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EL PASO ELECTRIC COMPANY
100 N. Stanton
El Paso, Texas 79901
(915) 543-5711

March 26, 2007

Dear Shareholder:

The Annual Meeting of Shareholders of El Paso Electric Company will be held at the Stanton Tower Building, located at 100 N. Stanton, El Paso, Texas 79901, on Wednesday, May 2, 2007, at 10:00 a.m., Mountain Daylight Time.

The purpose of the Annual Meeting is to give shareholders an opportunity (i) to vote on the election of Class I Directors; (ii) to consider and act upon the recommendation of the Board of Directors to approve the El Paso Electric Company 2007 Long-Term Incentive Plan; and (iii) to consider and act upon the recommendation of the Board of Directors to ratify the selection of KPMG LLP as the El Paso Electric Company's independent registered public accounting firm for the fiscal year ending December 31, 2007.

Information concerning these matters is set forth in the accompanying Notice of the meeting and Proxy Statement. Your Board of Directors recommends that you vote FOR the proposals as explained in the attached Proxy Statement.

Your vote is important. To ensure your representation, even if you cannot attend the Annual Meeting, please mark, sign, date and return promptly the enclosed proxy.

Sincerely,

Gary R. Hedrick
President and Chief Executive Officer

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EL PASO ELECTRIC COMPANY
100 N. Stanton
El Paso, Texas 79901

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To the Shareholders of
El Paso Electric Company:

The Annual Meeting of Shareholders of El Paso Electric Company will be held at the Stanton Tower Building, located at 100 N. Stanton, El Paso, Texas 79901, on Wednesday, May 2, 2007, at 10:00 a.m., Mountain Daylight Time, for the following purposes:

(1) To give shareholders an opportunity to vote on the election of Class I Directors;

(2) To consider and act upon the recommendation of the Board of Directors to approve the El Paso Electric Company 2007 Long-Term Incentive Plan. Under the 2007 Long-Term Incentive Plan, employees and directors will be eligible to receive non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, cash-based awards, and other stock-based awards covering up to 1,000,000 shares of the Company's Common Stock;

(3) To consider and act upon the recommendation of the Board of Directors to ratify the selection of KPMG LLP as El Paso Electric Company's independent registered public accounting firm for the fiscal year ending December 31, 2007; and

(4) To transact such other business as may properly come before the meeting and any adjournment thereof.

The Board of Directors knows of no matter, other than those set forth in the paragraphs above (which are discussed at greater length in the accompanying Proxy Statement), that will be presented for consideration at the Annual Meeting.

The Board of Directors has fixed the close of business on March 5, 2007, as the record date for the determination of shareholders entitled to vote at the Annual Meeting.

Please mark, date and sign the enclosed proxy and return it promptly in the envelope provided for your convenience. If you attend the meeting and decide to vote in person, you may revoke your proxy. **Shareholders attending the meeting whose shares are registered in the name of a broker and who intend to vote in person should bring an affidavit of ownership from the broker so that beneficial ownership can be verified without delay on the meeting date.** The prompt return of your proxy will save the postage expense of additional mailings.

By Order of the Board of Directors,

Guillermo Silva Jr.

Guillermo Silva, Jr.
Corporate Secretary

March 26, 2007

YOUR VOTE IS IMPORTANT
PLEASE MARK, DATE, SIGN AND
PROMPTLY RETURN YOUR PROXY. THANK YOU.

EL PASO ELECTRIC COMPANY
100 N. Stanton
El Paso, Texas 79901

PROXY STATEMENT for ANNUAL MEETING OF SHAREHOLDERS To Be Held on May 2, 2007

GENERAL

The accompanying proxy is solicited on behalf of the Board of Directors of El Paso Electric Company (the "Company") for use at its 2007 Annual Meeting of Shareholders (the "Annual Meeting") to be held on Wednesday, May 2, 2007, at 10:00 a.m., Mountain Daylight Time, at the Company's principal offices, and at any adjournment thereof. The Company's principal offices are located at the Stanton Tower Building, 100 N. Stanton, El Paso, Texas 79901.

The cost of soliciting proxies will be borne by the Company. In addition to the use of the mails, proxies may be solicited by personal interview, telephone, fax, or other electronic means by the directors, officers, employees and agents of the Company. The Company will reimburse brokers, banks and other persons for reasonable expenses in sending proxy materials to beneficial owners. To assist in the distribution of proxy material and solicitation, the Company has engaged Georgeson Shareholder Communications, Inc. for a fee of $6,000 plus out-of-pocket expenses.

This Proxy Statement and the accompanying form of proxy are first being mailed to shareholders of the Company on or about March 26, 2007.

SHARES OUTSTANDING, VOTING RIGHTS AND REVOCABILITY OF PROXIES

At the close of business on March 5, 2007, the "record date" for determination of the shareholders entitled to notice of and to vote at the Annual Meeting, the Company had outstanding 46,033,388 shares of its common stock (the "Common Stock").

Each outstanding share of Common Stock is entitled to one vote. The holders of at least a majority of the issued and outstanding shares of Common Stock must be represented in person or by proxy at the Annual Meeting for a quorum to be present and business to be conducted. The vote of a plurality of the votes cast at the meeting is required for the election of each Class I Director. The affirmative vote of the holders of a majority of the shares of Common Stock entitled to vote and represented in person or by proxy at the meeting is required to approve both the El Paso Electric Company 2007 Long-Term Incentive Plan and the selection of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2007.

A shareholder having the right to vote may vote either in person or by proxy executed in writing by the shareholder. A telegram, telex, cablegram or similar transmission by a shareholder or photographic, photostatic, facsimile or similar reproduction of a writing executed by the shareholder, shall be treated as an execution in writing.

A shareholder who signs and returns a proxy may revoke that proxy at any time before the Annual Meeting by filing with the Secretary of the Company an instrument in writing revoking the proxy, delivering a duly executed proxy bearing a later date, or attending the meeting and voting in person. The shares represented by a proxy given and not so revoked will be voted and, where the shareholder specifies a choice with respect to any matter to be acted upon and for which a ballot is provided in the proxy form, the shares will be voted in accordance with the specification so made. If a proxy is returned, but no choice is specified, the shares will be voted (i) FOR the election of the four nominees described below as Class I Directors; (ii) FOR the approval of the El Paso Electric Company 2007 Long-Term Incentive Plan as described in the Proxy Statement; and (iii) FOR the ratification of the selection of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2007. With respect to any other matters that will come before the Annual Meeting, the proxy will be voted in the discretion of the proxy holder. If no proxy is returned, the shares represented by such proxy will not be voted.

The Board of Directors is not aware of any matter that will be presented at the Annual Meeting other than as set forth in the accompanying Notice. If, however, any other matters are properly presented at the Annual Meeting, the proxy holder will have discretionary authority to vote the shares represented by properly executed proxies in accordance with the proxy holder's discretion and judgment as to the best interests of the Company.

Abstentions are included in the determination of the number of shares represented at the Annual Meeting for purposes of determining whether a quorum is present and are counted as a vote AGAINST when determining whether a proposal has been approved. Broker non-votes are not included in the determination of the number of shares represented at the Annual Meeting for purposes of determining whether a quorum is present and are not counted for purposes of determining whether a proposal has been approved.

PROPOSAL 1 – ELECTION OF CLASS I DIRECTORS

Article III, Section 2, of the Company's Bylaws divides the Board of Directors into three classes, as nearly equal in number as possible, each of which is elected for a three-year term. The Board currently has twelve members with Classes I, II and III containing four members each.

The shares represented by the accompanying proxy will be voted to elect the four nominees for Class I Director recommended by the Board of Directors, unless authority to do so is withheld. Each nominee has agreed to the nomination and has agreed to serve if elected. Should any nominee become unavailable for election, the proxies will be voted for the election of such other person as the Board of Directors may recommend in place of such nominee.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF MESSRS. EDWARDS, BROWN, CICCONI AND MS. HOLLAND-BRANCH AS CLASS I DIRECTORS.

NOMINEES AND DIRECTORS OF THE COMPANY

Name	Age	Director Since	Principal Occupation and Employment During the Past Five Years[1]
NOMINEES FOR CLASS I DIRECTORS (New Term will expire in 2010)			
George W. Edwards, Jr.[2]	67	1992	Chairman of the Board since 1996.
John Robert Brown[3]	62	2003	Chairman of the Board, President and Chief Executive Officer of Desert Eagle Distributing, Inc.
James W. Cicconi	54	1997	Senior Executive Vice President for External and Legislative Affairs of AT&T, Inc., November 2005 to present; General Counsel and Executive Vice President - Law and Government Affairs of AT&T from December 1998 to November 2005.
Patricia Z. Holland-Branch	62	1997	Chief Executive Officer and Owner of HB/PZH Commercial Environments Inc., doing business as Facilities Connection, an HB/PZH Company; Fifty percent partner of MAPRODISA, S.A. de C.V. since 2001.
CLASS II DIRECTORS (Term will expire in 2008)			
Gary R. Hedrick[4]	52	2001	President and Chief Executive Officer since November 2001.
Kenneth R. Heitz	59	1996	Partner of Irell & Manella, LLP, a law firm.
Michael K. Parks[5]	47	1996	Vice Chairman of the Board since November 2005; Managing Director of TCW Group since 2000.
Eric B. Siegel[6]	49	1996	Retired Limited Partner of Apollo Advisors, LP; business consultant since 1995.
CLASS III DIRECTORS (Term will expire in 2009)			
Ramiro Guzmán	60	1996	Director of Business Development, James Edward & Companies since January 1, 2006; Director of Corporate Development, James Edward & Companies from October 2005 to January 2006; President, Viva Distributing from March 2001 to October 2005; owner Ramiro Guzmán & Associates.
James W. Harris	60	1996	Founder and President of Seneca Financial Group, Inc.

Name	Age	Director Since	Principal Occupation and Employment During the Past Five Years[1]
Stephen N. Wertheimer[7]	56	1996	Managing Director of W Capital Partners.
Charles A. Yamarone[8]	48	1996	Executive Vice President of Libra Securities LLC, an institutional broker-dealer, since January 2002.

(1) Where no date is specified, the director has held the position for more than the past five years.

(2) Mr. Edwards is also a director of Hubbell, Inc.

(3) Mr. Brown is also a director of Bank of the West–El Paso, Texas.

(4) Mr. Hedrick is chairman of the board of trustees of Las Palmas Medical Center and an advisory director of J.P. Morgan Chase Bank of Texas-El Paso.

(5) Mr. Parks is also a director of Aurora National Life Assurance Company and E*TRADE Financial Corp. He is chairman of the audit committee and a member of the compensation committee of E*TRADE Financial Corp.

(6) Mr. Siegel is currently a consultant to and a member of the Advisory Board of the Milwaukee Brewers Baseball Club, and a director and member of the audit committee of Ares Capital Corp.

(7) Mr. Wertheimer is also a board member of Adam Aircraft Industries, Inc.

(8) Mr. Yamarone is also a director of Continental Airlines, Inc. and a director and member of the audit committee of New Millennium Homes, LLC.

CORPORATE GOVERNANCE

Corporate Governance Guidelines

The Board has adopted Corporate Governance Guidelines (the "Guidelines") that, along with the charters of the Board committees, provide the framework for the governance of the Company. The Board's Nominating and Corporate Governance Committee is responsible for overseeing and reviewing the Guidelines at least annually and recommending any proposed changes to the Board for approval. The Guidelines are available on the Company website at *www.epelectric.com*. The website is not part of this Proxy Statement.

Standards of Board Independence

The Guidelines, among other things, set forth categorical standards to assist the Board of Directors in making determinations of director independence in accordance with the rules of the NYSE. The Board of Directors makes a determination regarding the independence of each director annually based on all relevant facts and circumstances. Although any director who meets the following criteria and the independence criteria of the NYSE is presumed to be independent (except for purposes of serving as a member of the Audit Committee which requires that the director meet additional requirements under SEC Rule 10A-3(b)(1)(ii)), the Board may make an affirmative determination to the contrary based on its review of other factors. Under the Guidelines, the following persons will not be considered to be independent:

(i) A director who serves as an executive officer or employee of, or beneficially owns more than a 10% equity interest in, any corporation, partnership or other business entity that during the most recently completed fiscal year made payments to the Company or received payments from the Company for goods and services if such payments were more than the greater of 2% of such other entity's gross consolidated revenues for such fiscal year and $1 million.

