EL PASO ELECTRIC CO.

Moderator: Lisa Budtke
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9:30 am CT

Operator: Good day, ladies and gentlemen, and welcome to the El Paso Electric Company's Second Quarter 2016 Earnings conference call. Today's call is being recorded. For opening remarks and introductions, I will turn the conference over to Lisa Budtke. Lisa please go ahead.

Lisa Budtke: Thank you, (Debbie). Good morning, everyone. Thank you for joining the El Paso Electric Company Second Quarter 2016 Earnings conference call. My name is Lisa Budtke, and I'm the Director of Treasury Services & Investor Relations for El Paso Electric. On the call today are CEO, Mary Kipp, CFO, Nathan Hirschi, and other members of the senior management team.

Today, we will provide an update on our Texas and New Mexico rate cases, second quarter financial results, and our 2016 guidance and earnings drivers. You should have a copy of the press release in today's presentation. If you do not, you can obtain them from our Website on the Investor Relations page.

We currently anticipate that our second quarter 2016 Form 10-Q will be filed with the Securities and Exchange Commission on or before August 5. A replay of today's call will be available shortly after our call ends, and will run through August 17. The details as it relates 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 risk, uncertainties and other factors that may cause the Company's actual results in future periods to differ materially from the expectations stated here.

As the format of this presentation does not permit a full discussion of these risks, please refer to our Form 10-K, 10-Q or other SEC filings for a discussion of risk factors that should be considered. These filings may be obtained upon request from the Company, on our Web site 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.

Now I would like to turn the call over to Mary.

Mary Kipp: Thanks, Lisa. Good morning, everyone, and thanks for joining our call. I'd like to begin by discussing some of our recent highlights on slide 3. First off, El Paso Electric Company became a coal-free utility after selling our 7% ownership interest in Four Corners. The sale of our ownership interest in Four Corners on July 6 not only allows us to become a cleaner utility but will limit our financial obligations relating to potential environmental regulations which of course benefit all stakeholders.

As a result of the sale, we will be able to reduce by one billion pounds the carbon dioxide from the Company's annual emissions. Our large-scale solar resources have also prevented an additional billion pounds of CO_2 from being emitted into our atmosphere. To put this into perspective, the two-billion-pound reduction would be the equivalent of taking 190,000 cars off the road or planting 20 million trees. So we're very proud of this.

Another recent highlight is that we set a new native system peak of 1,892 megawatts on July 14, 2016. This new peak surpasses our 2015 record peak of 1,794 megawatts by 5.5% or 98 megawatts. The continued growth in our region and the recent streak of hot weather has resulted in the Company exceeding last year's peak on eight days this year. We set a new native peak record in 11 out of the last 12 years. As a result, we continue to plan diligently to add generation resources to meet the needs of our service territory in a safe and reliable manner.

We are also in the process of reviewing several proposals for demand response programs which are designed to enable customers to reduce their load during peak demand. Regarding our New Mexico rate case, the New Mexico Public Regulation Commission issued a final order on June 8, approving an annual increase of approximately $1.1 million. With respect to our Texas rate case, on July 21, 2016, we filed an unopposed settlement with the Public Utility Commission of Texas after continuing to work with all interveners in the case.

Another highlight that I'd like to mention is that construction of Montana unit four remains on schedule and we still anticipate placing that unit into commercial operation in September of 2016. Together the four Montana units will add 352 megawatts of clean burning natural gas to our local fleet of electric generation and will provide enough energy to meet the needs of more than 160,000 homes in our growing service territory.

Finally, I'd like to mention that the Company recently began discussions with our union employees to negotiate a new collective bargaining agreement. The Company's partnership with the International Brotherhood of Electrical Workers Local 960 continues to be positive and constructive and we look forward to building upon this successful relationship as we work together to serve our region.

At this time, I would personally like to thank our dedicated men and women who work to keep the lights on during extreme weather conditions. This is exemplified by the efforts of our employees who worked to restore power during the recent wind storm that hit our region.

