(5) the storage of the spent nuclear fuel. These steps can occur in different parts of the country or around the world, but they must be accomplished sequentially. The number of sources for products and services required to complete the nuclear fuel cycle is limited. Due to the complicated nature of the nuclear fuel cycle and the desire to secure reliable sources, some products and fuel services must be contracted several years in advance.

Since March 31, 2019, the end EPE's last fuel reconciliation Docket No. 50058, in conjunction with the other Palo Verde Generating Station ("PVGS") owners, EPE used several contracts to satisfy PVGS nuclear fuel needs. EPE and the owners entered several contracts and amendments that would lower the overall operating costs for PVGS as well as ensure a more reliable fuel supply and fuel services. The first was a spot UF6 purchase from Traxys in August of 2019. This contract helped mitigate risk of supply disruption due to the closure of the only operating U.S. conversion facility. It reduced the weighted average cost of UF6 and saved CONFIDENTIAL (EPE share CONFIDENTIAL) on the next reload project. The second was a spot enrichment purchase with LES to support a fuel fabrication supplier change that required a reload of enrichment to be advanced. This spot purchase was made at a market low for enrichment and saved CONFIDENTIAL for that reload compared to contracted material. The last spot purchase in 2019 was for U3O8 from Traxys in December 2019. This purchase reduced the weighted average cost of U3O8 and saved CONFIDENTIAL (EPE share CONFIDENTIAL) on the next reload project.

Beginning in year 2020, the first contract executed was the AREVA/Orano Amendment #2. This contract, signed in February 2020, lowers the base price of U308/UF6 for the 2021-2025 term; a savings of CONFIDENTIAL for EPE. In May of 2020, Amendment #5 to the ITOCHU U308 fuel supply contract gave EPE and the other owners flexibility in quantities delivered, fixed price supply and lowers the total weighted average cost of the plant for a savings of CONFIDENTIAL (EPE share).

The 2020 Cameco Amendment #1 combined with a new UF6 Supply Agreement executed in September of 2020 locked in fuel supplies lower than the current market pricing forecasts and provide PVGS with CONFIDENTIAL in plant savings (CONFIDENTIAL EPE share). The new 2020 Energy USA agreement executed in June of 2020 provides flexibility in delivery and a lower fuel weighted average cost resulting in CONFIDENTIAL in savings for EPE. Finally, the Urenco spot purchase of Enrichment services in December 2020 resulted in savings of CONFIDENTIAL on the next reload project, by lowering PVGS's average unit cost for enrichment.

In the area of spent nuclear fuel, the U.S. Department of Energy suspended the collection of the spent nuclear fuel fee in 2014. The avoided costs, as of December 31, 2020 are approximately CONFIDENTIAL (EPE share CONFIDENTIAL). The fee has not been cancelled and can be reinstated at any time by the U.S. Congress. Spent nuclear fuel rods are being stored on-site in casks that are provided under a long-term contract with NAC International.

Not applicable. El Paso Electric Company has not included a fuel reconciliation in this proceeding.

Please refer to Schedule J, pages 2-7 of 12, for EPE's financial statements in accordance with regulatory accounting principles for the test year ended December 31, 2020.

Please refer to Schedule J, pages 8-12 of 12, for EPE's financial statements in accordance with generally accepted accounting principles for the test year ended December 31, 2020.

Also, please refer to the following attachments for the footnotes related to these financial statements:

Attachment A	December 2020 FERC Form 1
Attachment B	December 2020 GAAP Financial Report

EL PASO ELECTRIC COMPANY
2021 TEXAS RATE CASE FILING
SCHEDULE J: FINANCIAL STATEMENTS
(PREPARED IN ACCORDANCE WITH REGULATORY ACCOUNTING PRINCIPLES)
SPONSOR: CYNTHIA S. PRIETO
PREPARER: MYRNA A ORTIZ
FOR THE TEST YEAR ENDED DECEMBER 31, 2020

COMPARATIVE BALANCE SHEET

ASSETS AND OTHER DEBITS

Line No.	Description	December 31 2020	December 31 2019
	UTILITY PLANT		
1	Utility Plant	$ 5,521,706,608	$ 5,335,900,234
2	Construction Work In Progress	214,062,220	157,850,999
3	Total Utility Plant	5,735,768,828	5,493,751,233
4	Accum. Prov. for Depr. Amort, Depl	(2,468,590,939)	(2,381,984,861)
5	Net Utility Plant	3,267,177,889	3,111,766,372
6	Nuclear Fuel In Process of Ref , Conv., Enrich., and Fab.	-	-
7	Nuclear Fuel Under Capital Leases	198,356,451	199,671,152
8	Accum. Prov. for Amort of Nucl. Fuel Assemblies	(72,680,258)	(72,778,365)
9	Net Nuclear Fuel	125,676,193	126,892,787
10	Net Utility Plant	3,392,854,082	3,238,659,159
11	Utility Plant Adjustments	-	-
	OTHER PROPERTY AND INVESTMENTS		
12	Nonutility Property	613,325	1,070,267
13	Investment in Subsidiary Companies	-	-
14	Other Investments	1,609,180	1,608,814
15	Other Special Funds	374,674,197	329,603,541
16	Total Other Property and Investments	376,896,702	332,282,622
	CURRENT AND ACCRUED ASSETS		
17	Cash	8,062,530	10,281,061
18	Working Fund	909,123	174,154
19	Temporary Cash Investments	403,784	362,922
20	Customer Accounts Receivable	57,141,331	44,177,635
21	Other Accounts Receivable	14,977,427	11,889,190
22	Accum Prov. for Uncollectible Acct -Credit	(5,919,568)	(1,900,275)
23	Fuel Stock	1,731,080	1,900,338
24	Plant Materials and Operating Supplies	65,517,426	58,914,476
25	Allowances	28,533	56,084
26	Stores Expense Undistributed	(4,548)	1,145
27	Prepayments	18,997,423	10,941,642
28	Interest and Dividends Receivable	849	5,219
29	Accrued Utility Revenues	25,187,000	25,643,000
30	Miscellaneous Current and Accrued Assets	88,547	64,829
31	Total Current and Accrued Assets	187,120,937	162,511,420
	DEFERRED DEBITS		
32	Unamortized Debt Expenses	12,709,792	13,108,942
33	Other Regulatory Assets	89,075,845	80,234,601
34	Preliminary Survey and Investigation Charges	3,141,095	1,347,805
35	Clearing Accounts	(31,456)	(48,574)
36	Miscellaneous Deferred Debits	6,697,300	6,138,919
37	Unamortized Loss on Reacquired Debt	14,261,495	15,211,751
38	Accumulated Deferred Income Taxes	178,281,619	177,952,554
39	Total Deferred Debits	304,135,690	293,945,998
40	Total Assets	$ 4,261,007,411	$ 4,027,399,199
41	Amounts may not add or tie to other schedules due to rounding		

EL PASO ELECTRIC COMPANY
2021 TEXAS RATE CASE FILING
SCHEDULE J: FINANCIAL STATEMENTS
(PREPARED IN ACCORDANCE WITH REGULATORY ACCOUNTING PRINCIPLES)
SPONSOR CYNTHIA S PRIETO
PREPARER: MYRNA A. ORTIZ
FOR THE TEST YEAR ENDED DECEMBER 31, 2020

COMPARATIVE BALANCE SHEET

LIABILITIES AND OTHER CREDITS

Line No	Description	December 31 2020	December 31 2019
	PROPRIETARY CAPITAL		
1	Common Stock Issued	$ 10	$ 64,428,688
2	Premium on Capital Stock	125,000,000	309,669,870
3	Other Paid-in Capital	-	3,668,075
4	Capital Stock Expense	-	(340,939)
5	Retained Earnings	1,310,993,031	1,302,299,251
6	Reacquired Capital Stock	-	(394,714,658)
7	Accumulated Other Comprehensive Income	(38,805,402)	(48,547,164)
8	Total Proprietary Capital	1,397,187,639	1,236,463,123
	LONG-TERM DEBT		
9	Bonds	159,835,000	159,835,000
10	Other Long-Term Debt	1,125,000,000	1,125,000,000
11	Unamortized Premium on Long-Term Debt	6,410,857	6,551,353
12	Unamortized Discount on Long-Term Debt	(3,228,179)	(3,367,474)
13	Total Long-Term Debt	1,288,017,678	1,288,018,879
	OTHER NONCURRENT LIABILITIES		
14	Obligations Under Capital Leases - Noncurrent	69,654,265	70,093,764
15	Accumulated Provision for Pensions and Benefits	100,873,256	119,826,558
16	Accumulated Provision for Rate Refunds	-	-
17	Asset Retirement Obligations	118,918,957	110,105,088
18	Total Other Noncurrent Liabilities	289,446,478	300,025,410
	CURRENT AND ACCRUED LIABILITIES		
19	Notes Payable	121,000,000	84,000,000
20	Accounts Payable	85,472,005	65,744,562
21	Customer Deposits	8,321,654	9,252,260
22	Taxes Accrued	40,678,091	36,170,976
23	Interest Accrued	12,248,892	12,340,157
24	Tax Collections Payable	1,448,813	1,450,467
25	Miscellaneous Current and Accrued Liabilities	27,971,437	27,191,910
26	Obligations Under Capital Leases - Current	72,758,235	77,170,332
27	Total Current and Accrued Liabilities	369,899,127	313,320,664
	DEFERRED CREDITS		
28	Customer Advances for Construction	31,754,536	27,874,477
29	Accumulated Deferred Investment Tax Credits	19,339,718	20,959,358
30	Other Deferred Credits	7,024,635	9,513,597
31	Other Regulatory Liabilities	316,379,149	309,063,694
32	Accumulated Deferred Income Taxes - Other Property	499,156,703	489,812,397
33	Accumulated Deferred Income Taxes - Other	42,801,748	32,347,600
34	Total Deferred Credits	916,456,489	889,571,123
35	Total Liabilities and Stockholder Equity	$ 4,261,007,411	$ 4,027,399,199
36	Amounts may not add or tie to other schedules due to rounding.		

EL PASO ELECTRIC COMPANY
2021 TEXAS RATE CASE FILING
SCHEDULE J. FINANCIAL STATEMENTS (INCOME STATEMENT)
(PREPARED IN ACCORDANCE WITH REGULATORY ACCOUNTING PRINCIPLES)
SPONSOR: CYNTHIA S PRIETO
PREPARER MYRNA A. ORTIZ
FOR THE TEST YEAR ENDED DECEMBER 31, 2020

STATEMENT OF OPERATIONS

Line No	(A) Description	(B) 2020	(C) 2019
	UTILITY OPERATING INCOME		
1	Operating Revenues	$ 917,510,145	$ 861,994,243
	Operating Expenses		
2	Operation Expenses	451,470,233	418,556,779
3	Maintenance Expenses	77,160,828	68,933,493
4	Depreciation Expense	98,661,265	93,956,078
5	Depreciation Expense for Asset Retirement Cost	(1,327,619)	(1,327,584)
6	Amortization of Utility Plant	9,139,703	8,167,451
7	Regulatory Debits	2,238,525	2,129,940
8	Regulatory Credits	-	(130,623)
9	Taxes Other Than Income Taxes	74,646,716	73,351,183
10	Income Taxes - Federal	13,269,005	2,398,087
11	Income Taxes - Other	1,969,464	2,018,702
12	Provision for Deferred Income Taxes	74,241,492	86,891,847
13	Provision for Deferred Income Taxes - Credit	(61,561,935)	(66,446,826)
14	Investment Tax Credit Adjustment - Net	(1,619,640)	(1,619,640)
15	Gains from Disposition of Allowances	-	-
16	Accretion Expense	9,847,576	9,114,821
17	Total Utility Operating Expenses	748,135,613	695,993,708
18	Net Utility Operating Income	169,374,532	166,000,535
	OTHER INCOME AND DEDUCTIONS		
	Other Income		
	Nonutility Operating Income		
18	Revenues from Merchandising, Jobbing and Contract Work	1,635,425	1,212,242
19	Costs and Expenses of Merchandising, Jobbing and Contract Work	(1,737,720)	(1,277,709)
20	Equity in Earnings of Subsidiary Companies	-	-
21	Interest and Dividend Income	6,408,085	7,568,418
22	Allowance for Other Funds Used During Construction	2,603,186	2,545,181
23	Miscellaneous Nonoperating Income	43,623,180	50,082,176
24	Gain on Disposition of Property	674,690	-
25	Total Other Income	53,206,846	60,130,308
	Other Income Deductions		
26	Loss on Disposition of Property	(17,043)	17,043
27	Miscellaneous Amortization	-	-
28	Donations	1,474,400	1,501,575
29	Life Insurance	441,744	478,248
30	Penalties	753	24,916
31	Expense for Certain Civic, Political & Related Activities	724,753	824,892
32	Other Deductions	71,998,200	15,099,069
33	Total Other Income Deductions	74,622,807	17,945,743
	Taxes Applicable to Other Income and Deductions		
34	Taxes Other Than Income Taxes	6,059	13,372
35	Income Taxes - Federal	(8,045,196)	2,451,949
36	Income Taxes - Other	(762,173)	12,004
37	Provision for Deferred Income Taxes	18,302,816	10,348,871
38	Provision for Deferred Income Taxes - Credit	(12,978,346)	(3,794,646)
39	Investment Tax Credits	-	-
40	Total Taxes on Other Income and Deductions	(3,476,840)	9,031,550
41	Net Other Income and Deductions	(17,939,121)	33,153,015
	INTEREST CHARGES		
42	Interest on Long-Term Debt	72,293,195	72,948,640
43	Amortization of Debt Discount and Expense	1,053,566	1,035,433
44	Amortization of Loss on Reacquired Debt	950,256	937,423
45	Amort of Premium on Debt-Credit	(140,496)	(134,022)
46	Other Interest Expense	3,048,045	4,665,806
47	Allowance for Borrowed Funds Used During Construction - Credit	(3,799,920)	(4,015,109)
48	Net Interest Charges	73,404,646	75,438,171
49	Net Income	$ 78,030,765	$ 123,715,379

50 Amounts may not add or tie to other schedules due to rounding

STATEMENT OF RETAINED EARNINGS

Line No.	Description	December 31, 2020	December 31, 2019
	UNAPPROPRIATED RETAINED EARNINGS		
1	Balance - Beginning of Period	$ 1,302,299,251	$ 1,256,673,995
2	Merger Premium on Capital Stock Expense Adjustment	(11,238,375)	-
3	Merger Capital Stock Expense Adjustments	(340,939)	-
4	Dividends Declared-Common Stock	(57,757,671)	(61,718,056)
5	Retirement of Treasury Shares	-	(16,372,067)
6	Balance Transferred from Income	78,030,765	123,715,379
7	Balance - End of Period	$ 1,310,993,031	$ 1,302,299,251
	UNAPPROPRIATED UNDISTRIBUTED SUBSIDIARY EARNINGS		
8	Balance - Beginning of Period	$ -	$ -
9	Equity in Earnings for Period	-	-
10	Transfer of Unappropriated Undistributed Subsidiary Earnings	-	-
11	Balance - End of Period	$ -	$ -

12 Amounts may not add or tie to other schedules due to rounding

STATEMENT OF CASH FLOWS

	(a)	(b)	(c)
		Twelve Months Ended December 31,	
Line No.	Description	2020	2019
1	Net cash flow from operating activities:		
2	Net income	$ 78,030,765	$ 123,715,379
3	Depreciation and depletion	98,661,265	93,956,078
4	Amortization of other	26,681,004	24,643,798
5	Amortization of nuclear fuel	40,781,680	41,252,823
6	Merger Rate Credit Factor	25,350,940	-
7	Deferred income taxes (net)	18,004,027	26,999,246
8	Investment tax credit adjustment (net)	(1,619,640)	(1,619,640)
9	Net (increase) decrease in receivables	(16,058,671)	(144,823)
10	Net (increase) decrease in inventory	(5,054,019)	(5,512,759)
11	Net (increase) decrease in allowances inventory	27,551	558
12	Net increase (decrease) in payables and accrued expenses	12,459,762	12,321,429
13	Net (increase) decrease in other regulatory assets	(15,582,719)	(3,834,088)
14	Net increase (decrease) in other regulatory liabilities	(16,942,209)	7,695,694
15	Allowance for other funds used during construction	(2,603,186)	(2,545,181)
16	Other operating activities	(32,341,550)	(34,931,903)
17	Deferred charges and credits	(12,008,962)	(4,484,569)
18	Net (increase) decrease in prepayments and other	(9,422,065)	(757,201)
19	Net cash provided by operating activities	188,363,973	276,754,841
20	Cash flows from investment activities:		
21	Gross additions to utility plant (less nuclear fuel)	(256,278,072)	(230,157,939)
22	Gross additions to nuclear fuel	(37,930,761)	(42,788,038)
23	Allowance for other funds used during construction	2,603,186	2,545,181
24	Cash outflows for plant	(291,605,647)	(270,400,796)
25	Proceeds from disposal of noncurrent assets	970,885	368,413
26	Proceeds from life insurance	4,591,184	43,482
27	Investment in decommissioning trust fund (purchase)	(21,501,250)	(377,414,789)
28	Investment in decommissioning trust fund (sales and maturities)	14,514,465	370,677,188
29	Other investing activities	3,960,136	(2,410,533)
30	Net cash used in investing activities	(289,070,227)	(279,137,035)
31	Cash flows from financing activities:		
32	Proceeds from issuance of:		
33	Long-Term Debt	-	100,600,000
34	Financing and other capital lease obligations-proceeds	636,734,168	566,322,133
35	Equity contribution from Sun Jupiter Holdings LLC	125,000,000	-
36	Cash provided by outside sources	761,734,168	666,922,133
37	Payments for retirement of:		
38	Long-Term Debt	-	(100,600,000)
39	Other financing activities	(1,437,891)	(2,576,490)
40	Financing and capital lease obligations	(603,275,052)	(501,727,324)
41	Dividends on common stock	(57,757,671)	(61,718,056)
42	Net cash provided by financing activities	99,263,554	300,263
43	Net decrease in cash and cash equivalents	(1,442,700)	(2,081,931)
44	Cash and cash equivalents at beginning of period	10,818,137	12,900,068
45	Cash and cash equivalents at end of period	$ 9,375,437	$ 10,818,137
46	Amounts may not add or tie to other schedules due to rounding.		

EL PASO ELECTRIC COMPANY
2021 TEXAS RATE CASE FILING
SCHEDULE J FINANCIAL STATEMENTS
(PREPARED IN ACCORDANCE WITH REGULATORY ACCOUNTING PRINCIPLES)
SPONSOR: CYNTHIA S PRIETO
PREPARER MYRNA A ORTIZ
FOR THE TEST YEAR ENDED DECEMBER 31, 2020

STATEMENT OF ACCUMULATED COMPREHENSIVE INCOME, COMPREHENSIVE INCOME, AND HEDGING ACTIVITIES (Unaudited)

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Line No	Item	Unrealized Gains and Losses on Available-for-Sale Securities	Minimum Pension Liability adjustment (net amount)	Foreign Currency Hedges	Other Adjustments (1)	Other Cash Flow Hedges Interest Rate Swaps	Other Cash Flow Hedges Interest Rate Lock	Total for each category of items recorded in Account 219	Net Income	Total Comprehensive Income
1	Balance of Account 219 at December 31, 2018	$ (2,748,804)	$ 0	$ 0	$ (24,923,193)	$ 0	$ (10,918,883) (2)	$ (38,590,880)	N/A	N/A
2	Reclassifications from Account 219 to Net Income	(1,713,417)	0	0	(4,144,063)	0	457,502	(5,399,978)	N/A	N/A
3	Changes in Fair Value	4,867,900	0	0	(9,424,206)	0	0	(4,556,306)	N/A	N/A
4	Total (lines 2 and 3)	3,154,483	0	0	(13,568,269)	0	457,502	(9,956,284)	123,715,379	113,759,095
5	Balance of Account 219 at December 31, 2019	$ 405,679	$ 0	$ 0	$ (38,491,462)	$ 0	$ (10,461,381)	$ (48,547,164)	N/A	N/A
6	Balance of Account 219 at December 31, 2019	$ 405,679	$ 0	$ 0	$ (38,491,462)	$ 0	$ (10,461,381) (2)	$ (48,547,164)	N/A	N/A
7	Reclassifications from Account 219 to Net Income	-	0	0	(391,031)	0	507,498	116,467	N/A	N/A
8	Changes in Fair Value	226,875	0	0	9,398,420	0	0	9,625,295	N/A	N/A
9	Total (lines 7 and 8)	226,875	0	0	9,007,389	0	507,498	9,741,762	78,030,765	87,772,527
10	Balance of Account 219 at December 31, 2020	$ 632,554	$ 0	$ 0	$ (29,484,073)	$ 0	$ (9,953,883)	$ (38,805,402)	N/A	N/A

(1) In accordance with the FERC Guidance Letter related to FASB guidance for employers' accounting for defined pension and other postretirement plans, this amount includes reclassification adjustments of accumulated other comprehensive income as a result of gains and losses, prior service costs or credits and transition assets or obligations related to pension and other postretirement benefit plans

(2) During the first quarter of 2005, the Company entered into treasury rate lock agreements to hedge against potential movements in the treasury reference interest rate pending the issuance of 6% Senior Notes These treasury rate locks were terminated on May 11, 2005 The treasury rate lock agreements met the criteria for hedge accounting and were designated as a cash flow hedge In accordance with cash flow hedge accounting, the Company recorded the loss associated with the fair value of the cash flow hedge of approximately $14 5 million, net of tax, as a component of accumulated other comprehensive loss. In May 2005, the Company began to recognize in earnings (as additional interest expense) the accumulated other comprehensive loss associated with the cash flow hedge During the next twelve-month period, approximately $0 5 million of this accumulated other comprehensive loss item will be reclassified to interest expense.

Amounts may not add or tie to other schedules due to rounding

BALANCE SHEETS

ASSETS

Line No.	(a) Description	(b) December 31, 2020	(c) December 31, 2019
1	Utility plant:		
2	Electric plant in service	$ 4,592,957,148	$ 4,404,150,318
3	Less accumulated depreciation and amortization	(1,550,171,054)	(1,461,385,308)
4	Net plant in service	3,042,786,094	2,942,765,010
5	Construction work in progress	209,585,622	157,850,999
6	Nuclear fuel; includes fuel in process of $65,624,468 and		
7	$61,709,137, respectively	197,219,356	198,074,690
8	Less accumulated amortization	(71,859,123)	(71,587,715)
9	Net nuclear fuel	125,360,233	126,486,975
10	Net utility plant	3,377,731,949	3,227,102,984
11	Current assets:		
12	Cash and cash equivalents	9,375,436	10,818,137
13	Accounts receivable, principally trade, net of allowance for		
14	doubtful accounts of $5,919,568 and $1,900,276, respectively	91,387,039	79,814,769
15	Inventories, at cost	67,272,491	60,872,043
16	Under-collection of fuel revenues	13,151,877	327,488
17	Regulatory assets	5,112,358	9,612,011
18	Prepayments and other	19,731,639	11,202,356
19	Total current assets	206,030,840	172,646,804
20	Deferred charges and other assets:		
21	Decommissioning trust funds	371,447,940	325,998,194
22	Regulatory assets	70,979,137	70,805,392
23	Other	22,197,071	16,646,946
24	Total deferred charges and other assets	464,624,148	413,450,532
25	Total assets	$ 4,048,386,937	$ 3,813,200,320

26 See accompanying notes to financial statements.

27 Amounts may not add or tie to other schedules due to rounding.

EL PASO ELECTRIC COMPANY
2021 TEXAS RATE CASE FILING
SCHEDULE J: FINANCIAL STATEMENTS
(PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES)
SPONSOR: CYNTHIA S. PRIETO
PREPARER: MYRNA A. ORTIZ
FOR THE TEST YEAR ENDED DECEMBER 31, 2020

BALANCE SHEETS

CAPITALIZATION AND LIABILITES

Line No.	(a) Description	(b) December 31, 2020	(c) December 31, 2019	
1	Capitalization			
2	Common stock	$ 10	$ 64,428,688	(a)
3	Capital in excess of stated value	125,000,000	323,366,678	
4	Retained earnings	1,291,323,464	1,272,418,451	
5	Accumulated other comprehensive loss, net of tax	(39,436,528)	(48,952,844)	
6		1,376,886,946	1,611,260,973	
7	Treasury stock	-	(394,714,658)	(a)
8	Common stock equity	1,376,886,946	1,216,546,315	
9	Long-term debt, net of current portion	1,341,592,903	1,340,980,983	
10	Total capitalization	2,718,479,849	2,557,527,298	
11	Current liabilities:			
12	Current maturities of long-term debt	0	44,968,959	
13	Short-term borrowings under the revolving credit facility	192,260,487	113,801,370	
14	Accounts payable, principally trade	85,472,005	65,744,562	
15	Taxes accrued	43,587,249	39,316,004	
16	Interest accrued	13,248,305	14,196,368	
17	Over-collection of fuel revenues	1,800,029	18,742,238	
18	Regulatory liabilities	11,595,744	1,218,170	
19	Other	38,240,240	38,407,388	
20	Total current liabilities	386,204,059	336,395,059	
21	Deferred credits and other liabilities			
22	Accumulated deferred income taxes	367,821,457	348,398,464	
23	Accrued pension liability	95,618,614	96,745,146	
24	Accrued post-retirement benefit liability	5,254,642	23,081,411	
25	Asset retirement obligation	118,918,936	110,105,067	
26	Regulatory liabilities	312,655,943	298,466,039	
27	Other	43,433,437	42,481,836	
28	Total deferred credits and other liabilities	943,703,029	919,277,963	
29	Commitments and contingencies			
30	Total capitalization and liabilities	$ 4,048,386,937	$ 3,813,200,320	

31 (a) On July 29, 2020, the Company closed the Merger with IIF, each share of common stock of the Company including outstanding and unvested restricted stock and unvested performance stock of the Company was cancelled and converted into the right to receive $68 25 in cash, without interest Effective July 29, 2020, per the Certificate of the Merger, the total number of shares the Company is authorized to issue is 1,000 The par value of each of the authorized shares is $0 01 per share

The Company had common stock with stated value of $1 per share, 100,000,000 shares authorized, 64,332,884 shares issued, 95,804 restricted shares and 23,696,262 treasury shares as of December 31, 2019

32 See accompanying notes to financial statements

33 Amounts may not add or tie to other schedules due to rounding

STATEMENT OF OPERATIONS

Line No	(a) Description	(b) Twelve Months Ended December 31, 2020	(c) Twelve Months Ended December 31, 2019
1	Operating revenues	$ 917,510,145	$ 861,994,243
2	Energy expenses:		
3	Fuel	119,286,124	120,457,933
4	Purchased and interchanged power	82,237,859	55,462,703
5		201,523,983	175,920,636
6	Operating revenues net of energy expenses	715,986,162	686,073,607
7	Other operating expenses:		
8	Other operations	271,520,739	263,623,209
9	Maintenance	77,160,828	68,933,493
10	Depreciation and amortization	107,879,451	102,072,114
11	Taxes other than income taxes	74,646,716	73,351,183
12		531,207,734	507,979,999
13	Operating income	184,778,428	178,093,608
14	Other income (deductions):		
15	Allowance for equity funds used during construction	2,603,186	2,545,181
16	Investment and interest income, net	70,302,768	69,626,631
17	Miscellaneous non-operating income	11,844,933	15,269,343
18	Strategic transaction costs	(71,672,456)	(12,109,478)
19	Miscellaneous non-operating deductions	(13,219,477)	(9,946,490)
		(141,046)	65,385,187
20	Interest charges (credits):		
21	Interest on long-term debt and revolving credit facility	74,156,521	74,787,474
22	Other interest	17,578,426	21,366,473
23	Capitalized interest	(4,743,650)	(5,728,566)
24	Allowance for borrowed funds used during construction	(3,799,920)	(4,015,109)
25		83,191,377	86,410,272
26	Income before income taxes	101,446,005	157,068,523
27	Income tax expense	23,573,676	34,031,423
28	Net income	$ 77,872,329	$ 123,037,100

34 See accompanying notes to financial statements.

35 Amounts may not add or tie to other schedules due to rounding.

STATEMENT OF COMPREHENSIVE OPERATIONS

Line No	(a) Description	(b) Twelve Months Ended December 31, 2020	(c) 2019
1	Net income	$ 77,872,329	$ 123,037,100
2	Other comprehensive income (loss):		
3	Unrecognized pension and postretirement benefit costs:		
4	Net gain (loss) arising during period	12,120,738	(12,110,245)
5	Reclassification adjustments included in net income for amortization of:		
6	Prior service benefit	(6,599,398)	(8,740,008)
7	Net loss	6,095,619	3,416,186
8	Net unrealized gains (losses) on marketable securities:		
9	Net holding gains arising during period	-	6,073,693
10	Reclassification adjustments for net gains included in net income	-	(2,232,346)
11	Net losses on cash flow hedges:		
12	Reclassification adjustment for interest expense included in net income	645,928	605,460
13	Total other comprehensive income (loss) before income taxes	12,262,887	(12,987,260)
14	Income tax benefit (expense) related to items of other comprehensive income (loss):		
15	Unrecognized pension and postretirement benefit costs	(2,609,172)	3,863,497
16	Net unrealized gains on marketable securities	-	(896,449)
17	Losses on cash flow hedges	(137,399)	(148,289)
18	Total income tax benefit (expense)	(2,746,571)	2,818,759
19	Other comprehensive income (loss), net of tax	9,516,316	(10,168,501)
20	Comprehensive income	$ 87,388,645	$ 112,868,599