(ii) A director who serves as an executive officer or employee of, or beneficially owns more than a 10% equity interest in, any bank, corporation, partnership or other business entity to which the Company was indebted at the end of its most recently completed fiscal year in an amount more than the greater of 2% of such other entity's total consolidated assets at the end of such fiscal year and $1 million.

(iii) A director who is a member or employee of a law firm that has provided services to the Company during the most recently completed fiscal year if the total billings for such services were more than the greater of 2% of the law firm's gross revenues for such fiscal year and $1 million.

(iv) A director who is a partner, executive officer or employee of any investment banking firm that has performed services for the Company (other than as a participating underwriter in a syndicate) during the most recently completed fiscal year if the total compensation received for such services was more than the greater of 2% of the investment banking firm's consolidated gross revenues for such fiscal year and $1 million.

In determining the independence of each non-employee director, the Board considered any transactions, relationships and arrangements in which a director may be deemed to have an interest. For 2006, the Board considered the provision of services by Irell & Manella, of which Mr. Heitz is a partner, and purchase of goods from Facilities Connection, which is owned by Ms. Holland-Branch. Neither of these involved over $120,000 or, in the determination of the Board, impacted the independence of the Board member.

Applying these categorical standards and the independence criteria of the NYSE, the Board of Directors has determined that all of its directors meet the independence requirements of the NYSE except for Gary R. Hedrick who serves as President and Chief Executive Officer of the Company.

In addition, the Board of Directors has determined that all members of the Audit Committee meet the independence requirements set forth in Rule 10A-3(b)(1)(ii) under the Securities Exchange Act of 1934, as amended (the "Act").

The Company has not made any charitable contributions in excess of the greater of $1 million or 2% of the charitable organization's consolidated gross revenues within the preceding three years to any charitable organization in which a director of the Company serves as an executive officer.

Business Conduct Policies

The Board of Directors has adopted a Code of Ethics that applies to all directors, officers and employees of the Company, including the Chief Executive Officer, the Executive Vice President, Chief Financial Officer and Chief Administrative Officer and the Controller. A current copy of the Code of Ethics may be found on the Company's internet website at *www.epelectric.com*. Any amendments to, or waivers from, any provision of the Code of Ethics applicable to the Company's Chief Executive Officer, Executive Vice President, Chief Financial Officer and Chief Administrative Officer, Controller or persons performing similar functions will be disclosed by posting such information on the Company's internet website at *www.epelectric.com* within five business days.

Current copies of the charters of the Audit, Compensation, and Nominating and Corporate Governance Committees (the "Committee Charters") may also be found on the Company's internet website at *www.epelectric.com*.

Printed copies of the Guidelines, the Committee Charters and the Code of Ethics are available to any shareholder upon request. Requests for printed copies should be addressed to El Paso Electric Company, 100 N. Stanton, El Paso, Texas 79901, Attention: Office of the Secretary.

Shareholders may correspond directly with non-management directors by writing to James W. Harris, Chairman, Nominating and Corporate Governance Committee, P.O. Box 982, El Paso, Texas 79960.

NYSE Corporate Governance Listing Standards

The Company's Chief Executive Officer must certify to the New York Stock Exchange ("NYSE") each year that he is not aware of any violation by the Company of NYSE corporate governance listing standards, qualifying the certification to the extent necessary. Such certification must be made within thirty days of the date of the Company's annual shareholders' meeting. The certification following the 2006 annual meeting was submitted to the NYSE timely, without qualification.

DIRECTORS' MEETINGS, COMPENSATION, AND COMMITTEES

Meetings

The Board of Directors held eleven meetings during 2006. All directors attended at least 75% of the total number of meetings of the Board of Directors and the committees on which they served. The Board of Directors held three executive sessions during 2006. The Chairman of the Board of Directors presides at the executive sessions.

The Company does not have a formal policy regarding director attendance at annual meetings. All members of the Board of Directors attended last year's annual meeting. All members are expected to attend this year's Annual Meeting.

2006 Director Compensation

The table set forth below provides information regarding compensation paid to the non-employee directors of the Company.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Total ($)
	(a)	(b)(c)	
Brown, J. Robert	$89,500	$ 68,625	$158,125
Cicconi, James W.	87,000	68,625	155,625
Edwards Jr., George W.	90,500	247,048	337,548
Guzmán, Ramiro	59,000	68,625	127,625
Harris, James W.	64,000	68,625	132,625
Heitz, Kenneth R.	—	120,839	120,839
Holland-Branch, Patricia Z.	—	116,045	116,045
Parks, Michael K.	84,000	135,281	219,281
Siegel, Eric B.	91,500	68,625	160,125
Wertheimer, Stephen N.	64,000	68,625	132,625
Yamarone, Charles A.	93,500	68,625	162,125

(a) This column reports the amount of cash compensation earned in 2006 for Board and committee service, based on the compensation policy described below. Annually, directors can elect to receive retainers and meeting fees in cash, restricted stock or non-qualified stock options. Mr. Heitz and Ms. Holland-Branch elected to receive this compensation in restricted stock in 2006.

(b) This column represents the dollar amount recognized for financial statement reporting purposes with respect to the 2006 fiscal year for the fair value of restricted stock awards granted in 2006 as well as prior fiscal years, in accordance with SFAS No. 123 (revised) "Accounting for Stock-Based Compensation" (hereinafter "SFAS 123R"). Fair value for restricted stock is calculated using the closing price of our stock on the date of grant.

(c) Each non-employee director had the following number of stock awards and options outstanding at fiscal year end:

Name	Fair Value at Grant Date – Stock Awards (per share)	Stock Awards (#)	Fair Value at Grant Date – Option Awards (per share)	Option Awards (#)
Brown, J. Robert	$19.40	3,500		
Cicconi, James W.	19.40	3,500	$4.3282	5,000
Edwards Jr., George W.	19.40	10,846	3.2380	5,000
Edwards Jr., George W.			4.3282	5,000
Guzmán, Ramiro	19.40	3,500	4.3282	5,000
Harris, James W.	19.40	3,500	3.2380	5,000
Harris, James W.			4.3282	5,000
Heitz, Kenneth R.	21.04	606	3.2380	5,000
Heitz, Kenneth R.	19.04	932	4.3282	5,000
Heitz, Kenneth R.	19.40	3,500	7.0352	711
Heitz, Kenneth R.	20.16	633	5.6696	793
Heitz, Kenneth R.	22.34	660	5.3895	742
Heitz, Kenneth R.			4.3205	702
Holland-Branch, Patricia Z.	21.04	606	4.3282	5,000
Holland-Branch, Patricia Z.	19.04	774		
Holland-Branch, Patricia Z.	19.40	3,500		
Holland-Branch, Patricia Z.	20.16	633		
Holland-Branch, Patricia Z.	22.34	660		
Parks, Michael K.	19.40	8,654	3.2380	5,000
Parks, Michael K.			4.3282	5,000
Siegel, Eric B.	19.40	3,500	3.2380	5,000
Siegel, Eric B.			4.3282	5,000
Wertheimer, Stephen N.	19.40	3,500	4.3282	5,000
Yamarone, Charles A.	19.40	3,500	3.2380	5,000
Yamarone, Charles A.			4.3282	5,000

During 2006, compensation for non-employee directors consisted of the following:

(1) Each non-employee director received an annual retainer of $35,000.

(2) The chair of the Audit Committee received an additional annual retainer of $10,000, and the chair of each of the other committees of the Board received an additional annual retainer of $5,000.

(3) Each non-employee director received a meeting fee of $1,000 per meeting for each Board and committee meeting attended (other than Audit Committee meetings).

(4) Each Audit Committee member received a meeting fee of $1,500 per meeting for each Audit Committee meeting attended.

(5) Each non-employee director received an award of 3,500 shares of restricted stock, and the Chairman of the Board received an additional award of 7,346 shares of restricted stock. The Vice Chairman of the Board received an additional award of 5,154 shares of restricted stock with a fair market value of $100,000 based on the closing market price of the stock on the date of grant. Restricted stock awarded to directors cannot be sold for one year after grant.

Directors are also reimbursed for travel expenses incurred in connection with their duties as directors. Non-employee directors are not eligible to participate in the executive incentive program, savings programs or any of the retirement programs for the Company's employees. Other than as described in this section, there are no separate benefit plans for directors.

The Company's Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws provide for indemnification of the Company's directors and officers and the Company maintains director and officer liability insurance.

Committees

The Board of Directors has the following standing committees: Audit, Compensation, Executive, Palo Verde and Environmental Oversight, External Affairs, and Nominating and Corporate Governance.

During 2006, the Audit Committee was composed of directors Yamarone (Chairman), Brown, Cicconi, Parks and Siegel. The Audit Committee, which held nineteen meetings in 2006, is responsible for appointing the independent auditors of the Company, reviewing all recommendations of the Company's independent auditors and the Company's internal auditors, reviewing and approving non-audit services performed by accountants and other consultants retained by the Company, reviewing the Company's periodic reports filed with the Securities and Exchange Commission ("SEC") and otherwise overseeing the Company's financial reporting. The Audit Committee also determines whether management has established a system to promote the accuracy and completeness of the Company's financial statements and other publicly disclosed information. The roles and responsibilities of the Audit Committee are described in detail in a written charter adopted by the Board of Directors. The Board of Directors has determined that each member of the Audit Committee meets the experience and independence requirements of the NYSE rules and Rule 10A-3(b)(1)(ii) under the Act. No member of the Audit Committee serves on the audit committee of more than three public companies. The Board of Directors has determined that Messrs. Yamarone and Parks meet the criteria of audit committee financial experts under the SEC's rules and are independent of management. Certain additional information concerning the composition and role of the Audit Committee is set forth under the caption "Audit Committee Report" below.

During 2006, the Compensation Committee was composed of directors Cicconi (Chairman), Heitz, Wertheimer and Yamarone. The Board of Directors has determined that each member of this committee is independent under the rules of the NYSE. The Compensation Committee, which held six meetings in 2006, is responsible for evaluating and approving the compensation of executive officers. It also reviews and approves recommended Company-wide compensation increases for employees, as well as approving the adoption of contracts with union employees. The Compensation Committee is also responsible for evaluating, adopting and administering benefit plan programs. The roles and responsibilities of the Compensation Committee are described in detail in a written charter adopted by the Board of Directors. Additional information concerning the process and procedures for the consideration and determination of executive compensation (including its engagement of compensation consultant Hewitt Associates ("Hewitt")) by the Compensation Committee appears under the caption "Compensation Discussion and Analysis" below.

During 2006, the Executive Committee was composed of directors Siegel (Chairman), Harris, Hedrick, Parks and Wertheimer. The Executive Committee, which held eleven meetings in 2006, consults with senior management on administrative matters and directs the strategic planning effort on behalf of the Board. The Executive Committee may exercise all powers of the Board of Directors (except as prohibited by the Texas Business Corporation Act) between meetings. In addition, the Executive Committee's responsibilities include analyzing and making recommendations to the Board of Directors regarding the maximization of shareholder value. The roles and responsibilities of the Executive Committee are described in detail in a written charter adopted by the Board of Directors.

During 2006, the External Affairs Committee was composed of directors Brown (Chairman), Guzmán, Harris, Heitz and Holland-Branch. The External Affairs Committee, which held six meetings in 2006, is responsible for setting policy and reviewing an annual budget for civic and charitable contributions by the Company in the communities it serves. It is also responsible for assisting management in formulating a business development strategy for Mexico and evaluating business opportunities in Mexico. The Committee created a civic and charitable affairs subcommittee, consisting of Messrs. Brown, Guzmán, Hedrick and Ms. Holland-Branch. This subcommittee, which held three meetings in 2006, is responsible for overseeing the Company's charitable giving and civic activities. The roles and responsibilities of the External Affairs Committee are described in detail in a written charter adopted by the Board of Directors.

