



First Quarter 2014 Earnings Conference Call



Safe Harbor Statement

This presentation includes statements that may constitute forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. This information may involve risks and uncertainties that could cause actual results to differ materially from such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to:

- ⤵ Increased prices for fuel and purchased power and the possibility that regulators may not permit EE to pass through all such increased costs to customers or to recover previously incurred fuel costs in rates
- ⤵ Recovery of capital investments and operating costs through rates in Texas and New Mexico
- ⤵ Uncertainties and instability in the general economy and the resulting impact on EE's sales and profitability
- ⤵ Changes in customers' demand for electricity as a result of energy efficiency initiatives and emerging competing services and technologies
- ⤵ Unanticipated increased costs associated with scheduled and unscheduled outages of generating plant
- ⤵ The size of our construction program and our ability to complete construction on budget
- ⤵ Potential delays in our construction schedule due to legal challenges or other reasons
- ⤵ Costs at Palo Verde
- ⤵ Deregulation and competition in the electric utility industry
- ⤵ Possible increased costs of compliance with environmental or other laws, regulations and policies
- ⤵ Possible income tax and interest payments as a result of audit adjustments proposed by the IRS or state taxing authorities
- ⤵ Uncertainties and instability in the financial markets and the resulting impact on EE's ability to access the capital and credit markets
- ⤵ Other factors detailed by EE in its public filings with the Securities and Exchange Commission. EE's filings are available from the Securities and Exchange Commission or may be obtained through EE's website

Significant Development

- ⤵ Environmental Protection Agency (EPA) air permit to build Montana Power Station (MPS) in Far East El Paso issued on March 25, 2014
- ⤵ No appeals were filed by deadline and the permit became effective on April 25, 2014
- ⤵ Commence construction on MPS Units 1 & 2 in early June
- ⤵ Commercial operation of MPS Units 1 & 2 anticipated by the summer peak of 2015

EE's Pillars of Value

- ⌚ EE is dedicated to the long-term success and well-being of our region and our stakeholders
- ⌚ EE's long-term strategic plan incorporates four Pillars of Value as a foundation
 - ⌚ Operational Excellence
 - ⌚ Stakeholder Satisfaction
 - ⌚ People/Technology Development
 - ⌚ Financial/Regulatory Success

Recent Accomplishments

- ⤵ Obtained final approval from the EPA for the MPS air permit
- ⤵ Macho Springs solar project is under testing and has begun delivering power to EE
- ⤵ Received highest customer satisfaction rating in 5 years
- ⤵ Ranked #1 in reliability in Texas third year in a row
- ⤵ Restructured pension plan
- ⤵ Moody's Investors Service upgraded EE's senior unsecured and issuer ratings to Baa1 from Baa2