The pictures on slide 4 show some of the damage caused by the July 15 wind storm. The massive wind storm produced microbursts and wind gusts exceeding 60 miles per hour. These winds caused damage to multiple transmission and distribution lines alongside the heavily trafficked interstate, which left thousands of customers without electricity.

As a result, our employees were dispatched to the location and they were tasked to restore electricity to those customers, working in conditions with low visibility and temperatures exceeding 100 degrees. As they've done time after time, they successfully restored power and they continue to work tirelessly and safely to maintain our grid stability and for that, we thank you.

Turning to slide 5, I will discuss the latest developments on our Texas rate case filing in more detail. The company filed an unopposed settlement with the Texas Commission on July 21, which calls for an annual non-fuel base rate increase of $37 million and an additional $3.7 million for costs related to the Four Corners plant.

Other key terms of the settlement agreement are the lowering of annual depreciation expense by approximately $8.5 million and setting the return on equity for AFUDC purposes at 9.7%. Part of the settlement was a determination that substantially all new plant in service was reasonable and necessary and therefore should be included in rate base.

Finally, recovery for most of the rate case expenses up to a date certain was agreed upon as well as removing the proposed surcharge for residential customers with solar generation. The costs of serving these residential customers will be addressed in a future proceeding.

Approval by the Commission would resolve the rate case, including the revenue requirement issue for Four Corners and rate case expenses. We anticipate that our proposed order will be considered by the PUCT on Thursday, August 18. Once approved, we will record the effects of the settlement for financial reporting purposes.

Turning to slide 6 - in New Mexico on June 8, the Commission issued a final order approving an annual increase of approximately $1.1 million. The terms of the final order deviated from the hearing examiner's previous recommendation by reducing the rate base offset for the pension and benefits liability, reducing the return on equity to 9.48% and disallowing several smaller cost of service items.

All plant in service was deemed reasonable and necessary. These new non-fuel base rates became effective on July 1 of this year. Some details regarding the ability to recover certain past pension and benefits costs remain unresolved. So the Commission has initiated a separate show cause proceeding regarding the unfunded liability for other post-employment benefits and that's ongoing.

I would now like to walk through a potential timeline for our next round of rate cases. As you can see on slide 7, our time line remains on schedule for placing Montana unit 4 in service by September 2016. In New Mexico, the company anticipates filing a rate case in the first quarter of 2017 using an historical test year ended September 30, 2016. A final order and new rates are anticipated to take effect during the first quarter of 2018.

Looking at the Texas timeline, we also anticipate filing our rate case in the first quarter of 2017 using an historical test year ended September 30, 2016.

Our timeline reflects a potential final order to be issued during the fourth quarter of 2017. As you know, due to legislative changes, we have the ability to surcharge customers for new rates relating back to consumption beginning on the 155th day after the rate case is filed. This means the effective date for new rates could be as early as the third quarter of 2017, even if the schedule for the rate case were to be extended. It's important to note that the impacts of the rate case will be recognized for financial reporting purposes after a resolution is reached.

I would now like to turn the call over to Nathan, who will walk you through the details of our second quarter financial results.

Nathan Hirschi: Thank you, Mary. As you can see on slide 8, for the second quarter of 2016, we reported net income of $22.3 million or 55 cents per share, compared to 2015 net income of $21.1 million, or 52 cents per share.

Turning to slide 9, I would like to walk you through the key earnings drivers for the second quarter. Beginning with the positive earnings drivers, net income for the quarter was positively impacted by increased retail non-fuel based revenues which resulted in increased earnings per share of 5 cents.

The increase was primarily due to increased revenues from residential and small commercial customers resulting from 1.5% increase in the average number of customer served and warmer weather. Investment and interest income also had a positive impact on earnings due to higher realized gains on securities sold from our Palo Verde decommissioning trust fund which benefited the quarter by 4 cents per share as compared to prior year.

Turning to the negative drivers - earnings declined by 3 cents per share due to interest accrued on our $150 million of senior notes issued in March 24, 2016. Earnings were also negatively impacted by 1 cents per share due to higher depreciation expense associated with an increase in depreciable plant including Montana Unit 3 which was placed in service in early May 2016. Changes in our effective tax rate also decreased earnings by 2 cents per share during the quarter due to the reduction of the domestic production manufacturing deduction and changes in state taxes.