During 2006, the Nominating and Corporate Governance Committee was composed of directors Harris (Chairman), Parks, Siegel and Wertheimer. The Board of Directors has determined that each member of this committee is independent under the rules of the NYSE. The Nominating and Corporate Governance Committee, which held one meeting in 2006, is responsible for identifying qualified individuals to serve as members of the Board of Directors, recommending directors for appointment to committees, evaluating Board performance, and overseeing and setting compensation for the members of the Board of Directors. The roles and responsibilities of the Nominating and Corporate Governance Committee are described in detail in a written charter adopted by the Board of Directors. In 2006, the Nominating and Corporate Governance Committee assisted the Board of Directors and each of the Board committees in conducting a self-evaluation to assess their effectiveness.

During 2006, the Palo Verde and Environmental Oversight Committee was composed of directors Edwards (Chairman), Guzmán, Hedrick, Heitz and Holland-Branch. The Palo Verde and Environmental Oversight Committee, which held six meetings in 2006, is responsible for (i) reviewing and assessing the activities and operations of the Palo Verde Nuclear Generating Station in which the Company is a participant and (ii) overseeing the affairs and operations of the Company to determine whether the Company has operated Company facilities in compliance with applicable environmental laws and regulations, and identifying existing and potential environmental issues facing the Company under federal, state and local law. The roles and responsibilities of the Palo Verde and Environmental Oversight Committee are described in detail in a written charter adopted by the Board of Directors.

Consideration of Director Nominees

The Nominating and Corporate Governance Committee will consider nominees for the Board of Directors submitted in writing by a shareholder. A shareholder wishing to nominate one or more individuals to stand for election as a director at an annual or special meeting of the shareholders must provide written notice thereof not less than eighty days in advance of such meeting; provided, however, that in the event that the date of the meeting was not publicly announced by the Corporation more than ninety days prior to the meeting, such notice, to be timely, must be delivered not later than the close of business on the tenth day following the day on which the date of the meeting was publicly announced. A shareholder's notice must set forth (a) the name and address of the shareholder making the nomination; (b) such information regarding the nominee(s) proposed by such shareholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the SEC had the nominee(s) been nominated by the Board of Directors; (c) a representation of the shareholder as to the number of shares of stock of the Company that are beneficially owned by the shareholder and the shareholder's intent to appear in person or by proxy at the meeting to propose such nomination; and (d) the written consent of the nominee(s) to serve as a member of the Board of Directors if so elected. Any such shareholder notice should be submitted in writing to: Guillermo Silva, Jr., Corporate Secretary, El Paso Electric Company, 100 N. Stanton, El Paso, Texas 79901.

In making its recommendations regarding nominees to serve on the Board of Directors, the Nominating and Corporate Governance Committee reviews an individual's qualifications including a determination as to the independence of the candidate based on the independence criteria described above. If the nominee is being evaluated for re-nomination to the Board of Directors, the committee will assess the prior performance of such director. The committee will also periodically review the composition of the Board of Directors in light of its current challenges and needs and determine whether it may be appropriate to add or remove individuals after considering issues of judgment, diversity, age, skills, background and experience. No director may serve on the boards of more than three other public companies while serving on the Company's Board of Directors.

The Board of Directors believes that directors should hold meaningful equity ownership positions in the Company. Each non-employee director is expected (but not required) to be a beneficial owner of shares of the Company's Common Stock or common stock equivalents with a market value equivalent to at least three years' annual cash retainer fees by the end of his or her second year of service on the Board of Directors. Each non-employee director on the Board of Directors met this stock ownership guideline as of December 31, 2006.

PROPOSAL 2 – APPROVAL OF EL PASO ELECTRIC COMPANY 2007 LONG-TERM INCENTIVE PLAN

General

The Board of Directors is seeking shareholder approval of the El Paso Electric Company 2007 Long-Term Incentive Plan (the "Plan"). The purpose of the Plan is to provide a means whereby employees and directors of the Company develop a sense of proprietorship and personal involvement in the development and financial success of the Company, and to encourage them to devote their best efforts to the business of the Company, thereby advancing the interests of the Company and its shareholders. A further purpose of the Plan is to provide a means through which the Company may attract able individuals to become employees or serve as directors of the Company and to provide a means whereby those individuals upon whom the responsibilities of the successful administration and management of the Company are of importance, can acquire and maintain stock ownership, thereby strengthening their concern for the welfare of the Company. Under the Plan, the Company may grant non-qualified stock options, "incentive stock options" (within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code")), stock appreciation rights ("SARs"), restricted stock, restricted stock units, performance shares, performance units, cash-based awards, and other stock-based awards. Reference is made to Exhibit A to this Proxy Statement for the complete text of the Plan which is summarized below.

As described in more detail below, the Plan is more restrictive than the 1999 Plan as it relates to (i) the definition of a "change in control," (ii) the payouts upon the occurrence of a change in control, (iii) the performance measures that may be utilized for performance-based awards and (iv) the maximum annual awards to employees.

Description of Plan

Administration. The Plan will be administered by the Compensation Committee of the Board of Directors (the "Committee").

Subject to the express provisions of the Plan, the Committee will have the authority to select eligible persons to receive awards and determine all of the terms and conditions of each award. All awards will be evidenced by a written agreement containing such provisions not inconsistent with the Plan as the Committee shall approve. The Committee will also have authority to establish rules and regulations for administering the Plan and to decide questions of interpretation or application of any provision of the Plan.

Available Shares. In 1999, the Company's shareholders approved the El Paso Electric Company 1999 Long-Term Incentive Plan (the "1999 Plan"). At March 15, 2007, there remained 44,577 shares available for awards under the 1999 Plan. The Company estimates that substantially all shares available under the 1999 Plan will have been awarded on or prior to the Annual Meeting on May 2, 2007.

Under the Plan, 1,000,000 shares of Common Stock will be available for awards, subject to adjustment in the event of any corporate event or transaction (including, but not limited to, a change in the shares of the Company or the capitalization of the Company) such as a merger, consolidation, reorganization, recapitalization, separation, partial or complete liquidation, stock dividend, stock split, reverse stock split, split up, spin-off, or other distribution of stock or property of the Company, combination of shares, exchange of shares, dividend in kind, or other like change in capital structure, number of outstanding shares or distribution (other than normal cash dividends) to shareholders of the

Company, or any similar corporate event or transaction. Shares covered by an award shall be counted as used as of the date of grant. Under the Plan, any shares related to awards under the Plan or the Company's prior plans which terminate by expiration, forfeiture, cancellation, or otherwise without the issuance of such shares, are settled in cash in lieu of shares, or are exchanged with the Committee's permission, prior to the issuance of shares, for awards not involving shares, and shall be available again for grant under the Plan.

Change in Control. In the event of certain acquisitions of 30% or more of the Common Stock, certain changes in a majority of the Board of Directors, or the consummation of a reorganization, merger or consolidation or sale or disposition of all or substantially all of the assets of the Company (unless, among other conditions, the Company's shareholders receive 60% or more of the stock of the surviving company) or the liquidation or dissolution of the Company, all outstanding options and SARs will be exercisable in full, and the restricted stock and restricted stock units will become immediately vested and payable. The performance period applicable to performance shares and performance units shall end upon the occurrence of a change in control in the manner and on the date determined by the Committee in its sole discretion. The performance goals associated with such awards shall be measured based on performance achieved through the end of such shortened performance period and such awards shall become vested and payable on a prorated basis to reflect the shortened performance period, with the remaining portion of the awards terminating. The Plan is more restrictive than the 1999 Plan under which all awards vested at maximum levels without proration upon the occurrence of a change in control event. Also, the definition of change in control has been modified under the Plan to require consummation of a transaction rather than shareholder approval.

Effective Date, Termination and Amendment. If approved by shareholders, the Plan will become effective as of the date of such approval. The Plan will terminate ten years thereafter unless terminated earlier by the Board of Directors. The Committee may, at any time and from time to time, alter, amend, modify, suspend, or terminate the Plan and any award agreement in whole or in part; provided, however, that, without the prior approval of the Company's shareholders and except as provided in the Plan, options or SARs issued under the Plan will not be repriced, replaced, or regranted through cancellation, or by lowering the option price of a previously granted option or the grant price of a previously granted SAR, and no amendment of the Plan shall be made without shareholder approval if shareholder approval is required by law, regulation, or stock exchange rule.

Stock Options - General. The Committee will determine the conditions to the exercisability of each option. Upon exercise of an option, the purchase price may be paid in cash or by delivery of previously owned shares of Common Stock.

Non-Qualified Stock Options and Incentive Stock Options. The period for the exercise of a non-qualified stock option or incentive stock option will be determined by the Committee. The exercise price of a non-qualified stock option or incentive stock option will not be less than the fair market value of the Common Stock on its date of grant. The Committee may impose restrictions on any shares acquired pursuant to the exercise of a non-qualified stock option or incentive stock option granted under the Plan.

The award agreement shall set forth the extent to which the participant shall have the right to exercise the non-qualified stock option or incentive stock option in the event of participant's termination of employment or service. Such provisions will be determined by the Committee.

Stock Appreciation Rights. The period for the exercise of a SAR will be determined by the Committee. The base price of a SAR will not be less than 100% of the fair market value of the Common Stock on the date of grant. A SAR entitles the holder to receive upon exercise (subject to withholding taxes) shares of Common Stock (which may be restricted stock), cash or combination thereof with a value equal to the difference between the fair market value of the Common Stock on the exercise date and the base price of the SAR. The Committee may impose restrictions upon exercise of a SAR granted under the Plan.

The award agreement shall set forth the extent to which the participant shall have the right to exercise the SAR in the event of participant's termination of employment or service. Such provisions will be determined by the Committee.

Restricted Stock and Restricted Stock Units. The Plan provides for the grant of (i) restricted stock awards which may be subject to a restriction period ("restricted stock"), and (ii) restricted stock units which are similar to restricted stock except no shares are actually awarded. An award of restricted stock or restricted stock units may be subject to specified performance measures during the applicable restriction period. Shares of restricted stock will be freely transferable after all conditions and restrictions have been satisfied or have lapsed. The award agreement shall set forth the extent to which the participant shall have the right to retain restricted stock and/or restricted stock units in the event of participant's termination of employment or service. Such provisions will be determined by the Committee. Unless otherwise set forth in a restricted stock award agreement, the holder of a restricted stock award will have rights as a shareholder of the Company, including the right to vote and receive dividends with respect to the shares of restricted stock. A participant shall have no voting rights with respect to any restricted stock units granted under the Plan.

Performance Units and Performance Shares. The Plan also provides for the grant of performance units and performance share awards. Each performance unit and each performance share is a right, contingent upon the attainment of performance measures within a specified performance period. The Committee will determine the form of payout of cash or in shares (or in a combination thereof) equal to the value of earned performance units/performance shares at the close of the applicable performance period. The award agreement shall set forth the extent to which the participant shall have the right to retain the performance units and/or performance shares in the event of participant's termination of employment or service, as determined by the Committee. If the Committee desires to qualify performance-based awards under Section 162(m) of the Code, the performance goals will consist of any of the following:

(a) Net earnings or net income (before or after taxes);

(b) Earnings per share;

(c) Net sales or revenue growth;

(d) Net operating profit;

(e) Return measures (including, but not limited to, return on assets, capital, invested capital, equity, sales, or revenue);

(f) Cash flow (including, but not limited to, operating cash flow, free cash flow, cash flow return on equity, and cash flow return on investment);

(g) Earnings before or after taxes, interest, depreciation, and/or amortization;

(h) Gross or operating margins;

(i) Productivity ratios;

(j) Share price (including, but not limited to, growth measures and total shareholder return);

(k) Expense targets;

(l) Margins;

(m) Operating efficiency;

(n) Market share;

(o) Customer satisfaction;

(p) Working capital targets; and

(q) Economic value added or EVA® (net operating profit after tax minus the sum of capital multiplied by the cost of capital).