21 See accompanying notes to financial statements.

22 Amounts may not add or tie to other schedules due to rounding.

STATEMENT OF CASH FLOWS

	(a)	(b)	(c)
		Twelve Months Ended December 31,	
Line No	Description	2020	2019
1	Cash flows from operating activities		
2	Net income	$ 77,872,329	$ 123,037,100
3	Adjustments to reconcile net income to net cash provided by operating activities.		
4	Depreciation and amortization of electric plant in service	107,879,451	102,072,114
5	Amortization of nuclear fuel	40,536,652	41,032,938
6	Deferred income taxes, net	17,768,446	27,143,143
7	Allowance for equity funds used during construction	(2,603,186)	(2,545,181)
8	Other amortization and accretion	23,178,489	18,277,551
9	Gain on sale of property, plant and equipment	(499,801)	-
10	Net gains on sale of decommissioning trust funds	(38,462,961)	(38,513,932)
11	Merger rate credit factor	25,350,940	-
12	Other operating activities	(208,712)	843,820
13	Change in		
14	Accounts receivable	(16,058,671)	(144,823)
15	Inventories	(5,026,468)	(5,512,201)
16	Prepayments and other	(9,871,269)	(896,712)
17	Accounts payable	9,605,971	4,682,995
18	Taxes accrued	4,271,245	11,195,412
19	Interest accrued	(948,062)	(2,281,619)
20	Net (undercollection) overcollection of fuel revenues	(29,766,598)	7,368,207
21	Other current liabilities	(723,304)	(938,171)
22	Deferred charges and credits	(18,615,413)	(9,720,102)
23	Net cash provided by operating activities	183,679,078	275,100,539
24	Cash flows from investing activities:		
25	Cash additions to utility property, plant and equipment	(245,382,968)	(222,202,532)
26	Cash additions to nuclear fuel	(32,994,214)	(36,800,287)
27	Proceeds from life insurance	4,591,184	43,482
28	Capitalized interest and AFUDC:		
29	Utility property, plant and equipment	(6,403,106)	(6,560,290)
30	Nuclear fuel and other	(4,743,650)	(5,728,566)
31	Allowance for equity funds used during construction	2,603,186	2,545,181
32	Decommissioning trust funds:		
33	Purchases, including funding	(21,501,250)	(377,414,789)
34	Sales and maturities	14,514,465	370,677,188
35	Proceeds from sale of property, plant and equipment	970,885	368,413
36	Other investing activities	3,960,136	(2,410,533)
37	Net cash used for investing activities	(284,385,332)	(277,482,733)
38	Cash flows from financing activities		
39	Equity contribution from Sun Jupiter Holdings LLC	125,000,000	-
40	Dividends paid	(57,757,671)	(61,718,056)
41	Borrowings under the revolving credit facility.		
42	Proceeds	636,734,168	566,322,133
43	Payments	(558,275,052)	(501,727,324)
44	Pollution control bonds		
45	Proceeds	-	100,600,000
46	Payments	-	(100,600,000)
47	Payments on maturing RGRT senior notes	(45,000,000)	-
48	Other financing activities	(1,437,891)	(2,576,490)
49	Net cash provided by financing activities	99,263,554	300,263
50	Net decrease in cash and cash equivalents	(1,442,700)	(2,081,931)
51	Cash and cash equivalents at beginning of period	10,818,137	12,900,068
52	Cash and cash equivalents at end of period	$ 9,375,437	$ 10,818,137
53	See accompanying notes to financial statements		

Amounts may not add or tie to other schedules due to rounding

THIS FILING IS	
Item 1 ☐ An Initial (Original) Submission	OR ☒ Resubmission No. ____

Form 1 Approved
OMB No.1902-0021
(Expires 11/30/2022)
Form 1-F Approved
OMB No 1902-0029
(Expires 11/30/2022)
Form 3-Q Approved
OMB No.1902-0205
(Expires 11/30/2022)

FERC FINANCIAL REPORT
FERC FORM No. 1: Annual Report of Major Electric Utilities, Licensees and Others and Supplemental Form 3-Q: Quarterly Financial Report

These reports are mandatory under the Federal Power Act, Sections 3, 4(a), 304 and 309, and 18 CFR 141 1 and 141 400 Failure to report may result in criminal fines, civil penalties and other sanctions as provided by law The Federal Energy Regulatory Commission does not consider these reports to be of confidential nature

Exact Legal Name of Respondent (Company)	Year/Period of Report
El Paso Electric Company	End of 2020/Q4

FERC FORM No.1/3-Q (REV. 02-04)

Name of Respondent	This Report Is:	Date of Report	Year/Period of Report
El Paso Electric Company	(1) ☐ An Original (2) ☒ A Resubmission	05/13/2021	End of 2020/Q4

NOTES TO FINANCIAL STATEMENTS

1. Use the space below for important notes regarding the Balance Sheet, Statement of Income for the year, Statement of Retained Earnings for the year, and Statement of Cash Flows, or any account thereof Classify the notes according to each basic statement, providing a subheading for each statement except where a note is applicable to more than one statement.
2. Furnish particulars (details) as to any significant contingent assets or liabilities existing at end of year, including a brief explanation of any action initiated by the Internal Revenue Service involving possible assessment of additional income taxes of material amount, or of a claim for refund of income taxes of a material amount initiated by the utility Give also a brief explanation of any dividends in arrears on cumulative preferred stock.
3. For Account 116, Utility Plant Adjustments, explain the origin of such amount, debits and credits during the year, and plan of disposition contemplated, giving references to Commission orders or other authorizations respecting classification of amounts as plant adjustments and requirements as to disposition thereof
4 Where Accounts 189, Unamortized Loss on Reacquired Debt, and 257, Unamortized Gain on Reacquired Debt, are not used, give an explanation, providing the rate treatment given these items. See General Instruction 17 of the Uniform System of Accounts
5. Give a concise explanation of any retained earnings restrictions and state the amount of retained earnings affected by such restrictions
6 If the notes to financial statements relating to the respondent company appearing in the annual report to the stockholders are applicable and furnish the data required by instructions above and on pages 114-121, such notes may be included herein.
7 For the 3Q disclosures, respondent must provide in the notes sufficient disclosures so as to make the interim information not misleading. Disclosures which would substantially duplicate the disclosures contained in the most recent FERC Annual Report may be omitted.
8 For the 3Q disclosures, the disclosures shall be provided where events subsequent to the end of the most recent year have occurred which have a material effect on the respondent. Respondent must include in the notes significant changes since the most recently completed year in such items as. accounting principles and practices, estimates inherent in the preparation of the financial statements, status of long-term contracts; capitalization including significant new borrowings or modifications of existing financing agreements, and changes resulting from business combinations or dispositions However were material contingencies exist, the disclosure of such matters shall be provided even though a significant change since year end may not have occurred
9. Finally, if the notes to the financial statements relating to the respondent appearing in the annual report to the stockholders are applicable and furnish the data required by the above instructions, such notes may be included herein.

PAGE 122 INTENTIONALLY LEFT BLANK
SEE PAGE 123 FOR REQUIRED INFORMATION.

Name of Respondent	This Report is	Date of Report	Year/Period of Report
El Paso Electric Company	(1) _ An Original (2) X A Resubmission	(Mo, Da, Yr) 05/13/2021	2020/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

Note 1. Regulatory-Basis Financial Statements

The accompanying regulatory-basis financial statements are presented in accordance with the accounting requirements of the Federal Energy Regulatory Commission (the "FERC") as set forth in its applicable Uniform System of Accounts and published accounting releases which is a comprehensive basis of accounting other than United States ("U S ") Generally Accepted Accounting Principles ("GAAP") Notes A through M of the regulatory-basis financial statements are from the December 31, 2020 GAAP Financial Statements and have been revised where the presentation of regulatory-basis financial statements, in accordance with requirements under the Uniform System of Accounts and published accounting releases of the FERC, result in different financial statement amounts or disclosures than under GAAP Because many types of transactions are susceptible to varying interpretations, the amounts and classifications reported in the accompanying regulatory-basis financial statements may be subject to change at a later date upon final determination by the FERC In the remainder of this Note 1, information contained in Notes A through M is supplemented for additional regulatory-basis disclosures

Regulatory-Basis Financial Statements Compared to GAAP

The significant differences between El Paso Electric Company's (the "Company") regulatory-basis financial statements and those prepared in accordance with GAAP include the application of fresh-start reporting to the GAAP financial statements and the discontinuance and subsequent re-application of the provisions of Financial Accounting Standards Board (the "FASB") accounting guidance for regulated operations In 1996, the Company adopted fresh-start reporting for its GAAP financial statements in accordance with the FASB guidance related to financial reporting by entities in reorganization under the U S Bankruptcy Code The adoption of fresh-start reporting resulted in the creation of a new reporting entity having no retained earnings or accumulated deficit and significantly altered, compromised, or modified the Company's historical capital structure

Name of Respondent	This Report is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
El Paso Electric Company	(1) _ An Original (2) X A Resubmission	05/13/2021	2020/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

In addition, certain items in the accompanying regulatory-basis financial statements are classified differently under FERC requirements than in the Company's GAAP financial statements If GAAP were followed, items in the accompanying regulatory-basis financial statements would be increased (decreased) as follows (in thousands).

Line No.		2020	2019
	Assets and Other Debits (Pages 110-111)		
2	Utility plant	$ (928,750)	$ (931,750)
3	Construction work in progress	(4,477)	—
5	Accumulated provision for depreciation, amortization and depletion	(918,420)	(920,600)
11	Nuclear fuel under capital lease	(1,137)	(1,596)
12	Accumulated provision for amortization of nuclear fuel	(821)	(1,190)
18	Non utility property	(613)	(1,070)
24	Other investments	(1,609)	(1,609)
28	Other special funds	(374,674)	(329,604)
67	Total current and accrued assets	18,910	10,135
84	Total deferred debits	160,489	119,505
	Liabilities and Other Credits (Pages 112-113)		
6	Premium on capital stock	$ —	$ 13,697
7	Other paid-in capital	—	(3,668)
10	Capital stock expense	—	(341)
11	Retained earnings	(19,670)	(29,881)
15	Accumulated other comprehensive income	(633)	(405)
24	Total long-term debt	53,575	52,962
35	Total other noncurrent liabilities	(289,444)	(300,026)
54	Total current and accrued liabilities	16,304	23,074
65	Total deferred credits	27,248	29,707
	Statements of Income for the Year (Pages 114-117)		
25	Total utility operating expenses	$ (15,404)	$ (12,093)
26	Net utility operating income	15,404	12,093
60	Net other income and deductions	17,798	32,232
70	Net interest charges	9,787	10,972
78	Net income	(158)	(678)
	Statement of Retained Earnings (Pages 118-119)		
1	Balance – beginning of period	$ (29,881)	$ (29,203)
48	Total retained earnings	(19,669)	(29,881)
	Statement of Cash Flows (Pages 120-121)		
22	Net cash provided by (used in) operating activities	$ (4,685)	$ (1,655)
57	Net cash provided by (used in) investing activities	4,685	1,655
	Statement of Accumulated Comprehensive Income, Comprehensive Income and Hedging Activities (Page 122a-122b)		
9	Other comprehensive income	$ (228)	$ (212)

Name of Respondent El Paso Electric Company	This Report is: (1) _ An Original (2) X A Resubmission	Date of Report (Mo, Da, Yr) 05/13/2021	Year/Period of Report 2020/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

Statement of Cash Flows

Cash and cash equivalents and amortization of other presented on the statement of cash flows for the years ended December 31, 2020 and 2019 consist of the following (in thousands).

	2020	2019
Cash and Cash Equivalents:		
Cash (131)	$ 8,062	$ 10,281
Working funds (135)	909	174
Temporary cash investments (136)	404	363
Cash and cash equivalents at end of period	$ 9,375	$ 10,818
Amortization of Other:		
ARO depreciation (403.1)	$ (1,328)	$ (1,328)
Other utility plant (404)	9,140	8,167
Regulatory assets (407.3)	2,239	2,130
Regulatory liabilities (407 4)	—	(131)
ARO accretion expense (411 10)	9,848	9,115
Debt expense (428)	1,054	1,035
Loss on reacquired debt (428.1)	950	937
Debt premium (429)	(140)	(134)
Interest rate lock losses	646	605
Operating lease assets amortization	615	656
Nuclear fuel financing issuance costs	170	138
Dry cask storage amortization	1,329	1,077
Coal reclamation amortization	661	661
Texas rate case amortization	1,497	1,501
New Mexico rate case amortization	—	215
	$ 26,681	$ 24,644

Accounting and Reporting for New Electric Storage Operations

As of December 31, 2020, the Company did not have electric storage assets or power purchased for storage operations, therefore did not have any operation and maintenance expense or purchased power expense to report in accordance with the interim guidance in FERC Docket No AI14-1-000 issued on February 20, 2014, for reporting energy storage assets, operation and maintenance expense and purchased power expense in the regulatory-basis Notes to Financial Statements.

A. Summary of Significant Accounting Policies

General. The Company is a utility engaged in the generation, transmission and distribution of electricity in an area of approximately 10,000 square miles in west Texas and southern New Mexico The Company also serves a full requirements wholesale customer in Texas

Merger. On June 1, 2019, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement"), by and among the Company, Sun Jupiter Holdings LLC, a Delaware limited liability company ("Parent"), and Sun Merger Sub Inc., a Texas corporation and wholly owned subsidiary of Parent ("Merger Sub") On July 29, 2020, pursuant to the Merger Agreement, Merger Sub merged with and into the Company (the "Merger"), with the Company continuing as the surviving corporation in the Merger and becoming a wholly owned subsidiary of Parent. The Company has elected not to apply push-down accounting to its financial statements after the Merger Parent is owned by IIF US Holding 2 LP ("IIF US 2"), a master holding partnership of the Infrastructure Investments Fund ("IIF"). In September 2020, an owner of the general partner of IIF US Holding and the general partner of IIF US Holding 2 resigned and his approximately 33 3% ownership interests reverted to the respective general partner On December 17, 2020, the FERC issued an order in Docket No. EC20-94-000 authorizing the acquisition of such approximately 33 3% membership interest from those general partners by a private individual, Anne Cleary. The transaction was completed on December 17, 2020 See

Name of Respondent	This Report is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
El Paso Electric Company	(1) _ An Original (2) X A Resubmission	05/13/2021	2020/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

Note M of Notes to Financial Statements for a discussion of the Merger

Coronavirus Disease 2019 ("COVID-19") Impacts Since the outbreak of COVID-19, federal, state, and local governments have imposed varying degrees of restrictions on businesses and the social activities of citizens In addition, both the Public Utility Commission of Texas (the "PUCT") and the New Mexico Public Regulation Commission (the "NMPRC") issued moratoriums preventing utilities from disconnecting service to their customers due to nonpayment The Texas moratorium on disconnections expired on August 31, 2020, while the New Mexico moratorium on residential customers remains in place The Company initiated the process of resumption of disconnection in mid-January 2021 for Texas customers and New Mexico nonresidential customers See Note D of Notes to Financial Statements for further details

The Company has observed a migration of energy sales from the commercial and public authority customers to the residential customers class. Through the date of this report, the Company also experienced decreases in its collections primarily related to its residential and commercial customers Accordingly, it has increased its allowance for doubtful accounts by $4 0 million as of December 31, 2020 to take into account the estimated impact of COVID-19 The Company is continuing to monitor its collection rates and bad debt write-offs and will record additional allowances as appropriate The Company incurred other incremental operations and maintenance costs related to COVID-19 of approximately $4 0 million for the year ended December 31, 2020, including contractors, medical claims, repairs and maintenance, material supplies, and rentals

Basis of Presentation The Company maintains its accounts in accordance with the accounting requirements of the FERC set forth in its applicable Uniform System of Accounts and published accounting releases, and applies such principles in its regulatory books of account to the rate treatment as ordered by each of the Company's three regulators (the PUCT, the NMPRC, and the FERC), which is a comprehensive basis of accounting other than GAAP

Use of Estimates The preparation of regulatory-basis financial statements in conformity with regulatory accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the regulatory-basis financial statements and the reported amounts of revenues and expenses during the reporting period The Company evaluates its estimates on an ongoing basis, including those related to depreciation, unbilled revenue (or "Accrued Utility Revenues"), income taxes, fuel costs, pension and other post-retirement obligations and asset retirement obligations ("ARO") Actual results could differ from those estimates

Utility Plant. Utility plant is reported at cost, less regulatory disallowances and impairments Costs include labor, materials, construction overheads and allowance for funds used during construction ("AFUDC"). Depreciation is provided on a straight-line basis at annual rates which will generally amortize the undepreciated cost of depreciable property over the estimated remaining lives of the assets (ranging in average from 5 to 48 years). The average composite depreciation rate utilized in 2020 and 2019 was 2 23% and 2 21%, respectively. When property subject to composite depreciation is retired or otherwise disposed of in the normal course of business, its cost together with the cost of removal, less salvage is charged to accumulated depreciation For other property dispositions, the applicable cost and accumulated depreciation is removed from the balance sheet accounts and a gain or loss is recognized, if applicable Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable

The cost of nuclear fuel is amortized to fuel expense on a units-of-production basis. The Company is also amortizing its share of costs associated with on-site spent fuel storage casks at Palo Verde Generating Station ("Palo Verde") over the burn period of the fuel that will necessitate the use of the storage casks See Note E of Notes to Financial Statements for further discussion

Allowance for Funds Used During Construction and Capitalized Interest AFUDC is determined by applying an accrual rate to the balance of certain Construction Work in Progress ("CWIP") The FERC has promulgated procedures for the computation (a prescribed formula) of the accrual rate The average AFUDC rates used in 2020 and 2019 were 5 30% and 5 27%, respectively The Company capitalizes interest on nuclear fuel in accordance with the FERC Uniform System of Accounts as provided for in the FASB guidance for regulated operations

Name of Respondent	This Report is:	Date of Report	Year/Period of Report
	(1) _ An Original	(Mo, Da, Yr)	
El Paso Electric Company	(2) X A Resubmission	05/13/2021	2020/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

On June 30, 2020, the FERC issued an order granting a waiver request related to the existing AFUDC rate calculation beginning March 1, 2020 through February 28, 2021. On February 23, 2021, the FERC extended the AFUDC rate waiver through September 30, 2021 The order provides a simplified approach that companies may elect to implement in order to minimize the significant distorted effect on the AFUDC formula resulting from increased short-term debt financing during COVID-19 The Company has adopted this simplified approach to computing the AFUDC composite rate by using a simple average of the actual historical short-term debt balances for 2019, instead of current period short-term debt balances, and has left all other aspects of the AFUDC formula composite rate calculation unchanged This change had the effect of increasing the AFUDC composite rate for each period beginning in the second quarter of 2020 Furthermore, the change in the composite rate calculation does not impact the accounting treatment for these costs

Asset Retirement Obligations The Company complies with FERC Order No 631, "Accounting, Financial Reporting, and Rate Filing Requirements for Asset Retirement Obligations," which sets forth accounting requirements for the recognition and measurement of liabilities associated with the retirement of tangible long-lived assets Under the FERC Order No. 631, these liabilities are recognized as incurred if a reasonable estimate of fair value can be established and are capitalized as part of the cost of the related tangible long-lived assets The Company records the increase in the ARO due to the passage of time as an operating expense (accretion expense). If the Company incurs or assumes any liability in retiring any asset at the end of its useful life without a legal obligation to do so, it will record such retirement costs as incurred See Note F of Notes to Financial Statements for further discussion.

Cash and Cash Equivalents. Temporary cash investments with an original maturity of three months or less are considered cash equivalents The Company's cash and cash equivalents do not include amounts held in trust by the Company's Palo Verde nuclear decommissioning trust funds ("NDT") or the pension and other post-retirement benefit trust funds

Investments The Company's marketable securities, included in decommissioning trust funds that are reflected in Other Special Funds in the Regulatory-Basis Balance Sheet, are reported at fair value and consist of cash and equity securities held in the NDT Investments in equity securities are measured at fair market value. Changes in fair value for equity securities are recognized in the Regulatory-Basis Statement of Income, with the exception of the FERC jurisdictional portion which is still accounted for in Regulatory-Basis Other Comprehensive Income Debt securities are classified as "available-for-sale" securities and, as such, unrealized gains and losses are included in Accumulated Other Comprehensive Income ("AOCI"). However, if declines in the fair value of debt securities below original cost basis are determined to be other than temporary, the declines are reported as losses in the Regulatory-Basis Statement of Income and a new cost basis is established for the affected securities at fair value Gains and losses are determined using the cost of the security based on the specific identification basis See Note K of Notes to Financial Statements for further discussion

Inventories Inventories, primarily parts, materials, supplies, fuel oil and natural gas are stated at average cost, which is not to exceed recoverable cost

Operating Revenues The Company accrues revenues for services rendered, including unbilled electric service revenues which are reflected as Accrued Utility Revenues The Company recognizes revenue associated with contracts with customers when performance obligations under the terms of the contract with the customer are satisfied Revenue is measured as the amount of consideration the Company receives in exchange for transferring goods or providing services to the customer Taxes collected concurrently with revenue producing activities are excluded from revenue Accrued Utility Revenues are recorded for estimated amounts of energy delivered in the period following the customer's last billing cycle to the end of the reporting period Accrued Utility Revenues are estimated based on monthly generation volumes and by applying an average revenue/kilowatt-hour ("kWh") to the number of estimated kWhs delivered but not billed The Company recorded $25.2 million and $25.6 million of Accrued Utility Revenues as of December 31, 2020 and 2019, respectively. See Note C of Notes to Financial Statements for further discussion.

Name of Respondent	This Report is:	Date of Report	Year/Period of Report
El Paso Electric Company	(1) _ An Original (2) X A Resubmission	(Mo, Da, Yr) 05/13/2021	2020/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

The Company's Texas retail customers are billed under base rates and a fixed fuel factor approved by the PUCT The Company's New Mexico retail customers are billed under base rates and a fuel adjustment clause that is adjusted monthly, as approved by the NMPRC The Company's FERC sales for resale customer is billed under formula base rates and fuel factors and a fuel adjustment clause that is adjusted monthly. The Company's recovery of fuel and purchased power expenses is subject to periodic reconciliations of actual fuel and purchased power expenses incurred to actual fuel revenues collected. The difference between fuel and purchased power expenses incurred and fuel revenues charged to customers is reflected in the accompanying Regulatory-Basis Balance Sheet in Other Regulatory Assets and Other Regulatory Liabilities, as appropriate. See Note D of Notes to Financial Statements for further discussion

Income Taxes. The Company accounts for federal and state income taxes under the asset and liability method of accounting for income taxes Deferred income taxes are recognized for the estimated future tax consequences of "temporary differences" by applying enacted statutory tax rates for each taxable jurisdiction applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities Certain temporary differences are accorded flow-through treatment by the Company's regulators and impact the Company's effective tax rate The FASB guidance requires that rate-regulated companies record deferred income taxes for temporary differences accorded flow-through treatment at the direction of the regulatory commission. The resulting deferred tax assets and liabilities are recorded at the expected cash flow to be reflected in future rates Because the Company's regulators have consistently permitted the recovery of tax effects previously flowed-through earnings, the Company has recorded regulatory liabilities and assets offsetting such deferred tax assets and liabilities. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the enactment date, unless those deferred taxes will be collected from or returned to customers in which case they are recorded as a regulatory asset or liability The Company recognizes tax assets and liabilities for uncertain tax positions in accordance with the recognition and measurement criteria of the FASB guidance for uncertainty in income taxes as modified by FERC Docket No AI07-2-000. See Note H of Notes to Financial Statements for further discussion

The tax effects of changes in tax laws must be recognized in the period in which the law is enacted In accordance with FERC Docket No AI93-5-000, deferred tax assets and liabilities are required to be measured at the enacted tax rate expected to apply when temporary differences are to be realized or settled At the enactment of the federal legislation commonly referred to as the Tax Cuts and Jobs Act of 2017 ("TCJA") on December 22, 2017, the Company's deferred taxes were re-measured based upon the new federal corporate income tax rate. The decrease in deferred taxes was recorded as a regulatory liability as it will be subject to refund to customers and is recorded at the expected cash flow to be reflected in future rates See Note H of Notes to Financial Statements for further discussion

Stock-Based Compensation Prior to July 29, 2020, the Company had a stock-based long-term incentive plan Under the FASB guidance, the Company was required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award Such costs were recognized over the period during which an employee had to provide service in exchange for the award (requisite service period), which typically was the vesting period. Compensation cost was not recognized for anticipated forfeitures prior to vesting of equity instruments

Pension and Post-retirement Benefit Accounting See Note J of Notes to Financial Statements for a discussion of the Company's accounting policies for its employee benefits

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Credit Losses. On January 1, 2020, the Company adopted Accounting Standards Update ("ASU") 2016-13, Financial Instruments - Credit Losses (Topic 326) There was no cumulative effect adjustment at the initial application of the new standard The Company expects the ongoing impact of the new standard to be immaterial to its financial position and results of operations and no significant changes in the Company's business processes and internal controls were necessary upon adoption of the new standard The Company is exposed to credit losses as a result of recording customer receivables related to retail and wholesale electric sales and the provision of transmission services to customers The allowance for doubtful accounts represents the Company's estimate of existing accounts receivable that will ultimately be uncollectible The allowance is calculated by applying estimated write-off factors to various classes of outstanding receivables The write-off factors used to estimate uncollectible accounts are based upon consideration of both historical collections experience and management's best estimate of future collections success given the existing collections environment and qualitative forecasts of future conditions During 2020, the Company performed its assessment, which included consideration of the ongoing impact of COVID-19 Based on that assessment, the Company recorded a charge for anticipated uncollectible customer accounts Additions, deductions and balances for the allowance for doubtful accounts for the years ended December 31, 2020 and December 31, 2019 are as follows (in thousands)

	Years Ended December 31, 2020	Years Ended December 31, 2019
Balance at beginning of year	$ 1,900	$ 2,070
Additions		
Increase to provision (a)	6,063	2,292
Recovery of previous write-offs	1,316	1,197
Uncollectible receivables written off	(3,359)	(3,659)
Balance at end of year	$ 5,920	$ 1,900

(a) 2020 includes $3 2 million estimated impact of COVID-19 charged to Regulatory Assets in the Company's Regulatory-Basis Balance Sheet

Leases. The Company determines if an arrangement contains a lease and the classification of that lease at inception Operating lease right-of-use ("ROU") assets represent the Company's right to use an underlying asset for the lease term and operating lease liabilities represent the obligation to make payments under the lease ROU assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of the minimum lease payments over the lease term. In determining lease terms, the Company considers any options to extend or terminate the lease that are reasonably certain of being exercised As the Company's leases do not include an implicit rate, the Company uses an estimated incremental borrowing rate, at lease commencement, to determine the present value of the future lease payments In calculating the incremental borrowing rate, the Company takes into consideration recent debt issuances and other data for instruments with similar characteristics The Company's lease agreements do not contain residual value guarantees or restrictive covenants For leases with lease and non-lease components, the Company has elected to account for the consideration as a single lease component The Company has also elected not to record leases with a term of 12 months or less on the Regulatory-Basis Balance Sheet The operating lease ROU assets are included as part of electric plant in service and lease liabilities are included as part of Current and Non-current Obligation Under Capital Lease in the Company's Regulatory-Basis Balance Sheet in accordance with FERC Docket No AI19-1-000 As of December 31, 2020, the Company does not have any material operating leases

B. New Accounting Standards

The new accounting standards discussed below are issued by the FASB and are to be applied to financial statements prepared in accordance with GAAP. Differences may occur between financial statements prepared in accordance with GAAP and financial statements prepared in accordance with the Uniform System of Accounts when these standards are adopted

New Accounting Standards Adopted in 2020

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326) ASU 2016-13 changed how companies measure and recognize credit impairment for many financial assets The new expected credit loss model required companies to immediately recognize an estimate of credit losses expected to occur over the remaining life of the financial assets that are in the scope of the standard ASU 2016-13 was required for reporting periods beginning after December 15, 2019 ASU 2016-13

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was applied in a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance was implemented The Company adopted ASU 2016-13 on January 1, 2020. As part of its implementation process, the Company evaluated the impact of the new standard, which included evaluating the impact of (i) ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments and (ii) ASU 2019-05, Financial Instruments - Credit Losses (Topic 326) Targeted Transition Relief The adoption of this standard did not have a material impact or require a cumulative effect adjustment to retained earnings. The Company anticipates the ongoing impact of ASU 2016-13 will be immaterial to the Company's financial position, results of operations, and cash flows.