If you will now turn to slide 10, we have provided a comparative analysis of changes in retail non-fuel based revenues in megawatt hour sales by customer class for the second quarter of 2016 compared to the same period in 2015. Total retail megawatt hour sales increased by 1.1% while total retail non-fuel based revenues increased by 2.1% during the second quarter of 2016.

As noted earlier, the increase in retail revenues was primarily driven by increased revenues from residential and small commercial customers due to a 1.5% increase in the average number of customer served and warmer weather observed during the second quarter of 2016.

On slide 11, we have illustrated how weather had an impact on our second quarter revenues. Cooling degree days for the second quarter of 2016 increased by 3.9% when compared to the same period in 2015 but remained below the 10-year average by 6.4%. Although the month of June still came in 3% below the 10-year average for total cooling degree days, a stretch of hot weather in the middle of the month including a 108-degree day on June 18, resulted in record peaks and solid megawatt hour sales.

As observed throughout most of the Central and Southern United States during the first weeks of July, our region experienced numerous consecutive days with above average temperatures. During July the region experienced 16 consecutive days of triple-digit temperatures which also contributed to the establishment of the 1,892 megawatt native load peak that Mary mentioned earlier.

Turning to slide 12, I will briefly discuss our capital requirements and liquidity. During the first six months of 2016, our capital expenditures for additions to electric utility plant were approximately $103 million. On July 21, our Board declared a quarterly cash dividend of 31 cents per share which is a 41% increase since the dividend was reinitiated in 2011. In total, the company paid $24.5 million in dividends during the first six months of 2016.

On June 30, 2016, our liquidity was $207.5 million which consisted of a cash balance of approximately $10 million plus borrowing capacity available to us on our credit facility. In total we expect to spend approximately $234 million for capital expenditures in 2016.

Turning to slide 13, now that we have received a final order in the New Mexico rate case and have filed a non-opposed settlement for our Texas rate case, we are initiating 2016 earnings guidance at the range of $2.20 to $2.50 per share. The middle of the range assumes normal weather and a non-fuel base rate increase for Texas of $40.7 million consisting of $37 million, plus an additional $3.7 million for Four Corners costs and lower annual depreciation expense of approximately $8.5 million.

The assumption is that the Texas Commission will approve the unopposed settlement in the second half of the year and the resulting impact for all but 11 days would be recognized in 2016. Guidance also includes approximately half of the $1.1 million non-fuel base rate increase for New Mexico which became effective on July 1, 2016. These increases are offset by earnings drivers that will be discussed on slide 14.

There are several factors that will negatively impact earnings in 2016 as compared to 2015. Most of the negative drivers are directly related to regulatory lag associated with Montana Units 3 and 4, and the related financing costs. The primary components of regulatory lag or higher property taxes, lower AFUDC, increased O&M, depreciation expense and interest expense. In 2016 regulatory lag associated with Montana Units 3 and 4 is expected to be approximately 15 cents per share.

Other factors that are anticipated to negatively impact earnings include a higher effective tax rate which is estimated to be approximately 36% in 2016, a return to more normal weather and a decrease in investment and interest income. Year-over-year earnings will be positively impacted by the rate increases in Texas and New Mexico that we discussed on slide 13, as well as continued customer growth.

At this time, I would like to turn the call back over to Lisa.

Lisa Budtke: Thanks, Nathan. This concludes our second quarter 2016 earnings presentation. Before we open the call up for questions, I want to mention that management will meet with investors in New York on August 11, 12, and 15 and we'll also be meeting with investors in Baltimore and Philadelphia on August 16. Please contact Investor Relations for additional information and meeting dates. Debbie, please open up the call for questions.

Operator: Thank you. Ladies and gentlemen, to ask a question just press the star key followed by the digit 1 on your touch-tone phone. If you are using a speakerphone, be sure to disengage your mute function so that your signal will hit our equipment. Again, star 1 and we'll pause just a moment to assemble the roster. We'll take our first call today from Anthony Crowdell with Jefferies.