Cash-Based Awards and Other Stock-Based Awards. The Plan also provides for the grant of cash-based awards and other types of equity-based or equity-related awards not otherwise described by the Plan as determined by the Committee. The Committee will determine the value of the cash-based awards and other stock-based awards and may establish performance goals. In the event the Committee establishes performance goals, the number and/or value of cash-based awards or other stock-based awards that will be paid out will depend on the extent to which performance goals are met. The Committee shall determine the extent to which the participant shall have the right to receive cash-based awards or other stock-based awards in the event of participant's termination of employment or service.

Non-Employee Director Awards. Unless the Board determines otherwise, on the date of each annual meeting of shareholders of the Company, the following restricted stock awards shall be made to each person who is a non-employee director immediately after such meeting of shareholders:

(a) Each non-employee director, other than the Chairman of the Board and the Vice Chairman of the Board, shall receive a restricted stock award of three thousand five hundred (3,500) shares;

(b) The Vice Chairman of the Board shall receive a restricted stock award equal to the sum of (i) three thousand five hundred (3,500) shares and (ii) an amount of shares equal to one hundred thousand dollars ($100,000) divided by the closing price of the stock on the date of grant; and

(c) The Chairman of the Board shall receive a restricted stock award of sixteen thousand (16,000) shares less the number of shares awarded the Vice Chairman under subparagraph (b)(ii) above.

The Board will have full discretion to change grant practices for non-employee directors.

Maximum Awards for Employees. Generally, the Plan limits the annual awards to any individual employee as follows:

(a) 300,000 options;

(b) 300,000 SARs;

(c) 150,000 shares of restricted stock or restricted stock units;

(d) 150,000 performance shares or performance units; and

(e) $3,000,000 or 150,000 shares of cash-based or other stock-based awards.

Federal Income Tax Consequences

The following is a brief summary of certain U.S. federal income tax consequences generally arising with respect to awards under the Plan.

A participant generally will not recognize taxable income at the time an option is granted, and the Company will not be entitled to a tax deduction at such time. A participant will recognize compensation taxable as ordinary income (and subject to income tax withholding in respect of an employee) upon exercise of a non-qualified stock option equal to the excess of the fair market value of the shares purchased over their exercise price, and the Company generally will be entitled to a corresponding deduction. A participant will not recognize income (except for purposes of the alternative minimum tax) upon exercise of an incentive stock option. If the shares acquired by exercise of an incentive stock option are held for the longer of two years from the date the option was granted and one year from the date it was exercised, any gain or loss arising from a subsequent disposition of such shares will be taxed as long-term capital gain or loss, and the Company will not be entitled to any deduction. If, however, such shares are disposed of within the above-described period, then in the year of disposition, the participant will recognize compensation taxable as ordinary income equal to the excess of the lesser of (i) the amount realized upon disposition and (ii) the fair market value of the shares on the date of exercise over the exercise price, and the Company generally will be entitled to a corresponding deduction.

A participant generally will not recognize taxable income at the time SARs are granted and the Company will not be entitled to a tax deduction at such time. Upon exercise, the participant will recognize compensation taxable as ordinary income (and subject to income tax withholding in respect of an employee) in an amount equal to the fair market value of any shares delivered and the amount of any cash paid by the Company. This amount generally is deductible by the Company as compensation expense.

A participant will not recognize taxable income at the time restricted stock is granted and the Company will not be entitled to a tax deduction at such time, unless the participant makes an election to be taxed at such time. If such election is not made, the participant will recognize compensation taxable as ordinary income (and subject to income tax withholding in respect of an employee) at the time the restrictions lapse in an amount equal to the excess of the fair market value of the shares at such time over the amount, if any, paid for such shares. The amount of ordinary income recognized generally is deductible by the Company as compensation expense, except to the extent the deduction limits of Section 162(m) of the Code apply. Restricted stock units generally will also be taxed as ordinary income upon vesting unless structured in compliance with applicable tax rules to defer taxation until settlement.

Most of the awards under the Plan are discretionary, so it is not possible to determine the benefits received in the future by participants, except with respect to directors under the current Board compensation policy. The following table sets forth the aggregate number of shares of Common Stock that would be granted annually to non-employee directors based on current Board compensation policy. Such awards are granted on the date of each annual meeting of shareholders beginning with the 2007 Annual Meeting.

New Plan Benefits Table
El Paso Electric Company
2007 Long-Term Incentive Plan

	Restricted Shares	
Position	**Number**	**Value**
Non-employee directors (11 persons)	51,000	$1,199,520

The indicated value is based on a fair market value of $23.52 per share which is the closing price of Common Stock on the New York Stock Exchange on February 28, 2007.

In 2006, executive officers of the Company received an aggregate award of 20,550 shares of restricted stock which have a three-year vesting schedule, and 70,700 performance shares at target which have a three-year performance cycle. However, awards under the Plan are discretionary, and therefore, officers may receive different amounts of awards in the future.

Equity Compensation Plan Information as of December 31, 2006

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	957,888	$12.45	173,065
Equity compensation plans not approved by security holders	—	—	—
Total	957,888	$12.45	173,065

Vote Required and Board Recommendation

The affirmative vote of the holders of a majority of the shares of Common Stock entitled to vote and represented in person or by proxy at the Annual Meeting is required to approve the El Paso Electric Company 2007 Long-Term Incentive Plan. Unless otherwise instructed, the proxy holders will vote the proxies received by them FOR approval of the Plan. **The Board of Directors recommends a vote FOR approval of the Plan.**

PROPOSAL 3
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors has selected KPMG LLP to serve as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2007. At the Annual Meeting, the Company will ask shareholders to ratify the Board's selection. KPMG LLP, which served in the same capacity in 2003, 2004, 2005 and 2006, is expected to be represented at the Annual Meeting. Representatives of KPMG LLP will have an opportunity to make a statement if they desire to do so and will respond to appropriate questions. If the shareholders do not ratify the Board's proposal, the Board of Directors will reconsider its action with respect to the appointment of KPMG LLP. Approval of the resolution, however, will in no way limit the Board's authority to terminate or otherwise change the engagement of KPMG LLP during the fiscal year ending December 31, 2007.

Audit Fees

KPMG LLP billed the Company an aggregate of $921,000 for professional services rendered in connection with the audit of the Company's financial statements (including $411,000 for Sarbanes-Oxley Section 404 certification) and review of the Company's financial statements included in the Company's quarterly reports on Form 10-Q during the fiscal year ended December 31, 2006. The Sarbanes-Oxley Section 404 certification fees include $141,000 of fees associated with the December 31, 2005 attestation, which were billed in 2006, and $270,000 associated with the December 31, 2006 attestation.

KPMG LLP billed the Company an aggregate of $1,017,000 for professional services rendered in connection with the audit of the Company's financial statements (including $522,000 for Sarbanes-Oxley Section 404 Certification) for the fiscal year ended December 31, 2005 and review of the Company's financial statements included in the Company's quarterly reports on Form 10-Q during the fiscal year ended December 31, 2005.

Financial Information Systems Design and Implementation

The Company did not pay KPMG LLP nor did KPMG LLP perform professional services in connection with financial information systems design and implementation for the fiscal years ended December 31, 2006 and 2005.

Audit-Related Fees

KPMG LLP billed the Company $216,000 and $247,000 for audit-related services, including audits of benefit plans and federal and state regulatory filings, during the fiscal years ended December 31, 2006 and 2005, respectively.

Tax Fees

KPMG LLP billed the Company $39,000 and $44,000 for professional services rendered in connection with tax compliance, tax advice and tax planning during the fiscal years ended December 31, 2006 and 2005, respectively.

All Other Fees

The Company paid no other fees to KPMG LLP during the fiscal years ended December 31, 2006 and 2005.

KPMG LLP determined that these services did not affect its independence under applicable auditing standards. The Audit Committee pre-approved the engagement of KPMG LLP to provide the audit and permissible non-audit services described above in accordance with the requirements of the Sarbanes-Oxley Act of 2002 and determined that KPMG LLP's provision of the services described above under "Audit-Related Fees," "Tax Fees," and "All Other Fees" is compatible with KPMG LLP's independence.

Audit Committee Pre-Approval Policies and Procedures

The Audit Committee charter provides that the Audit Committee will pre-approve audit services and non-audit services to be provided by the Company's independent auditors pursuant to pre-approval policies and procedures established by the Audit Committee. The Audit Committee may consult with management in the decision-making process, but may not delegate this authority to management. The Audit Committee may delegate its authority to pre-approve services to one or more committee members, provided that such designees present any such pre-approvals to the full committee at the next committee meeting.

The Board of Directors recommends a vote FOR the ratification of the selection of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2007.

COMPENSATION DISCUSSION AND ANALYSIS

Executive Compensation Philosophy and Overview

Our executive compensation program is designed to:

- Attract and retain qualified executives by providing comprehensive and market-competitive compensation;
- Encourage a high level of performance by linking a significant amount of executive pay to the financial results and operating performance of the Company; and
- Motivate our executive team to achieve the Company's business strategy and maximize long-term shareholder return.

In order to meet these goals, our executive compensation currently consists of base salary, an annual performance bonus payable in cash and stock-based long-term incentive awards, along with retirement and other benefits. The levels of compensation are determined through a combination of market data, company performance and individual responsibility and performance.

Executive Compensation Process

Our Compensation Committee (the "Committee") reviews and approves compensation for all executive officers. The Committee reviews the performance of our President and Chief Executive Officer at least annually. Our CEO reviews other executive officers' performance and reports his evaluations to the Committee. Our CEO also recommends to and discusses with the Committee the non-equity compensation elements for executive officers, although the Committee approves actual compensation awarded.

The Committee has engaged Hewitt, an outside global human resource consulting firm, to conduct an annual review of its total compensation program for the executive officers. Hewitt provides the Committee with relevant market data and alternatives to consider when making compensation decisions. Hewitt provides other services directly to the Company related to review, administration and adoption of employee benefit plans, for relatively small fees. The Committee believes that this engagement does not hinder Hewitt's ability to give objective advice to the Committee.

The Committee generally makes decisions regarding base salary, annual bonus targets and equity incentive awards at one or more regularly scheduled meetings during March of each year. The Committee continues to review compensation matters throughout the year and changes or approves compensation at other times in response to hiring needs, market changes and other occurrences. The Committee's decisions about equity awards are not "timed" or otherwise affected by the planned announcement of material information. Recently, the Company, with review by Hewitt, has begun to provide the Committee with a summary of compensation (also called a "tally sheet") for each executive officer showing all compensation, equity holdings and accrued retirement benefits. We intend to provide this information to the Committee at least annually or otherwise when material decisions are being considered by the Committee.

Compensation Benchmarking

In consultation with Hewitt, the Committee has approved a group of companies (referred to in this discussion as the Compensation Comparator Group) from the Edison Electric Institute Index to be used for annual benchmarking of our compensation program. These companies represent regional electric utilities with business issues and compensation programs similar to our own. Although the Compensation Comparator Group consists of companies that vary in size and region served, we feel this group represents companies with which we compete for executive talent. The Committee reviews compensation information of the Compensation Comparator Group compiled from surveys based on companies that participate in these surveys and publicly available data. For companies in the group with annual revenues higher or lower than ours, Hewitt adjusts the compensation market values using regression analysis to mitigate differences in size for comparison purposes, which is a commonly used approach to ensure the market values reflect our Company's size. The companies in the Compensation Comparator Group currently consist of the following 15 companies:

- ALLETE, Inc.
- Alliant Energy Corporation
- Ameren Corporation
- Black Hills Corporation
- Cleco Corporation
- DPL, Inc.
- Duquesne Light Holdings, Inc.
- Great Plains Energy, Inc.
- IDACORP, Inc.
- Otter Tail Corporation
- Pinnacle West Capital Corporation
- PNM Resources, Inc.
- SCANA Corporation
- Unisource Energy Corporation
- Westar Energy, Inc.

Primary Components of Compensation

The primary components of our compensation program for the Named Executive Officers (as hereinafter defined) are:

- Base salary;
- Short-term incentive compensation, currently awarded through an annual cash performance-based bonus plan; and
- Long-term incentive equity compensation, currently awarded in shares with a combination of time-based and performance-based vesting as opposed to stock options.

We do not target any element of compensation to be a particular percentage of total compensation.