In August 2018, the FASB issued ASU 2018-14, Compensation – Retirement Benefits – Defined Benefit Plans (Subtopic 715-20) ASU 2018-14 removes certain disclosures that the FASB no longer considered cost beneficial while adding certain requirements identified as relevant for employers that sponsor defined benefit pension or other postretirement plans The ASU removes the following disclosure requirements. amounts in AOCI expected to be recognized as components of net periodic benefit cost over the next fiscal year, amount and timing of plan assets expected to be returned to the employer, related party disclosures about the amount of future annual benefits covered by insurance and annuity contracts, significant transactions between the employer or related parties and the plan, and the reconciliation of the opening balances to the closing balances of plan assets measured on a recurring basis in Level 3 of the fair value hierarchy. The ASU also adds and clarifies the following disclosure requirements: the weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates, an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period, the projected benefit obligation ("PBO") and fair value of plan assets for plans with PBOs in excess of plan assets, the accumulated benefit obligation ("ABO") and fair value of plan assets for plans with ABOs in excess of plan assets ASU 2018-14 required that the disclosure amendments be applied on a retrospective basis to all periods presented ASU 2018-14 is effective for nonpublic entities for fiscal years ending after December 15, 2021 However, as permitted, the Company early adopted ASU 2018-14 effective December 31, 2020 The adoption of this ASU did not have a significant impact on the Company's financial statement disclosures

New Accounting Standards to be Adopted in the Future

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740), as part of its initiative to reduce complexity in accounting standards ASU 2019-12 amends the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance ASU 2019-12 will be effective for fiscal years beginning after December 15, 2021 Early adoption is permitted, including adoption in any interim periods for reporting periods for which financial statements have not been made available for issuance The Company is currently evaluating the future impact of ASU 2019-12

C. Revenues

The following table disaggregates revenue from contracts with customers, for the years ended December 31, 2020 and 2019 (in thousands).

	Years Ended December 31,	
	2020	2019
Retail	$ 799,764	$ 742,510
Wholesale	89,391	92,396
Wheeling (transmission)	24,580	22,621
Total revenues from contracts with customers	913,735	857,527
Other	3,775	4,467
Total operating revenues	$ 917,510	$ 861,994

Retail. Retail contracts represent the Company's primary revenue source The Company has determined that retail electric service to residential, commercial and industrial, and public authority customers represents an implied daily contract with the customer The contract is comprised of an obligation to supply and distribute electricity and related capacity Revenue is recognized, over time, equal to the product of the applicable tariff rates, as approved by the PUCT and the NMPRC, and the volume of the electricity delivered to the customer, or through the passage of time based upon providing the service of standing ready Accrued Utility Revenues are recognized at month end based on estimated monthly generation volumes and by applying an average revenue

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per kWh to the number of estimated kWhs delivered but not billed to customers, and recorded as a receivable for the period following the last billing cycle to the end of the reporting period Retail customers receive a bill monthly, with payment due sixteen days after issuance.

Wholesale. Wholesale contracts primarily include forward power sales into markets outside the Company's service territory when the Company has competitive generation capacity available, after meeting its regulated service obligations Pricing is either fixed or based on an index rate with consideration potentially including variable components. Uncertainties regarding the variable consideration will be resolved when the transaction price is known at the point of delivering the energy The obligation to deliver the electricity is satisfied over time as the customer receives and consumes the electricity Wholesale customers are invoiced monthly on the 10th day of each month, with payment due by the 20th day of the month In the case of the sale of renewable energy certificates, the transaction price is allocated to the performance obligation to deliver the confirmed quantity of the certificates based on the stand alone selling price of each certificate Revenue is recognized as control of the certificates is transferred to the customer. The customer is invoiced upon the completed transfer of the certificates, with payment due within ten business days Wholesale also includes an annual agreement between the Company and one of its wholesale customers, Rio Grande Electric Cooperative ("RGEC"), which involves the provision of full requirements electric service from the Company to RGEC The rates for this service are recalculated annually and require FERC approval

Wheeling (transmission) Wheeling involves the Company providing point-to-point transmission service, which includes the receipt of capacity and energy at designated point(s) and the transfer of such capacity and energy to designated point(s) of delivery on either a firm or non-firm basis for periods of one year or less The performance obligation to provide capacity and transmit energy is satisfied over time as the Company performs Transmission customers are invoiced on a monthly basis, with payment due within twenty days of receipt of the invoice

Accounts receivable. Accounts receivable is principally comprised of revenue from contracts with customers. The Company recognizes expense for accounts that are deemed uncollectible in operating expense The Company recognized $2 9 million and $2 3 million of uncollectible expense for the years ended December 31, 2020 and 2019, respectively. See Note A of Notes to Financial Statement for a discussion of the COVID-19 impact on the Company's uncollectible reserve

D. Regulation

General

The rates and services of the Company are regulated by incorporated municipalities in Texas, the PUCT, the NMPRC and the FERC Municipal orders, ordinances and other agreements regarding rates and services adopted by Texas municipalities are subject to review and approval by the PUCT The FERC has jurisdiction over the Company's wholesale (sales for resale) transactions, transmission service and compliance with federally-mandated reliability standards The decisions of the PUCT, the NMPRC and the FERC are subject to judicial review

On June 1, 2019, the Company entered into the Merger Agreement On July 29, 2020, pursuant to the Merger Agreement, Merger Sub merged with and into the Company, with the Company continuing as the surviving corporation in the Merger and becoming a wholly owned subsidiary of Parent Parent is owned by IIF US 2, a master holding partnership of IIF Among other things, the Company, Parent and IIF US 2 were required to obtain certain regulatory approvals of the Merger See Note M of the Notes to Financial Statements for further discussion of the Merger

Texas Regulatory Matters

2017 Texas Retail Rate Case Filing On February 13, 2017, the Company filed in Docket No 46831, a request for an increase in non-fuel base revenues (the "2017 Texas Retail Rate Case") On December 18, 2017, the PUCT issued a final order in Docket No 46831 (the "2017 PUCT Final Order")

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The 2017 PUCT Final Order required the Company to file a refund tariff if the federal statutory income tax rate, as it relates to the Company, was decreased before the Company files its next general rate case. Following the enactment of the TCJA on December 22, 2017, and in compliance with the 2017 PUCT Final Order, on March 1, 2018, the Company filed with the PUCT and each of its Texas municipalities a proposed refund tariff designed to reduce base charges for Texas customers equivalent to the expected annual decrease of $22 7 million in federal income tax expense resulting from the TCJA changes. The refund is required to be updated annually until new base rates are implemented pursuant to the Company's next Texas rate case filing. The PUCT and each of the Company's municipalities approved the Company's first amendment to the tax refund tariff on June 27, 2019, in Docket No 49251 with the second amendment being approved on July 6, 2020, in Docket No 50575 On February 22, 2021, the Company filed with the PUCT and each of its Texas municipalities an application to modify the tax refund tariff for the third time, which does not propose any modification to the existing tariff The filing was assigned PUCT Docket No 51826 The Company cannot predict the outcome of this filing at this time

Texas Energy Efficiency Cost Recovery Factor ("EECRF"). On May 1, 2020, the Company filed its annual application to establish its EECRF for 2021 with the PUCT, which was assigned PUCT Docket No. 50806 In addition to projected energy efficiency costs of $4 7 million for 2021 and a reconciliation of collections to actual costs for the prior year, the Company requested approval of a $1 2 million incentive bonus for the 2019 energy efficiency program results in accordance with PUCT rules A final order approving the filed settlement that resolved all issues in the proceeding, including the requested incentive bonus by reducing the recoverable energy efficiency costs by $75 thousand, was issued on November 5, 2020

Fuel and Purchased Power Costs. The Company's actual fuel costs, including purchased power energy costs, net of the cost of off-system sales and related shared margins, are recovered from customers through a fixed fuel factor The PUCT has adopted a fuel cost recovery rule ("Texas Fuel Rule") that allows the Company to seek periodic adjustments to its fixed fuel factor. The Company can seek to revise its fixed fuel factor based upon the approved formula at least four months after its last revision except in the month of December The Texas Fuel Rule requires the Company to request to refund fuel costs in any month when the over-recovery balance exceeds a threshold material amount and when it expects fuel costs to continue to be materially over-recovered The Texas Fuel Rule also permits the Company to seek to surcharge fuel under-recoveries in any month the balance exceeds a threshold material amount and when it expects fuel cost recovery to continue to be materially under-recovered Fuel over- and under-recoveries are considered material when they exceed 4% of the previous twelve months' fuel costs All such fuel revenue and expense activities are subject to periodic final review by the PUCT in periodic fuel reconciliation proceedings

On September 13, 2019, the Company filed a request with the PUCT, which was assigned PUCT Docket No 49960, to decrease the Texas fixed fuel factor by approximately 12 2% to reflect decreased fuel expenses primarily related to a decrease in the price of natural gas used to generate power On September 25, 2019, the Company's fixed fuel factor was approved by the PUCT on an interim basis effective for the first billing cycle of the October 2019 billing month The Texas fixed fuel factor was determined to be final on October 15, 2019, and will continue until changed by the PUCT

On November 26, 2019, the Company filed a petition with the PUCT, which was assigned PUCT Docket No. 50292, requesting authority to implement, beginning on January 1, 2020, a three-month, interim fuel refund of $15 0 million in fuel cost over-recoveries for the period from April 2019 through October 2019, including interest for the period from April 2019 through March 2020 On December 12, 2019, the Company's fuel refund credit was approved on an interim basis The Company implemented the fuel refund in customer bills beginning January 1, 2020, and completed the refund period on March 31, 2020, during which $14.0 million was refunded On March 26, 2020, the PUCT issued a final order approving the fuel refund credits

On June 16, 2020, the Company filed a petition with the PUCT, which was assigned PUCT Docket No 50940, requesting authority to implement, beginning on July 1, 2020, a two-month, interim fuel refund of $9 4 million in fuel cost over-recoveries for the period from April 2019 through August 2020, including interest On June 29, 2020, the Company's fuel refund credit was approved on an interim basis, and the Company implemented the fuel refund in customer bills on July 1, 2020 A final order approving the requested refund amount and deferring the determination of a separate refund surcharge for community solar customers to another case was issued on November 5, 2020 As of December 31, 2020, the Company had a net fuel under-recovery balance of approximately $10 6 million in Texas

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Fuel Reconciliation Proceeding On September 27, 2019, the Company filed an application with the PUCT, which was assigned PUCT Docket No 50058, to reconcile $363 0 million of Texas fuel and purchased power expenses incurred during the period of April 1, 2016, through March 31, 2019 The Company filed a settlement agreement on January 15, 2021, that reduced the Company's eligible fuel-cost balance by $4 5 million. On January 22, 2021, the Administrative Law Judge ("ALJ") remanded the case to the PUCT for a final order approving the settlement agreement and finding prudent its eligible fuel expenses The Company cannot predict the outcome of this filing at this time The April 1, 2019, through December 31, 2020, Texas jurisdictional fuel and purchased power costs which are subject to a future prudence review, total approximately $133 0 million.

Transmission Cost Recovery Factor ("TCRF") On January 25, 2019, the Company filed an application with the PUCT to establish its TCRF, which was assigned PUCT Docket No. 49148 (the "2019 TCRF rate filing"). The 2019 TCRF rate filing was designed to recover a requested $8 2 million of Texas jurisdictional transmission revenue requirement that was not being recovered in the Company's Texas base rates for transmission-related investments placed in service from October 1, 2016, through September 30, 2018, net of retirements On December 16, 2019, the PUCT issued a final order approving a TCRF revenue requirement of $7 5 million with a provision for recovery of revenue relating to the period from July 30, 2019 to December 31, 2019, which approximated $3 0 million The Company's TCRF rates became effective in customer bills beginning January 1, 2020 On January 14, 2020, the Company filed with the PUCT a proposed surcharge in compliance with the final order issued in 2019 TCRF rate filing for recovery of the $3.0 million related to 2019, over a period of 12 months beginning on April 1, 2020 The filing was assigned PUCT Docket No 50256, and on February 7, 2020, the surcharge was approved through delegated authority by a Commission ALJ

Distribution Cost Recovery Factor ("DCRF") On March 28, 2019, the Company filed an application with the PUCT and each of its Texas municipalities to establish its DCRF, which was assigned PUCT Docket No 49395 (the "2019 DCRF rate filing"). The 2019 DCRF rate filing was designed to recover a requested $7 9 million of Texas jurisdictional distribution revenue requirement that was not being recovered in the Company's Texas base rates for distribution-related investments placed in service from October 1, 2016, through December 31, 2018, net of retirements On September 27, 2019, the PUCT issued a final order approving a DCRF revenue requirement of $7 8 million, and the Company's DCRF rates became effective in customer bills beginning October 1, 2019

On September 17, 2020, the Company filed an application with the PUCT, which was assigned Docket No 51348, to amend its DCRF (the "2020 DCRF rate filing") The 2020 DCRF rate filing seeks to recover an additional $12 8 million of Texas jurisdictional revenue requirement that was not being recovered in either the existing DCRF or the Company's Texas base rates for distribution-related investments, net of retirements, placed in service from January 1, 2019, through June 30, 2020 The parties filed an unopposed motion on February 23, 2021, in which the parties agreed to a $0 7 million black box reduction to the Company's annual revenue requirement and to allow the Company to institute interim rates for bills issued on or after March 1, 2021 On February 24, 2021, the ALJ granted the request for interim rates, and returned the case to the PUCT. The Company cannot predict the outcome of this filing at this time

Newman Unit 6 Certificate of Convenience and Necessity ("CCN"). On November 22, 2019, the Company filed an application with the PUCT for a CCN to own and operate a new, approximately 228 MW, natural gas-fired unit to be constructed at the Company's Newman Power Station ("Newman") The case was assigned PUCT Docket No 50277 An air permit application for Newman Unit 6 was concurrently submitted to the Texas Commission on Environmental Quality ("TCEQ") The new unit is needed to serve growth in customer demand, to replace older and less efficient generators that the Company plans to retire in the next several years, and to help the Company meet its planning reserve margin On October 16, 2020, the PUCT issued a final order approving the Company's application to construct, own, and operate Newman Unit 6 The TCEQ issued a draft permit on August 26, 2020, and issued a response to public comments received regarding its draft permit and preliminary decision in March 2021 The TCEQ made no modification to its draft permit in response to the public comments received The Company expects to proceed with the contested case hearing, requested by the public to determine whether the TCEQ will grant the requested air permit to the Company, in the second quarter of 2021

Merger Rate Credit. On March 13, 2020, the Company filed an application with the PUCT and each of its Texas municipalities to implement a Merger rate credit of $21.0 million over 36 months, which was assigned PUCT Docket No 50477. The final order that approved the Merger in Docket No 49849 required the Company to file for approval of the Merger rate credit within 45 days after the issuance of that final order The application was approved on June 30, 2020, and the Merger Rate Credit Factor tariff became effective August 1, 2020, following the closing of the Merger on July 29, 2020 See Note M of the Notes to Financial Statements for a

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discussion of the Merger

COVID-19 Orders. On March 13, 2020, in response to the growing threat of COVID-19, Governor Greg Abbott issued a Declaration of State of Disaster for all counties in Texas. On March 16, 2020, the PUCT opened Docket No 50664 for *Issues Related to the State of Disaster for the Coronavirus Disease 2019* That same day, the PUCT issued an order suspending certain of its rules related to filings and procedural requirements.

The PUCT issued orders on March 26, 2020, and April 17, 2020, finding that the public emergency and imperative public necessity constitute good cause to grant exemptions to its rules related to utility authorization to disconnect service for nonpayment and the assessment of late payment fees for delinquent bills through May 15, 2020 In subsequent orders issued on May 14, 2020, and July 16, 2020, the PUCT extended through August 31, 2020, the suspension of its rule related to utility authorization to disconnect service for nonpayment Although both of these rule suspensions have expired, the PUCT in its July 16, 2020, order required that all retail electric providers continue to offer a deferred payment plan to customers, upon request, until further order of the PUCT

The March 26, 2020, order provided regulated utility companies regulatory certainty by authorizing the use of an accounting mechanism and a subsequent process through which regulated utility companies may seek future recovery of expenses resulting from the effects of COVID-19 The PUCT order authorized electric, water, and sewer utilities to record as regulatory assets, expenses resulting from the effects of COVID-19, including, but not limited to, nonpayment of qualified customer bills as specified by the prior order In future proceedings, the PUCT indicated it would consider whether each utility's request for recovery of these regulatory assets is reasonable and necessary

Other Required Approvals The Company has obtained other required approvals for tariffs and other approvals required by the Texas Public Utility Regulatory Act and the PUCT

New Mexico Regulatory Matters

2020 New Mexico Rate Case Filing Pursuant to an NMPRC order in Case No. 15-00109-UT, on May 29, 2020, the Company filed its Application for Revision of Retail Electric Rates, requesting a base revenue requirement increase of $6.9 million. The application was assigned Case No 20-00104-UT Hearings in the case ended on January 26, 2021, and a final order is expected by June 16, 2021 The Company cannot predict the outcome of this case at this time

New Mexico Order Commencing Review of the Effects of the TCJA on Regulated New Mexico Utilities. On January 24, 2018, the NMPRC initiated a proceeding in Case No 18-00016-UT on the impact of the TCJA on New Mexico regulated utilities On April 4, 2018, the NMPRC issued an order requiring the Company to file a proposed interim rate rider to adjust the Company's New Mexico base revenues in amounts equivalent to the Company's reduced income tax expense for New Mexico customers resulting from the TCJA, to be implemented on or before May 1, 2018. The NMPRC order further requires that the Company record and track a regulatory liability for the excess accumulated deferred income taxes created by the change in the federal corporate income tax rate, consistent with the effective date of the TCJA, and subject to amortization determined by the NMPRC in the Company's next general rate case The Company recorded such a regulatory liability in 2017. On April 16, 2018, after consultation with the New Mexico Attorney General pursuant to the NMPRC order, the Company filed an interim rate rider with the NMPRC with a proposed effective date of May 1, 2018 The annualized credits expected to be refunded to New Mexico customers approximate $4 9 million The Company implemented the interim rate rider in customer bills beginning May 1, 2018, pursuant to the NMPRC order

Merger Rate Credit. On July 27, 2020, the Company filed an Advice Notice with the NMPRC to implement a Merger rate credit of $8 7 million over 36 months The final order that approved the Merger in Case No 19-00234-UT required the Company to file the Merger rate credit Advice Notice within seven days of the close of the Merger that occurred on July 29, 2020 The tariff implementing the Merger credit became effective on August 5, 2020 See Note M of the Notes to Financial Statements for a discussion of the Merger

Fuel and Purchased Power Costs. Pursuant to NMPRC Rule 550, fuel and purchased power costs, net of the cost of off-system sales and related shared margins, are reconciled to actual costs on a monthly basis and recovered or refunded to customers the second succeeding month through the New Mexico Fuel and Purchased Power Cost Adjustment Clause ("FPPCAC"). The Company must file an application for continued use of its FPPCAC no more than four years from the date its last FPPCAC was continued As required,

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the Company filed a request to continue use of its FPPCAC with the NMPRC on January 5, 2018, which was assigned Case No 18-00006-UT The NMPRC issued a final order in the case on February 13, 2019, which authorized the Company to continue use of its FPPCAC without change and approved the Company's reconciliation of its fuel and purchased power costs for the period January 1, 2015, through December 31, 2016 New Mexico jurisdictional fuel and purchased power costs subject to a future prudence review are fuel and purchased power costs from January 1, 2017, through December 31, 2020, that total approximately $138.8 million At December 31, 2020, the Company had a net fuel under-recovery balance of approximately $2 6 million related to the FPPCAC in New Mexico

Amendments to the New Mexico Renewable Energy Act (the "REA"). The REA requires electric utilities to meet a Renewable Portfolio Standard ("RPS") of twenty percent of its total retail sales to New Mexico customers by 2020 Effective June 14, 2019, the REA was amended when the New Mexico Energy Transition Act was enacted to, among other things (i) increase the RPS to forty percent by 2025, fifty percent by 2030, and eighty percent by 2040, (ii) impose a zero-carbon standard by 2045, (iii) eliminate the reduction to the RPS requirement for sales to qualifying large non-governmental customers whose costs were capped under the REA prior to the amendments, (iv) set a statutory reasonable cost threshold, and (v) provide cost recovery for certain undepreciated investments and decommissioning costs, such as coal-fired generation, associated with generation required by the NMPRC to be discontinued and replaced with lower or zero-carbon generation. In administering the eighty percent RPS and zero-carbon standards, the REA requires the NMPRC to consider certain factors, including safety, reliability and rate impact to customers. On October 10, 2019, the NMPRC initiated a rulemaking proceeding to implement the REA amendments in Case No 19-00296-UT. The Company is currently evaluating the impact that the REA may have on its operations Further, the Company has not determined the costs associated with complying with the REA including potential fines that could be associated with non-compliance

New Mexico RPS. Effective January 1, 2018, pursuant to the final order in NMPRC Case No 17-00090-UT, the RPS costs for New Mexico are recovered through a separate RPS Cost Rider and not through the FPPCAC At December 31, 2020, the Company had a net fuel over-recovery balance related to the RPS Cost Rider of approximately $1 8 million The RPS Cost Rider is updated in an annual NMPRC filing, including a reconciliation of the prior year's RPS costs and RPS Cost Rider revenue On October 1, 2019, in Case No 19-00099-UT, the Company filed its required application with the NMPRC for approval of its 2019 Annual Renewable Plan and for adjustment of its RPS Cost Rider for reconciliation of 2018 costs and revenues and to recover RPS costs for 2020 Effective January 1, 2020, the Company implemented an adjusted RPS Cost Rider reconciling 2018 RPS Cost Rider costs and revenues pursuant to a November 18, 2019 order in Case No. 19-00099-UT On March 31, 2020, the Company filed an application for approval of its amended 2019 Annual Renewable Plan and 2020 Annual Renewable Plan and for adjustment of its RPS Cost Rider for reconciliation of 2019 costs and revenue and to recover RPS costs for 2020 and 2021. The amended application includes a request for approval for 70 MW of new solar generation purchased power agreements for energy to be delivered to New Mexico customers beginning in 2022 On December 2, 2020, the NMPRC issued a final order approving the addition of 70 MW of new renewable generation for New Mexico, the reconciliation of 2019 RPS Cost Rider costs and revenues, and the recovery of 2021 RPS costs

Expedited Approval for CCN (Solar/Storage Project at New Mexico State University ("NMSU")). On November 20, 2019, the Company filed an application with the NMPRC requesting a certificate of public convenience and necessity to construct, own and operate a three-MW solar powered generation facility coupled with a one-MW battery storage system to be located on NMSU property in Arrowhead Park in the Company's service territory in New Mexico. The Company's application also seeks approval of a special retail rate contract between the Company and NMSU to recover the costs of the new facility and its operations from NMSU The new facility will be a dedicated Company-owned resource serving NMSU. This case was assigned NMPRC Case No 19-00350-UT. The CCN and pricing contract for the new facility were approved by a final order of the NMPRC adopting the settlement on August 5, 2020, and construction on the project began in December 2020

New Mexico Efficient Use of Energy Recovery Factor ("EUERF"). On July 2, 2018, the Company filed its required application with the NMPRC for approval of its 2019-2021 Energy Efficiency and Load Management Plan ("EE/LM Plan") and EUERF The application was assigned Case No 18-00116-UT On March 6, 2019, the NMPRC issued a final order approving (i) the Company's 2019-2021 EE/LM Plan, with minor program modifications, (ii) the base incentive of 7 1% of program expenditures, or approximately $0 4 million annually for 2019-2021; and (iii) the continuation of the Company's EUERF During 2019, the Company recorded incentives in operating revenues of $0.4 million related to its 2019 EE/LM Plan For the year ended December 31, 2020, the Company recorded incentives in operating revenues of $0.4 million related to the 2019-2021 EE/LM Plan The Company's 2022-2024 EE/LM Plan is expected to be filed on June 1, 2021

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On May 22, 2020, the Company filed a motion to modify its 2019 EE/LM Plan to a new Residential Load Management Program ("RLMP") for the remaining 2020 and 2021 plan years to be funded through a reallocation of the Company's approved EE/LM Plan budgets for 2020 and 2021. An order granting the Company's motion for the new RLMP was issued by the NMPRC on July 22, 2020 The program is also being offered in the Company's Texas jurisdiction.

Newman Unit 6 CCN. On November 18, 2019, the Company filed an application with the NMPRC for a CCN to own and operate a new, approximately 228 MW, natural gas-fired unit to be constructed at Newman The case was assigned NMPRC Case No 19-00349-UT On December 16, 2020, the NMPRC issued an order rejecting the Company's requested CCN

Long-Term Purchased Power Agreement ("LTPPA") Approval. On November 18, 2019, the Company filed an application with the NMPRC to request prior approval for three LTPPAs pursuant to NMPRC Rule 17 9 551 of the New Mexico Administrative Code ("Rule 551") The case was assigned NMPRC Case No. 19-00348-UT The three LTPPAs provide for the purchase of energy and capacity from (i) a 100 MW solar plant to be constructed in Santa Teresa, New Mexico, (ii) a 100 MW solar plant combined with a 50 MW of battery energy storage to be constructed in Otero County, New Mexico; and (iii) a 50 MW battery energy storage facility to be constructed in Canutillo, Texas Rule 551 requires that no utility become irrevocably obligated under a LTPPA without first obtaining the NMPRC's written approval of the agreement On April 22, 2020, the Hearing Examiner issued a Recommended Decision in NMPRC Case No 19-00348-UT recommending NMPRC approval of the solar plant and the combined solar plant and battery energy storage LTPPAs and disapproval of the battery energy storage facility LTPPA On May 13, 2020, the NMPRC approved the Recommended Decision as filed

COVID-19 Order. On October 21, 2020, in Case No 20-00159-UT, the NMPRC issued a Final Order amending NMPRC service rules to allow the NMPRC on a temporary basis to prohibit utilities from discontinuing residential customer utility service during the time period in which Emergency Executive Orders related to COVID-19 are in effect The service rule changes became effective November 10, 2020 Pursuant to the service rule changes promulgated in Case No 20-00159-UT, on February 3, 2021, in Case No 20-00205-UT, the NMPRC issued the Order Setting Transition Periods and Moratoriums on Disconnections of Residential Customer Utility Service ("Transition Period Order") The Transition Period Order set a 190-day transition period from February 3, 2021 through August 12, 2021 extending the moratoriums on disconnections of residential customer utility service pursuant to the Governor's Executive Orders related to the COVID-19 Pandemic

On June 24, 2020, in NMPRC Case No 20-00069-UT, the NMPRC issued an order authorizing all public utilities regulated by the NMPRC to create regulatory assets for the accounting deferral of COVID-19 related uncollectible arrearages and other expenses incurred during the period beginning March 11, 2020 through the termination of the Governor of New Mexico's Executive Orders 2020-0004 through 2020-0010 The NMPRC order does not create a presumption of reasonableness or otherwise provide any guarantee of rate recovery of any costs or alleged lost revenues being deferred

Other Required Approvals. The Company has obtained other required approvals for tariffs and other approvals as required by the New Mexico Public Utility Act and the NMPRC

Federal Regulatory Matters

FERC Audit. On February 6, 2019, the FERC notified the Company that it was commencing an audit intended to evaluate the Company's compliance with (i) the approved terms, conditions, and rates of its Open Access Transmission Tariff ("OATT"), (ii) the accounting requirements of the Uniform System of Accounts, (iii) the reporting requirements of the FERC Form No 1 Annual Report and Supplemental Form 3-Q Quarterly Financial Reports, and (iv) the regulations regarding Open Access Same-time Information Systems The audit covered the period from January 1, 2016 to June 30, 2020 and was assigned FERC Docket No PA19-3-000. The FERC issued its final audit report on January 28, 2021 The audit findings did not have a material impact to the financial statements and disclosures of the Company The Company submitted its implementation plan to comply with the recommendations on March 1, 2021. On March 16, 2021, FERC Staff notified the Company that the implementation phase of the audit is now closed.