Anthony Crowdell: Hey, good morning. I guess first question I have is, you took a 5 cents benefit for retail non-fuel base revenues, could you break out what portion of that is growth and what portion is related to weather?

Nathan Hirschi: We don't think a significant amount of that was weather. We actually had a quarter where- the weather was actually below average. So it was a slight improvement from last year. There was some amount of an improvement year-over-year from weather but again it was a below average quarter for weather. So a significant portion of that is really customer growth.

Anthony Crowdell: Okay, what's your benefit - I'm sorry. What is your assumption in 2016 guidance for NDT gains for the rest of the year?

Lisa Budtke: We're still anticipating that year-over-year it's going to be less than what we booked last year.

Nathan Hirschi: So for this quarter it was actually a little bit over last year but for the remainder of the year it will be a little bit less than last year.

Anthony Crowdell: Okay. The other question I had was just some housekeeping. In your income statement, and maybe I'm mixing up companies, it looks like you've eliminated or combined, I should say the line items where you previously broke out Palo Verde 3, the proxy revenues on Palo Verde 3, and also you said differentiating Nuclear O&M from Regular O&M. You've now consolidated all of that? Is that accurate?

Nathan Hirschi: Well, that's a good point, Anthony. We did change our press release, we did go to a GAAP presentation in the press release as opposed to what had previously been a EBITDA-focused income statement in the press release. The other information, related to Palo Verde Unit 3 revenue is partially available on the waterfall table and it will be broken out in the 10-Q also.

Anthony Crowdell: And could you just then - what's in the Other operations bucket and what's in the Maintenance bucket?

Nathan Hirschi: I'm sorry, Anthony, what...

Anthony Crowdell: On the income statement, there's an Other operations number and there's Maintenance.

Nathan Hirschi: Yes, so that's just the FERC classification between operations expense and maintenance expense. Maintenance is purely what meets the FERC definition of maintenance and then everything else goes into Other, except for fuel.

Anthony Crowdell: Okay. Your guidance for 2016, you assume normal weather, but like you said, July was really hot. Is it normal weather and I know this may be more granular than you want to talk but is it normal weather from today, you know, from now until the end of the year or from July 1 because it seems that we had a little, you know, headwind with a very warm July.

Nathan Hirschi: It's really more normal weather from here on out, although we point out Anthony that we had a very solid third quarter last year when it comes to revenue growth and remember we had a $14 million year-over-year increase last year in the third quarter. So we had such a good year last year in the third quarter that's what's making us a little tempered about what the revenue growth is going forward from here.

Lisa Budtke: And just so you know, Anthony, from August to September we had record cooling degree days last year.

Nathan Hirschi: Yes, so we had a really solid end of the third quarter last year.

(Crosstalk)

Anthony Crowdell: My last question - I'm sorry, Nate.

Nathan Hirschi: Yes, I'm sorry but you are right, we are ahead of July was well as ahead of where we were last year at this time.

Anthony Crowdell: My last question, and I'll jump in the queue. This year, you gave - obviously 2016 guidance came out today because of the delay in the rate decisions. You know, next year we're going to be in a similar position where you're going to have a pending New Mexico and Texas rate proceeding going on. Is there a thought to going back to issuing 2017 guidance or annual guidance earlier in the year? Or next year we're going to be in the same position where it doesn't come until much later in the year.

Nathan Hirschi: So we'll have to work through that at that time. The first round of rate cases, these provided a greater degree of uncertainty than perhaps as we go forward, as these were the first ones we filed in a few years. But we'll have to really see how the situation goes and make that decision later. We know that you guys, the investment community, would prefer us to get it out early. We'll strive to see if we could do that.

Anthony Crowdell: Great. I'll jump back in the queue. Thanks again.

Nathan Hirschi: All right, thanks, Anthony.

Lisa Budtke: Thanks, Anthony.

Operator: We'll go next to Andy Levi with Avon Capital.

Lisa Budtke: Hi, Andy.

Andy Levi: Hi, good morning. How are you guys doing?