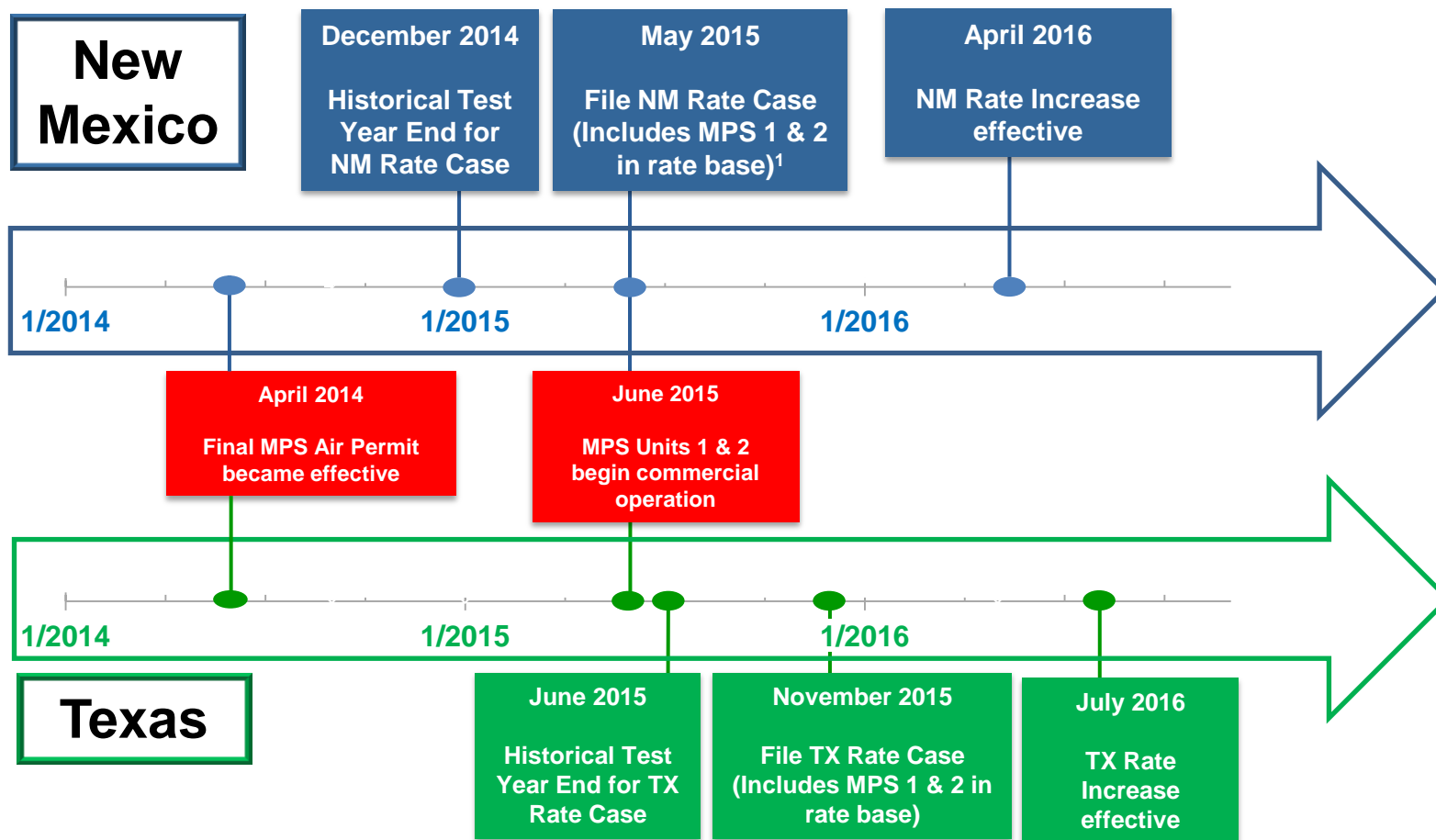
Near-Term Goals

- ⌚ Complete construction of MPS Units 1 & 2 by the summer peak of 2015
- ⌚ Complete construction of Eastside Distribution Operations Center by early 2015
- ⌚ Obtain Certificates of Convenience & Necessity in Texas & New Mexico for MPS Units 3 & 4
- ⌚ Support Four Corners participants in the operation of the plant
 - ⌚ EE will not participate in a life extension beyond July 2016
 - ⌚ EE is seeking to sell its ownership interest in Four Corners
- ⌚ Issue debt to fund construction program
- ⌚ Incorporate 10MW of solar energy into our portfolio

Executive Additions

- ⌚ Michael D. Blanchard elected as the new Vice President of Regulatory Affairs
 - ⌚ Michael brings over 30 years of legal, regulatory and rate making experience
- ⌚ John Boomer elected as Vice President and Treasurer
 - ⌚ John returns to EE after previously serving as assistant general counsel and brings over 20 years of legal, investor relations and international executive experience

Expected Rate Case Timeline



(1) NM Rate Case filing would use a historical test year end of December 2014 and, via a “post test year adjustment”, include MPS units 1 & 2 in requested rate base

Projected Rate Base and CWIP

Pro forma Rate Base Balances for Future Rate Case Filings (\$000)

	<u>MPS 1 & 2</u>	<u>MPS 3</u>	<u>MPS 4</u>
Beginning Rate Base ⁽¹⁾⁽²⁾	\$1,530	\$1,922	\$2,058
Plant Additions:			
MPS Transmission and Substations	38	3	1
New East Side Facility	40	-	-
Other	305	153	210
New Generating Units:			
Montana Common Plant	42	-	-
Montana Unit 1	80	-	-
Montana Unit 2	79	-	-
Montana Unit 3	-	87	-
Montana Unit 4	-	-	84
Total	<u>584</u>	<u>243</u>	<u>295</u>
Depreciation Expense	(178)	(99)	(105)
Change in Deferred Income Taxes & Other	(14)	(8)	(8)
Total Rate Base ⁽³⁾	<u>\$1,922</u>	<u>\$2,058</u>	<u>\$2,240</u>
Year End CWIP Balances (\$ in millions)	\$328	\$316	\$244

(1) Includes Palo Verde Unit 3 rate base of approximately \$36mm for each pro-forma filing

(2) Rate Base totals exclude year end CWIP balances

(3) Represents a pro-forma rate base amount that EE would use in rate filings for the test year

2014 Financial Results

- ⏻ 1st Quarter 2014 net income of \$4.6 million or \$0.11 per share, compared to 1st Quarter 2013 net income of \$7.6 million or \$0.19 per share