Base Salary. Base salary levels for our executive officers generally are reviewed and set annually. The Committee targets the 50th percentile level of the Compensation Comparator Group, although the Committee also considers executives' responsibility level, experience and individual performance. The Committee most recently approved base salary increases for executive officers in December 2006 after reviewing these factors. Base salaries for the Named Executive Officers at the end of fiscal 2006 averaged approximately the 50th percentile as compared to the Compensation Comparator Group.

Annual Cash Bonus Plan. The purpose of our annual cash performance-based bonus plan is to provide market-based compensation opportunities based on achievement of specific business goals and objectives that are established in advance on an annual basis. For our executive officers, the goals are based solely on corporate financial and operational performance. For 2006, these goals were comprised of the following:

- Financial performance, representing 70% of the bonus, was measured by earnings per share (EPS); and
- Operational performance was measured by a combination of customer satisfaction (25% of the bonus) and safety goals (5% of the bonus).

Each executive officer is assigned a target award opportunity expressed as a percentage of base salary. These targets range from 25% to 45% of base salary for most executives, and up to 60% for the CEO. The target award represents the level of bonus payment the executive may earn in the event that plan performance is achieved at "targeted levels." Payments at the targeted levels are intended to approximate the 50th percentile of the Compensation Comparator Group. In addition, threshold and maximum award levels are established that adjust payouts for performance levels that exceed or fall below our plan.

The EPS bonus goals for 2006 were established based on a range between a threshold of $1.21 and a maximum of $1.41. Executives would receive no bonus if the threshold EPS goal (which is less than the target level) is not achieved and a proportionally higher bonus if earnings surpass the pre-established goal. Our target safety goals for 2006 were based on the highest performance level during the previous five years. Our customer satisfaction goals are established and measured based on annual surveys designed and performed by a third-party marketing organization and are within the top quartile of all U.S. electric utilities. Bonuses are paid in late February or early March after the Committee reviews the audited financial results and operational performance for the previous year.

Long-Term Equity Incentives. We grant stock awards annually with a three-year payout cycle. These awards are designed to focus executives on the relative performance of our stock and, secondarily, are designed as a retention tool. Since 2004, the Committee has granted annual long-term incentives consisting of two elements:

- Performance shares, which are earned based on our total shareholder return over a three-year period; and
- Time-vested restricted stock, which vests at the end of a three-year period.

The initial target value of each annual award is based on a weighting of approximately 75% for performance shares and 25% for time-based restricted stock. We have chosen to place more weight on the performance shares so that the most value is realized based on return for our shareholders over a period of three years. We feel the time-based restricted stock awards are also effective retention and incentive tools because their actual value is tied to the value of the Company's stock no earlier than the vesting date. The initial target values (*i.e.*, the initial value of the time-based restricted stock plus 100% target of the performance shares) are intended to approximate the 50th percentile of the Compensation Comparator Group.

The actual number of performance shares earned at the end of the three-year cycle depends on the Company's percentile ranking within a specific group of companies identified by the Committee in consultation with Hewitt (called the "Performance Comparator Group"). The Performance Comparator Group is structured to be a group of companies defined by a third-party index and is somewhat different from our Compensation Comparator Group. The Performance Comparator Group represents 15 publicly-traded electric utilities with market capitalizations similar to our own. We believe that these companies have investor bases that are similar to ours. The following companies, chosen from the Standard & Poor's SmallCap 600 and MidCap 400 that are included in the Global Industry Classification Standard's (GICS) sub-industry of Electric Utilities for their similarities to us in type of industry and size of operations, currently are in our Performance Comparator Group:

- ALLETE, Inc.
- Central Vermont Public Service Corporation
- Cleco Corporation
- DPL, Inc.
- Duquesne Light Holdings, Inc.
- Great Plains Energy, Inc.
- Hawaiian Electric Industries, Inc.
- IDACORP, Inc.
- Green Mountain Power Corporation
- Northeast Utilities
- Pepco Holdings, Inc.
- Sierra Pacific Resources
- UIL Holdings Corporation
- Unisource Energy Corporation
- Westar Energy, Inc.

The actual number of performance shares earned at the end of the three-year cycle can range from 0% to 200% of target, depending on our ranking within the Performance Comparator Group for total shareholder return. Shareholder return is defined as the change in stock value plus dividends over the three-year performance period within the Performance Comparator Group, and pay-outs for each three-year cycle are as follows:

- if we rank first, 200% of target
- if we rank second, 175% of target
- if we rank third, 150% of target
- if we rank below third but above the 50th percentile, we interpolate between 150% and 100% of target
- if we are at the 50th percentile, 100% of target
- if we rank below 50th percentile but above the 30th percentile, we interpolate between 100% and 30% of target
- if we are below the 30th percentile, 0% of target

For the 2004-2006 performance cycle, which ended on December 31, 2006, our total shareholder return ranked third among the Performance Comparator Group, which resulted in performance shares earned at the 150% level.

We have chosen to make recent long-term awards to executive officers in the form of "full-value" stock awards rather than stock options because these stock awards have significant retention value due to their value being directly linked to the stock price in the future. In addition, this type of award limits the negative retention impact of short-term volatility in our stock price. The Compensation Committee regularly reviews our equity incentive program and reserves the right to grant different types of equity awards in the future.

Other Executive Benefits

Retirement Benefits. We provide our employees, including our executive officers, with a tax-qualified defined benefit pension plan, which provides employees the opportunity to earn service toward income replacement at retirement. The benefit is based on years of service, retirement age and salary over a period of time prior to retirement. However, tax regulations impose a limit on the amount of compensation that can be taken into account for purposes of determining these retirement benefits. As a result, the qualified plan does not achieve a market-competitive structure for senior executives whose total compensation can include a significant amount of variable short-term incentive compensation. We established an excess benefit plan to provide supplemental retirement benefits to senior executives based on actual annual earnings applied to the basic retirement plan formula without regard to the tax limitations.

Perquisites and Other Benefits. Generally our Named Executive Officers do not receive material perquisites or other benefits different from other employees. For example, our executives participate in the same medical, dental, life insurance, accidental death & dismemberment, and long-term disability plans as do other employees, and the Company contributions to the 401(k) plan are on the same basis as other employees. However, executives are paid a small monthly car allowance and receive at a minimum five weeks and three days of paid time off annually.

Change in Control/Termination Agreements. The Committee has approved change in control severance agreements for each of our Named Executive Officers. As further described in this Proxy Statement, these agreements provide executives with benefits in the event of involuntary termination or adverse job changes in connection with or after a change in control. The Committee periodically reviews the costs of these agreements and market practice. The Committee believes these agreements offer important protection in the event of a change of control, while also ensuring that in the event of an actual proposed change of control, key executives will be willing to remain through the closing because of this protection. This is especially important in the utility industry when the need for regulatory approvals can result in significant delays in consummating transactions following the execution of definitive agreements. In March 2007, after reviewing potential costs and market practice, the Committee approved revisions to these agreements which eliminate the tax reimbursement payments previously provided if an executive is subject to the excise tax under Section 4999 of the Code and instead provide that either (i) the executive will be responsible for paying the excise tax or (ii) payments will be reduced to the extent necessary so that no portion is subject to the excise tax, whichever would result in the executive retaining the higher after-tax amount.

Stock Ownership Guidelines

We believe that stock ownership by executive officers can directly correlate to improved performance and enhancement of shareholder value. Therefore, the Committee has established recommended stock ownership guidelines for executive officers. The guidelines are as follows:

Position	Guideline
CEO	Three times base salary
Other Executive Officers	Two times base salary

Our executive officers are expected (but not required) to meet these guidelines within five years after becoming an executive officer. As of the end of 2006, all of our Named Executive Officers met these guidelines or are progressing towards meeting the guidelines within their initial 5-year term. As announced in November 2006, Mr. Hedrick told the Board of his intention to retire no later than 2009, and the Board commenced a search for his successor. As a result, Mr. Hedrick was permitted to begin a program of selling his shares in an orderly manner under stock trading plans pursuant to the requirements of Rule 10b5-1 under the Act. Following the completion of these sales, Mr. Hedrick will no longer meet the stock ownership guidelines.

Impact of Accounting and Tax Treatment of Compensation

Historically, the accounting and tax treatment of compensation has not been a driving factor in determining the design or amounts of pay at the Company. For example, the Company granted "full value" awards prior to its adoption of Financial Accounting Standards Board Statement No. 123R and continues to do so, although the Committee does review the expected accounting treatment of its equity grants.

Section 162(m) of the Code, generally limits the tax deductibility to public companies for compensation in excess of $1 million per person per year, unless the compensation is "performance-based" within the meaning of the tax regulations. The Compensation Committee considers it important to retain flexibility to design compensation programs, even where compensation payable under our programs may not be fully deductible, if the programs effectively recognize a full range of criteria important to the Company's success. For example, the Company has not structured its annual cash bonus plan to be "performance-based" for purposes of Section 162(m), although for 2006, total cash compensation for each Named Executive Officer was below the $1 million limit. The Company grants some equity awards (such as restricted stock) that are not eligible for the Section 162(m) exception. Our proposed Plan is intended to allow the Committee to approve performance shares and stock options that qualify as "performance-based" compensation for purposes of Section 162(m) to the extent the Committee deems appropriate.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation and Discussion and Analysis be included in the Proxy Statement.

THE COMPENSATION COMMITTEE

James W. Cicconi, Chairman
Kenneth R. Heitz
Stephen N. Wertheimer
Charles A. Yamarone

SUMMARY OF COMPENSATION

The Summary Compensation Table sets forth the compensation paid or accrued by the Company for Gary R. Hedrick, the Principal Executive Officer, Scott D. Wilson, the Principal Financial Officer, and each of the Company's other three most highly compensated executive officers. The persons named in the Summary Compensation Table are referred to collectively as the "Named Executives" or the "Named Executive Officers."

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($) (b)	Option Awards ($) (c)	Non-Equity Incentive Plan Compensation ($) (d)	Change in Pension Value and Non-qualified Deferred Compensation Earnings ($) (e)	All Other Compen-sation ($)	Total ($)
Gary R. Hedrick President and Chief Executive Officer(a)	2006	$484,135		$796,274	$337,050	$363,101	$282,705	$35,661	$2,298,926
Scott D. Wilson Executive Vice President and Chief Financial Officer and Chief Administrative Officer	2006	269,308		155,001	72,300	152,664	22,038	18,403	689,714
Julius F. Bates Executive Vice President and Chief Operating Officer	2006	283,856		171,396	138,520	141,928	71,054	26,849	833,603
John A. Whitacre Vice President, System Operations and Planning	2006	184,277		84,541	127,920	67,491	55,298	17,230	536,757
Steven P. Busser Vice President, Treasurer and Chief Risk Officer	2006	173,575		56,281	72,300	63,572	7,044	17,343	390,115

(a) Mr. Hedrick is also a director of the Company, but receives no additional compensation for his service as a director.

(b) This column represents the dollar amount recognized as compensation expense for financial statement purposes with respect to 2006 for the fair value of restricted stock and performance shares granted in 2006 as well as prior fiscal years, in accordance with SFAS 123R. Restricted stock awards are valued at the closing market price on the date of grant. Performance shares are valued at target performance goals at grant date fair value which is based upon a "Monte Carlo simulation," which is a methodology for determining average payout using different simulations. Amounts disclosed have not been reduced by estimated service-based forfeitures of approximately 15%. For additional information on the valuation assumptions with respect to restricted stock and performance shares see Note E—Common Stock of Notes to the Consolidated Financial Statements in the Company's 2006 Form 10-K.

(c) This column represents the dollar amount recognized as compensation expense for financial statement reporting purposes with respect to the 2006 fiscal year for the fair value of stock options granted in 2006 as well as prior fiscal years, in accordance with SFAS 123R. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. For additional information on the valuation assumptions with respect to the 2006 grants, refer to Note E—Common Stock of Notes to the Consolidated Financial Statements in the Company's 2006 Form 10-K.

(d) This column represents performance-based bonuses earned under the annual cash bonus plan for performance during 2006. Bonuses were paid based on the Company's achievement of earnings per share, safety and customer satisfaction goals.

(e) This column represents the change in pension value between the accumulated pension benefit for each Named Executive Officer as of December 31, 2006 as compared to December 31, 2005.