Nathan Hirschi: Good. How about yourself, Andy?

Andy Levi: Couple of questions on the O&M for the year. Can you quantify the negative impact that you're forecasting?

Nathan Hirschi: The additional O&M associated with it was Montana unit 3.

(Crosstalk)

Lisa Budtke: So what we said, Andy, is for units 3 and 4 we really don't see a large increase happening for those two units compared to when MPS units 1 and 2 came on line. However, some of this is due to regulatory lag for those two units.

Andy Levi: Right. I'm just trying to understand, because you have O&M as a negative driver for this year but you also have a benefit? Don't you have a benefit from Four Corners in the...

(Crosstalk)

Nathan Hirschi: Well, we do. Yes. Four Corners will...

(Crosstalk)

Andy Levi: I'm just trying to see what the kind of the net effect of that is.

Nathan Hirschi: Yes, overall, the offset for Four Corners will benefit us but it won't quite offset the overall trend, the upward trend on O&M.

Lisa Budtke: And you have to remember that we did push the Four Corners outage from the last part of last year into this year, and this is representing a full year of O&M.

Andy Levi: Okay. Which we'd strip out obviously next year.

Lisa Budtke: Right.

Andy Levi: Okay. Right. And just on investment and interest income. Okay, a negative driver, you kind of talked about it a little bit, which I guess is all the NDT. Can you quantify that amount or not? Like is it $2 million less or...?

Lisa Budtke: So right now what we're anticipating for a reduction in investment and interest income is about 4 cents year-over-year.

Nathan Hirschi: For the year as a whole.

Lisa Budtke: That's right.

Nathan Hirschi: It benefited this quarter.

(Crosstalk)

Andy Levi: And is that just a function of lower interest rates, or how - what is that a function of?

Nathan Hirschi: It's just the amount of activity that's currently going on in the portfolio. We're rebalancing the portfolio to some extent, which is over a period of time, which is triggering some gains.

Andy Levi: Okay, and then on the effective tax rate, which we did expect to go up next year to 36%. I guess we thought it was going to be a little bit lower this year, but I guess it's going to be the full 36%. Is that, you know, was that a surprise? Not really a surprise to you, but we had it a little bit lower. Was that anticipated at the beginning of the year that it was going to be 36% or did something happen to increase it by a few, you know, 200 basis points or something?

Nathan Hirschi: No, that's what we anticipated, about 36% from the beginning. That's, again, with the bonus depreciation, the manufacturing credit we no longer are allowed to accrue, that really pushed us up. And plus the mix between some of the decline in AFUDC causes a little higher percentage of our income to be taxed at the full rate. So yes, that was kind of expected.

Andy Levi: And that's kind of the number we should use going forward?

Nathan Hirschi: Yes.

Andy Levi: Okay, which is what we're doing. And then the last question just relates - and again, I know you haven't given 2017 guidance, but assuming a reasonable outcome in your next rate proceeding, and I know you're still trying to get the final order here. We should expect growth in 2017 off of 2016 of some sort. Is that correct?

Nathan Hirschi: Yes, that's right. I think one of the solid takeaways from the quarter was the revenue growth that we saw, and kind of the mix of sales that went toward that. So we're seeing solid revenue growth and I think the residential KWH grew by 5.9%, so very solid.

And we're seeing a 1.5% customer growth. So we are seeing very solid growth , by the end of next year, we'll see the next round of rate cases, in Texas, toward the second half of the year. So we'll see both continued customer growth and hopefully we can resolve the rate cases next year in order to see the effects of the next round of rate cases.

Lisa Budtke: With that said, Andy, of course the more normalized year for earnings is going to be 2018.

Andy Levi: Right. I understand. And then at some point, do you anticipate, have you contemplated, giving a dividend and earnings growth rate once we get through these rate cases, or this rate case, or just kind of your thinking on that?

Nathan Hirschi: Yes, we'll continue to look at that, probably getting through the next round of rate cases, we'll get a little bit more clarity on the longer-term trend. And again, given that these rate cases are very close together, we've been a little cautious. But we will work toward that goal.