Other Required Approvals. The Company has obtained required approvals for rates, tariffs and other approvals as required by the Federal Power Act and the FERC

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U.S. Department of Energy ("DOE"). The DOE regulates the Company's exports of power to Mexico pursuant to a DOE grant of export authorization In addition, the Company is the holder of two presidential permits issued by the DOE under which the Company constructed and operates border crossing facilities at the U S /Mexico border

Pursuant to the Nuclear Waste Policy Act of 1982, as amended in 1987, the DOE is legally obligated to accept and dispose of all spent nuclear fuel and other high-level radioactive waste generated by all domestic power reactors by 1998 See Note E of Notes to Financial Statements for further discussion of spent fuel storage and disposal costs

Sales for Resale and Network Transmission Service to RGEC

The Company provides firm capacity and associated energy to the RGEC pursuant to an ongoing contract with a two-year notice to terminate provision The Company also provides network integrated transmission service to the RGEC pursuant to the Company's OATT The contract includes a formula-based rate that is updated annually to recover non-fuel generation costs and a fuel adjustment clause designed to recover all eligible fuel and purchased power costs allocable to the RGEC The Company's service to RGEC is regulated by FERC

E. Utility Plant, Palo Verde and Other Jointly-Owned Utility Plant

The tables below present the balance of each major class of depreciable assets at December 31, 2020 and 2019 (in thousands)

	December 31, 2020		
	Gross Plant (a)	Accumulated Depreciation	Net Plant
Nuclear production	$ 2,008,379	$ (1,298,723)	$ 709,656
Steam and other	1,138,429	(336,925)	801,504
Total production	3,146,808	(1,635,648)	1,511,160
Transmission	556,774	(245,923)	310,851
Distribution	1,434,366	(411,768)	1,022,598
General	259,160	(96,690)	162,470
Intangible	119,569	(78,562)	41,007
Total	$ 5,516,677	$ (2,468,591)	$ 3,048,086

	December 31, 2019		
	Gross Plant (a)	Accumulated Depreciation	Net Plant
Nuclear production	$ 1,972,747	$ (1,275,339)	$ 697,408
Steam and other	1,107,426	(319,247)	788,179
Total production	3,080,173	(1,594,586)	1,485,587
Transmission	534,609	(238,445)	296,164
Distribution	1,355,690	(394,920)	960,770
General	245,589	(84,612)	160,977
Intangible	114,289	(69,422)	44,867
Total	$ 5,330,350	$ (2,381,985)	$ 2,948,365

(a) Gross Plant excludes Capitalized Operating Leases of $5 0 million and $5 6 million as of December 31, 2020 and December 31, 2019

The Company owns a 15 8% interest in each of the three nuclear generating units and common facilities ("Common Facilities") at Palo Verde, in Wintersburg, Arizona The utilities that share in power and energy entitlements, and bear certain allocated costs, with respect to Palo Verde pursuant to the ANPP Participation Agreement (the "Palo Verde Participants") include the Company and six other utilities Arizona Public Service Company ("APS"), Southern California Edison Company, Public Service Company of New Mexico, Southern California Public Power Authority, Salt River Project Agricultural Improvement and Power District and the Los Angeles Department of Water and Power

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A summary of the Company's investment in jointly-owned utility plant, excluding fuel inventories, at December 31, 2020 and 2019 is as follows (in thousands).

	December 31, 2020		December 31, 2019	
	Palo Verde	Other (a)	Palo Verde	Other (a)
Electric plant in service	$ 2,008,379	$ 94,502	$ 1,972,747	$ 92,248
Accumulated depreciation	(1,298,723)	(69,809)	(1,275,339)	(70,175)
Construction work in progress	39,999	82	42,429	532
Total	$ 749,655	$ 24,775	$ 739,837	$ 22,605

(a) Includes three jointly-owned transmission lines

Amortization of intangible plant (software) is provided on a straight-line basis over the estimated useful life of the asset (ranging from 3 to 15 years) The table below presents the actual and estimated amortization expense for intangible plant for 2019, 2020 and the next five years (in thousands):

2019	$ 8,167
2020	9,140
2021 (estimated)	8,671
2022 (estimated)	8,181
2023 (estimated)	7,447
2024 (estimated)	5,610
2025 (estimated)	3,771

Palo Verde

The operation of Palo Verde and the relationship among the Palo Verde Participants is governed by the Arizona Nuclear Power Project Participation Agreement dated August 23, 1973, as amended ("ANPP Participation Agreement") APS serves as operating agent for Palo Verde, and under the ANPP Participation Agreement, the Company has limited ability to influence operations and costs at Palo Verde Pursuant to the ANPP Participation Agreement, the Palo Verde Participants share costs and generating entitlements in the same proportion as their percentage interests in the generating units, and each participant is required to fund its share of fuel, operations and maintenance ("O&M") expense, and capital costs. The Company's share of direct expenses in Palo Verde and other jointly-owned utility plants is reflected in fuel expense, O&M expense, miscellaneous other deductions, and taxes other than income taxes in the Company's Regulatory-Basis Statement of Income. The ANPP Participation Agreement provides that if a participant fails to meet its payment obligations, each non-defaulting participant shall pay its proportionate share of the payments owed by the defaulting participant Because it is impracticable to predict defaulting participants, the Company cannot estimate the maximum potential amount of future payment, if any, which could be required under this provision

Nuclear Regulatory Commission The NRC regulates the operation of all commercial nuclear power reactors in the U S, including Palo Verde The NRC periodically conducts inspections of nuclear facilities and monitors performance indicators to enable the agency to arrive at objective conclusions about a licensee's safety performance

Palo Verde Operating Licenses. Operation of each of the three Palo Verde units requires an operating license from the NRC The NRC issued full power operating licenses for Unit 1 in June 1985, Unit 2 in April 1986 and Unit 3 in November 1987 and issued renewed operating licenses for each of the three units in April 2011, which extended the licenses for Units 1, 2 and 3 to June 2045, April 2046 and November 2047, respectively

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Decommissioning. Pursuant to the ANPP Participation Agreement and federal law, the Company funds its share of the estimated costs to decommission Palo Verde Units 1, 2 and 3, including the Common Facilities, through the term of their respective operating licenses and is required to maintain a minimum accumulation and funding level in its decommissioning account at the end of each annual reporting period during the life of the plant. The Company has established the NDT with an independent trustee, which enables the Company to record a current deduction for federal income tax purposes for most of the amounts funded At December 31, 2020, the NDT had a balance of $371 4 million, which is above its minimum funding level The Company monitors the status of the NDT and adjusts contributions accordingly.

Decommissioning costs are estimated every three years based upon engineering cost studies performed by outside engineers retained by APS In May 2020, the Palo Verde Participants approved the 2019 Palo Verde decommissioning study (the "2019 Study") The 2019 Study estimated that the Company must fund approximately $467 3 million (stated in 2019 dollars) to cover its share of decommissioning costs which was a decrease in decommissioning costs of $2.3 million (stated in 2019 dollars) from the 2016 Palo Verde decommissioning study (the "2016 Study"). The effect of this change decreased the ARO by $1 0 million, which was recorded in the second quarter of 2020, and will decrease annual expenses starting in July 2020 Although the 2019 Study was based on the latest available information, there can be no assurance that decommissioning cost estimates will not increase in the future or that regulatory requirements will not change. In addition, until a new low-level radioactive waste repository opens and operates for a number of years, estimates of the cost to dispose of low-level radioactive waste are subject to uncertainty As provided in the ANPP Participation Agreement, the Palo Verde Participants are required to conduct a new decommissioning study every three years While the Company attempts to seek amounts in rates to meet its decommissioning obligations, it is not able to conclude given the evidence available to it now that it is probable these costs will continue to be collected over the period until decommissioning begins, which is expected to be in 2044 The Company is ultimately responsible for these costs and its future actions combined with future decisions from regulators will determine how successful the Company is in this effort

Spent Fuel and Waste Disposal. Pursuant to the Nuclear Waste Policy Act of 1982, as amended in 1987, the DOE is legally obligated to accept and dispose of all spent nuclear fuel and other high-level radioactive waste generated by all domestic power reactors by 1998 The DOE's obligations are reflected in a contract for Disposal of Spent Nuclear Fuel and/or High-Level Radioactive Waste with each nuclear power plant The DOE failed to begin accepting spent nuclear fuel by 1998 On December 19, 2012, APS, acting on behalf of itself and the Palo Verde Participants, filed a second breach of contract lawsuit against the DOE This lawsuit sought to recover damages incurred due to the DOE's failure to accept Palo Verde's spent nuclear fuel for the period beginning January 1, 2007. Pursuant to the terms of the August 18, 2014 settlement agreement, and as amended with the DOE, APS files annual claims for the period July 1 of the then-previous year to June 30 of the then-current year on behalf of itself and those utilities that share in power and energy entitlements, and bear certain allocated costs, with respect to Palo Verde based upon the ANPP Participation Agreement dated August 23, 1973. The settlement agreement, as amended, provides APS with a method for submitting claims and receiving recovery for costs incurred through December 31, 2022. The Company's share of costs recovered in 2019 and 2018, respectively are presented below (in thousands)

Costs Recovery Period	Amount Refunded	Amount Credited to Customers through Fuel Adjustment Clauses	Period Credited to Customers
July 2018 – June 2019	$ 2,427	$ 924	April 2020
July 2017 – June 2018	1,604	1,005	June 2019

On November 2, 2020, APS filed a $12 2 million claim for the period July 1, 2019 through June 30, 2020 The Company's share of this claim is approximately $1 9 million This claim is pending DOE review The majority of the reimbursement received by the Company is expected to be credited to customers through the applicable fuel adjustment clauses

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Palo Verde has sufficient capacity at its on-site independent spent fuel storage installation ("ISFSI") to store all of the nuclear fuel that will be irradiated during the initial operating license period, which ends in December 2027. Additionally, Palo Verde has sufficient capacity at its on-site ISFSI to store a portion of the fuel that will be irradiated during the period of extended operation, which ends in November 2047 If uncertainties regarding the U S government's obligation to accept and store spent fuel are not favorably resolved, APS will evaluate alternative storage solutions that may obviate the need to expand the ISFSI to accommodate all of the fuel that will be irradiated during the period of extended operation

Liability and Insurance Matters The Palo Verde Participants have insurance for public liability resulting from nuclear energy hazards to the full limit of liability under federal law, which is currently at $13.8 billion This potential liability is covered by primary liability insurance provided by commercial insurance carriers in the amount of $450 0 million, and the balance is covered by an industry-wide retrospective assessment program. If a loss at a nuclear power plant covered by the programs exceeds the accumulated funds in the primary level of protection, the Company could be assessed retrospective premium adjustments on a per incident basis Under federal law, the maximum assessment per reactor under the program for each nuclear incident is approximately $137 6 million, subject to an annual limit of $20 5 million Based upon the Company's 15 8% interest in the three Palo Verde units, the Company's maximum potential assessment per incident for all three units is approximately $65 2 million, with an annual payment limitation of approximately $9 7 million

The Palo Verde Participants maintain $2 8 billion of "all risk" nuclear property insurance The insurance provides coverage for property damage and decontamination at Palo Verde For covered incidents involving property damage not accompanied by a release of radioactive material, the policy's coverage limit is $2 3 billion The Company has also secured insurance against portions of any increased cost of generation or purchased power and business interruption resulting from a sudden and unforeseen outage of any of the three units The insurance coverage discussed in this and the previous paragraph is subject to certain policy conditions and exclusions. A mutual insurance company whose members are utilities with nuclear facilities issues these policies. If losses at any nuclear facility covered by this mutual insurance company were to exceed the accumulated funds for these insurance programs, the Company could be assessed retrospective premium adjustments of up to $14 0 million for the current policy period.

Palo Verde Operations & Maintenance Expense Included in "Operations and Maintenance" in the Company's Regulatory-Basis Statement of Income and expenses associated with Palo Verde as follows (in thousands)

Years Ended December 31,	
2020	2019
$ 92,172	$ 95,525

F. Accounting for Asset Retirement Obligations

FERC Order No 631 affects the accounting for the decommissioning of Palo Verde and the method used to report the decommissioning obligation The Company records ARO obligations associated with the decommissioning of Palo Verde and for conditional ARO, which primarily affects the accounting for the disposal obligations of the Company's fuel oil storage tanks, water wells, evaporative ponds and asbestos found at the Company's gas-fired generating plants

The ARO liability for Palo Verde is based upon the estimated cost of decommissioning the plant from the 2019 Study See Note E of Notes to Financial Statements. The ARO liability is calculated by adjusting the estimated decommissioning costs for spent fuel storage and a profit margin and market-risk premium factor The resulting costs are escalated over the remaining life of the plant and finally discounted using a credit-risk adjusted discount rate As Palo Verde approaches the end of its estimated useful life, the difference between the ARO liability and future current cost estimates will narrow over time due to the accretion of the ARO liability Because the DOE is obligated to assume responsibility for the permanent disposal of spent fuel, such costs have not been included in the ARO calculation The Company maintains six external trust funds with an independent trustee that are legally restricted to settling its ARO at Palo Verde The fair value of the funds at December 31, 2020 is $371 4 million

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FERC Order No 631 requires the Company to revise its previously recorded ARO for any changes in estimated cash flows including changes in estimated probabilities related to timing of settlements Any changes that result in an upward revision to estimated cash flows shall be treated as a new liability. Any downward revisions to the estimated cash flows result in a reduction to the previously recorded ARO The 2019 Study resulted in a downward revision of approximately $1 0 million In the second quarter of 2020, the Company implemented the results of the 2019 Study and revised its ARO related to Palo Verde to decrease its estimated cash flows from the 2016 Study to the 2019 Study. See Note E of Notes to Financial Statements The assumptions used to calculate the decreases to the Palo Verde ARO liability are as follows:

	Escalation Rates	Credit-Risk Adjusted Discount Rate
Original ARO liability	3.60%	9.50%
Incremental ARO liability (2010)	3.60%	6 20%
Incremental ARO liability (2016)	3.25%	4.34%

An analysis of the activity of the Company's total ARO liability from January 1, 2019 through December 31, 2020, including the effects of each year's estimate revisions, is presented below (in thousands)

	2020	2019
ARO liability at beginning of year	$ 110,105	$ 101,108
Liabilities settled	(75)	(118)
Revisions to estimate	(958)	—
Accretion expense	9,847	9,115
ARO liability at end of year	$ 118,919	$ 110,105

The Company has transmission and distribution lines which are operated under various land rights agreements. Upon the expiration of any non-perpetual land rights agreement, the Company may have a legal obligation to remove the lines, however, the Company has assessed the likelihood of this occurring as remote. The majority of these agreements are perpetual or include renewal options that the Company routinely exercises The amount of cost of removal collected in rates for non-legal liabilities has not been material

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G. Long-Term Debt, Financing Obligations and Capital Lease Obligations

Outstanding long-term debt, financing obligations and capital lease obligations, are as follows

	December 31, 2020	2019
	(In thousands)	
Bonds (Account 221):		
Pollution Control Bonds (1)		
3.60% 2009 Series A refunding bonds, due 2040 (3.82% effective interest rate)	$ 63,500	$ 63,500
3 60% 2009 Series B refunding bonds, due 2040 (3.84% effective interest rate)	37,100	37,100
4.50% 2012 Series A refunding bonds, due 2042 (4.63% effective interest rate)	59,235	59,235
Total Bonds Account 221	159,835	159,835
Other Long-Term Debt (Accounts 224, 225, and 226):		
Senior Notes (2)		
Senior Notes Public:		
3 30% Senior Notes, net of discount, due 2022 (3 43% effective interest rate)	150,000	150,000
6 00% Senior Notes, net of discount, due 2035 (6 58% effective interest rate)	400,000	400,000
7 50% Senior Notes, net of discount, due 2038 (7 67% effective interest rate)	150,000	150,000
5.00% Senior Notes, net of premium, due 2044 (4.93% effective interest rate)	300,000	300,000
Senior Notes Private Placement		
4.22% Senior Notes, net of discount, due 2028 (4.31% effective interest rate)	125,000	125,000
Total Other Long-Term Debt Account 224	1,125,000	1,125,000
Unamortized Premium on Long-Term Debt Account 225	6,411	6,551
Unamortized Discount on Long-Term Debt Account 226	(3,228)	(3,367)
Total Long-Term Debt	$ 1,288,018	$ 1,288,019
Obligations Under Capital Lease – Noncurrent (Account 227):		
4.07% Senior Guaranteed Notes, due 2025 (4.18% effective interest rate) (3)	$ 65,000	$ 65,000
Capitalized Operating Leases (4)	4,654	5,094
Total Capital Lease Obligations Noncurrent Account 227	$ 69,654	$ 70,094
Obligations Under Capital Lease – Current (Account 243):		
Revolving Credit Facility (5)	$ 72,260	$ 31,657
5 04% Senior Notes, Series C, due 2020 (5 16% effective interest rate) (3)	—	45,000
Capitalized Operating Leases (4)	498	513
Total Capital Lease Obligations Current Account 243	$ 72,758	$ 77,170

(1) Pollution Control Bonds ("PCBs")

The Company has three series of tax exempt unsecured PCBs in aggregate principal amount of $159 8 million as of December 31, 2020. The 2012 Series A PCBs have a fixed interest rate of 4 50% per annum until maturity on August 1, 2042. The 2012 Series A PCBs are subject to optional redemption at a redemption price of par on or after August 1, 2022 The 2009 Series A and the 2009 Series B PCBs have a fixed interest rate of 3 60% per annum until maturity on February 1, 2040 and April 1, 2040, respectively The 2009 Series A and the 2009 Series B PCBs are subject to optional redemption at a redemption price of par on or after June 1, 2029

(2) Senior Notes

The Senior Notes are unsecured obligations of the Company. The Senior Notes were issued under agreements with contractual covenants that provide limitations on the Company's ability to enter into certain transactions The 6 00% Senior Notes have an aggregate principal amount of $400 0 million and were issued in May 2005 The Company amortizes the loss associated with a cash flow hedge recorded in AOCI to earnings as interest expense over the life of the 6 00% Senior Notes See Note K of Notes

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to Financial Statements This amortization is included in the effective interest rate of the 6 00% Senior Notes

The 7 50% Senior Notes due 2038 have an aggregate principal amount of $150.0 million and were issued in June 2008. The 3 30% Senior Notes due 2022 have an aggregate principal amount of $150 0 million and were issued in December 2012

In December 2014, the Company issued 5 00% Senior Notes with an aggregate principal amount of $150 0 million In March 2016, the Company issued additional 5 00% Senior Notes with an aggregate principal amount of $150.0 million After the March 2016 issuance, the Company's 5 00% Senior Notes due 2044 have an aggregate principal balance amount of $300 0 million

The 4 22% Senior Notes issued in June 2018 have an aggregate principal amount of $125 0 million and are due on August 15, 2028 The Company pays interest on the notes semi-annually on February 15 and August 15 of each year until maturity, beginning on February 15, 2019. The Company may redeem the notes, in whole or in part, at any time at a redemption price equal to 100% of the principal amount to be redeemed together with the interest on such principal amount accrued to the date of redemption, plus a make-whole amount based on the prevailing market interest rates. The issuance and sale of these senior notes was made in reliance on a private placement exemption from the registration provisions of the Securities Act of 1933, as amended (the "Securities Act")

(3) RGRT Senior Notes

In 2010, the Company and the Rio Grande Resources Trust II ("RGRT"), a Texas grantor trust through which the Company finances its portion of fuel for Palo Verde, entered into a note purchase agreement with various institutional purchasers Under the terms of the agreement, RGRT issued and sold to the purchasers $110.0 million aggregate principal amount of Senior Notes ("RGRT Notes") In August 2015, 2017 and 2020, $15 0 million, $50 0 million, and $45.0 million of the RGRT Notes, respectively, matured and were paid with borrowings from the Company's Revolving Credit Facility ("RCF")

In 2018, the RGRT and the Company entered into a note purchase agreement with several institutional purchasers under which the RGRT issued and sold $65 0 million aggregate principal amount of 4 07% Senior Guaranteed Notes due August 15, 2025 ("RGRT Senior Notes") The Company guaranteed the payment of principal and interest on the RGRT Senior Notes RGRT's assets, liabilities and operations are consolidated in the Company's regulatory-basis financial statements and the RGRT Senior Notes are included as obligations under capital lease of nuclear fuel on the Regulatory-Basis Balance Sheet The issuance and sale of the RGRT Senior Notes was made in reliance on a private placement exemption from the registration provisions of the Securities Act

RGRT pays interest on the Senior Notes on February 15 and August 15 of each year until maturity, beginning on February 15, 2019 RGRT may redeem the Senior Notes, in whole or in part, at any time at a redemption price equal to 100% of the principal amount to be redeemed together with the interest on such principal amount accrued to the date of redemption, plus a make-whole amount based on the prevailing market interest rates

(4) Capitalized Operating Leases

See Note A of Notes to Financial Statements "Leases" section for further discussion.

(5) Revolving Credit Facility

In 2018, the Company and The Bank of New York Mellon Trust Company, N A , as trustee of the RGRT, entered into a third amended and restated credit agreement ("RCF Agreement") with MUFG Union Bank, N A , as administrative agent and as syndication agent, various issuing banks and lending banks party thereto Under the terms of the RCF Agreement, the Company has available a $350.0 million RCF with a $50 0 million subfacility for the issuance of letters of credit, and the Company extended the term of the Company's existing $350 0 million revolving credit agreement to September 13, 2023 On March 20, 2020, the Company exercised its option to extend the maturity of the RCF by one year to September 13, 2024 ("Maturity Date") and to increase the borrowing commitments under the RCF by $50.0 million to $400.0 million The Company has the option to

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extend the facility by one additional year to September 2025 upon the satisfaction of certain conditions set forth in the RCF Agreement, including requisite lender approval

The RCF Agreement provides that amounts borrowed by the Company may be used for, among other things, working capital and general corporate purposes Any amounts borrowed by the RGRT may be used, among other things, to finance the acquisition and cost to process nuclear fuel Amounts borrowed by the RGRT are guaranteed by the Company and the balance borrowed under the RCF Agreement is recorded as a capital lease of nuclear fuel on the Regulatory-Basis Balance Sheet. Quarterly lease payments are made based upon units of heat production used by the plant The RCF Agreement is unsecured As of December 31, 2020, the total amount borrowed by the RGRT was $72.3 million for nuclear fuel under the RCF As of December 31, 2020, $121 0 million of borrowings were outstanding under the RCF for working capital and general corporate purposes The weighted average interest rate on the RCF was 1 4% as of December 31, 2020, with an additional $207 6 million available to borrow

The Merger constituted a "Change in Control" under the RCF and would have resulted in an event of default under the RCF absent a waiver from the lenders On August 9, 2019, the lenders under the RCF agreed to waive any default or event of default that would occur as a result of the Merger

As of December 31, 2020, the principal amount of scheduled maturities for the next five years of long-term debt are as follows (in thousands):

2021	$ —
2022	150,000
2023	—
2024	—
2025	65,000

Pursuant to the Company's debt agreements, the Company is required to comply with various covenants and restrictions, including a total debt to capitalization ratio as required by each one of the Company's and RGRT's private placement debt securities and the RCF The Company is in compliance with all of its debt covenants and restrictions

H. Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2020 and 2019 are presented below (in thousands)

	December 31, 2020	December 31, 2019
Deferred tax assets:		
Plant, principally due to capitalized costs	$ 41,932	$ 38,310
Benefit of tax loss carryforwards	1,561	—
Pensions and benefits	28,129	33,456
Regulatory liabilities related to income taxes	66,763	66,824
Asset retirement obligations	25,436	23,239
Other	14,461	16,124
Total gross deferred tax assets	178,282	177,953
Deferred tax liabilities:		
Plant, principally related to depreciation and basis differences	(445,144)	(435,525)
Regulatory assets related to income taxes	(36,707)	(37,509)
Decommissioning	(48,872)	(41,164)
Other	(11,235)	(7,962)
Total gross deferred tax liabilities	(541,958)	(522,160)
Net accumulated deferred income taxes	$ (363,676)	$ (344,207)

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As of December 31, 2020, the Company had fully utilized all alternative minimum tax credit carryforwards, and had $0 9 million in federal and $0 4 million of state tax loss carryforwards Net operating losses ("NOL") arising in tax years ending after 2017 cannot be carried back, but can be carried forward indefinitely The use of NOLs generated after 2017 to offset taxable income is limited to 80% of taxable income Based on the average annual earnings before taxes for the prior two years, and excluding the effects of unusual or infrequent items, the Company believes that the deferred tax assets will be fully realized.

The Company recognized income tax expense for 2020 and 2019 as follows (in thousands)

	Years Ended December 31, 2020	2019
Income tax expense:		
Federal		
Current	$ 5,224	$ 4,850
Deferred	17,428	28,070
Investment tax credit	(1,620)	(1,620)
Total federal income tax	21,032	31,300
State:		
Current	1,207	2,031
Deferred	576	(1,071)
Total state income tax	1,783	960
Total income tax expense	$ 22,815	$ 32,260
Effective income tax rate	22.6%	20.7%

Federal income tax provisions differ from amounts computed by applying the statutory federal income tax rate of 21% for all periods to book income before federal income tax as follows (in thousands)

	Years Ended December 31, 2020	2019
Federal income tax expense computed on income at statutory rate	$ 21,178	$ 32,755
Difference due to		
State income taxes (federal effect)	(374)	(202)
Investment tax credit, net of deferred taxes	(1,280)	(1,280)
Allowance for equity funds used during construction	434	455
Amortization for excess deferred taxes	952	953
Amortization of regulatory assets and liabilities	(340)	(340)
Permanent tax differences	462	(1,041)
Total federal income tax expense	$ 21,032	$ 31,300

The Company files income tax returns in the U.S. federal jurisdiction and in the states of Texas, New Mexico and Arizona The Company is no longer subject to tax examination by the taxing authorities in the federal, Arizona and New Mexico jurisdictions for years prior to 2016

The FASB guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. There were no changes to the recognized tax positions for the years ended December 31, 2020 and 2019

The Company recognizes in interest and penalty expense accounts, interest and penalties related to tax benefits that are uncertain For the years ended December 31, 2020 and 2019, the Company recognized a tax benefit of $0 4 million and tax expense of $0 2 million, respectively The Company had approximately $1 0 million and $1 4 million accrued for the payment of interest and penalties at December 31, 2020 and 2019, respectively.