2006 ALL OTHER COMPENSATION TABLE

The following table describes each component of amounts included in "All Other Compensation" in the Summary Compensation Table above.

Name	Year	Accrued PTO Sellback ($) (a)	Group Term Life Insurance ($)	Company Contributions To Retirement And 401(k) Plans ($)	Personal Use of Company Car/Parking ($)	Other ($)	Total ($)
Gary R. Hedrick	2006	$27,404	$1,140	$3,617	$3,000	$ 500	$35,661
Scott D. Wilson	2006	8,215	588	6,600	3,000		18,403
Julius F. Bates	2006	16,067	1,182	6,600	3,000		26,849
John A. Whitacre	2006	6,954	676	6,600	3,000		17,230
Steven P. Busser	2006	6,550	131	6,367	3,000	1,295	17,343

(a) This column represents payments for accrued and unused vacation and personal holiday time pursuant to Company policy.

GRANTS OF PLAN-BASED AWARDS

The following table sets forth information concerning equity and cash awards to the Named Executive Officers during the fiscal year ended December 31, 2006:

		Estimated Possible Future Payouts Under Non-Equity Incentive Plan Awards (a)			Estimated Future Payouts Under Equity Incentive Plan Awards (b)			All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Grant Date Fair Value of Stock and Option Awards
Name	**Grant Date**	**Threshold ($)**	**Target ($)**	**Maximum ($)**	**Threshold (#)**	**Target (#)**	**Maximum (#)**	**(#)**	**(#)**	**($)**
								(c)		**(d)**
Gary R. Hedrick	03/09/06	$72,620	$290,481	$508,342						
Gary R. Hedrick	02/23/06				7,770	25,900	51,800	7,500		$631,633
Scott D. Wilson	03/09/06	$26,931	$121,189	$215,446						
Scott D. Wilson	02/23/06				2,910	9,700	19,400	2,800		$236,373
Julius F. Bates	03/09/06	$28,386	$113,542	$198,699						
Julius F. Bates	02/23/06				1,590	5,300	10,600	1,500		$128,531
John A. Whitacre	03/09/06	$18,428	$ 55,283	$ 92,138						
John A. Whitacre	02/23/06				780	2,600	5,200	800		$ 64,386
Steven P. Busser	03/09/06	$17,358	$ 52,073	$ 86,788						
Steven P. Busser	02/23/06				660	2,200	4,400	650		$ 53,921

(a) Each executive officer has a target incentive opportunity, payable in cash, if the Company achieves specific annual goals that are established in advance by the Compensation Committee and the Board of Directors. It is anticipated that the annual performance goals will be "stretch" goals based on the achievement of corporate objectives that will lead to enhanced shareholder value. In 2006, the performance goals were related to safety, customer satisfaction and earnings per share. If a certain level of earnings per share is not attained, no bonuses will be paid for any of the measures. Actual amounts paid for 2006 are in the Summary Compensation Table above.

(b) Amounts shown represent the performance shares available under the incentive plan which provides market-based, long-term incentive award opportunities to Named Executive Officers. Performance shares are based on the total shareholder return compared to industry peer companies over a three-year period. Payout values for the performance shares are calculated by determining the Company's percentile ranking within the Company peer group at the end of the three-year cycle and can range from 0% to 200% of target as described above in "Compensation Discussion and Analysis — Primary Components of Compensation — Long Term Equity Incentives."

(c) Restricted shares vest at the end of three years.

(d) This column reflects the grant date fair value of restricted stock awards and performance shares under SFAS 123R. With respect to stock awards, the value was calculated as the number of restricted shares multiplied by the closing price on grant date. With respect to performance shares, the value was determined using a "Monte Carlo simulation" which is a methodology using the average payout of one million simulation paths discounted to the grant date using a risk-free interest rate.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table sets forth information concerning outstanding equity awards held by the Named Executive Officers at December 31, 2006:

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Gary R. Hedrick(1)	150,000	50,000		$13.59	11/05/2011				
Gary R. Hedrick(3)(7)						10,000	$243,700	36,600	$891,942
Gary R. Hedrick(4)(8)						8,700	212,019	9,000	219,330
Gary R. Hedrick(5)(9)						7,500	182,775	7,770	189,355
Scott D. Wilson(1)	13,500	10,000		12.78	12/04/2013				
Scott D. Wilson(2)		10,000		12.78	12/04/2013				
Scott D. Wilson(4)(7)						900	21,933	3,200	77,984
Scott D. Wilson(6)(8)						5,000	121,850	900	21,933
Scott D. Wilson(5)(9)						2,800	68,236	2,910	70,917
Julius F. Bates	100,000			7.50	01/02/2008				
Julius F. Bates(1)	80,000	20,000		13.94	11/26/2011				
Julius F. Bates(4)(7)						2,500	60,925	10,400	253,448
Julius F. Bates(5)(8)						1,500	36,555	2,580	62,875
Julius F. Bates(9)								1,590	38,748
John A. Whitacre(1)	80,000	20,000		12.85	07/15/2012				
John A. Whitacre(4)(7)						1,200	29,244	5,200	126,724
John A. Whitacre(5)(8)						800	19,496	1,260	30,706
John A. Whitacre(9)								780	19,009
Steven P. Busser(1)	30,000	10,000		12.78	12/04/2013				
Steven P. Busser(2)		10,000		12.78	12/04/2013				
Steven P. Busser(4)(7)						800	19,496	3,000	73,110
Steven P. Busser(5)(8)						650	15,841	780	19,009
Steven P. Busser(9)								660	16,084

(1) Unvested options vest on January 2, 2007

(2) Unvested options vest on January 2, 2008

(3) Unvested restricted stock vests on January 1, 2007

(4) Unvested restricted stock vests on December 31, 2007

(5) Unvested restricted stock vests on December 31, 2008

(6) Unvested restricted stock vests on May 4, 2008

(7) Unearned and unvested performance stock vests on January 1, 2007 if performance goals are met

(8) Unearned and unvested performance stock vests on January 1, 2008 if performance goals are met

(9) Unearned and unvested performance stock vests on January 1, 2009 if performance goals are met

OPTION EXERCISES AND STOCK VESTED

The table set forth below provides additional information regarding exercise of options, the acquisition of shares on vesting and the value realized during 2006.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercised ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Gary R. Hedrick	150,000	$2,270,885	53,151	$1,157,908
Scott D. Wilson	10,000	119,484	3,700	81,153
Julius F. Bates	100,000	1,548,259	12,458	272,896
John A. Whitacre	—	—	6,130	134,424
Steven P. Busser	—	—	3,475	76,234

PENSION PLAN

The Company has a defined benefit plan with a cliff vesting schedule that provides definitely determinable benefits over a period of years, usually an employee's lifetime (the "Pension Plan"). The purpose of the Pension Plan is to reward eligible employees for long and loyal service by providing them with retirement benefits and is for the exclusive benefit of eligible employees and their beneficiaries. Employees are eligible to participate in the Pension Plan on the first day of the month coincident with or immediately following completion of one year of service during which the employee completes not less than 1,000 hours of service. In order to vest or build ownership in the benefit payable from the Pension Plan, an employee must complete five years of service during which he or she has worked at least 1,000 hours each year. Each of the Named Executive Officers is a participant in the Pension Plan, and the estimated credited years of service for each of them at December 31, 2006 is set forth in the "Pension Benefits Table" below.

Retirement benefits under the Pension Plan are calculated as the product of 1.25% of the employee's average monthly earnings ("Average Monthly Earnings") and the credited years of service ("Benefit Accrual Service"). An employee's Average Monthly Earnings is the employee's annualized rate of compensation (excluding bonuses, overtime pay, expense allowances, profit sharing and any other compensation in any form) as of any day converted to a monthly amount and then averaged over a five consecutive year period. The maximum benefit payable under the Pension Plan may not consider compensation in excess of that allowed by the Code. For the year 2006, the maximum amount of compensation on which benefits from the Pension Plan may be based is $220,000. An employee is credited with one year of Benefit Accrual Service in any plan year (January through December) during which 1,000 hours of service is completed for the Company. The formula below provides an illustration as to how a monthly retirement benefit is calculated for an employee at the later of the date the employee attains the normal retirement age of 65 or the date the employee completes five years of vested service during which he or she has worked 1,000 hours each year:

Pension Plan Average Monthly Earnings (Subject to Code limitations)	X	Benefit Accrual Service	X	1.25%

A monthly benefit from the Pension Plan is computed as a straight life only annuity that provides a monthly benefit for the employee's lifetime and ends upon the employee's death. Optional benefit forms of payment are also available under the Pension Plan to include:

- A joint and survivor annuity option is a joint life annuity payable to the employee for the employee's lifetime with a survivor annuity for the life of any person the employee designates. The amount payable to the survivor will be a certain percentage of the amount that the employee elects of the amount of the annuity payable during the joint lives of the employee and the person the employee designates.
- A life annuity with term certain option is payable for the employee's life, with 120 payments guaranteed, regardless of whether the employee dies before all 120 payments have been made. If the employee dies before all 120 payments have been made, the same amount of annuity is payable for the remainder of the 120 months to the employee's beneficiary.

Under the terms of the Pension Plan, an employee of the Company may retire and begin to receive a monthly benefit from the Pension Plan upon attaining age 55 and completing the required vesting period of five years during which the employee has worked 1,000 hours each year. If an employee retires from the Company between the ages of 55 and 64, the amount of benefits payable from the Pension Plan is reduced such that if the employee retires at age 55, he or she will be entitled to 50% of the accrued benefits otherwise payable without a reduction at age 65. The reduction schedule below displays the reduction percentage to which an employee's accrued benefit is subject when retirement from the Company takes effect between ages 55 and 64:

Retirement Age	Percent of Accrued Benefit
65	100.00%
64	93.33
63	86.67
62	80.00
61	73.33
60	66.67
59	63.33
58	60.00
57	56.67
56	53.33
55	50.00

A monthly benefit payable from the Pension Plan any time before normal retirement age is not subject to the reduction schedule above when the employee's age and years of service are 62 and 20, respectively, or the sum of the employee's age and years of service exceeds 85 with a minimum age of 55. All benefit payments are subject to federal income tax and are payable on the first day of each month of retirement.

For the valuation method and all material assumptions, please see the Retirement Plan's section under Note K Employee Benefits of the Company's Form 10-K.

EXCESS BENEFIT PLAN

The Company has a non-qualified deferred compensation plan that provides supplemental retirement benefits to certain employees of the Company (the "Excess Benefit Plan"). The Company selects those employees who are eligible to receive a benefit from the Pension Plan, the amount of which is reduced by limitations of the Code. Additionally, the Excess Benefit Plan adds bonuses paid pursuant to the Company's short-term bonus plan to the Pension Plan definition of Average Monthly Earnings and without giving effect to any compensation limitations imposed by the Code. Benefits payable from the Excess Benefit Plan are subject to the same vesting schedule, age requirements and benefit payment options as under the Pension Plan. Except as noted under the heading "Change in Control Agreement and Other Termination Benefits," it is not possible for an employee's credited years of service under the Pension Plan to exceed the employee's actual years of service with the Company.

Supplemental retirement benefits under the Excess Benefit Plan are calculated as a monthly amount equal to the difference between (a) and (b) below:

(a) the monthly amount of the Pension Plan benefit to which the employee would have been entitled under the Pension Plan if the benefit were computed without giving effect to any limitation on benefits imposed by the Code and by using Average Monthly Earnings plus bonus amounts paid pursuant to the Company's Short-Term Bonus Plan

LESS

(b) the monthly amount of the Pension Plan benefit actually payable to the employee under the Pension Plan.

The formula below provides an illustration as to how a retirement benefit from the Excess Benefit Plan is calculated for an employee at the later of the date the employee attains the normal retirement age of 65 or the date the employee completes five years of vested service during which he or she has worked 1,000 hours each year:

Excess Benefit Plan Average Monthly Earnings (Not subject to Code limitations)	X	Benefit Accrual Service	X	1.25%

LESS

Pension Plan Average Monthly Earnings (Subject to Code limitations)	X	Benefit Accrual Service	X	1.25%

The Excess Benefit Plan is subject to the rules of Section 409A of the Code. Generally, under Section 409A of the Code, distributions cannot be made to certain employees (as defined in Section 416(i) of the Code) of a publicly traded corporation before the earlier of (i) six months following the employee's separation date, or (ii) the death of the employee.