Andy Levi: Okay, I think that's it for me. If I have another question, I'll get back in the queue. Thanks very much.

Nathan Hirschi: Thanks, Andy.

Lisa Budtke: Thanks.

Operator: Once again, ladies and gentlemen, star 1 if you would like to ask a question. We'll go next to Brian Russo with Ladenburg.

Brian Russo: Hi, good morning.

Nathan Hirschi: Hello Brian.

Lisa Budtke: Good morning.

Brian Russo: I just want to understand the 2016 guidance in more detail. So it assumes the new rates in Texas as of April 1, is that accurate? Because the 155 look back, aren't you amortizing that over a period of time?

Nathan Hirschi: Well, it actually assumes the revenue to become effective, as of January 12. We'll be able to record that at the time that we get a final order or a resolution of the rate case. And then we will collect it over a period of 18 months.

Brian Russo: Okay, so you...

(Crosstalk)

Nathan Hirschi: Twelve months from the date, so 18 months from that start date, so it's 12 months.

Brian Russo: So GAAP earnings will reflect the revenue as of January 12, which is in your guidance, but cash flow will reflect the actual collection period? Is that how it goes?

Nathan Hirschi: That's right. And of course, for the interim rates, we've already collected that cash, or we've collected a good portion of that cash since April 1. So we have been collecting the interim rates, but the relate-back revenues will be collected over a 12-month period.

Brian Russo: Okay. Are there any costs incurred for the storm restoration, included in your guidance?

Nathan Hirschi: Just the normal O&M, that wasn't a significant , it didn't incur any significant costs. It was just to highlight a period of excellent work from our crews...

Mary Kipp: Yes, I would add to that. This is just storm season for us, so this is just part of the normal course.

Brian Russo: Okay. And also, just to kind of back into an earned ROE based on the midpoint of your guidance. It looks like it's somewhere between 7% and 8%? Is that accurate? And as we move forward into 2017 and 2018, we should see ROE improvement, correct?

Nathan Hirschi: That's right. , You're right, that is what the ROE won't be for the year at midpoint of guidance, where we would expect to be in the longer term because of the period of regulatory lag. You're absolutely right.

Brian Russo: Okay, so - but, it's strange that you're using Texas rates as of January 12, yet you're still experiencing all this lag. I'm a little confused by that.

Lisa Budtke: That's more related to units 3 and 4, and we quantified that on slide 14, Brian, that we anticipate that regulatory lag related to those two units is going to be approximately 15 cents on a year-over-year basis.

(Crosstalk)

Brian Russo: Right. Okay, so that gets captured in the next round of general rate cases for almost a full year in 2018.

Nathan Hirschi: And that's why we intend to file again on both the rate cases in January of next year.

Brian Russo: Okay, understood. And also, the midpoint of guidance captures July weather?

(Crosstalk)

Nathan Hirschi: Yes, it does. And again, we had slightly below normal weather in the first half of the year.

Brian Russo: Okay, got it. And then, just lastly, I'm not sure if you have this information, but what's the earnings from Palo Verde 3 sales embedded in the guidance? That's, you know, tied to the Permian Basin gas proxy price, I guess?

Nathan Hirschi: So looking over a year, we're seeing a slight increase in the projected gas prices over the next year. So there's a slight pickup due to the PV3 earnings...

(Crosstalk)

Brian Russo: I'm sorry, could you repeat that?

Nathan Hirschi: I believe it's a - do you have that, Lisa?

Lisa Budtke: Yes...

Brian Russo: Do you know what the PV3 earnings contribution was in your 2015 actual?

Lisa Budtke: Like Nathan said, it's about a penny per share, year-over year, increase compared to prior year.

Brian Russo: Got it. Thanks.

Lisa Budtke: It's actually a decrease of a penny year-over-year.

Nathan Hirschi: It's about $9 million, is the PV3 earnings. That's kind of the range.

Brian Russo: Okay, and also, can you quantify what the Four Corners planned outage expense was in 2016?

Lisa Budtke: I believe we said that was anywhere between close to $4 million that we pushed from the fourth quarter of 2015 into the first quarter of 2016.