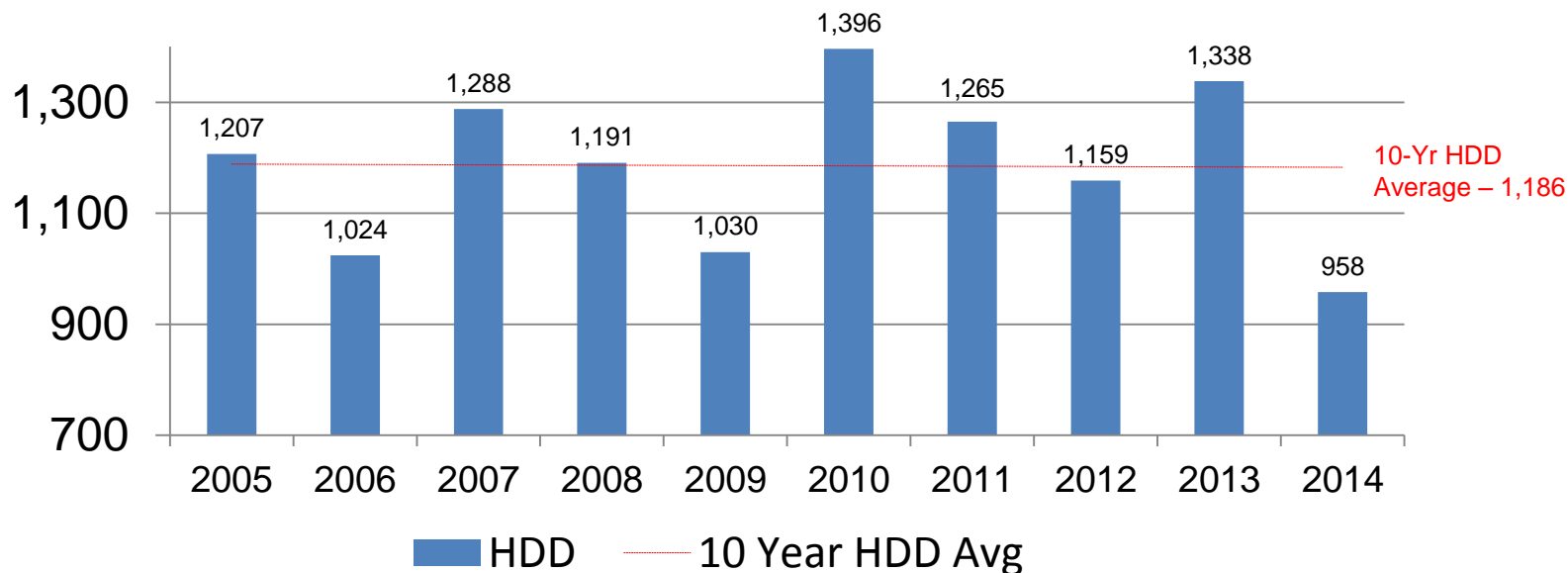
1st Quarter Key Earnings Drivers

	Basic EPS	Description
March 31, 2013	\$ 0.19	
Changes In:		
Retail Non-Fuel Base Revenue	(0.08)	Decreased mainly due to milder weather in 2014 compared to 2013
Taxes other than income taxes	(0.04)	Increased primarily due to adjustment to the 2013 Arizona property tax rate
Fossil Fuel Plant O&M	(0.03)	Increased primarily due to increased maintenance activity at Four Corners and Newman Units 1 & 2
Depreciation and amortization	(0.02)	Increased due to higher depreciable plant balances including Rio Grande 9
Investment and interest income	0.06	Increased due to realized gains in our Palo Verde decommissioning trust fund equity investments
Miscellaneous income and deductions	0.02	Increased primarily due to the sale of land with no comparable activity last year
Deregulated Palo Verde Unit 3 revenues	0.02	Increased due to 29.8% higher proxy market power prices
Other	(0.01)	
March 31, 2014	<u>\$ 0.11</u>	

Historical Weather Analysis

🔌 1st Quarter 2014 Heating Degree Days (HDD) were 19.2% below the 10 year average and 28.4% below 1st Quarter 2013

1st Quarter Total HDD



Changes in Revenue and Sales

YTD March 2014 Compared to YTD March 2013

	Non-Fuel Base Revenue (000's)	Percent Change	MWH	Percent Change
Residential	\$ 45,594	(8.1%)	543,030	(9.3%)
C&I Small	32,121	(2.0%)	493,919	(1.6%)
C&I Large	8,328	(2.6%)	226,552	(7.4%)
Public Authorities	17,656	0.5%	343,028	(4.5%)
Total Retail	\$ 103,699	(4.4%)	1,606,529	(5.7%)
Heating Degree Days	958	(28.4%)		
Average Retail Customers	394,648	1.3%		

Capital Requirements and Liquidity

- ⌚ EE has expended \$48.3mm for additions to utility plant for the three months ended March 31, 2014
- ⌚ Capital expenditures for utility plant in 2014 are anticipated to be approximately \$316.4mm
- ⌚ EE made \$10.7mm in dividend payments for the three months ended March 31, 2014
- ⌚ At March 31, 2014, EE had a cash balance of \$13.4mm
- ⌚ At March 31, 2014, EE had liquidity of \$267.0mm including cash and the revolving credit facility
- ⌚ Anticipate issuing Senior Notes in second half of 2014

2014 Earnings Guidance

- ⏻ We are affirming our earnings guidance range for 2014 of \$2.10 to \$2.50 per share

Q & A

May 7, 2014