Pursuant to Section 409A, Excess Benefit Plan payments will begin six months after an affected employee's retirement from the Company. The first payment will be paid in a sum equal to six monthly payments from the employee's retirement date plus the employee's seventh month payment. Thereafter, the employee's benefit from the Excess Benefit Plan is payable on the first day of each month. The benefit payable from the Excess Benefit Plan is paid in the same form under which the benefit from the Pension Plan is payable to the employee. All payments are subject to federal income tax and are payable on the first day of each month of retirement.

The Excess Benefit Plan is entirely unfunded. Employees who participate in the Excess Benefit Plan have only the rights of a general unsecured creditor of the Company with respect to any rights under the Excess Benefit Plan.

PENSION BENEFITS TABLE

The table set forth below describes pension benefits to the Named Executive Officers under the Company's Pension Plan and the Excess Benefit Plan.

Name	Plan Name	Number of Years of Credited Service (#)	Present Value of Accumulated Benefit ($)	Payments During Last Fiscal Year ($)
Gary R. Hedrick	Pension Plan	30	$ 846,513	$0
	Excess Benefit Plan	30	1,547,558	0
Julius F. Bates	Pension Plan	34.5	1,113,729	0
	Excess Benefit Plan	34.5	573,063	0
Scott D. Wilson	Pension Plan	3	39,506	0
	Excess Benefit Plan	3	10,450	0
John A. Whitacre	Pension Plan	34	896,747	0
	Excess Benefit Plan	34	138,101	0
Steven P. Busser	Pension Plan	5	33,561	0
	Excess Benefit Plan	5	2,948	0

Assumptions used to compute the present value of accumulated benefit for each Named Executive Officer are as follows:

- Discount rate of 5.9%
- 1994 Group Annuity Mortality Static Table for post-retirement mortality

Change in Control Agreements and Other Termination Benefits

The Company has entered into change of control agreements (the "Change of Control Agreements") with each Named Executive Officer and certain other officers of the Company. In the event the covered officer is terminated without cause or resigns for good reason (including a material reduction in duties and responsibilities, a reduction in pay or a relocation of more than 100 miles) during the two-year period following a change of control, he or she will receive the following benefits under the Change of Control Agreements:

- A pro rata payment of the officer's target bonus for the year of termination;
- A lump sum payment equal to the officer's annual base salary plus target bonus for the year of termination, multiplied by either three (for Messrs. Hedrick, Bates, Wilson and Gutierrez) or two (for all other officers covered by a Change of Control Agreement);
- The actuarial equivalent of vested benefits under the Company's retirement plan calculated with additional years of service equal to either three years (for Messrs. Hedrick, Bates, Wilson and Gutierrez) or two years (for all other officers covered by a Change of Control Agreement);
- Continuation of health and other welfare benefits for two years, including service credit for those two years for purposes of eligibility (but not time of commencement of benefits) for retiree benefits under any of these plans; and
- Outplacement services for one year.

In March 2007, the Change of Control Agreements were amended to eliminate a tax gross-up payment in the event the payments become subject to the federal "change in control" excise tax and instead provide that either (i) the executive will be responsible for paying the excise tax or (ii) payments under the agreements will be reduced to an amount that would result in no such excise tax, whichever would result in the executive retaining the higher after-tax amount.

A "change of control" is defined in the Change of Control Agreements and generally includes the acquisition by any person of 30% or more of the Common Stock or voting power of the Company, or the consummation of a reorganization, merger or consolidation or other disposition of all or substantially all of the assets of the Company which results in at least a 40% change in ownership.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL TABLE

The following table quantifies potential payments or benefits to our Named Executive Officers under our equity incentive plans upon a change in control or under the Change of Control Agreements upon a termination without cause or resignation for good reason following a change in control as described above, in any case based on assumptions as if the change in control or termination had occurred on December 31, 2006. These amounts do not include benefits under our Pension Plan and Excess Benefit Plan that would be paid in connection with any retirement event, as described under "Pension Benefits Table" above.

Name	Benefit	Change in Control without Termination	Qualifying Termination following a Change in Control[1]
Gary R. Hedrick			
	Severance		$2,376,000
	Settlement of Unvested Equity Awards[2]	$4,794,002	n/a
	Lump Sum Equivalent for Pension Service		916,213
	Welfare Benefit Continuation		27,494
	Outplacement		25,000
Scott D. Wilson			
	Severance		1,378,950
	Settlement of Unvested Equity Awards[2]	1,140,801	n/a
	Lump Sum Equivalent for Pension Service		—
	Welfare Benefit Continuation		16,960
	Outplacement		25,000
Julius F. Bates			
	Severance		1,190,700
	Settlement of Unvested Equity Awards[2]	1,237,014	n/a
	Lump Sum Equivalent for Pension Service		566,419
	Welfare Benefit Continuation		19,474
	Outplacement		25,000
John A. Whitacre			
	Severance		487,708
	Settlement of Unvested Equity Awards[2]	737,296	n/a
	Lump Sum Equivalent for Pension Service		245,958
	Welfare Benefit Continuation		21,360
	Outplacement		25,000
Steven P. Busser			
	Severance		464,880
	Settlement of Unvested Equity Awards[2]	574,199	n/a
	Lump Sum Equivalent for Pension Service		33,062
	Welfare Benefit Continuation		22,444
	Outplacement		25,000

(1) Amounts in this table do not include the excise tax gross-up that, as described above, was eliminated in March 2007. At December 31, 2006, the estimated cost of this tax gross-up for each Named Executive Officer was $2,920,238 for Mr. Hedrick, $910,873 for Mr. Wilson, $1,140,206 for Mr. Bates, $497,863 for Mr. Whitacre, and $345,760 for Mr. Busser.

(2) Represents the "spread value" of all unvested options, restricted stock and performance shares as of December 31, 2006, based on accelerated vesting of all awards upon a change in control under the terms of our equity incentive plan.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Compensation Committee Interlocks and Insider Participation

During 2006, none of the Company's executive officers served on the compensation committee or board of another company, one of whose executive officers served on the Company's Board or Compensation Committee.

Policies and Procedures

The Nominating and Corporate Governance Committee of the Board of Directors is responsible for reviewing and approving all related party transactions. This procedure is set forth in writing in our Nominating and Corporate Governance Committee Charter. A copy of the charter may be found on the Company's internet website at *www.epelectric.com*. Related party transactions are those that involve any of our directors or executive officers, certain of our shareholders and their immediate family members.

To identify related party transactions, each year the Company submits and requires the directors and officers to complete director and officer questionnaires identifying transactions with the Company in which the director or officer or their family members have an interest. The Company reviews related party transactions due to the potential for a conflict of interest. A conflict of interest occurs when an individual's private interest interferes, or appears to interfere, in any way with the Company's interests. The Company's Code of Ethics requires all directors, officers and employees who may have a potential or apparent conflict of interest to immediately notify our General Counsel.

Directors, officers and employees of the Company are expected to act and make decisions that are in the best interests of the Company. Directors, officers and employees are prohibited from taking any action that may make it difficult for them to perform their duties, responsibilities and services for the Company in an objective and fair manner. In addition, the Company prohibits personal loans to, or guaranteeing the personal obligations of, any director or executive officer.

A copy of the Company's Code of Ethics is available at *www.epelectric.com*.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of March 5, 2007 (except as indicated in the footnote to the table), certain information regarding ownership of Common Stock by (i) each person known to the Company to own beneficially more than 5% of its Common Stock; (ii) each of the current directors, including those who have been nominated to serve as Class I Directors of the Company; (iii) the persons who served as Chief Executive Officer and Chief Financial Officer of the Company during the year ended December 31, 2006; (iv) the top three most highly compensated employees other than the Chief Executive Officer and Chief Financial Officer; and (v) all directors and current officers of the Company as a group (26 persons).

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Barclays Global Investors, N.A. 45 Fremont Street San Francisco, California 94105	3,366,865(1)	7.21%*
T. Rowe Price Associates, Inc. 100 E. Pratt Street Baltimore, Maryland 21202	3,153,100(2)	6.7%*
GAMCO Investors, Inc. One Corporate Center 401 Theodore Fremd Avenue Rye, NY 10580-1433	2,707,480(3)	5.59%*
Wellington Management, Inc. 75 State Street Boston, MA 02109	2,613,837(4)	5.60%*
George W. Edwards, Jr.	222,222(5)	**
John Robert Brown	16,500(6)	**
James W. Cicconi	33,779(7)	**
Ramiro Guzmán	41,643(8)	**
James W. Harris	55,040(9)	**
Kenneth R. Heitz	63,322(10)	**
Patricia Z. Holland-Branch	21,889(11)	**
Michael K. Parks	50,879(12)	**
Eric B. Siegel	47,299(13)	**
Stephen N. Wertheimer	27,711(14)	**
Charles A. Yamarone	17,794(15)	**
Gary R. Hedrick	41,545(16)	**
Scott D. Wilson	35,942(17)	**
Julius F. Bates	198,771(18)	**
John A. Whitacre	114,013(19)	**
Steven P. Busser	45,357(20)	**
Other Executive Officers	296,430(21)	**
All directors and executive officers as a group (26 persons)	1,330,136(22)	2.84%

* Actual percentage may differ due to stock transactions made subsequent to beneficial owner's filing date.

** Less than 1%.

(1) Information regarding ownership of Common Stock by Barclays Global Investors, NA., ("Barclays Global") Barclays Global Fund Advisors ("Barclays Advisors"), and Barclays Global, LTD ("Barclays Investors" (collectively, the "Barclays Reporting Parties")) is included in reliance on information set forth in a Schedule 13-G filed with the SEC on January 23, 2007,

reflecting ownership as of December 31, 2006. Barclays Global is listed as a bank pursuant to Rule 13d-1(b) of the Act, and as defined in Section 3(a)(6) of the Act (15 U.S.C. 78c). Barclays Advisors is an Investment Advisor pursuant to Rule 13d-1(b) as defined in Section 240.13d(b)(1)(ii)(E) of the Act. According to the filing, Barclays Global beneficially owns 1,843,693 shares (3.95%) of Common Stock with sole voting and dispositive power over 1,691,777 reporting shares. Barclays Advisors owns 1,493,460 shares (3.20%) of Common Stock with sole voting and dispositive power. Barclays Investors, LTD owns 29,712 shares (0.06%) of Common Stock with sole voting and dispositive power. The aggregate amount beneficially owned by the Barclays Reporting Parties is 3,366,865 (7.21%) shares of Common Stock with sole voting and dispositive power over 3,214,949 shares of Common Stock.

(2) Information regarding ownership of Common Stock by T. Rowe Price Associates, Inc. ("Price Associates") is included herein in reliance on information set forth in Amendment No. 3 in Schedule 13-G filed on February 13, 2007, with the SEC, reflecting ownership as of December 31, 2006. According to the filing, Price Associates beneficially owns 3,153,100 (6.7%) shares of Common Stock as of December 31, 2006. Price Associates maintains sole dispositive power over their shares of the Company's Common Stock, but only has the power to vote 867,100 reported shares of Common Stock.

