.

Brian Russo: Okay. And is the next Texas rate case possibly timed with this upcoming RFP and the timing of when the needs are?

Mary Kipp: You know what, like I said, it depends on our outcome. In this case, it depends on the growth in our community and a number of things. But we would definitely have to have a rate case to bring in that generation that we're expecting to come on line in 2023 and that we're issuing an RFP for this year.

Nathan Hirschi: And you bring up a good point, Brian about the variability in our CAPEX and potentially the timing of the rate case based on the outcome of the RFP. So most of those hinge on what we get out of that and it will be interesting to see as it approaches.

Mary Kipp: And we also have a requirement in Texas that was yielded from the same bill that gave us the 155-day relate back that requires us to file at a maximum of every four years.

Brian Russo: Okay. Great. That's helpful. How many megawatts is the Peaker expected to be?

Nathan Hirschi: Currently, its 231 megawatts is the current, but that's subject to change also.

Brian Russo: Got it. And is there anything in this pending rate case that is viewed as contentious, I mean rate design, anything on the renewables side that caused a delay in the last case?

Mary Kipp: Hey, just one real quick correction, Brian, on your last question.

Nathan Hirschi: Yes, I'm sorry.

Mary Kipp: It's actually 320 megawatts. Our CFO was transposing numbers there in his head, but yes, I mean, rate cases are always contentious. In this case, as you know, we filed to move our partial requirements customers, which are largely our solar DG customers into their own class. That obviously is going to yield some contentions. We also filed a case to really eliminate a lot of subsidies, so there's an increase to residential customers, which is also always contentious. But, we think we still have good working relationships. We're happy to try to settle this, but we're also happy to take it to the PUCT and let them decide.

Brian Russo: Okay. And then just lastly, do you plan on issuing any long term debt in 2017?

Nathan Hirschi: At this point, no. It's still a possibility to see if we do some smaller financing, but we plan on using short term debt to refinance all of our debt that comes due this summer.

Brian Russo: Okay. Got it, thank you very much.

Mary Kipp: Thank you.

Nathan Hirschi: Thanks, Brian.

Operator: As a reminder, if you would like to ask a question please press star 1 at this time. And there are no further questions. I will turn the call over to Mary Kipp for closing remarks.

Mary Kipp: Actually, we're going to turn it over to Lisa Budtke or Lisa, you want me to do it?

Lisa Budtke: Yes.

Mary Kipp: Okay. I'd like to conclude today's call by reiterating that this quarter was reflective of the financial impact of regulatory lag and seasonality of our sales and that's why we continue to work towards achieving a favorable outcome in our Texas rate case. As always, we remain committed to delivering safe, clean, reliable and affordable electricity to our customers, including finding ways to incorporate renewable energy technology into our portfolio. So thank you for your time today and be safe.

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

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