Brian Russo: Okay, and that's pretax? That's $4 million in expense, right?

Lisa Budtke: Yes, pretax.

Nathan Hirschi: And, you know, that was largely recognized in the first quarter, one of the reasons why we had a relatively difficult first quarter.

Brian Russo: And are there any Four Corner outages next year? In 2017?

Nathan Hirschi: Well, thank goodness, no. Since we got rid of Four Corners, that's no longer an expense that we'll have to worry about. And that's one of the nice trends from an O&M perspective.

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

Nathan Hirschi: Yes, thanks, Brian.

Operator: We'll now take a follow-up from Anthony Crowdell from Jefferies.

Anthony Crowdell: Hey, I wanted to jump on one of Andy's questions on tax rate. I think you stated 36% roughly in 2016 and 2017. When we think of 2018, if it's 36% that should be fully reflected in the new rates that you get in Texas and New Mexico?

Nathan Hirschi: That's right. So we'll file - we file the rate cases with normalized state taxes, so it'll be close to the 36% that we'll be filing for.

Anthony Crowdell: And, lastly, if I remember correctly, you guys are filing for historical - based on historical test year in New Mexico? I guess I'm looking at slide 7, you're filing based on historical year end in New Mexico. Why not use the forward-looking test year there? I mean, this case looks like it's a little easier than your last case. You didn't get a great - I mean, my opinion, you didn't get a great decision or balanced decision on your last proceeding. Why not go with a forward-looking case and minimize lag or have to go back in?

Nathan Hirschi: We'll continue to analyze that. Were seeing load growth that kind of makes the benefits of a forward test year not quite as obvious. Plus, we think it's easier to file and more simplistic to file a historic test year. So those are the two things we think of in the process of filing, and with the relatively solid customer growth and load growth that we're seeing, it takes away some of the advantages of a forward test year.

Anthony Crowdell: And just lastly, and I maybe will not be able to quantify it, the type of percentage increase, I mean, will you seek a single-digit percent rate ask when you're requesting an increase in New Mexico and Texas?

Mary Kipp: Anthony, it's Mary. I can speak to that. Obviously, we won't know that until our expert does the analysis, but we will, you know, try to file for the highest one that we feel is reasonably justified.

Anthony Crowdell: Thanks, Mary. Great. That's all I have. Thank you.

Nathan Hirschi: Thanks, Anthony.

Operator: And we'll go next to Andy Levi with Avon Capital.

Joe Zhou: Hi. This is (Joe). How are you?

Nathan Hirschi: Hi, (Joe).

Lisa Budtke: Hi, (Joe).

Joe Zhou: Hi. Just a follow-up on the $8.5 million of lower depreciation from your settlement, do you recoup that from January 12 once the PUC signs the order? Or you get the lower depreciation from the date when they sign the settlement?

Nathan Hirschi: No, you're right. We would go back and adjust the depreciation since January 12. So we would be able to go back, it's in the stipulation that we'll move back the depreciation rates to the effective date, the January 12 date.

Joe Zhou: Okay, so it works similar to the rate increase. Understand.

Nathan Hirschi: That's right.

Joe Zhou: And secondly, so on your earning guidance for 2016, what will take you to the high end, except for the weather?

Nathan Hirschi: Well, the primary factor is the weather, there's some O&M trends that would get you there toward the high end. The biggest factor is the revenue side, which is the biggest factor and the third quarter is obviously the biggest earnings quarter, and so the weather in this quarter is the single biggest factor from between the high end and the lower end of guidance.

Joe Zhou: Okay, get it. Thank you very much.

Nathan Hirschi: Thanks, (Joe).

Lisa Budtke: Thanks, (Joe).

Operator: Ladies and gentlemen, with no questions in queue, I would like to offer everyone one final opportunity. It is star 1 if you'd like to ask a question. We'll pause just a moment. And there are no other signals at this time.

Lisa Budtke: Okay, thank you for joining us on today's call. Have a great day and please be safe.

Operator: Ladies and gentlemen, thank you for your participation. This does conclude today's conference. You may now disconnect your line.

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