(3) Information regarding ownership of Common Stock by GGCP, Inc. formerly known as Gabelli Group Capital Partners, Inc. ("GGCP"), GAMCO Investors, Inc. formerly known as Gabelli Asset Management Inc. ("GBL"), Gabelli Funds, LLC ("Gabelli Funds"), GAMCO Asset Management Inc. formerly known as GAMCO Investors, Inc. ("GAMCO"), Gabelli Advisers, Inc. ("Gabelli Advisers") Gabelli Securities, Inc. ("GSI"), Gabelli & Company, Inc. ("Gabelli & Company"), MJG Associates, Inc. ("MJG Associates"), Gabelli Foundation, Inc. ("Foundation"), Mario Gabelli, and Interactive (collectively the "Gabelli Reporting Parties") is included herein in reliance on information set forth on Amendment No. 7 in Schedule 13-D filed with the SEC, reflecting ownership as of October 27, 2006. Updated ownership information is included herein in reliance on IR Channel information of Gabelli's ownership as of December 31, 2006. Pursuant to Rule 13d-2(b), Gabelli was not required to file an amended Schedule 13-D for the year ended 2006. GGCP is the parent company of GBL. GBL is the parent company for a variety of companies engaged in the securities business, including GAMCO, Gabelli Funds, Gabelli Advisers and GSI. GSI is an investment manager and the parent company of Gabelli & Company, and Gabelli & Company is a registered broker-dealer under the Act. GAMCO and Gabelli Funds are each investment advisers, and GAMCO and Gabelli Funds are each registered under the Investment Advisers Act of 1940. GGCP, GBL, GAMCO and Gabelli & Company are New York corporations. GSI, Gabelli Advisers and Interactive are Delaware corporations, and Gabelli Funds is a New York limited liability corporation. MJG Associates is a Connecticut corporation, and the Foundation is a Nevada corporation. Mario J. Gabelli is the majority shareholder and Chief Executive Officer of GGCP and GBL and Chief Investment Officer for each of the Reporting Parties. The Gabelli Reporting Parties do not admit that they constitute a group.

According to the filing, Gabelli Funds beneficially owns 1,203,500 shares of Common Stock (2.48%) and has sole voting and dispositive power over the shares, and GAMCO beneficially owns 1,503,980 shares (3.10%) and maintains sole dispositive power over 1,503,980 shares, but only has the power to vote 1,439,730 shares of Common Stock. According to the filing, the aggregate amount beneficially owned by the Gabelli Reporting Parties is 2,707,480 shares (5.59% per the 10/27/06 filing). According to IR Channel, Gabelli owned 2,624,230 shares (or 5.71%) of Common Stock as of December 31, 2006.

Mario Gabelli is deemed to have beneficial ownership of the Common Stock owned by each of the Reporting Parties. GSI is deemed to have beneficial ownership of the Common Stock owned by Gabelli & Company. GBL and GGCP are deemed to have beneficial ownership of the Common Stock owned beneficially by each of the foregoing persons other than Mario Gabelli and the Foundation.

(4) Information regarding ownership of Common Stock by Wellington Management Company, LLP ("Wellington Management") is included herein in reliance on information set forth in a Schedule 13-G filed with the SEC on February 14, 2007, reflecting ownership as of December 31, 2006. Wellington Management is an Investment Advisor in accordance with Rule 13d-1(b) as defined in Section 240.13d(b)(1)(ii)(E) of the Act. According to the filing, Wellington Management beneficially owns 2,613,837 shares (5.60%) of Common Stock with shared dispositive power over 2,565,937 shares, but only has shared power to vote 1,605,900 shares of Common Stock.

(5) Includes (i) 10,000 shares of Common Stock that Mr. Edwards has the right to acquire by exercising options granted under the 1996 Long-Term Incentive Plan (the "1996 Plan"); (ii) 201,376 shares over which he has sole voting and investment power; and (iii) 10,846 shares over which he has voting power but no investment power.

(6) Includes (i) 13,000 shares of Common Stock over which Mr. Brown has sole voting and investment power; and (ii) 3,500 shares over which he has voting power but no investment power.

(7) Includes (i) 5,000 shares of Common Stock that Mr. Cicconi has the right to acquire by exercising options granted under the 1996 Plan; (ii) 25,279 shares over which he has sole voting and investment power; and (iii) 3,500 shares over which he has voting power but no investment power.

(8) Includes (i) 5,000 shares of Common Stock that Mr. Guzmán has the right to acquire by exercising options granted under the 1996 Plan; (ii) 33,143 shares over which he has sole voting and investment power; and (iii) 3,500 shares over which he has voting power but no investment power.

(9) Includes (i) 10,000 shares of Common Stock that Mr. Harris has the right to acquire by exercising options granted under the 1996 Plan; (ii) 41,540 shares over which he has sole voting and investment power; and (iii) 3,500 shares over which he has voting power but no investment power.

(10) Includes (i) 12,948 shares of Common Stock that Mr. Heitz has the right to acquire by exercising options granted under the 1996 and 1999 Plans; (ii) 44,002 shares over which he has sole voting and investment power; and (iii) 6,372 shares over which he has voting power but no investment power.

(11) Includes (i) 5,000 shares of Common Stock that Ms. Holland-Branch has the right to acquire by exercising options granted under the 1996 Plan; (ii) 10,811 shares over which she has sole voting and investment power; and (iii) 6,078 shares over which she has voting power but no investment power.

(12) Includes (i) 10,000 shares of Common Stock that Mr. Parks has the right to acquire by exercising options granted under the 1996 Plan; (ii) 32,225 shares over which he has sole voting and investment power; and (iii) 8,654 shares over which he has voting power but no investment power.

(13) Includes (i) 10,000 shares of Common Stock that Mr. Siegel has the right to acquire by exercising options granted under the 1996 Plan; (ii) 33,799 shares over which he has sole voting and investment power; and (iii) 3,500 shares over which he has voting power but no investment power.

(14) Includes (i) 5,000 shares of Common Stock that Mr. Wertheimer has the right to acquire by exercising options granted under the 1996 Plan; (ii) 19,211 shares over which he has sole voting and investment power; and (iii) 3,500 shares over which he has voting power but no investment power.

(15) Includes (i) 10,000 shares of Common Stock that Mr. Yamarone has the right to acquire by exercising options granted under the 1996 Plan; (ii) 4,294 shares over which he has sole voting and investment power; and (iii) 3,500 shares over which he has voting power but no investment power.

(16) Includes (i) 25,345 shares of Common Stock that Mr. Hedrick has sole voting and investment power; and (ii) 16,200 shares over which he has voting power but no investment power.

(17) Includes (i) 23,500 shares of Common Stock that Mr. Wilson has the right to acquire by exercising options granted under the 1999 Plan; (ii) 3,742 shares over which he has sole voting and investment power; and (iii) 8,700 shares over which he has voting power but no investment power.

(18) Includes (i) 160,000 shares of Common Stock that Mr. Bates has the right to acquire by exercising options granted under the 1996 and 1999 Plans; (ii) 34,771 shares over which he has sole voting and investment power; and (iii) 4,000 shares over which he has voting power but no investment power.

(19) Includes (i) 100,000 shares of Common Stock that Mr. Whitacre has the right to acquire by exercising options granted under the 1999 Plan; (ii) 12,013 shares over which he has sole voting and investment power; and (iii) 2,000 shares over which he has voting power but no investment power.

(20) Includes (i) 40,000 shares of Common Stock that Mr. Busser has the right to acquire by exercising options granted under the 1999 Plan; (ii) 3,907 shares over which he has sole voting and investment power; and (iii) 1,450 shares over which he has voting power but no investment power.

(21) Includes (i) 255,000 shares of Common Stock that other officers currently have the right to acquire by exercising options granted under the 1996 and 1999 Plans; (ii) 30,780 shares over which the officers have sole voting and investment power; and (iii) 10,650 shares over which they have voting power but no investment power.

(22) Includes (i) 661,448 shares of Common Stock related to stock options discussed above; (ii) 569,238 shares over which the directors and officers have sole voting and investment power; and (iii) 99,450 shares over which they have voting power but no investment power.

AUDIT COMMITTEE REPORT

The Audit Committee assists the Board of Directors in reviewing the Company's financial reporting process. In fulfilling its responsibilities in 2006, the Audit Committee, among other things, (1) reviewed and discussed the interim financial information contained in each quarterly earnings announcement with the Company's Chief Financial Officer and independent auditors prior to public release; (2) reviewed and discussed the audited financial information contained in the Annual Report with the Company's management, including the Chief Financial Officer and independent auditors prior to public release; (3) obtained from the independent auditors a formal written statement describing all relationships between the auditors and the Company that might bear on the auditors' independence consistent with Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees"; (4) discussed with the auditors any relationships that may impact their objectivity and independence, and satisfied itself as to the auditors' independence; (5) discussed with management, the internal auditors and the independent auditors the quality and adequacy of the Company's internal controls and the internal audit function's organization, responsibilities, budget and staffing; and (6) reviewed with both, the independent and the internal auditors, their audit plans, audit scope, and identification of audit risks.

In addition, the Audit Committee discussed and reviewed with the independent auditors all communications required by generally accepted accounting standards, including those described in Statement on Auditing Standards No. 61, as amended, "Communication with Audit Committees" and, with and without management present, discussed and reviewed the results of the independent auditors' examination of the financial statements. The Audit Committee also reviewed the results of the internal audit examinations.

The Audit Committee reviewed the audited financial statements of the Company as of and for the fiscal year ended December 31, 2006, with management and the independent auditors. Management is responsible for the preparation of the Company's financial statements and the independent auditors are responsible for the examination of those statements.

Based on the above-mentioned review and discussions with management and the independent auditors, the Audit Committee recommended to the Board of Directors that the Company's audited financial statements be included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2006, for filing with the SEC. The Audit Committee also recommended the reappointment of KPMG LLP as the Company's independent auditors, and the Board of Directors concurred in such recommendation.

Submitted by the Audit Committee of the Company's Board of Directors:

Charles A. Yamarone – Chairman
John Robert Brown
James W. Cicconi
Michael K. Parks
Eric B. Siegel

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Act requires the Company's directors, officers and holders of more than 10% of the Company's Common Stock to file with the SEC initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. The Company believes that, during and for the fiscal year ended December 31, 2006, its directors, officers and 10% shareholders complied with all Section 16(a) filing requirements.

SHAREHOLDER PROPOSALS AND NOMINATIONS

Under certain circumstances, shareholders are entitled to present proposals at shareholders meetings. To be eligible for inclusion in the Proxy Statement for the Company's 2008 annual meeting of shareholders, a shareholder proposal must be received at the Company's principal executive offices on or prior to December 1, 2007. The Company will consider only those proposals which meet the requirements of applicable SEC rules. Under the Company's Bylaws, in order for a shareholder proposal that is not included in the Proxy Statement to be properly brought before the annual meeting of shareholders, notice of the proposal must be received at the Company's principal executive offices at least 80 days prior to the scheduled date of the annual meeting. A shareholder's notice should list each proposal and a brief description of the business to be brought before the meeting; the name and address of the shareholder proposing such business; the class and number of shares held by the shareholder; and any material interest of the shareholder in the business. If a shareholder wishes to nominate a director, the shareholder must provide the nomination to the Nominating and Corporate Governance Committee in writing at the Company's principal offices pursuant to the notice provisions provided in the Company's Bylaws.

OTHER BUSINESS

The Board of Directors knows of no business, other than as stated in the Notice of Annual Meeting of Shareholders, which will be presented for consideration at the Annual Meeting. If, however, other matters are properly brought before the Annual Meeting, it is the intention of the persons named in the accompanying form of proxy to vote the shares represented thereby on such matters in accordance with their discretion and judgment as to the best interests of the Company.

ANNUAL REPORT

The Company's 2006 Annual Report, which includes financial statements, but which does not constitute a part of the proxy solicitation material, accompanies this Proxy Statement.

SARBANES-OXLEY SECTION 302 CERTIFICATION

On February 28, 2007, the Company filed with the SEC, as an exhibit to its Form 10-K, the Sarbanes-Oxley Act Section 302 certification regarding the quality of the Company's public disclosure.

DELIVERY OF ADDITIONAL COPIES OF PROXY STATEMENT

One Proxy Statement will be sent to shareholders sharing the same address. However, additional copies may be obtained by contacting, via oral or written communication, the Company at (915) 543-5711, 100 N. Stanton, El Paso, Texas 79901. If any shareholders are receiving multiple Proxy Statements and would rather receive a single Proxy Statement, a request may be submitted to the telephone number and/or address listed in the immediately preceding sentence.

EL PASO ELECTRIC COMPANY
By Order of the Board of Directors

Guillermo Silva Jr.

Guillermo Silva, Jr.
Corporate Secretary

Dated: March 26, 2007

EXHIBIT A
El Paso Electric Company
2007 Long-Term Incentive Plan

Effective May 2, 2007

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