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I. Commitments, Contingencies and Uncertainties

Litigation

The Company is involved in various legal, environmental, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business In many of these matters, the Company has excess casualty liability insurance that covers the various claims, actions and complaints The Company regularly analyzes current information and, as necessary, makes provisions in its regulatory-basis financial statements for probable liabilities for the eventual disposition of these matters While the outcome of these matters cannot be predicted with certainty, based upon a review of the matters and applicable insurance coverage, the Company believes that none of these matters will have a material adverse effect on the financial position, results of operations or cash flows of the Company The Company expenses legal costs, including expenses related to loss contingencies, as they are incurred

Power Purchase and Sale Contracts

To supplement its own generation and operating reserve requirements and to meet its RPS requirements, the Company engages in power purchase arrangements that may vary in duration and amount based on an evaluation of the Company's resource needs, the economics of the transactions and specific RPS requirements On November 18, 2019, the Company filed for regulatory approval with the NMPRC for power purchase agreements relating to both solar and battery storage resources as a result of the Company's 2017 All Source Request for Proposal for Electric Power Supply and Load Management Resources The two power purchase agreements approved by the NMPRC include (i) a 100 MW solar plant to be constructed in Santa Teresa, New Mexico, and (ii) a 100 MW solar plant combined with a 50 MW battery energy storage to be constructed in Otero County, New Mexico On March 31, 2020 the Company filed for regulatory approval with the NMPRC for two additional power purchase agreements related to meeting RPS requirements in New Mexico These two additional power purchase agreements were approved by the NMPRC on December 2, 2020 and include. (i) a 50 MW solar plant to be constructed in Santa Teresa, New Mexico and (ii) a 20 MW solar plant to be constructed in Otero County, New Mexico See Note D of Notes to Financial Statements for further discussion The Company has entered into the following significant agreements with various counterparties for the purchase and sale of electricity·

Type of Contract	Counterparty	Quantity	Terms	Commercial Operation Date
Power Purchase and Sale Agreement	Freeport	25 MW	December 2008 through December 2021	N/A
Power Purchase and Sale Agreement	Freeport	100 MW	June 2006 through December 2021	N/A
Power Purchase Agreement	Hatch Solar Energy Center I, LLC	5 MW	July 2011 through July 2036	July 2011
Power Purchase Agreement	Solar Roadrunner, LLC	20 MW	August 2011 through August 2031	August 2011
Power Purchase Agreement	SunE EPE1, LLC	10 MW	June 2012 through June 2037	June 2012
Power Purchase Agreement	SunE EPE2, LLC	12 MW	May 2012 through May 2037	May 2012
Power Purchase Agreement	Macho Springs Solar, LLC	50 MW	May 2014 through May 2034	May 2014
Power Purchase Agreement	Newman Solar LLC	10 MW	December 2014 through December 2044	December 2014
Power Purchase Agreement	Buena Vista Energy Center, LLC	150 MW	Twenty years from Commercial Operation	Anticipated May 1, 2022
Power Purchase Agreement	Hecate Energy Santa Teresa, LLC	100 MW	Twenty years from Commercial Operation	Anticipated May 1, 2022
Power Purchase Agreement	Buena Vista Energy Center II, LLC	20 MW	Twenty years from Commercial Operation	Anticipated May 1, 2022
Power Purchase Agreement	Hecate Energy Santa Teresa 2, LLC	50 MW	Twenty years from Commercial Operation	Anticipated May 1, 2022

The Company has a firm 100 MW Power Purchase and Sale Agreement ("Power Purchase and Sale Agreement") with Freeport-McMoRan Copper & Gold Energy Services LLC ("Freeport") that provides for Freeport to deliver energy to the Company from the Luna Energy Facility (a natural gas-fired combined cycle generation facility located in Luna County, New Mexico) and for the Company to deliver a like amount of energy at Greenlee, Arizona The Company may purchase the quantities noted in the table above at a specified price at times when energy is not exchanged under the Power Purchase and Sale Agreement. The agreement was approved by the FERC and will continue through an initial term ending December 31, 2021, with subsequent rollovers until terminated Upon mutual agreement, the Power Purchase and Sale Agreement allows the parties to increase the amount of energy that is purchased and sold under the agreement The parties have agreed to increase the amount up to 125 MW through December 2021

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The Company has entered into several power purchase agreements to help meet its RPS requirements Namely, the Company has a 25-year purchase power agreement with Hatch Solar Energy Center I, LLC to purchase all of the output from a solar photovoltaic plant located in southern New Mexico, which began commercial operation in July 2011. In June 2015, the Company entered into a consent agreement with Hatch Solar Energy Center I, LLC to provide for additional or replacement photovoltaic modules The Company also entered into a 20-year contract with Solar Roadrunner, LLC, a subsidiary of Global Infrastructure Partners, (formerly known as NRG Solar Roadrunner LLC) to purchase all of the output of a solar photovoltaic plant built in southern New Mexico, which began commercial operation in August 2011 In addition, the Company has 25-year purchase power agreements to purchase all of the output of two additional solar photovoltaic plants located in southern New Mexico, SunE EPE1, LLC and SunE EPE2, LLC, which began commercial operation in June 2012 and May 2012, respectively In September 2017, Longroad Solar Portfolio Holdings, LLC purchased SunE EPE1, LLC, and in October 2017, Silicon Ranch Corporation purchased SunE EPE2, LLC with the Company's consent per the terms of both power purchase agreements

The Company has a 20-year power purchase agreement with Macho Springs Solar, LLC to purchase the entire generation output delivered from the 50 MW Macho Springs solar photovoltaic plant located in Luna County, New Mexico, which began commercial operation in May 2014 Additionally, the Company has a 30-year power purchase agreement with Newman Solar LLC to purchase the total output of approximately 10 MW from a solar photovoltaic plant on land subleased from the Company in proximity to Newman This solar photovoltaic plant began commercial operation in December 2014

The Company also entered into four other purchase power agreements (i) a 20-year power purchase agreement with Buena Vista Energy Center, LLC to purchase up to 100 MW plus up to 50 MW of battery storage from the Buena Vista Energy solar photovoltaic plant located in Otero County, New Mexico, (ii) a 20-year purchase power agreement with Hecate Energy Santa Teresa to purchase up to 100 MW from the Hecate photovoltaic plant located in Santa Teresa, New Mexico, (iii) a 20-year power purchase agreement with Buena Vista Energy Center II, LLC to purchase up to 20 MW from the Buena Vista Energy II, LLC photovoltaic plant located in Otero County, New Mexico, and (iv) a 20-year power purchase agreement with Hecate Energy Santa Teresa 2 LLC to purchase up to 50 MW from the Hecate Energy Santa Teresa 2 LLC photovoltaic plant located in Santa Teresa, New Mexico All four of the facilities are anticipated to begin commercial operation by May 1, 2022

Environmental Matters

The Company is subject to extensive laws, regulations and permit requirements with respect to air and greenhouse gas ("GHG") emissions, water discharges, soil and water quality, waste management and disposal, natural resources and other environmental matters by federal, state, regional, tribal and local authorities Failure to comply with such laws, regulations and requirements can result in actions by authorities or other third parties that might seek to impose on the Company administrative, civil and/or criminal penalties or other sanctions In addition, releases of pollutants or contaminants into the environment can result in costly cleanup liabilities These laws, regulations and requirements are subject to change through modification or reinterpretation, or the introduction of new laws and regulations and, as a result, the Company may face additional capital and operating costs to comply

National Ambient Air Quality Standards ("NAAQS") Under the U S Clean Air Act ("CAA"), the U S Environmental Protection Agency ("EPA") sets NAAQS for six criteria pollutants considered harmful to public health and the environment, including particulate matter, nitrogen oxide, carbon monoxide, ozone and sulfur dioxide In June 2018, the EPA designated El Paso County, Texas, as "attainment/unclassifiable" under the 2015 ozone NAAQS and designated a section of southern Doña Ana County, New Mexico, as "nonattainment." In August 2018, a petition for review was filed by the City of Sunland Park, New Mexico in the U S. Court of Appeals for the District of Columbia Circuit ("D C Circuit"), specifically challenging the "attainment/unclassifiable" designation of El Paso County, Texas In July 2020, the D C Circuit issued a decision granting the EPA a voluntary remand without vacatur for the El Paso designation Pending further agency action, El Paso's attainment/unclassifiable designation remains in place In response to the remand, EPA could either retain the current attainment/unclassifiable designation for El Paso or change it to another designation such as "nonattainment "

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States, including New Mexico, that contain any areas designated as nonattainment are required to complete development of implementation plans The exact attainment date by which nonattainment areas will be required to meet the primary (health) standard will vary based on the ozone level in the area The Company continues to evaluate what impact these final and proposed NAAQS could have on its operations If the Company is required to install additional equipment to control emissions at its facilities, the NAAQS, individually or in the aggregate, could have a material impact on its operations and financial results

Climate Change. The federal government has considered, proposed and/or finalized legislation or regulations to address climate change and limit GHG emissions, including carbon dioxide In particular, the Biden Administration in January 2021, issued an Executive Order broadly addressing means to tackle climate change, including the proposition of decarbonizing the power sector by 2035

Internationally, the United Nations Framework Convention on Climate Change finalized an agreement among 195 nations at the 21st Conference of the Parties in Paris with an overarching goal of preventing global temperatures from rising more than 2 degrees Celsius (the "Paris Agreement") The Paris Agreement includes provisions requiring every country to lower emissions, but there are no requirements specifying how or by what amount emissions should be lowered In January 2021, the U S committed to rejoining the Paris Agreement

New legislation, regulations or international agreements could result in increased costs to operate and maintain our facilities, capital expenditures to install new emission controls at our facilities, and costs to administer and manage any potential GHG emissions or carbon trading or tax programs These costs and capital expenditures could be material The potential impact of the Paris Agreement, GHG regulations, and climate initiatives on the Company is unknown at this time, but could result in significant costs, limitations on operating hours, and/or changes in construction schedules for future generating units

Union Matters

The Company employs approximately 1,200 individuals, about 38% of which are covered by a collective bargaining agreement The International Brotherhood of Electrical Workers Local 960 ("Local 960") represents the Company's employees working primarily in power generation, transmission and distribution, communications, material services, fleet services, facilities services, customer services and meter reading, and field services. On October 15, 2019, the Company reached agreement on the terms of a new collective bargaining agreement with Local 960, to be effective September 3, 2019, for a four-year term ending September 3, 2023 The agreement provides for pay increases for bargaining unit employees of 3 25% on September 3, 2019, 3 00% on September 3, 2020, 3 00% on September 3, 2021, and 3 20% on September 3, 2022.

Franchises

The Company operates under franchise agreements with several cities in its service territory, including one with El Paso, Texas, the largest city it serves The franchise agreement allows the Company to utilize public rights-of-way necessary to serve its customers within El Paso Pursuant to the El Paso franchise agreement, the Company pays to the City of El Paso, on a quarterly basis, a fee equal to 5 00% of gross revenues the Company receives for the generation, transmission and distribution of electrical energy and other services within the city The Company sought approval from the City of El Paso on September 20, 2019 for a deemed assignment of the franchise agreement as a result of the Merger, which approval was granted on February 4, 2020 The El Paso franchise agreement is set to expire on July 31, 2060

The Company does not have a written franchise agreement with Las Cruces, New Mexico, the second largest city in its service territory. The Company utilizes public rights-of-way necessary to service its customers within Las Cruces under an implied franchise pursuant to state law by satisfying all obligations under the franchise agreement that expired on April 30, 2009 The Company pays the City of Las Cruces a franchise fee of 2 00% of gross revenues the Company receives from services within the City of Las Cruces

The Company also maintains franchise agreements with other municipalities, and applicable counties, within its service territories

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Significant Customers - Military Installations

The Company serves Holloman Air Force Base ("HAFB"), White Sands Missile Range ("White Sands") and Fort Bliss U S Army Post ("Fort Bliss") These military installations represent approximately 2.6% of the Company's annual retail revenues in 2020 In July 2014, the Company signed an agreement with Fort Bliss under which Fort Bliss takes retail electric service from the Company under the applicable Texas tariffs The Company serves White Sands under the applicable New Mexico tariffs In August 2016, the Company signed a contract with HAFB under which the Company provides retail electric service and limited wheeling services to HAFB under the applicable New Mexico tariffs Pursuant to the contract, HAFB purchases the full output of a Company-owned 5-MW solar facility. HAFB's other power requirements are provided under the applicable New Mexico tariffs with limited wheeling services under the contract

J. Employee Benefits

The Company early adopted ASU 2018-14, Compensation – Retirement Benefits – Defined Benefit Plans (Subtopic 715-20) effective December 31, 2020 The adoption did not have a significant impact on the Company's financial statement disclosures See Note B of Notes to Financial Statements for further discussion

The Company adopted ASU 2017-07, Compensation-Retirement Benefits, effective January 1, 2018 for GAAP purposes The Company records all components of net periodic pension cost as an operating expense in its regulatory-basis financial statements and has elected to conform to the GAAP capitalization policy, which is that only the service cost component is eligible for capitalization

The cumulative impact of the change in capitalization policy, effective January 1, 2018, resulted in additional capitalized benefits cost of $8 4 million as of December 31, 2020 This will increase rate base in the future, while lowering cost of service by an offsetting amount As the assets impacted by the change in rate base are depreciated over their useful life, rate base will decrease, offset by an increase in cost of service due to higher depreciation expense While the Company believes that its Texas and New Mexico regulators are likely to accept the change in policy allowed by the FERC, the outcome of future rate proceedings in the Company's Texas and New Mexico jurisdictions relative to this change cannot be predicted at this time In the event that one or both of the Company's regulatory jurisdictions reject the new capitalization policy in the next rate case proceeding, the Company would likely be required to record a regulatory liability and reconcile the capitalized differences between GAAP and regulatory-basis financial statements

Retirement Plans

The Company's Retirement Income Plan ("Retirement Plan") is a qualified noncontributory defined benefit plan Upon retirement or death of a vested plan participant, assets of the Retirement Plan are used to pay benefit obligations under the Retirement Plan Contributions from the Company are based on various factors, such as the minimum funding amounts required by the U S Internal Revenue Service, state and federal regulatory requirements, amounts requested from customers in the Company's Texas and New Mexico jurisdictions, and the annual net periodic benefit cost of the Retirement Plan, as actuarially calculated The assets of the Retirement Plan are primarily invested in common collective trusts which hold equity securities, debt securities and cash equivalents and are managed by a professional investment manager appointed by the Company

The Company has two non-qualified retirement plans that are non-funded defined benefit plans The Company's Supplemental Retirement Plan covers certain former employees and directors of the Company The Excess Benefit Plan was adopted in 2004 and covers certain active and former employees of the Company The net periodic benefit cost for the non-qualified retirement plans are based on substantially the same actuarial methods and economic assumptions as those used for the Retirement Plan.

The Retirement Plan was amended effective April 1, 2014 to offer a cash balance pension benefit as an alternative to its existing final average pay pension benefit for employees hired prior to January 1, 2014 Employees hired after January 1, 2014 are automatically enrolled in the cash balance pension benefit

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Prior to December 31, 2013, employees who completed one year of service with the Company and worked at least a minimum number of hours each year were covered by the final average pay formula of the plan For participants that continue to be covered by the final average pay formula, retirement benefits are based on the employee's final average pay and years of service The cash balance pension benefit covers employees beginning on their employment commencement date or re-employment commencement date Retirement benefits under the cash balance pension benefit are based on the employee's cash balance account, consisting of pay credits and interest credits

The obligations and funded status of the plans are presented below (in thousands)

	December 31,			
	2020		2019	
	Retirement Income Plan	Non-Qualified Retirement Plans	Retirement Income Plan	Non-Qualified Retirement Plans
Change in projected benefit obligation:				
Benefit obligation at end of prior year	$ 398,107	$ 27,821	$ 335,496	$ 26,719
Service cost	9,303	273	8,127	415
Interest cost	11,517	775	13,451	1,003
Actuarial loss	39,537	4,160	56,988	1,624
Benefits paid	(16,450)	(2,054)	(15,955)	(1,940)
Benefit obligation at end of year	442,014	30,975	398,107	27,821
Change in plan assets:				
Fair value of plan assets at end of prior year	327,152	—	272,803	—
Actual return on plan assets	59,651	—	64,368	—
Employer contribution	7,300	2,054	7,300	1,940
Benefits paid	(16,450)	(2,054)	(15,955)	(1,940)
Administrative and investment expenses	(2,326)	—	(1,364)	—
Fair value of plan assets at end of year	375,327	—	327,152	—
Funded status at end of year	$ (66,687)	$ (30,975)	$ (70,955)	$ (27,821)

Amounts recognized in the Company's Regulatory-Basis Balance Sheet consist of the following (in thousands)

	December 31,			
	2020		2019	
	Retirement Income Plan	Non-Qualified Retirement Plans	Retirement Income Plan	Non-Qualified Retirement Plans
Current liabilities	$ —	$ (2,043)	$ —	$ (2,031)
Noncurrent liabilities	(66,687)	(28,932)	(70,955)	(25,790)
Total	$ (66,687)	$ (30,975)	$ (70,955)	$ (27,821)

The accumulated benefit obligation in excess of plan assets is as follows (in thousands)

	December 31,			
	2020		2019	
	Retirement Income Plan	Non-Qualified Retirement Plans	Retirement Income Plan	Non-Qualified Retirement Plans
Projected benefit obligation	$ (442,014)	$ (30,975)	$ (398,107)	$ (27,821)
Accumulated benefit obligation	(403,882)	(29,198)	(364,941)	(26,413)
Fair value of plan assets	375,327	—	327,152	—

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Pre-tax amounts recognized in AOCI consist of the following (in thousands).

	Years Ended December 31,			
	2020		2019	
	Retirement Income Plan	Non-Qualified Retirement Plans	Retirement Income Plan	Non-Qualified Retirement Plans
Net loss	$ 116,595	$ 13,380	$ 121,622	$ 10,153
Prior service benefit	(10,008)	(29)	(13,475)	(68)
Total	$ 106,587	$ 13,351	$ 108,147	$ 10,085

The plan's actuarial losses were due to the actuarial transition, changes in assumptions for the year ended 2020, and demographic experience different from that which was assumed There were also actuarial gains due to actual investment return being different from that assumed during the year ended 2019 Significant reasons for these changes include the following: (i) the actual return on the fair value of plan assets since the prior measurement date was greater than assumed, which improved the funded position and (ii) the single equivalent discount rate used to measure accumulated and projected benefit obligation decreased significantly compared to the year ended December 31, 2019, which decreased the funding position of the plan

The following are the weighted-average actuarial assumptions used to determine the benefit obligations

	December 31,					
	2020			2019		
		Non-Qualified			Non-Qualified	
	Retirement Income Plan	Supplemental Retirement Plan	Excess Benefit Plan	Retirement Income Plan	Supplemental Retirement Plan	Excess Benefit Plan
Discount rate	2.66%	2.05%	2.65%	3.32%	2 87%	3.31%
Rate of compensation increase	4.5%	N/A	4 5%	4 5%	N/A	4 5%

The Company reassesses various actuarial assumptions at least on an annual basis The discount rate is reviewed and updated at each measurement date. The discount rate used to measure the fiscal year end obligation is based on a segmented spot rate yield curve that matches projected future payments with the appropriate interest rate applicable to the timing of the projected future benefit payments

The cash balance interest crediting rate is based on a 20-year expectation of long-term government bonds, since the plan credits interest to cash balance accounts using the 30-year Treasury rate, but with a minimum interest crediting rate of 3.8%

The components of net periodic benefit cost are presented below (in thousands)

	Years Ended December 31,			
	2020		2019	
	Retirement Income Plan	Non-Qualified Retirement Plans	Retirement Income Plan	Non-Qualified Retirement Plans
Service cost (a)	$ 11,629	$ 273	$ 9,491	$ 415
Interest cost	11,517	775	13,451	1,003
Expected return on plan assets	(22,978)	—	(21,492)	—
Amortization of.				
Net loss	7,890	934	5,022	770
Prior service benefit	(3,467)	(39)	(3,467)	(39)
Net periodic benefit cost	$ 4,591	$ 1,943	$ 3,005	$ 2,149

(a) Service cost for the Retirement Plan includes expenses of $2 3 million and $1 4 million, for 2020 and 2019, respectively, for administrative and investment expenses paid from plan assets during the year

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The changes in benefit obligations and plan assets recognized in other comprehensive income are presented below (in thousands):

	Years Ended December 31,			
	2020		2019	
	Retirement Income Plan	Non-Qualified Retirement Plans	Retirement Income Plan	Non-Qualified Retirement Plans
Net (gain) loss	$ 2,864	$ 4,160	$ 14,112	$ 1,624
Amortization of				
Net loss	(7,890)	(934)	(5,022)	(770)
Prior service benefit	3,467	39	3,467	39
Total recognized in other comprehensive income	$ (1,559)	$ 3,265	$ 12,557	$ 893

The total amount recognized in net periodic benefit costs and other comprehensive income are presented below (in thousands).

	Years Ended December 31,			
	2020		2019	
	Retirement Income Plan	Non-Qualified Retirement Plans	Retirement Income Plan	Non-Qualified Retirement Plans
Total recognized in net periodic benefit cost and other comprehensive income	$ 3,032	$ 5,208	$ 15,562	$ 3,042

The following are the weighted-average actuarial assumptions used to determine the net periodic benefit cost for the years ended December 31

	2020			2019		
		Non-Qualified			Non-Qualified	
	Retirement Income Plan	Supplemental Retirement Plan	Excess Benefit Plan	Retirement Income Plan	Supplemental Retirement Plan	Excess Benefit Plan
Discount rate						
Benefit obligation	3 39%	2 99%	3 39%	4 42%	4 11%	4 45%
Service cost	3.60%	N/A	3.46%	4.50%	N/A	4.53%
Interest cost	2 99%	2 60%	3 04%	4 12%	3 68%	4 18%
Expected long-term return on plan assets	7.5%	N/A	N/A	7.5%	N/A	N/A
Rate of compensation increase	4 5%	N/A	4.5%	4 5%	N/A	4 5%

Effective January 1, 2021, the Company's overall expected long-term rate of return on assets was reduced to 7 0%, which is both a pre-tax and after-tax rate as pension funds are generally not subject to income tax The expected long-term rate of return is based on the weighted average of the expected returns on investments based upon the target asset allocation of the pension fund

The Company's target allocations for the plan's assets are presented below

	December 31, 2020
Equity securities	49.7%
Fixed income	42 3%
Alternative investments	8.0%
Total	100%

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The Retirement Plan invests the majority of its plan assets in common collective trusts which includes a diversified portfolio of domestic and international equity securities and fixed income securities Alternative investments of the Retirement Plan are comprised of a real estate limited partnership, equity securities of real estate companies, primarily in real estate investment trusts and equity securities of listed companies involved in infrastructure activities The expected rate of returns for the funds are assessed annually and are based on long-term relationships among major asset classes and the level of incremental returns that can be earned by the successful implementation of different active investment management strategies Equity, real estate equity and infrastructure equity returns are based on estimates of long-term inflation rate, real rate of return, 10-year Treasury bond premium over cash, an expected equity risk premium, as well as other economic factors Fixed income returns are based on maturity, long-term inflation, real rate of return and credit spreads These assumptions also capture the expected correlation of returns between these asset classes over the long term

Fair Value Measurements. The FASB requires the Company to provide expanded quantitative disclosures for financial assets and liabilities recorded on the Regulatory-Basis Balance Sheet at fair value. To increase consistency and comparability in fair value measurements, the FASB guidance on fair value measurements established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows

- Level 1 – Observable inputs that reflect quoted market prices for identical assets and liabilities in active markets Financial assets utilizing Level 1 input include investments that are in a highly liquid and active market Prices of securities held in the mutual funds and underlying portfolios are primarily obtained from independent pricing services. These prices are based on observable market data The investments are valued using the Net Asset Value ("NAV") provided by the administrator of the fund The NAV price is quoted on a restrictive market although the underlying investments are traded on active markets. The NAV used for determining the fair value of the investments have readily determinable fair values Accordingly, such fund values are categorized as Level 1

- Level 2 – Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability either directly or indirectly The fair value of these investments is based on evaluated prices that reflect observable market information, such as actual trade information of similar securities, adjusted for observable differences

- Level 3 – Unobservable inputs using data that is not corroborated by market data and primarily based on internal Company analysis using models and various other analysis

The fair value of the Company's Retirement Plan assets at December 31, 2020 and 2019, and the level within the three levels of the fair value hierarchy defined by the FASB guidance on fair value measurements are presented in the table below (in thousands)

Description of Securities	Fair Value as of December 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and Cash Equivalents	$ 1,360	$ 1,360	$ —	$ —
Common Collective Trusts (a)				
Equity funds	186,105	186,105	—	—
Fixed income funds	156,583	156,583	—	—
Real asset funds	29,802	29,802	—	—
Total Common Collective Trusts	372,490	372,490	—	—
Limited Partnership Interest in Real Estate (b)	1,477			
Total Plan Investments	$ 375,327	$ 373,850	$ —	$ —

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NOTES TO FINANCIAL STATEMENTS (Continued)

Description of Securities	Fair Value as of December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and Cash Equivalents	$ 2,622	$ 2,622	$ —	$ —
Common Collective Trusts (a)				
Equity funds	148,163	148,163	—	—
Fixed income funds	150,439	150,439	—	—
Real asset funds	24,119	24,119	—	—
Total Common Collective Trusts	322,721	322,721	—	—
Limited Partnership Interest in Real Estate (b)	1,809			
Total Plan Investments	$ 327,152	$ 325,343	$ —	$ —

(a) The Common Collective Trusts are invested in equity and fixed income securities, or a combination thereof The investment objective of each fund is to produce returns in excess of, or commensurate with, its predefined index

(b) This investment is a commercial real estate partnership that purchases land, develops limited infrastructure and sells it for commercial development The Company was restricted from selling its partnership interest during the life of the partnership, which spanned 7 years Return on investment is realized as land is sold The fair value of the limited partnership interest in real estate is based on the NAV of the partnership which reflects the appraised value of the land The partnership term expired on June 30, 2016 Upon expiration, dissolution of the partnership commenced and, as a result, the general partner of the partnership is attempting to sell the remaining inventory as soon as possible at the highest pricing possible

There were no purchases, issuances, and settlements related to the assets in the Level 3 fair value measurement category during the twelve-month period ending December 31, 2020

The Company and the fiduciaries responsible for the Retirement Plan adhere to the traditional capital market pricing theory which maintains that over the long term, the risk of owning equities should be rewarded with a greater return than available from fixed income investments The Company and the fiduciaries responsible for the Retirement Plan seek to minimize the risk of owning equity securities by investing in funds that pursue risk minimization strategies and by diversifying its investments to limit its risks during falling markets The investment manager has full discretionary authority to direct the investment of plan assets held in trust within the guidelines prescribed by the Company and the fiduciaries responsible for the Retirement Plan through the plan's investment policy statement including the ability to hold cash equivalents The investment guidelines of the investment policy statement are in accordance with the Employee Retirement Income Security Act of 1974 ("ERISA") and U S Department of Labor ("DOL") regulations

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands)

	Retirement Income Plan	Non-Qualified Retirement Plans
2021	$ 21,159	$ 2,045
2022	23,134	2,023
2023	22,805	1,950
2024	22,411	1,907
2025	23,033	1,860
2026-2030	118,726	8,752

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401(k) Defined Contribution Plans

The Company sponsors 401(k) defined contribution plans covering substantially all employees The Company provides a 50 percent matching contribution up to 6 percent of the employee's compensation for employees who are enrolled in the final average pay pension benefit of the Retirement Plan and a 100 percent matching contribution up to 6 percent of the employee's compensation for employees who are enrolled in the cash balance pension benefit of the Retirement Plan, subject to certain other limits and exclusions Annual matching contributions made to the savings plans for the years 2020 and 2019 were $5 2 million and $4 7 million, respectively.

Other Post-Retirement Benefits

The Company provides certain other post-retirement benefits, including health care benefits for retired employees and their eligible dependents and life insurance benefits for retired employees only ("OPEB Plan") Substantially all of the Company's employees may become eligible for those benefits if they retire while working for the Company Contributions from the Company are based on various factors such as the OPEB Plan's funded status, tax deductibility of contributions to the OPEB Plan, state and federal regulatory requirements, amounts requested from customers in the Company's Texas and New Mexico jurisdictions and the annual net periodic benefit cost of the OPEB Plan, as actuarially calculated. The assets of the OPEB Plan are primarily invested in institutional funds which hold equity securities, debt securities and cash equivalents and are managed by a professional investment manager appointed by the Company

Effective February 1, 2020, the Company amended the OPEB Plan and restructured the OPEB Plan's Voluntary Employee Benefit Association ("VEBA") trust fund into four separate VEBA trust funds to reduce federal income tax on the OPEB Plan's unrelated business income without modifying OPEB Plan benefits offered to retirees The restructuring involved establishing separate trust arrangements for the distinction between collective and non-collective bargaining retirees and between health and life insurance benefits The transfer of trust assets to the new trusts was initiated on September 9, 2020, as specified in the amended trust agreements effective August 1, 2020

The following table contains a reconciliation of the change in the benefit obligation, the fair value of plan assets and the funded status of the OPEB Plan (in thousands)·

	December 31,	
	2020	2019
Change in benefit obligation:		
Benefit obligation at end of prior year	$ 64,892	$ 60,862
Service cost	2,417	2,242
Interest cost	1,849	2,456
Actuarial (gain) loss	(16,898)	889
Benefits paid from plan assets	(2,580)	(2,643)
Benefits paid from corporate assets	(190)	(176)
Retiree contributions	1,362	1,262
Benefit obligation at end of year	50,852	64,892
Change in plan assets:		
Fair value of plan assets at end of prior year	41,811	36,287
Actual return on plan assets	4,700	6,636
Employer contribution	465	450
Benefits paid from plan assets	(2,580)	(2,643)
Retiree contributions	1,362	1,262
Administrative and investment expenses	(161)	(181)
Fair value of plan assets at end of year	45,597	41,811
Funded status at end of year	$ (5,255)	$ (23,081)

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Amounts recognized in the Company's Regulatory-Basis Balance Sheet consist of the following (in thousands)

	December 31, 2020	December 31, 2019
Current liabilities	$ —	$ —
Noncurrent liabilities	(5,255)	(23,081)
Total	$ (5,255)	$ (23,081)

Pre-tax amounts recognized in AOCI consist of the following (in thousands)

	December 31, 2020	December 31, 2019
Net gain	$ (54,555)	$ (38,139)
Prior service benefit	(20,379)	(23,472)
Total	$ (74,934)	$ (61,611)

The following are the weighted-average actuarial assumptions used to determine the accrued benefit obligations

	December 31, 2020	December 31, 2019
Discount rate at end of year	2.76%	3.41%
Health care cost trend rates		
Initial		
Pre-65 medical	6 50%	5 75%
Post-65 medical	6.50%	4.50%
Pre-65 drug	6 50%	6.75%
Post-65 drug	6.50%	7.00%
Ultimate	4 50%	4 50%
Year ultimate reached	2026	2026

The Company reassesses various actuarial assumptions at least on an annual basis The discount rate is reviewed and updated at each measurement date. The discount rate used to measure the fiscal year end obligation is based on a segmented spot rate yield curve that matches projected future payments with the appropriate interest rate applicable to the timing of the projected future benefit payments

Net periodic benefit cost is made up of the components listed below (in thousands)

	Years Ended December 31, 2020	Years Ended December 31, 2019
Service cost (a)	$ 2,578	$ 2,423
Interest cost	1,849	2,456
Expected return on plan assets	(2,455)	(2,120)
Amortization of		
Prior service benefit	(3,093)	(5,234)
Net gain	(2,728)	(2,377)
Net periodic benefit cost	$ (3,849)	$ (4,852)

(a) Service cost includes expenses of $161 and $181 thousand for 2020 and 2019, respectively, for administrative and investment expenses paid from plan assets during the year

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The changes in benefit obligations and plan assets recognized in other comprehensive income are presented below (in thousands)

	Years Ended December 31, 2020	2019
Net gain	$ (19,144)	$ (3,626)
Amortization of		
Prior service benefit	3,093	5,234
Net gain	2,728	2,377
Total recognized in other comprehensive income	$ (13,323)	$ 3,985

The total amount recognized in net periodic benefit cost and other comprehensive income are presented below (in thousands)

	Years Ended December 31, 2020	2019
Total recognized in net periodic benefit cost and other comprehensive income	$ (17,172)	$ (867)

The plan's actuarial gains were due to actual investment return being different from assumed during the year ended 2019, as well as changes in the provider for the benefits offered to the Medicare-eligible population There were also actuarial losses due to the actuarial transition, changes in assumptions for the year ended 2020, and demographic experience different from assumed Significant reasons for these changes include the following (i) updated underlying yield curve used to calculate the discount rate, (ii) changes in the provider for the retiree medical benefits offered to the Medicare-eligible population which resulted in significant post-65 premium gains, reducing the net periodic cost and improving the plan's funded status, (iii) the actual return on the fair value of plan assets since the prior measurement date was greater than assumed, which improved the funded position and reduced the net periodic cost, and (iv) contributions to the plans during the year ended 2019 improved the funded status and therefore reduced the net periodic cost

The following are the weighted-average actuarial assumptions used to determine the net periodic benefit cost for the years ended December 31

	Years Ended December 31, 2020	2019
Discount rate:		
Benefit obligation	3 54%	4 44%
Service cost	3.86%	4.51%
Interest cost	3 09%	4 15%
Expected long-term return on plan assets	6.00%	6.00%
Health care cost trend rates:		
Initial		
Pre-65 medical	6 5%	6 0%
Post-65 medical	6.5%	4.5%
Pre-65 drug	6 5%	7 0%
Post-65 drug	6.5%	8.5%
Ultimate	4 5%	4 5%
Year ultimate reached	2026	2026

Effective January 1, 2021, the Company's overall expected long-term rate of return on assets was 7 85%, on a pre-tax basis The expected weighted average long-term rate of return on assets on an after-tax basis is 7 35% as of January 1, 2021 The expected long-term rate of return on an after-tax basis for the non-collective bargaining retirees VEBA is 5 65%, which is the only funding vehicle subject to taxation The non-collective bargaining retirees VEBA trust's tax rate was assumed to be 28.00% at January 1, 2021 Prior to the OPEB plan restructure, the trust's tax rate was assumed to be 23 60% at January 1, 2020 The expected long-term rate of return is based on the after-tax weighted average of the expected returns on investments based upon the target asset allocation

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The Company's target allocations for the plan's assets are presented below

	December 31, 2020
Equity securities	49.3%
Fixed income	34 3%
Alternative investments	16.4%
Total	100.0%

The OPEB Plan invests the majority of its plan assets in institutional funds which includes a diversified portfolio of domestic and international equity securities and fixed income securities Alternative investments of the OPEB Plan are comprised of a real estate limited partnership and equity securities of real estate companies, primarily in real estate investment trusts The alternative investments also include equity securities of a dynamic, diversified portfolio designed to capture market opportunities The underlying allocations to various asset classes in this portfolio will shift over time, but the overall strategic allocation is as follows 75% global equity, 15% marketable real assets and 10% global fixed income The expected rates of return for the funds are assessed annually and are based on long-term relationships among major asset classes and the level of incremental returns that can be earned by the successful implementation of different active investment management strategies Equity returns are based on estimates of long-term inflation rate, real rate of return, 10-year Treasury bond premium over cash, an expected equity risk premium, as well as other economic factors. Fixed income returns are based on maturity, long-term inflation, real rate of return and credit spreads. These assumptions also capture the expected correlation of returns between these asset classes over the long term

The fair value of the Company's OPEB Plan assets at December 31, 2020 and 2019 and the level within the three levels of the fair value hierarchy defined by the FASB guidance on fair value measurements are presented in the table below (in thousands)

Description of Securities	Fair Value as of December 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and Cash Equivalents	$ 1,143	$ 1,143	$ —	$ —
Institutional Funds (a)				
Equity funds	22,345	22,345	—	—
Fixed income funds	15,064	15,064	—	—
Multi asset funds	4,647	4,647	—	—
Real asset funds	1,827	1,827	—	—
Total Institutional Funds	43,883	43,883	—	—
Limited Partnership Interest in Real Estate (b)	571			
Total Plan Investments	$ 45,597	$ 45,026	$ —	$ —

Description of Securities	Fair Value as of December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and Cash Equivalents	$ 2,522	$ 2,522	$ —	$ —
Institutional Funds (a)				
Equity funds	18,664	18,664	—	—
Fixed income funds	15,038	15,038	—	—
Multi asset funds	3,766	3,766	—	—
Real asset funds	1,482	1,482	—	—
Total Institutional Funds	38,950	38,950	—	—
Limited Partnership Interest in Real Estate (b)	339			
Total Plan Investments	$ 41,811	$ 41,472	$ —	$ —

(a) The institutional funds are invested in equity or fixed income securities, or a combination thereof The investment objective of each fund is to produce returns in excess of, or commensurate with, its predefined index

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(b) This investment is a commercial real estate partnership that purchases land, develops limited infrastructure and sells it for commercial development The OPEB Plan trust was restricted from selling its partnership interest during the life of the partnership, which spanned 7 years Return of investment is realized as land is sold. The fair value of the limited partnership interest in real estate is based on the NAV of the partnership which reflects the appraised value of the land. The partnership term expired on June 30, 2016. Upon expiration, dissolution of the partnership commenced and, as a result, the general partner of the partnership is attempting to sell the remaining inventory as soon as possible at the highest pricing possible

There were no purchases, issuances and settlements related to the assets in the Level 3 fair value measurement category during the twelve-month period ending December 31, 2020.

The Company and the fiduciaries responsible for the OPEB Plan adhere to the traditional capital market pricing theory, which maintains that over the long term, the risk of owning equities should be rewarded with a greater return than available from fixed income investments The Company and the fiduciaries responsible for the OPEB Plan seek to minimize the risk of owning equity securities by investing in funds that pursue risk minimization strategies and by diversifying its investments to limit its risks during falling markets The investment manager has full discretionary authority to direct the investment of plan assets held in trust within the investment policy guidelines prescribed by the Company The investment guidelines of the investment policy statement are in accordance with the ERISA and DOL regulations

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands)

2021	$ 2,002
2022	2,128
2023	2,192
2024	2,279
2025	2,416
2026-2030	13,297

Annual Short-Term Incentive Plan

The Annual Short-Term Incentive Plan ("Incentive Plan") provides for the payment of cash awards to eligible Company employees, including each of its named executive officers. Payment of awards is based on the achievement of performance measures reviewed and approved by the People And Remuneration Committee ("PARCO"). Generally, these performance measures are based on meeting certain financial, operational and individual performance criteria The financial performance goals are based on specified levels of earnings and certain O&M expenses The operational performance goals are based on reliability and customer satisfaction If a minimum level of earnings is not attained, no amounts will be paid under the Incentive Plan, unless the PARCO determines otherwise For 2020, pursuant to the Merger Agreement, the incentive amount was determined based on the greater of (a) the level of attainment of the applicable performance criteria under the Incentive Plan and (b) the level of payout associated with target performance In 2020, the approved amount was a target level award of $10 7 million In 2019, the Company reached the required level of earnings, certain O&M expenses, reliability and customer satisfaction goals for incentive payments of $14.4 million.

K. Financial Instruments and Investments

The FASB guidance requires the Company to disclose estimated fair values for its financial instruments The Company has determined that cash and temporary investments, investment in debt securities, accounts receivable, NDT that are reflected in Other Special Funds in the Regulatory-Basis Balance Sheet, long-term debt, financing obligations and capital lease obligations, short-term borrowings under the RCF, accounts payable and customer deposits meet the definition of financial instruments The carrying amounts of cash and temporary investments, accounts receivable, accounts payable and customer deposits approximate fair value because of the short maturity of these items. Investments in debt securities and NDT are carried at estimated fair value

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Long-Term Debt, Financing Obligations, Capital Lease Obligations and Short-Term Borrowings Under the RCF The fair values of the Company's long-term debt, financing obligations, capital lease obligations including the current portion thereof, and short-term borrowings under the RCF are based on estimated market prices for similar issues and are presented below (in thousands).

	December 31,			
	2020		2019	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Pollution Control Bonds	$ 159,835	$ 172,766	$ 159,835	$ 167,256
Senior Notes	1,128,183	1,403,655	1,128,184	1,398,645
RGRT Senior Notes (1)	65,000	72,215	110,000	114,270
RCF (1)	193,260	193,260	115,657	115,657
Capitalized Operating Leases	5,152	5,152	5,607	5,607
Total	$ 1,551,430	$ 1,847,048	$ 1,519,283	$ 1,801,435

(1) Nuclear fuel capital lease obligations, as of December 31, 2020 and December 31, 2019, are funded through $65.0 million and $110 million RGRT Senior Notes and $72 3 million and $31 7 million, respectively, under the RCF As of December 31, 2020, and December 31, 2019, $121 0 million and $84 0 million was outstanding under the RCF for working capital or general corporate purposes, respectively The interest rate on the Company's borrowings under the RCF is reset throughout the quarter reflecting current market rates Consequently, the carrying value approximates fair value. On August 17, 2020, the Company repaid in full at maturity $45.0 million aggregate principal amount of the 5 04% RGRT Senior Notes

Treasury Rate Locks. The Company entered into treasury rate lock agreements in 2005 to hedge against potential movements in the treasury reference interest rate pending the issuance of the 6% Senior Notes The treasury rate lock agreements met the criteria for hedge accounting and were designated as a cash flow hedge In accordance with cash flow hedge accounting, the Company recorded the loss associated with the fair value of the cash flow hedge, net of tax, as a component of accumulated other comprehensive loss and amortizes the accumulated comprehensive loss to earnings as interest expense over the life of the 6% Senior Notes As of December 31, 2020, the unamortized loss associated with the fair value of the cash flow hedge was $15 9 million In 2021, approximately $0 7 million of this accumulated other comprehensive loss item will be reclassified to interest expense

Contracts and Derivative Accounting. The Company uses commodity contracts to manage its exposure to price and availability risks for fuel purchases and power sales and purchases and these contracts generally have the characteristics of derivatives The Company does not trade or use these instruments with the objective of earning financial gains on the commodity price fluctuations The Company has determined that all such contracts outstanding at December 31, 2020, except for certain natural gas commodity contracts with optionality features, that had the characteristics of derivatives met the "normal purchases and normal sales" exception provided in the FASB guidance for accounting for derivative instruments and hedging activities, and, as such, were not required to be accounted for as derivatives

Marketable Securities. The Company's marketable securities, included in the NDT that are reflected in Other Special Funds in the Regulatory-Basis Balance Sheet, are reported at fair value, which was $371 4 million and $326.0 million at December 31, 2020 and 2019, respectively

The investments in the NDT are classified as equity securities and temporary cash and cash equivalents restricted solely for investment in the NDT These investments are recorded at their estimated fair value in accordance with FASB guidance for certain investments in equity securities which requires entities to recognized changes in fair value for these securities in net income as reported in the Company's Regulatory-Basis Statement of Income

During September 2019, the Company sold all of the fixed income securities classified as available for sale held in the NDT, which approximated 450 individual securities The proceeds were reinvested in three exchange traded funds that hold similar securities. The exchange traded funds meet the definition of equity securities with readily determinable fair values and therefore are not classified as available for sale beginning in September 2019

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The Company's available for sale securities in the NDT were sold from time to time and the Company used the specific identification basis to determine the amount to reclassify from AOCI into net income The proceeds from the sale of these securities during the years ended December 31, 2020 and 2019 and the related effects on pre-tax income are as follows (in thousands).

	2020	2019
Proceeds from sales or maturities of available-for-sale securities	$ —	$ 168,177
Gross realized gains included in pre-tax income	$ —	$ 4,815
Gross realized losses included in pre-tax income	—	(2,583)
Net gains included in pre-tax income	$ —	$ 2,232

The Company records changes in fair market value for equity securities held in the NDT in the Company's Regulatory-Basis Statement of Income The unrealized gains and losses recognized during the years ended December 31, 2020 and 2019 and related effects on pre-tax income are as follows (in thousands)

	2020	2019
Net gains recognized on equity securities	$ 38,181	$ 36,017
Less Net gains recognized on equity securities sold	376	430
Unrealized gains recognized on equity securities still held at reporting date	$ 37,805	$ 35,587

Fair Value Measurements. The fair value of the NDT and investments in debt securities at December 31, 2020 and 2019, and the level within the three levels of the fair value hierarchy defined by the FASB guidance are presented in the table below (in thousands)

Description of Securities	Fair Value as of December 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Trading Securities:				
Investments in Debt Securities	$ 1,587	$ —	$ —	$ 1,587
Equity Securities:				
Domestic (a)	$ 338,039	$ 338,039	$ —	$ —
International	30,843	30,843	—	—
Total Equity Securities	368,882	368,882	—	—
Cash and Cash Equivalents	2,566	2,566	—	—
Total	$ 371,448	$ 371,448	$ —	$ —

Description of Securities	Fair Value as of December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Trading Securities:				
Investments in Debt Securities	$ 1,587	$ —	$ —	$ 1,587
Equity Securities:				
Domestic (a)	$ 295,065	$ 295,065	$ —	$ —
International	29,202	29,202	—	—
Total Equity Securities	324,267	324,267	—	—
Cash and Cash Equivalents	1,731	1,731	—	—
Total	$ 325,998	$ 325,998	$ —	$ —

(a) Includes $158 0 million and 148 1 million, as of December 31,2020 and December 31, 2019, respectively, held in exchange traded funds with underlying investments in debt securities that meet the definition of equity securities with readily determinable fair values

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Below is a reconciliation of the beginning and ending balance of the fair value of the investment in debt securities classified as trading securities (in thousands)

	2020	2019
Balance at January 1	$ 1,587	$ 1,656
Net unrealized losses in fair value recognized in income (a)	—	(69)
Balance at December 31	$ 1,587	$ 1,587

(a) These amounts are reflected in the Company's Regulatory-Basis Statement of Income as other income

There were no purchases, sales, issuances and settlements related to the assets in the Level 3 fair value measurement category during the year ended December 31, 2020

L. Supplemental Statements of Cash Flows Disclosures

	Years Ended December 31, 2020	2019
	(In thousands)	
Cash paid (refunded) for.		
Interest on long-term debt and borrowing under the revolving credit facility	$ 72,428	$ 70,997
Income tax paid (refunded), net	14,214	(1,451)
Non-cash investing and financing activities		
Changes in accrued plant additions	8,809	2,912
Grants of restricted shares of common stock	589	1,393
Issuance of performance shares	2,937	2,520
Non-cash operating activities		
Operating lease liabilities arising from obtaining ROU assets	—	5,550

M. Merger

On June 1, 2019, the Company entered into the Merger Agreement, by and among the Company, Parent and Merger Sub On July 22, 2020, the Company received the final required regulatory approval under the Merger Agreement by the FERC The Company received approvals required to consummate the Merger from the NMPRC, the U S Nuclear Regulatory Commission, the PUCT, the City of El Paso, Texas, the Federal Trade Commission, and the Antitrust Division of the Department of Justice The Merger closed on July 29, 2020

On July 29, 2020, pursuant to the Merger Agreement, Merger Sub merged with and into the Company, with the Company continuing as the surviving corporation in the Merger and becoming a wholly owned subsidiary of Parent Parent is owned by IIF US 2, a master holding partnership of IIF In September 2020, an owner of the general partner of IIF US Holding and the general partner of IIF US Holding 2 resigned and his approximately 33.3% ownership interests reverted to the respective general partner On December 17, 2020, the FERC issued an order in Docket No. EC20-94-000 authorizing the acquisition of such approximately 33 3% membership interest from those general partners by a private individual, Anne Cleary The transaction was completed on December 17, 2020

On July 29, 2020, each share of common stock of the Company including outstanding and unvested restricted stock and unvested performance stock of the Company was cancelled and converted into the right to receive $68.25 in cash, without interest Parent's acquisition of all the issued and outstanding shares of Company common stock for $68 25 per share in cash represents a total equity value of approximately $2 8 billion

On July 29, 2020, in connection with the closing of the Merger, the Company notified the New York Stock Exchange ("NYSE") that the Merger had been consummated and requested that the NYSE delist shares of Company common stock and file with the U S Securities and Exchange Commission ("SEC") a notification on Form 25 to report the delisting of shares of Company common stock from the NYSE and to deregister shares of Company common stock under Section 12(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") Trading of the Company's common stock on the NYSE ceased after the market closed on July 29,

Name of Respondent	This Report is	Date of Report	Year/Period of Report
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NOTES TO FINANCIAL STATEMENTS (Continued)

2020, and on July 31, 2020, the NYSE filed a Form 25 with the SEC

Upon closing of the Merger on July 29, 2020, the Company's certificate of formation was amended and restated to conform to the certificate of formation of Merger Sub, as in effect immediately prior to the closing of the Merger The total number of shares of common stock the Company is authorized to issue is One Thousand (1,000). The par value of each of the authorized shares of common stock is $0.01 per share

On August 10, 2020, the Company filed a Form 15 with the SEC to terminate the registration of its common stock under the Exchange Act and to suspend its reporting obligations under Sections 12(g) and 15(d) of the Exchange Act

On September 24, 2020, Parent made an equity infusion into the Company in the amount of $125 0 million The Company filed the Notice of Equity Infusion in NMPRC Case No 20-00104-UT

The Company, Parent and IIF US 2 have agreed to numerous regulatory commitments in connection with the Merger under the agreements with the PUCT, the NMPRC, and the City of El Paso discussed above Among the commitments that apply to the Company as of the closing of the Merger are the issuance of rate credits to its Texas customers in a total aggregate amount of $21 0 million and to New Mexico customers of $8 7 million Both rate credits will be distributed among customers in 36 monthly installments The Company was required to make tariff filings to implement the rate credits no later than 45 days after the issuance of the PUCT final order approving the Merger in Docket No 49849, which occurred on January 28, 2020, in Texas, and 7 days after the closing of the Merger, which occurred on July 29, 2020, in New Mexico The Company made its required tariff filing in Texas under PUCT Docket No. 50477 on March 13, 2020, which was approved on June 30, 2020 The Company made its required tariff filing in New Mexico through an Advice Notice filed in NMPRC Case No 19-00234-UT on July 27, 2020 The Merger rate credits became effective in Texas and New Mexico on August 1, 2020, and August 5, 2020, respectively, following the closing of the Merger. The Company has agreed not to attempt to recover the value of these rate credits in future rate cases

In connection with the Merger, the Company recorded $71 7 million of strategic transaction costs in the year ended December 31, 2020 The strategic transaction costs include $29 7 million in rate credits as discussed above, $4 3 million related to accelerated stock compensation, expenses for legal, and other consulting costs, which are reflected in Other Deductions Account 426 in the Company's Regulatory-Basis Statement of Income The Company will not attempt to recover strategic transaction costs in future rate cases The Company reflected any non-deductible amounts in the effective tax rate at the Merger closing date

On July 28, 2020, the Board of Directors declared a "stub period" dividend in an amount equal to $0 004505 per share of Company common stock (which reflected the regular quarterly common stock dividend rate of $0 41 per share, divided by 91 days), multiplied by the number of days from and including June 17, 2020, the day after the record date for the most recent regular quarterly common stock dividend, to and including the Merger closing date of July 29, 2020 The "stub period" dividend was payable to the holders of record of Company common stock as of the close of business on the last day that shares of Company common stock were traded on the NYSE.

On August 14, 2020, the Company adopted a dividend policy which provides that no later than 45 days following the end of each quarter, the Company shall distribute to its sole shareholder, Parent, an amount equal to the Company's net income for such calendar quarter, provided that if the Company's net income for a quarter is below zero, no dividend shall be paid. On October 29, 2020, the Company's Board of Directors declared out of the surplus of the Company, a cash dividend to Parent in the amount of $17 4 million, which was paid on October 30, 2020

Long-Term Incentive Plan

Prior to the consummation of the Merger, the Company had a stock based long-term incentive plan ("LTIP") which awarded restricted stock with either service conditions or performance conditions All outstanding awards vested at the closing of the Merger, and subsequently the LTIP was terminated

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NOTES TO FINANCIAL STATEMENTS (Continued)

The expense, deferred tax benefit, and current tax benefit recognized related to the LTIP in 2020 and 2019 is presented below (in thousands)

	2020	2019
Expense (a)	$ 2,292	$ 2,473
Deferred tax benefit	481	519
Current tax benefit recognized on restricted stock	211	112

(a) Any capitalized costs related to these expenses on is less than $0 3 million for all years

El Paso Electric

El Paso Electric Company

Financial Statements
and
Notes to Financial Statements
December 31, 2020

DEFINITIONS

The following abbreviations, acronyms or defined terms used in this report are defined below

Abbreviations, Acronyms or Defined Terms	Terms
ABFUDC	Allowance for Borrowed Funds Used During Construction
ABO	Accumulated benefit obligation
AEFUDC	Allowance for Equity Funds Used During Construction
AFUDC	Allowance for Funds Used During Construction
ALJ	Administrative Law Judge
ANPP Participation Agreement	Arizona Nuclear Power Project Participation Agreement dated August 23, 1973, as amended
AOCI	Accumulated Other Comprehensive Income
APS	Arizona Public Service Company
ARO	Asset Retirement Obligations
ASU	Accounting Standards Update
Board of Directors	The Board of Directors of the Company
CAA	U S Clean Air Act
CCN	Certificate of Convenience and Necessity
Common Facilities	The three nuclear generating units and common facilities at Palo Verde
Company	El Paso Electric Company
COVID-19	Coronavirus Disease 2019, the disease caused by the 2019 novel coronavirus (SARSCoV-2)
D C. Circuit	U S Court of Appeals for the District of Columbia Circuit
DCRF	Distribution Cost Recovery Factor
DOE	U S Department of Energy
DOL	U S Department of Labor
EECRF	Energy Efficiency Cost Recovery Factor
EE/LM Plan	Energy Efficiency and Load Management Plan
El Paso	City of El Paso, Texas
EPA	U S Environmental Protection Agency
ERISA	Employee Retirement Income Security Act of 1974
EUERF	Efficient Use of Energy Recovery Factor
Exchange Act	The Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fort Bliss	Fort Bliss, the U S Army post next to El Paso, Texas
Four Corners	Four Corners Generating Station
FPPCAC	New Mexico Fuel and Purchased Power Cost Adjustment Clause
Freeport	Freeport-McMoRan Copper and Gold Energy Services LLC
GAAP	U S Generally Accepted Accounting Principles
GHG	Greenhouse Gas
HAFB	Holloman Air Force Base
IIF	Infrastructure Investments Fund
IIF US 2	Infrastructure Investment Fund US Holding 2 LP
Incentive Plan	The Company's Annual Short-Term Incentive Plan
ISFSI	Independent spent fuel storage installation
kW	Kilowatt(s)

Abbreviations, Acronyms or Defined Terms	Terms
kWh	Kilowatt-hour(s)
Las Cruces	City of Las Cruces, New Mexico
Local 960	The International Brotherhood of Electrical Workers Local 960
LTPPA	Long-Term Purchased Power Agreement
Merger	Merger of Merger Sub with and into the Company with the Company as the surviving corporation pursuant to the Merger Agreement
Merger Agreement	Agreement and Plan of Merger, by and among the Company, Parent and Merger Sub, dated June 1, 2019
Merger Sub	Sun Merger Sub Inc , a Texas corporation and wholly owned subsidiary of Parent
MW	Megawatt(s)
NAAQS	National Ambient Air Quality Standards
NAV	Net Asset Value
NDT	The Company's Palo Verde nuclear decommissioning trust funds
Newman	The Company's Newman Power Station
NMPRC	New Mexico Public Regulation Commission
NMPRC Final Order	NMPRC Final Order in Case No 15-00127-UT
NMSU	New Mexico State University
NOL	Net Operating Losses
NRC	U S Nuclear Regulatory Commission
NYSE	New York Stock Exchange
OPEB Plan	The Company's other post-retirement benefits plan, including health care benefits for retired employees and their eligible dependents and life insurance benefits for retired employees only
O&M	Operations and maintenance
Palo Verde	Palo Verde Generating Station
Palo Verde Participants	Those utilities that share in power and energy entitlements, and bear certain allocated costs, with respect to Palo Verde pursuant to the ANPP Participation Agreement
PARCO	People and Remuneration Committee
Parent	Sun Jupiter Holdings LLC
Paris Agreement	An agreement among 195 nations at the 21st Conference of the Parties in Paris with an overaching goal of preventing global temperatures from riding more than 2 degrees Celsius
PBO	Projected benefit obligation
PCBs	Pollution Control Bonds
Power Purchase and Sale Agreement	The Company's Agreement with Freeport pursuant to which Freeport delivers energy to the Company from the Luna Energy Facility and the Company delivers a like amount of energy at Greenlee, Arizona
PUCT	Public Utility Commission of Texas
RCF	The Company's Revolving Credit Facility
RCF Agreement	Third amended and restated credit agreement dated September 13, 2018, by and between the Company and The Bank of New York Mellon Trust Company, N A , as trustee of the RGRT
REA	New Mexico Renewable Energy Act
Retirement Plan	The Company's Retirement Income Plan
RGEC	Rio Grande Electric Cooperative
RGRT	Rio Grande Resources Trust II
RGRT Notes	$110 0 million aggregate principal amount of Senior Notes issued by RGRT in 2010
RGRT Senior Notes	$65 0 million aggregate principal amount of 4 07% Senior Guaranteed Notes issued by RGRT in 2018, due August 15, 2025
RLMP	Residential Load Management Plan

Abbreviations, Acronyms or Defined Terms	Terms
ROU	Right-of-use
RPS	Renewable Portfolio Standard
Rule 551	NMPRC Rule 17 9 551 of the New Mexico Administrative Code
SEC	U S Securities and Exchange Commission
Securities Act	The Securities Act of 1933, as amended
TCEQ	Texas Commission on Environmental Quality
TCJA	The federal legislation commonly referred to as the Tax Cuts and Jobs Act of 2017
TCRF	Transmission Cost Recovery Factor
Texas Fuel Rule	Fuel cost recovery rule of the PUCT
U S	United States
VEBA	OPEB Plan's Voluntary Employee Benefit Association
White Sands	White Sands Missile Range
2016 Study	2016 Palo Verde Decommissioning Study
2017 PUCT Final Order	PUCT Final Order in Docket No 46831
2017 Texas Retail Rate Case	The Company's request for an increase in non-fuel base revenues, filed with the City of El Paso, other municipalities incorporated in the Company's Texas service territory, and the PUCT in Docket No 46831
2019 DCRF rate filing	DCRF rate filing in PUCT Docket No 49395
2019 TCRF rate filing	TCRF rate filing in PUCT Docket No 49148
2019 Study	2019 Palo Verde Decommissioning Study
2020 DCRF rate filing	DCRF rate filing in PUCT Docket No 51348

EL PASO ELECTRIC COMPANY
NOTES TO FINANCIAL STATEMENTS

A. Summary of Significant Accounting Policies

General El Paso Electric Company (the "Company") is a utility engaged in the generation, transmission and distribution of electricity in an area of approximately 10,000 square miles in west Texas and southern New Mexico The Company also serves a full requirements wholesale customer in Texas

Merger On June 1, 2019, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement"), by and among the Company, Sun Jupiter Holdings LLC, a Delaware limited liability company ("Parent"), and Sun Merger Sub Inc , a Texas corporation and wholly owned subsidiary of Parent ("Merger Sub") On July 29, 2020, pursuant to the Merger Agreement, Merger Sub merged with and into the Company (the "Merger"), with the Company continuing as the surviving corporation in the Merger and becoming a wholly owned subsidiary of Parent The Company has elected not to apply push-down accounting to its financial statements after the Merger Parent is owned by Infrastructure Investments Fund US Holding 2 LP ("IIF US 2"), a master holding partnership of the Infrastructure Investments Fund ("IIF") See Note N of Notes to Financial Statements for a discussion of the Merger

Coronavirus Disease 2019 ("COVID-19") Impacts Since the outbreak of COVID-19, federal, state, and local governments have imposed varying degrees of restrictions on businesses and the social activities of citizens In addition, both the Public Utility Commission of Texas ("PUCT") and the New Mexico Public Regulation Commission ("NMPRC") issued moratoriums preventing utilities from disconnecting service to their customers due to nonpayment The Texas moratorium on disconnections expired on August 31, 2020, while the New Mexico moratorium on residential customers remains in place The Company initiated the process of resumption of disconnection in mid-January 2021 for Texas customers and New Mexico nonresidential customers See Note D of Notes to Financial Statements for further details

The Company has observed a migration of energy sales from the commercial and public authority customers to the residential customers class Through the date of this report, the Company also experienced decreases in its collections primarily related to its residential and commercial customers. Accordingly, it has increased its allowance for doubtful accounts by $4 0 million as of December 31, 2020, to take into account the estimated impact of COVID-19 The Company is continuing to monitor its collection rates and bad debt write-offs and will record additional allowances as appropriate The Company incurred other incremental operations and maintenance ("O&M") costs related to COVID-19 of approximately $4 0 million for the year ended December 31, 2020, including contractors, medical claims, repairs and maintenance, material supplies, and rentals

Basis of Presentation The Company maintains its accounts in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission ("FERC")

Use of Estimates The preparation of financial statements in conformity with United States ("U S ") Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period The Company evaluates its estimates on an ongoing basis, including those related to depreciation, unbilled revenue, income taxes, fuel costs, pension and other post-retirement obligations and asset retirement obligations ("ARO") Actual results could differ from those estimates

Application of the Financial Accounting Standards Board ("FASB") Guidance for Regulated Operations Regulated electric utilities typically prepare their financial statements in accordance with the FASB guidance for regulated operations The FASB guidance for regulated operations requires the Company to include an allowance for equity and borrowed funds used during construction ("AEFUDC" and "ABFUDC") as a cost of construction of electric plant in service AEFUDC is recognized as income, and ABFUDC is shown as capitalized interest charges in the Company's Statements of Operations The FASB guidance for regulated operations also requires the Company to show certain costs as either assets or liabilities on a utility's balance sheet if the regulator provides assurance that these costs will be charged to and collected from the utility's customers (or has already permitted such cost recovery) or will be credited or refunded to the utility's customers The resulting regulatory assets or liabilities are amortized in subsequent periods based upon the respective amortization periods reflected in a utility's regulated rates See Note E of Notes to Financial Statements for further discussion The Company applies the FASB guidance for regulated operations for all three of the jurisdictions in which it operates

Utility Plant. Utility plant is generally reported at cost The cost of renewals and betterments are capitalized, and the costs of repairs and minor replacements are charged to the appropriate operating expense accounts Depreciation is provided on a straight-line basis over the estimated remaining lives of the assets (ranging in average from 5 to 48 years) The average composite depreciation rate utilized in 2020 and 2019 was 2.32% and 2 29%, respectively When property subject to composite depreciation is retired or otherwise disposed of in the normal course of business, its cost together with the cost of removal, less salvage is charged to accumulated depreciation For other property dispositions, the applicable cost and accumulated depreciation is removed from the balance sheet accounts and a gain or loss is recognized, if applicable Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable

The cost of nuclear fuel is amortized to fuel expense on a units-of-production basis. The Company is also amortizing its share of costs associated with on-site spent fuel storage casks at Palo Verde Generating Station ("Palo Verde") over the burn period of the fuel that will necessitate the use of the storage casks. See Note F of Notes to Financial Statements for further discussion

Allowance for Funds Used During Construction ("AFUDC") and Capitalized Interest The Company capitalizes interest (ABFUDC) and common equity (AEFUDC) costs to construction work in progress and capitalizes interest to nuclear fuel in process in accordance with the FERC Uniform System of Accounts as provided for in the FASB guidance AFUDC is a non-cash component of income and is calculated monthly and charged to all new eligible construction and capital improvement projects AFUDC is compounded on a semi-annual basis The average AFUDC rates used in 2020 and 2019 were 5 30% and 5 27%, respectively

On June 30, 2020, the FERC issued an order granting a waiver request related to the existing AFUDC rate calculation beginning March 1, 2020 through February 28, 2021 On February 23, 2021, the FERC extended the AFUDC rate waiver through September 30, 2021 The order provides a simplified approach that companies may elect to implement in order to minimize the significant distorted effect on the AFUDC formula resulting from increased short-term debt financing during COVID-19 The Company has adopted this simplified approach to computing the AFUDC composite rate by using a simple average of the actual historical short-term debt balances for 2019, instead of current period short-term debt balances, and has left all other aspects of the AFUDC formula composite rate calculation unchanged This change had the effect of increasing the AFUDC composite rate for each period beginning in the second quarter of 2020 Furthermore, the change in the composite rate calculation does not impact the accounting treatment for these costs

Asset Retirement Obligations. The FASB guidance sets forth accounting requirements for the recognition and measurement of liabilities associated with the retirement of tangible long-lived assets Under the FASB guidance, these liabilities are recognized as incurred if a reasonable estimate of fair value can be established and are capitalized as part of the cost of the related tangible long-lived assets The Company records the increase in the ARO due to the passage of time as an operating expense (accretion expense) If the Company incurs or assumes any liability in retiring any asset at the end of its useful life without a legal obligation to do so, it will record such retirement costs as incurred See Note G of Notes to Financial Statements for further discussion

Cash and Cash Equivalents Temporary cash investments with an original maturity of three months or less are considered cash equivalents The Company's cash and cash equivalents do not include amounts held in trust by the Company's Palo Verde nuclear decommissioning trust funds ("NDT") or the pension and other post-retirement benefit trust funds

Investments The Company's marketable securities, included in the NDT on the balance sheet, are reported at fair value and consist of cash and equity securities held in the NDT Investments in equity securities are measured at fair market value Changes in fair value for equity securities are recognized in the Company's Statements of Operations Debt securities are classified as "available-for-sale" securities and, as such, unrealized gains and losses are included in accumulated other comprehensive loss as a separate component of common stock equity However, if declines in the fair value of debt securities below original cost basis are determined to be other than temporary, the declines are reported as losses in the Company's Statements of Operations and a new cost basis is established for the affected securities at fair value Gains and losses are determined using the cost of the security based on the specific identification basis See Note L of Notes to Financial Statements for further discussion.

Inventories Inventories, primarily parts, materials, supplies, fuel oil and natural gas are stated at average cost, which is not to exceed recoverable cost

Operating Revenues The Company accrues revenues for services rendered, including unbilled electric service revenues The Company recognizes revenue associated with contracts with customers when performance obligations under the terms of the contract with the customer are satisfied Revenue is measured as the amount of consideration the Company receives in exchange for transferring goods or providing services to the customer Taxes collected concurrently with revenue producing activities are excluded from revenue Unbilled revenues are recorded for estimated amounts of energy delivered in the period

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EL PASO ELECTRIC COMPANY
NOTES TO FINANCIAL STATEMENTS

following the customer's last billing cycle to the end of the reporting period. Unbilled revenues are estimated based on monthly generation volumes and by applying an average revenue/kilowatt-hour ("kWh") to the number of estimated kWhs delivered but not billed Accounts receivable included accrued unbilled revenues of $25 2 million and $25 6 million as of December 31, 2020 and 2019, respectively See Note C of Notes to Financial Statements for further discussion

The Company's Texas retail customers are billed under base rates and a fixed fuel factor approved by the PUCT. The Company's New Mexico retail customers are billed under base rates and a fuel adjustment clause that is adjusted monthly, as approved by the NMPRC The Company's FERC sales for resale customer is billed under formula base rates and fuel factors and a fuel adjustment clause that is adjusted monthly. The Company's recovery of fuel and purchased power expenses is subject to periodic reconciliations of actual fuel and purchased power expenses incurred to actual fuel revenues collected The difference between fuel and purchased power expenses incurred and fuel revenues charged to customers is reflected as over/ under-collection of fuel revenues, which is included in regulatory liabilities/assets - current in the balance sheets See Note D of Notes to Financial Statements for further discussion

Income Taxes The Company accounts for federal and state income taxes under the asset and liability method of accounting for income taxes Deferred income taxes are recognized for the estimated future tax consequences of "temporary differences" by applying enacted statutory tax rates for each taxable jurisdiction applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities Certain temporary differences are accorded flow-through treatment by the Company's regulators and impact the Company's effective tax rate The FASB guidance requires that rate-regulated companies record deferred income taxes for temporary differences accorded flow-through treatment at the direction of the regulatory commission The resulting deferred tax assets and liabilities are recorded at the expected cash flow to be reflected in future rates Because the Company's regulators have consistently permitted the recovery of tax effects previously flowed-through earnings, the Company has recorded regulatory liabilities and assets offsetting such deferred tax assets and liabilities The effect on deferred tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the enactment date, unless those deferred taxes will be collected from or returned to customers in which case they are recorded as a regulatory asset or liability The Company recognizes tax assets and liabilities for uncertain tax positions in accordance with the recognition and measurement criteria of the FASB guidance for uncertainty in income taxes See Note I of Notes to Financial Statements for further discussion

The tax effects of changes in tax laws must be recognized in the period in which the law is enacted GAAP also requires deferred tax assets and liabilities to be measured at the enacted tax rate expected to apply when temporary differences are to be realized or settled At the enactment of the federal legislation commonly referred to as the Tax Cuts and Jobs Act of 2017 ("TCJA") on December 22, 2017, the Company's deferred taxes were re-measured based upon the new federal corporate income tax rate The decrease in deferred taxes was recorded as a regulatory liability as it will be subject to refund to customers and is recorded at the expected cash flow to be reflected in future rates See Note I of Notes to Financial Statements for further discussion

Stock-Based Compensation Prior to July 29, 2020, the Company had a stock-based long-term incentive plan Under the FASB guidance, the Company was required to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award Such costs were recognized over the period during which an employee had to provide service in exchange for the award (requisite service period), which typically was the vesting period Compensation cost was not recognized for anticipated forfeitures prior to vesting of equity instruments

Pension and Post-retirement Benefit Accounting See Note K of Notes to Financial Statements for a discussion of the Company's accounting policies for its employee benefits

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EL PASO ELECTRIC COMPANY
NOTES TO FINANCIAL STATEMENTS

Credit Losses On January 1, 2020, the Company adopted Accounting Standards Update ("ASU") 2016-13, Financial Instruments - Credit Losses (Topic 326) There was no cumulative effect adjustment at the initial application of the new standard The Company expects the ongoing impact of the new standard to be immaterial to its financial position and results of operations and no significant changes in the Company's business processes and internal controls were necessary upon adoption of the new standard The Company is exposed to credit losses as a result of recording customer receivables related to retail and wholesale electric sales and the provision of transmission services to customers The allowance for doubtful accounts represents the Company's estimate of existing accounts receivable that will ultimately be uncollectible The allowance is calculated by applying estimated write-off factors to various classes of outstanding receivables The write-off factors used to estimate uncollectible accounts are based upon consideration of both historical collections experience and management's best estimate of future collections success given the existing collections environment and qualitative forecasts of future conditions During 2020, the Company performed its assessment, which included consideration of the ongoing impact of COVID-19 Based on that assessment, the Company recorded a charge for anticipated uncollectible customer accounts Additions, deductions and balances for the allowance for doubtful accounts for the years ended December 31, 2020 and December 31, 2019 are as follows (in thousands)

	Years Ended December 31,	
	2020	2019
Balance at beginning of period	1,900	2,070
Additions		
Increase to provision (a)	6,063	2,292
Recovery of previous write-offs	1,316	1,197
Uncollectible receivables written off	(3,359)	(3,659)
Balance at end of period	$ 5,920	$ 1,900

(a) 2020 includes $3 2 million estimated impact of COVID-19 charged to Regulatory Assets in the Company's Balance Sheet

Leases The Company determines if an arrangement contains a lease and the classification of that lease at inception Operating lease right-of-use ("ROU") assets represent the Company's right to use an underlying asset for the lease term and operating lease liabilities represent the obligation to make payments under the lease ROU assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of the minimum lease payments over the lease term In determining lease terms, the Company considers any options to extend or terminate the lease that are reasonably certain of being exercised As the Company's leases do not include an implicit rate, the Company uses an estimated incremental borrowing rate, at lease commencement, to determine the present value of the future lease payments In calculating the incremental borrowing rate, the Company takes into consideration recent debt issuances and other data for instruments with similar characteristics The Company's lease agreements do not contain residual value guarantees or restrictive covenants For leases with lease and non-lease components, the Company has elected to account for the consideration as a single lease component The Company has also elected not to record leases with a term of 12 months or less on the balance sheets The operating lease ROU assets are included as part of electric plant in service and lease liabilities are included as part of current and non-current liabilities in the Company's balance sheets As of December 31, 2020, the Company does not have any material operating leases.

Reclassification Certain amounts in the financial statements for 2019 have been reclassified to conform to the 2020 presentation The Company implemented ASU 2016-15, Statement of Cash Flows, in the first quarter of 2018 See Statement of Cash Flows proceeds from life insurance line for further details

B. New Accounting Standards

New Accounting Standards Adopted in 2020

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326) ASU 2016-13 changed how companies measure and recognize credit impairment for many financial assets The new expected credit loss model required companies to immediately recognize an estimate of credit losses expected to occur over the remaining life of the financial assets that are in the scope of the standard ASU 2016-13 was required for reporting periods beginning after December 15, 2019 ASU 2016-13 was applied in a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance was implemented. The Company adopted ASU 2016-13 on January 1, 2020 As part of its implementation process, the Company evaluated the impact of the new standard, which included evaluating the impact of (i) ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments and (ii) ASU 2019-05, Financial Instruments - Credit Losses (Topic 326) Targeted Transition Relief The adoption of this standard did not have a material impact or require a cumulative effect adjustment to retained earnings The Company anticipates the ongoing impact of ASU 2016-13 will be immaterial to the Company's financial position, results of operations, and cash flows

In August 2018, the FASB issued ASU 2018-14, Compensation – Retirement Benefits – Defined Benefit Plans (Subtopic 715-20) ASU 2018-14 removes certain disclosures that the FASB no longer considered cost beneficial while adding certain requirements identified as relevant for employers that sponsor defined benefit pension or other postretirement plans The ASU removes the following disclosure requirements amounts in Accumulated Other Comprehensive Income ("AOCI") expected to be recognized as components of net periodic benefit cost over the next fiscal year, amount and timing of plan assets expected to be returned to the employer, related party disclosures about the amount of future annual benefits covered by insurance and annuity contracts, significant transactions between the employer or related parties and the plan, and the reconciliation of the opening balances to the closing balances of plan assets measured on a recurring basis in Level 3 of the fair value hierarchy The ASU also adds and clarifies the following disclosure requirements the weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates, an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period, the projected benefit obligation ("PBO") and fair value of plan assets for plans with PBOs in excess of plan assets, the accumulated benefit obligation ("ABO") and fair value of plan assets for plans with ABOs in excess of plan assets ASU 2018-14 required that the disclosure amendments be applied on a retrospective basis to all periods presented ASU 2018-14 is effective for nonpublic entities for fiscal years ending after December 15, 2021 However, as permitted, the Company early adopted ASU 2018-14 effective December 31, 2020 The adoption of this ASU did not have a significant impact on the Company's financial statement disclosures

New Accounting Standards to be Adopted in the Future

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740), as part of its initiative to reduce complexity in accounting standards ASU 2019-12 amends the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance ASU 2019-12 will be effective for fiscal years beginning after December 15, 2021 Early adoption is permitted, including adoption in any interim periods for reporting periods for which financial statements have not been made available for issuance The Company is currently evaluating the future impact of ASU 2019-12

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C. Revenues

The following table disaggregates revenue from contracts with customers, for the years ended December 31, 2020 and 2019 (in thousands)

	Years Ended December 31,	
	2020	2019
Retail	$ 799,764	$ 742,510
Wholesale	89,391	92,396
Wheeling (transmission)	24,580	22,621
Total revenues from contracts with customers	913,735	857,527
Other	3,775	4,467
Total operating revenues	$ 917,510	$ 861,994

Retail. Retail contracts represent the Company's primary revenue source The Company has determined that retail electric service to residential, commercial and industrial, and public authority customers represents an implied daily contract with the customer The contract is comprised of an obligation to supply and distribute electricity and related capacity Revenue is recognized, over time, equal to the product of the applicable tariff rates, as approved by the PUCT and the NMPRC, and the volume of the electricity delivered to the customer, or through the passage of time based upon providing the service of standing ready Unbilled revenues are recognized at month end based on estimated monthly generation volumes and by applying an average revenue per kWh to the number of estimated kWhs delivered but not billed to customers, and recorded as a receivable for the period following the last billing cycle to the end of the reporting period Retail customers receive a bill monthly, with payment due sixteen days after issuance

Wholesale. Wholesale contracts primarily include forward power sales into markets outside the Company's service territory when the Company has competitive generation capacity available, after meeting its regulated service obligations Pricing is either fixed or based on an index rate with consideration potentially including variable components Uncertainties regarding the variable consideration will be resolved when the transaction price is known at the point of delivering the energy The obligation to deliver the electricity is satisfied over time as the customer receives and consumes the electricity Wholesale customers are invoiced monthly on the 10th day of each month, with payment due by the 20th day of the month In the case of the sale of renewable energy certificates, the transaction price is allocated to the performance obligation to deliver the confirmed quantity of the certificates based on the stand alone selling price of each certificate Revenue is recognized as control of the certificates is transferred to the customer The customer is invoiced upon the completed transfer of the certificates, with payment due within ten business days Wholesale also includes an annual agreement between the Company and one of its wholesale customers, Rio Grande Electric Cooperative ("RGEC"), which involves the provision of full requirements electric service from the Company to RGEC The rates for this service are recalculated annually and require FERC approval

Wheeling (transmission) Wheeling involves the Company providing point-to-point transmission service, which includes the receipt of capacity and energy at designated point(s) and the transfer of such capacity and energy to designated point(s) of delivery on either a firm or non-firm basis for periods of one year or less The performance obligation to provide capacity and transmit energy is satisfied over time as the Company performs Transmission customers are invoiced on a monthly basis, with payment due within twenty days of receipt of the invoice

Accounts receivable Accounts receivable is principally comprised of revenue from contracts with customers The Company recognizes expense for accounts that are deemed uncollectible in operating expense The Company recognized $2 9 million and $2 3 million of uncollectible expense for the years ended December 31, 2020 and 2019, respectively See Note A of Notes to Financial Statement for a discussion of the COVID-19 impact on the Company's uncollectible reserve

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D. Regulation

General

The rates and services of the Company are regulated by incorporated municipalities in Texas, the PUCT, the NMPRC and the FERC Municipal orders, ordinances and other agreements regarding rates and services adopted by Texas municipalities are subject to review and approval by the PUCT The FERC has jurisdiction over the Company's wholesale (sales for resale) transactions, transmission service and compliance with federally-mandated reliability standards The decisions of the PUCT, the NMPRC and the FERC are subject to judicial review

On June 1, 2019, the Company entered into the Merger Agreement On July 29, 2020, pursuant to the Merger Agreement, Merger Sub merged with and into the Company, with the Company continuing as the surviving corporation in the Merger and becoming a wholly owned subsidiary of Parent Parent is owned by IIF US 2, a master holding partnership of IIF Among other things, the Company, Parent and IIF US 2 were required to obtain certain regulatory approvals of the Merger See Note N of the Notes to Financial Statements for further discussion of the Merger

Texas Regulatory Matters

2017 Texas Retail Rate Case Filing On February 13, 2017, the Company filed in Docket No 46831, a request for an increase in non-fuel base revenues (the "2017 Texas Retail Rate Case") On December 18, 2017, the PUCT issued a final order in Docket No 46831 (the "2017 PUCT Final Order")

The 2017 PUCT Final Order required the Company to file a refund tariff if the federal statutory income tax rate, as it relates to the Company, was decreased before the Company files its next general rate case Following the enactment of the TCJA on December 22, 2017, and in compliance with the 2017 PUCT Final Order, on March 1, 2018, the Company filed with the PUCT and each of its Texas municipalities a proposed refund tariff designed to reduce base charges for Texas customers equivalent to the expected annual decrease of $22 7 million in federal income tax expense resulting from the TCJA changes The refund is required to be updated annually until new base rates are implemented pursuant to the Company's next Texas rate case filing. The PUCT and each of the Company's municipalities approved the Company's first amendment to the tax refund tariff on June 27, 2019, in Docket No 49251 with the second amendment being approved on July 6, 2020, in Docket No 50575 On February 22, 2021, the Company filed with the PUCT and each of its Texas municipalities an application to modify the tax refund tariff for the third time, which does not propose any modification to the existing tariff The filing was assigned PUCT Docket No 51826 The Company cannot predict the outcome of this filing at this time

Texas Energy Efficiency Cost Recovery Factor ("EECRF"). On May 1, 2020, the Company filed its annual application to establish its EECRF for 2021 with the PUCT, which was assigned PUCT Docket No 50806 In addition to projected energy efficiency costs of $4 7 million for 2021 and a reconciliation of collections to actual costs for the prior year, the Company requested approval of a $1.2 million incentive bonus for the 2019 energy efficiency program results in accordance with PUCT rules. A final order approving the filed settlement that resolved all issues in the proceeding, including the requested incentive bonus by reducing the recoverable energy efficiency costs by $75 thousand, was issued on November 5, 2020

Fuel and Purchased Power Costs. The Company's actual fuel costs, including purchased power energy costs, net of the cost of off-system sales and related shared margins, are recovered from customers through a fixed fuel factor The PUCT has adopted a fuel cost recovery rule ("Texas Fuel Rule") that allows the Company to seek periodic adjustments to its fixed fuel factor The Company can seek to revise its fixed fuel factor based upon the approved formula at least four months after its last revision except in the month of December. The Texas Fuel Rule requires the Company to request to refund fuel costs in any month when the over-recovery balance exceeds a threshold material amount and when it expects fuel costs to continue to be materially over-recovered. The Texas Fuel Rule also permits the Company to seek to surcharge fuel under-recoveries in any month the balance exceeds a threshold material amount and when it expects fuel cost recovery to continue to be materially under-recovered Fuel over- and under-recoveries are considered material when they exceed 4% of the previous twelve months' fuel costs All such fuel revenue and expense activities are subject to periodic final review by the PUCT in periodic fuel reconciliation proceedings

On September 13, 2019, the Company filed a request with the PUCT, which was assigned PUCT Docket No 49960, to decrease the Texas fixed fuel factor by approximately 12 2% to reflect decreased fuel expenses primarily related to a decrease in the price of natural gas used to generate power On September 25, 2019, the Company's fixed fuel factor was approved by the

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PUCT on an interim basis effective for the first billing cycle of the October 2019 billing month The Texas fixed fuel factor was determined to be final on October 15, 2019, and will continue until changed by the PUCT

On November 26, 2019, the Company filed a petition with the PUCT, which was assigned PUCT Docket No 50292, requesting authority to implement, beginning on January 1, 2020, a three-month, interim fuel refund of $15 0 million in fuel cost over-recoveries for the period from April 2019 through October 2019, including interest for the period from April 2019 through March 2020 On December 12, 2019, the Company's fuel refund credit was approved on an interim basis The Company implemented the fuel refund in customer bills beginning January 1, 2020, and completed the refund period on March 31, 2020, during which $14 0 million was refunded. On March 26, 2020, the PUCT issued a final order approving the fuel refund credits

On June 16, 2020, the Company filed a petition with the PUCT, which was assigned PUCT Docket No 50940, requesting authority to implement, beginning on July 1, 2020, a two-month, interim fuel refund of $9 4 million in fuel cost over-recoveries for the period from April 2019 through August 2020, including interest On June 29, 2020, the Company's fuel refund credit was approved on an interim basis, and the Company implemented the fuel refund in customer bills on July 1, 2020 A final order approving the requested refund amount and deferring the determination of a separate refund surcharge for community solar customers to another case was issued on November 5, 2020 As of December 31, 2020, the Company had a net fuel under-recovery balance of approximately $10 6 million in Texas

Fuel Reconciliation Proceeding On September 27, 2019, the Company filed an application with the PUCT, which was assigned PUCT Docket No 50058, to reconcile $363 0 million of Texas fuel and purchased power expenses incurred during the period of April 1, 2016, through March 31, 2019. The Company filed a settlement agreement on January 15, 2021, that reduced the Company's eligible fuel-cost balance by $4 5 million On January 22, 2021, the Administrative Law Judge ("ALJ") remanded the case to the PUCT for a final order approving the settlement agreement and finding prudent its eligible fuel expenses The Company cannot predict the outcome of this filing at this time. The April 1, 2019, through December 31, 2020, Texas jurisdictional fuel and purchased power costs, which are subject to a future prudence review, total approximately $133 0 million.

Transmission Cost Recovery Factor ("TCRF") On January 25, 2019, the Company filed an application with the PUCT to establish its TCRF, which was assigned PUCT Docket No 49148 (the "2019 TCRF rate filing") The 2019 TCRF rate filing was designed to recover a requested $8 2 million of Texas jurisdictional transmission revenue requirement that was not being recovered in the Company's Texas base rates for transmission-related investments placed in service from October 1, 2016, through September 30, 2018, net of retirements On December 16, 2019, the PUCT issued a final order approving a TCRF revenue requirement of $7 5 million with a provision for recovery of revenue relating to the period from July 30, 2019 to December 31, 2019, which approximated $3 0 million The Company's TCRF rates became effective in customer bills beginning January 1, 2020 On January 14, 2020, the Company filed with the PUCT a proposed surcharge in compliance with the final order issued in 2019 TCRF rate filing for recovery of the $3 0 million related to 2019, over a period of 12 months beginning on April 1, 2020 The filing was assigned PUCT Docket No 50256, and on February 7, 2020, the surcharge was approved through delegated authority by a Commission ALJ

Distribution Cost Recovery Factor ("DCRF") On March 28, 2019, the Company filed an application with the PUCT and each of its Texas municipalities to establish its DCRF, which was assigned PUCT Docket No 49395 (the "2019 DCRF rate filing") The 2019 DCRF rate filing was designed to recover a requested $7 9 million of Texas jurisdictional distribution revenue requirement that was not being recovered in the Company's Texas base rates for distribution-related investments placed in service from October 1, 2016, through December 31, 2018, net of retirements On September 27, 2019, the PUCT issued a final order approving a DCRF revenue requirement of $7 8 million, and the Company's DCRF rates became effective in customer bills beginning October 1, 2019

On September 17, 2020, the Company filed an application with the PUCT, which was assigned Docket No 51348, to amend its DCRF (the "2020 DCRF rate filing") The 2020 DCRF rate filing seeks to recover an additional $12 8 million of Texas jurisdictional revenue requirement that was not being recovered in either the existing DCRF or the Company's Texas base rates for distribution-related investments, net of retirements, placed in service from January 1, 2019, through June 30, 2020 The parties filed an unopposed motion on February 23, 2021, in which the parties agreed to a $0.7 million black box reduction to the Company's annual revenue requirement and to allow the Company to institute interim rates for bills issued on or after March 1, 2021 On February 24, 2021, the ALJ granted the request for interim rates and returned the case to the PUCT The Company cannot predict the outcome of this filing at this time

Newman Unit 6 Certificate of Convenience and Necessity ("CCN"). On November 22, 2019, the Company filed an application with the PUCT for a CCN to own and operate a new, approximately 228 Megawatt(s) ("MW"), natural gas-fired unit to be constructed at the Company's Newman Power Station ("Newman") The case was assigned PUCT Docket No 50277 An air permit application for Newman Unit 6 was concurrently submitted to the Texas Commission on Environmental Quality ("TCEQ") The new unit is needed to serve growth in customer demand, to replace older and less efficient generators that the Company plans to retire in the next several years, and to help the Company meet its planning reserve margin On October 16, 2020, the PUCT issued a final order approving the Company's application to construct, own, and operate Newman Unit 6 The TCEQ issued a draft permit on August 26, 2020, and issued a response to public comments received regarding its draft permit and preliminary decision in March 2021 The TCEQ made no modification to its draft permit in response to the public comments received The Company expects to proceed with the contested case hearing, requested by the public to determine whether the TCEQ will grant the requested air permit to the Company, in the second quarter of 2021

Merger Rate Credit. On March 13, 2020, the Company filed an application with the PUCT and each of its Texas municipalities to implement a Merger rate credit of $21 0 million over 36 months, which was assigned PUCT Docket No 50477 The final order that approved the Merger in Docket No 49849 required the Company to file for approval of the Merger rate credit within 45 days after the issuance of that final order The application was approved on June 30, 2020, and the Merger Rate Credit Factor tariff became effective August 1, 2020, following the closing of the Merger on July 29, 2020 See Note N of the Notes to Financial Statements for a discussion of the Merger

COVID-19 Orders On March 13, 2020, in response to the growing threat of COVID-19, Governor Greg Abbott issued a Declaration of State of Disaster for all counties in Texas On March 16, 2020, the PUCT opened Docket No 50664 for *Issues Related to the State of Disaster for the Coronavirus Disease 2019* That same day, the PUCT issued an order suspending certain of its rules related to filings and procedural requirements

The PUCT issued orders on March 26, 2020, and April 17, 2020, finding that the public emergency and imperative public necessity constitute good cause to grant exemptions to its rules related to utility authorization to disconnect service for nonpayment and the assessment of late payment fees for delinquent bills through May 15, 2020 In subsequent orders issued on May 14, 2020, and July 16, 2020, the PUCT extended through August 31, 2020, the suspension of its rule related to utility authorization to disconnect service for nonpayment Although both of these rule suspensions have expired, the PUCT in its July 16, 2020, order required that all retail electric providers continue to offer a deferred payment plan to customers, upon request, until further order of the PUCT.

The March 26, 2020, order provided regulated utility companies regulatory certainty by authorizing the use of an accounting mechanism and a subsequent process through which regulated utility companies may seek future recovery of expenses resulting from the effects of COVID-19 The PUCT order authorized electric, water, and sewer utilities to record as regulatory assets, expenses resulting from the effects of COVID-19, including, but not limited to, nonpayment of qualified customer bills as specified by the prior order. In future proceedings, the PUCT indicated it would consider whether each utility's request for recovery of these regulatory assets is reasonable and necessary

Other Required Approvals The Company has obtained other required approvals for tariffs and other approvals required by the Texas Public Utility Regulatory Act and the PUCT

New Mexico Regulatory Matters

2020 New Mexico Rate Case Filing Pursuant to an NMPRC order in Case No. 15-00109-UT, on May 29, 2020, the Company filed its Application for Revision of Retail Electric Rates, requesting a base revenue requirement increase of $6 9 million The application was assigned Case No. 20-00104-UT Hearings in the case ended on January 26, 2021, and a final order is expected by June 16, 2021 The Company cannot predict the outcome of this case at this time

New Mexico Order Commencing Review of the Effects of the TCJA on Regulated New Mexico Utilities. On January 24, 2018, the NMPRC initiated a proceeding in Case No 18-00016-UT on the impact of the TCJA on New Mexico regulated utilities On April 4, 2018, the NMPRC issued an order requiring the Company to file a proposed interim rate rider to adjust the Company's New Mexico base revenues in amounts equivalent to the Company's reduced income tax expense for New Mexico customers resulting from the TCJA, to be implemented on or before May 1, 2018 The NMPRC order further requires that the Company record and track a regulatory liability for the excess accumulated deferred income taxes created by the change in the federal corporate income tax rate, consistent with the effective date of the TCJA, and subject to amortization determined by the NMPRC in the Company's next general rate case The Company recorded such a regulatory liability in 2017 On April 16, 2018, after consultation with the New Mexico Attorney General pursuant to the NMPRC order, the Company filed an interim rate rider with the NMPRC with a proposed effective date of May 1, 2018 The annualized credits expected to be refunded to New Mexico customers approximate $4 9 million The Company implemented the interim rate rider in customer bills beginning May 1, 2018, pursuant to the NMPRC order

Merger Rate Credit On July 27, 2020, the Company filed an Advice Notice with the NMPRC to implement a Merger rate credit of $8 7 million over 36 months. The final order that approved the Merger in Case No 19-00234-UT required the Company to file the Merger rate credit Advice Notice within seven days of the close of the Merger that occurred on July 29, 2020 The tariff implementing the Merger credit became effective on August 5, 2020 See Note N of the Notes to Financial Statements for a discussion of the Merger

Fuel and Purchased Power Costs Pursuant to NMPRC Rule 550, fuel and purchased power costs, net of the cost of off-system sales and related shared margins, are reconciled to actual costs on a monthly basis and recovered or refunded to customers the second succeeding month through the New Mexico Fuel and Purchased Power Cost Adjustment Clause ("FPPCAC") The Company must file an application for continued use of its FPPCAC no more than four years from the date its last FPPCAC was continued. As required, the Company filed a request to continue use of its FPPCAC with the NMPRC on January 5, 2018, which was assigned Case No 18-00006-UT The NMPRC issued a final order in the case on February 13, 2019, which authorized the Company to continue use of its FPPCAC without change and approved the Company's reconciliation of its fuel and purchased power costs for the period January 1, 2015, through December 31, 2016 New Mexico jurisdictional fuel and purchased power costs subject to a future prudence review are fuel and purchased power costs from January 1, 2017, through December 31, 2020, that total approximately $138 8 million At December 31, 2020, the Company had a net fuel under-recovery balance of approximately $2 6 million related to the FPPCAC in New Mexico

Amendments to the New Mexico Renewable Energy Act (the "REA") The REA requires electric utilities to meet a Renewable Portfolio Standard ("RPS") of twenty percent of its total retail sales to New Mexico customers by 2020 Effective June 14, 2019, the REA was amended when the New Mexico Energy Transition Act was enacted to, among other things (i) increase the RPS to forty percent by 2025, fifty percent by 2030, and eighty percent by 2040, (ii) impose a zero-carbon standard by 2045, (iii) eliminate the reduction to the RPS requirement for sales to qualifying large non-governmental customers whose costs were capped under the REA prior to the amendments, (iv) set a statutory reasonable cost threshold; and (v) provide cost recovery for certain undepreciated investments and decommissioning costs, such as coal-fired generation, associated with generation required by the NMPRC to be discontinued and replaced with lower or zero-carbon generation In administering the eighty percent RPS and zero-carbon standards, the REA requires the NMPRC to consider certain factors, including safety, reliability and rate impact to customers On October 10, 2019, the NMPRC initiated a rulemaking proceeding to implement the REA amendments in Case No 19-00296-UT The Company is currently evaluating the impact that the REA may have on its operations Further, the Company has not determined the costs associated with complying with the REA including potential fines that could be associated with non-compliance

New Mexico RPS Effective January 1, 2018, pursuant to the final order in NMPRC Case No 17-00090-UT, the RPS costs for New Mexico are recovered through a separate RPS Cost Rider and not through the FPPCAC At December 31, 2020, the Company had a net fuel over-recovery balance related to the RPS Cost Rider of approximately $1 8 million. The RPS Cost Rider is updated in an annual NMPRC filing, including a reconciliation of the prior year's RPS costs and RPS Cost Rider revenue On October 1, 2019, in Case No 19-00099-UT, the Company filed its required application with the NMPRC for approval of its 2019 Annual Renewable Plan and for adjustment of its RPS Cost Rider for reconciliation of 2018 costs and revenues and to recover RPS costs for 2020. Effective January 1, 2020, the Company implemented an adjusted RPS Cost Rider reconciling 2018 RPS Cost Rider costs and revenues pursuant to a November 18, 2019 order in Case No 19-00099-UT On March 31, 2020, the Company filed an application for approval of its amended 2019 Annual Renewable Plan and 2020 Annual Renewable Plan and for adjustment of its RPS Cost Rider for reconciliation of 2019 costs and revenue and to recover RPS costs for 2020 and 2021 The amended application includes a request for approval for 70 MW of new solar generation purchased power agreements for energy to be delivered to New Mexico customers beginning in 2022 On December 2, 2020, the NMPRC issued a final order approving the addition of 70 MW of new renewable generation for New Mexico, the reconciliation of 2019 RPS Cost Rider costs and revenues, and the recovery of 2021 RPS costs

Expedited Approval for CCN (Solar/Storage Project at New Mexico State University ("NMSU")) On November 20, 2019, the Company filed an application with the NMPRC requesting a certificate of public convenience and necessity to construct, own and operate a three-MW solar powered generation facility coupled with a one-MW battery storage system to be located on NMSU property in Arrowhead Park in the Company's service territory in New Mexico The Company's application also seeks approval of a special retail rate contract between the Company and NMSU to recover the costs of the new facility and its operations from NMSU The new facility will be a dedicated Company-owned resource serving NMSU This case was assigned

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NMPRC Case No 19-00350-UT The CCN and pricing contract for the new facility were approved by a final order of the NMPRC adopting the settlement on August 5, 2020, and construction on the project began in December 2020

New Mexico Efficient Use of Energy Recovery Factor ("EUERF") On July 2, 2018, the Company filed its required application with the NMPRC for approval of its 2019-2021 Energy Efficiency and Load Management Plan ("EE/LM Plan") and EUERF The application was assigned Case No 18-00116-UT On March 6, 2019, the NMPRC issued a final order approving (i) the Company's 2019-2021 EE/LM Plan, with minor program modifications, (ii) the base incentive of 7 1% of program expenditures, or approximately $0 4 million annually for 2019-2021, and (iii) the continuation of the Company's EUERF During 2019, the Company recorded incentives in operating revenues of $0 4 million related to its 2019 EE/LM Plan For the year ended December 31, 2020, the Company recorded incentives in operating revenues of $0 4 million related to the 2019-2021 EE/LM Plan The Company's 2022-2024 EE/LM Plan is expected to be filed on June 1, 2021

On May 22, 2020, the Company filed a motion to modify its 2019 EE/LM Plan to a new Residential Load Management Program ("RLMP") for the remaining 2020 and 2021 plan years to be funded through a reallocation of the Company's approved EE/LM Plan budgets for 2020 and 2021 An order granting the Company's motion for the new RLMP was issued by the NMPRC on July 22, 2020 The program is also being offered in the Company's Texas jurisdiction

Newman Unit 6 CCN On November 18, 2019, the Company filed an application with the NMPRC for a CCN to own and operate a new, approximately 228 MW, natural gas-fired unit to be constructed at Newman The case was assigned NMPRC Case No 19-00349-UT On December 16, 2020, the NMPRC issued an order rejecting the Company's requested CCN

Long-Term Purchased Power Agreement ("LTPPA") Approval On November 18, 2019, the Company filed an application with the NMPRC to request prior approval for three LTPPAs pursuant to NMPRC Rule 17 9 551 of the New Mexico Administrative Code ("Rule 551") The case was assigned NMPRC Case No 19-00348-UT The three LTPPAs provide for the purchase of energy and capacity from (i) a 100 MW solar plant to be constructed in Santa Teresa, New Mexico, (ii) a 100 MW solar plant combined with a 50 MW of battery energy storage to be constructed in Otero County, New Mexico, and (iii) a 50 MW battery energy storage facility to be constructed in Canutillo, Texas Rule 551 requires that no utility become irrevocably obligated under a LTPPA without first obtaining the NMPRC's written approval of the agreement On April 22, 2020, the Hearing Examiner issued a Recommended Decision in NMPRC Case No 19-00348-UT recommending NMPRC approval of the solar plant and the combined solar plant and battery energy storage LTPPAs and disapproval of the battery energy storage facility LTPPA On May 13, 2020, the NMPRC approved the Recommended Decision as filed

COVID-19 Order On October 21, 2020, in Case No 20-00159-UT, the NMPRC issued a Final Order amending NMPRC service rules to allow the NMPRC on a temporary basis to prohibit utilities from discontinuing residential customer utility service during the time period in which Emergency Executive Orders related to COVID-19 are in effect The service rule changes became effective November 10, 2020 Pursuant to the service rule changes promulgated in Case No. 20-00159-UT, on February 3, 2021, in Case No 20-00205-UT, the NMPRC issued the Order Setting Transition Periods and Moratoriums on Disconnections of Residential Customer Utility Service ("Transition Period Order") The Transition Period Order set a 190-day transition period from February 3, 2021 through August 12, 2021 extending the moratoriums on disconnections of residential customer utility service pursuant to the Governor's Executive Orders related to the COVID-19 Pandemic

On June 24, 2020, in NMPRC Case No 20-00069-UT, the NMPRC issued an order authorizing all public utilities regulated by the NMPRC to create regulatory assets for the accounting deferral of COVID-19 related uncollectible arrearages and other expenses incurred during the period beginning March 11, 2020 through the termination of the Governor of New Mexico's Executive Orders 2020-0004 through 2020-0010 The NMPRC order does not create a presumption of reasonableness or otherwise provide any guarantee of rate recovery of any costs or alleged lost revenues being deferred

Other Required Approvals. The Company has obtained other required approvals for tariffs and other approvals as required by the New Mexico Public Utility Act and the NMPRC

Federal Regulatory Matters

FERC Audit. On February 6, 2019, the FERC notified the Company that it was commencing an audit intended to evaluate the Company's compliance with. (i) the approved terms, conditions, and rates of its Open Access Transmission Tariff ("OATT"), (ii) the accounting requirements of the Uniform System of Accounts, (iii) the reporting requirements of the FERC Form No 1 Annual Report and Supplemental Form 3-Q Quarterly Financial Reports, and (iv) the regulations regarding Open Access Same-time Information Systems The audit covered the period from January 1, 2016 to June 30, 2020 and was assigned FERC Docket No PA19-3-000 The FERC issued its final audit report on January 28, 2021 The audit findings did not have a

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material impact to the financial statements and disclosures of the Company The Company submitted its implementation plan to comply with the recommendations on March 1, 2021 On March 16, 2021, FERC Staff notified the Company that the implementation phase of the audit is now closed

Other Required Approvals The Company has obtained required approvals for rates, tariffs and other approvals as required by the Federal Power Act and the FERC

U S Department of Energy ("DOE"). The DOE regulates the Company's exports of power to Mexico pursuant to a DOE grant of export authorization In addition, the Company is the holder of two presidential permits issued by the DOE under which the Company constructed and operates border crossing facilities at the U S /Mexico border

Pursuant to the Nuclear Waste Policy Act of 1982, as amended in 1987, the DOE is legally obligated to accept and dispose of all spent nuclear fuel and other high-level radioactive waste generated by all domestic power reactors by 1998 See Note F of Notes to Financial Statements for further discussion of spent fuel storage and disposal costs

Sales for Resale and Network Transmission Service to RGEC

The Company provides firm capacity and associated energy to the RGEC pursuant to an ongoing contract with a two-year notice to terminate provision The Company also provides network integrated transmission service to the RGEC pursuant to the Company's OATT. The contract includes a formula-based rate that is updated annually to recover non-fuel generation costs and a fuel adjustment clause designed to recover all eligible fuel and purchased power costs allocable to the RGEC The Company's service to RGEC is regulated by FERC

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E. Regulatory Assets and Liabilities

The Company's operations are regulated by the PUCT, the NMPRC and the FERC Regulatory assets represent probable future recovery of previously incurred costs, which will be collected from customers through the ratemaking process Regulatory liabilities represent probable future reductions in revenues associated with amounts that are to be credited to customers through the ratemaking process Regulatory assets and liabilities reflected in the Company's balance sheet are presented below (in thousands):

	Amortization Period Ends	December 31, 2020	December 31, 2019
Regulatory assets			
Regulatory tax assets	(a)	$ 36,180	$ 37,771
Loss on reacquired debt (b)	June 2035	12,368	13,221
Final coal reclamation	(c)	2,744	3,405
Four Corners decommissioning	(d)	4,232	5,023
Nuclear fuel postload daily financing charge	(e)	3,833	4,197
Issuance costs related to reissued debt (b)	July 2042	1,894	1,991
Texas 2015 rate case costs (f)	January 2021	9	378
Texas 2017 rate case costs	January 2021	409	1,504
Texas TCRF surcharge (g)	March 2021	340	2,965
New Mexico renewable energy credits and related costs	(h)	2,473	3,588
New Mexico Palo Verde deferred depreciation	(i)	3,807	3,959
Fuel revenue under-recovery	(j)	13,152	327
COVID-19 related costs	(k)	3,213	—
New Mexico 2020 rate case costs	(l)	1,919	—
Texas energy efficiency	(m)	643	—
Other regulatory assets	various	2,027	2,415
Total regulatory assets		89,243	80,744
Current portion (amount due within one year)		18,264	9,939
Regulatory assets, non-current		$ 70,979	$ 70,805
Regulatory liabilities			
Regulatory tax liabilities	(n)	$ 291,871	$ 291,619
Accumulated deferred investment tax credit	(o)	6,371	7,122
Merger credit	(p)	25,351	—
Fuel revenue over-recovery	(j)	1,800	18,743
Other regulatory liabilities	various	659	943
Total regulatory liabilities		326,052	318,427
Current portion (amount due within one year)		13,396	19,961
Regulatory liabilities, non-current		$ 312,656	$ 298,466

(a) This item relates to (i) the regulatory treatment of the equity portion of AFUDC which is recovered in rate base by an offset with the related accumulated deferred income tax liability, and (ii) excess deferred state income taxes which are recovered through amortization to tax expense in cost of service The amortization period for the excess deferred state income taxes is 15 years as established in the PUCT Final Order in Docket No 44941 and the NMPRC Final Order in Case No 15-00127-UT ("NMPRC Final Order")

(b) These items are recovered as a component of the weighted cost of debt and amortized over the life of the related debt issuance

(c) This item relates to coal reclamation costs associated with Four Corners Generating Station ("Four Corners") The Texas portion was approved for recovery in PUCT Docket No 46308 and is being recovered over seven years through June 2023 The New Mexico portion was approved in NMPRC Case No 15-00109-UT and the amortization period will be established in the 2020 New Mexico general rate case

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(d) This item relates to the decommissioning of Four Corners The Texas portion was approved for recovery in PUCT Docket No 46308 and is being recovered over seven years through July 2024 The New Mexico portion was approved in NMPRC Case No 15-00109-UT and the amortization period will be established in the 2020 New Mexico general rate case
(e) This item is recovered through fuel recovery mechanisms established by tariffs
(f) The 2017 PUCT Final Order approved a new recovery period for these costs, beginning January 10, 2018
(g) This item represents revenue associated with the Company's 2019 TCRF rate filing related to the period from July 30, 2019, through December 31, 2019 The recovery period is over a period of 12 months beginning on April 1, 2020 See Note D of Notes to Financial Statements for further discussion
(h) This item relates to renewable energy credits and procurement plan costs, of which a component has been approved for recovery in the NMPRC Final Order and is currently being amortized through June 2022 The remaining balance was requested for recovery in the 2020 New Mexico general rate case
(i) The amortization period for this item is based upon the U S Nuclear Regulatory Commission ("NRC") license life for each unit at Palo Verde
(j) This item represents the net under or over-recovery of fuel and purchased power expense which is recovered or refunded through fuel rates and riders
(k) On March 26, 2020, the PUCT issued an order authorizing regulated utility companies the ability to use an accounting mechanism and subsequent process to seek future recovery of expenses resulting from the effects of COVID-19 The $3 2 million COVID-19 related costs will be requested for recovery in a future Texas rate making proceeding
(l) This amortization period is anticipated to be established in the 2020 New Mexico general rate case
(m) This item is recovered or credited through the Company's EECRF See Note D of Notes to Financial Statements for further discussion
(n) This item primarily relates to the reduction in the federal corporate income tax rate from 35% to 21% as enacted by the TCJA The amortization period for the recovery on this item will be addressed in the next base rate filings in all jurisdictions See Note A of Notes to Financial Statements for further discussion
(o) The amortization period is based upon the life of the associated assets
(p) This item relates to the Texas and New Mexico Merger Rate Credits to be distributed to customers over a 36-month period effective August 1, 2020 and August 5, 2020, respectively This credit is based on a commitment in the merger agreement between the Company and Sun Jupiter Holdings LLC

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F. Utility Plant, Palo Verde and Other Jointly-Owned Utility Plant

The tables below present the balance of each major class of depreciable assets at December 31, 2020 and 2019 (in thousands)

	December 31, 2020		
	Gross Plant	Accumulated Depreciation	Net Plant
Nuclear production	$ 1,104,086	$ (408,386)	$ 695,700
Steam and other	1,078,004	(269,554)	808,450
Total production	2,182,090	(677,940)	1,504,150
Transmission	599,918	(285,260)	314,658
Distribution	1,439,421	(417,644)	1,021,777
General	253,718	(91,008)	162,710
Intangible	117,810	(78,319)	39,491
Total	$ 4,592,957	$ (1,550,171)	$ 3,042,786

	December 31, 2019		
	Gross Plant	Accumulated Depreciation	Net Plant
Nuclear production	$ 1,062,849	$ (380,068)	$ 682,781
Steam and other	1,047,243	(251,827)	795,416
Total production	2,110,092	(631,895)	1,478,197
Transmission	577,758	(277,792)	299,966
Distribution	1,363,300	(403,410)	959,890
General	240,455	(78,932)	161,523
Intangible	112,545	(69,356)	43,189
Total	$ 4,404,150	$ (1,461,385)	$ 2,942,765

The Company owns a 15 8% interest in each of the three nuclear generating units and common facilities ("Common Facilities") at Palo Verde, in Wintersburg, Arizona The utilities that share in power and energy entitlements, and bear certain allocated costs, with respect to Palo Verde pursuant to the ANPP Participation Agreement (the "Palo Verde Participants") include the Company and six other utilities Arizona Public Service Company ("APS"), Southern California Edison Company, Public Service Company of New Mexico, Southern California Public Power Authority, Salt River Project Agricultural Improvement and Power District and the Los Angeles Department of Water and Power

A summary of the Company's investment in jointly-owned utility plant, excluding fuel inventories, at December 31, 2020 and 2019 is as follows (in thousands)

	December 31, 2020		December 31, 2019	
	Palo Verde	Other (a)	Palo Verde	Other (a)
Electric plant in service	$ 1,104,086	$ 100,848	$ 1,062,849	$ 98,594
Accumulated depreciation	(408,386)	(77,025)	(380,068)	(77,390)
Construction work in progress	39,999	82	42,429	532
Total	$ 735,699	$ 23,905	$ 725,210	$ 21,736

(a) Includes three jointly-owned transmission lines

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Amortization of intangible plant (software) is provided on a straight-line basis over the estimated useful life of the asset (ranging from 3 to 15 years) The table below presents the actual and estimated amortization expense for intangible plant for 2019, 2020 and the next five years (in thousands):

2019	$	8,101
2020		8,963
2021 (estimated)		8,496
2022 (estimated)		8,006
2023 (estimated)		7,271
2024 (estimated)		5,435
2025 (estimated)		3,596

Palo Verde

The operation of Palo Verde and the relationship among the Palo Verde Participants is governed by the Arizona Nuclear Power Project Participation Agreement dated August 23, 1973, as amended ("ANPP Participation Agreement") APS serves as operating agent for Palo Verde, and under the ANPP Participation Agreement, the Company has limited ability to influence operations and costs at Palo Verde Pursuant to the ANPP Participation Agreement, the Palo Verde Participants share costs and generating entitlements in the same proportion as their percentage interests in the generating units, and each participant is required to fund its share of fuel, O&M expense, and capital costs The Company's share of direct expenses in Palo Verde and other jointly-owned utility plants is reflected in fuel expense, O&M expense, miscellaneous other deductions, and taxes other than income taxes in the Company's Statements of Operations The ANPP Participation Agreement provides that if a participant fails to meet its payment obligations, each non-defaulting participant shall pay its proportionate share of the payments owed by the defaulting participant Because it is impracticable to predict defaulting participants, the Company cannot estimate the maximum potential amount of future payment, if any, which could be required under this provision

Nuclear Regulatory Commission The NRC regulates the operation of all commercial nuclear power reactors in the U S., including Palo Verde The NRC periodically conducts inspections of nuclear facilities and monitors performance indicators to enable the agency to arrive at objective conclusions about a licensee's safety performance

Palo Verde Operating Licenses. Operation of each of the three Palo Verde Units requires an operating license from the NRC The NRC issued full power operating licenses for Unit 1 in June 1985, Unit 2 in April 1986 and Unit 3 in November 1987 and issued renewed operating licenses for each of the three units in April 2011, which extended the licenses for Units 1, 2 and 3 to June 2045, April 2046 and November 2047, respectively

Decommissioning Pursuant to the ANPP Participation Agreement and federal law, the Company funds its share of the estimated costs to decommission Palo Verde Units 1, 2 and 3, including the Common Facilities, through the term of their respective operating licenses and is required to maintain a minimum accumulation and funding level in its decommissioning account at the end of each annual reporting period during the life of the plant The Company has established the NDT with an independent trustee, which enables the Company to record a current deduction for federal income tax purposes for most of the amounts funded At December 31, 2020, the NDT had a balance of $371 4 million, which is above its minimum funding level The Company monitors the status of the NDT and adjusts contributions accordingly

Decommissioning costs are estimated every three years based upon engineering cost studies performed by outside engineers retained by APS In May 2020, the Palo Verde Participants approved the 2019 Palo Verde decommissioning study (the "2019 Study") The 2019 Study estimated that the Company must fund approximately $467 3 million (stated in 2019 dollars) to cover its share of decommissioning costs which was a decrease in decommissioning costs of $2 3 million (stated in 2019 dollars) from the 2016 Palo Verde decommissioning study (the "2016 Study") The effect of this change decreased the ARO by $1 0 million, which was recorded in the second quarter of 2020, and will decrease annual expenses starting in July 2020 Although the 2019 Study was based on the latest available information, there can be no assurance that decommissioning cost estimates will not increase in the future or that regulatory requirements will not change In addition, until a new low-level radioactive waste repository opens and operates for a number of years, estimates of the cost to dispose of low-level radioactive waste are subject to uncertainty. As provided in the ANPP Participation Agreement, the Palo Verde Participants are required to conduct a new decommissioning study every three years While the Company attempts to seek amounts in rates to meet its decommissioning obligations, it is not able to conclude given the evidence available to it now that it is probable these costs will

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continue to be collected over the period until decommissioning begins, which is expected to be in 2044 The Company is ultimately responsible for these costs and its future actions combined with future decisions from regulators will determine how successful the Company is in this effort

Spent Fuel and Waste Disposal Pursuant to the Nuclear Waste Policy Act of 1982, as amended in 1987, the DOE is legally obligated to accept and dispose of all spent nuclear fuel and other high-level radioactive waste generated by all domestic power reactors by 1998 The DOE's obligations are reflected in a contract for Disposal of Spent Nuclear Fuel and/or High-Level Radioactive Waste with each nuclear power plant. The DOE failed to begin accepting spent nuclear fuel by 1998 On December 19, 2012, APS, acting on behalf of itself and the Palo Verde Participants, filed a second breach of contract lawsuit against the DOE This lawsuit sought to recover damages incurred due to the DOE's failure to accept Palo Verde's spent nuclear fuel for the period beginning January 1, 2007 Pursuant to the terms of the August 18, 2014 settlement agreement, and as amended with the DOE, APS files annual claims for the period July 1 of the then-previous year to June 30 of the then-current year on behalf of itself and those utilities that share in power and energy entitlements, and bear certain allocated costs, with respect to Palo Verde based upon the ANPP Participation Agreement dated August 23, 1973 The settlement agreement, as amended, provides APS with a method for submitting claims and receiving recovery for costs incurred through December 31, 2022 The Company's share of costs recovered in 2019 and 2018, respectively are presented below (in thousands):

Costs Recovery Period	Amount Refunded	Amount Credited to Customers through Fuel Adjustment Clauses	Period Credited to Customers
July 2018 - June 2019	$ 2,427	$ 924	April 2020
July 2017 - June 2018	1,604	1,005	June 2019

On November 2, 2020, APS filed a $12 2 million claim for the period July 1, 2019 through June 30, 2020 The Company's share of this claim is approximately $1 9 million This claim is pending DOE review The majority of the reimbursement received by the Company is expected to be credited to customers through the applicable fuel adjustment clauses

Palo Verde has sufficient capacity at its on-site independent spent fuel storage installation ("ISFSI") to store all of the nuclear fuel that will be irradiated during the initial operating license period, which ends in December 2027 Additionally, Palo Verde has sufficient capacity at its on-site ISFSI to store a portion of the fuel that will be irradiated during the period of extended operation, which ends in November 2047 If uncertainties regarding the U.S government's obligation to accept and store spent fuel are not favorably resolved, APS will evaluate alternative storage solutions that may obviate the need to expand the ISFSI to accommodate all of the fuel that will be irradiated during the period of extended operation

Liability and Insurance Matters The Palo Verde Participants have insurance for public liability resulting from nuclear energy hazards to the full limit of liability under federal law, which is currently at $13 8 billion This potential liability is covered by primary liability insurance provided by commercial insurance carriers in the amount of $450 0 million, and the balance is covered by an industry-wide retrospective assessment program If a loss at a nuclear power plant covered by the programs exceeds the accumulated funds in the primary level of protection, the Company could be assessed retrospective premium adjustments on a per incident basis. Under federal law, the maximum assessment per reactor under the program for each nuclear incident is approximately $137 6 million, subject to an annual limit of $20 5 million Based upon the Company's 15 8% interest in the three Palo Verde units, the Company's maximum potential assessment per incident for all three units is approximately $65.2 million, with an annual payment limitation of approximately $9 7 million.

The Palo Verde Participants maintain $2 8 billion of "all risk" nuclear property insurance The insurance provides coverage for property damage and decontamination at Palo Verde For covered incidents involving property damage not accompanied by a release of radioactive material, the policy's coverage limit is $2.3 billion. The Company has also secured insurance against portions of any increased cost of generation or purchased power and business interruption resulting from a sudden and unforeseen outage of any of the three units The insurance coverage discussed in this and the previous paragraph is subject to certain policy conditions and exclusions. A mutual insurance company whose members are utilities with nuclear facilities issues these policies If losses at any nuclear facility covered by this mutual insurance company were to exceed the accumulated funds for these insurance programs, the Company could be assessed retrospective premium adjustments of up to $14 0 million for the current policy period

Palo Verde Operations & Maintenance Expense. Included in "Operations and maintenance" in the Company's Statements of Operations and expenses associated with Palo Verde as follows (in thousands)

Years Ended December 31,	
2020	2019
$ 92,172	$ 95,525

G. Accounting for Asset Retirement Obligations

The Company records ARO obligations associated with the decommissioning of Palo Verde and for conditional ARO, which primarily affects the accounting for the disposal obligations of the Company's fuel oil storage tanks, water wells, evaporative ponds and asbestos found at the Company's gas-fired generating plants

The ARO liability for Palo Verde is based upon the estimated cost of decommissioning the plant from the 2019 Study See Note F of Notes to Financial Statements The ARO liability is calculated by adjusting the estimated decommissioning costs for spent fuel storage and a profit margin and market-risk premium factor The resulting costs are escalated over the remaining life of the plant and finally discounted using a credit-risk adjusted discount rate As Palo Verde approaches the end of its estimated useful life, the difference between the ARO liability and future current cost estimates will narrow over time due to the accretion of the ARO liability Because the DOE is obligated to assume responsibility for the permanent disposal of spent fuel, such costs have not been included in the ARO calculation The Company maintains six external trust funds with an independent trustee that are legally restricted to settling its ARO at Palo Verde The fair value of the funds at December 31, 2020 is $371 4 million

The FASB guidance requires the Company to revise its previously recorded ARO for any changes in estimated cash flows including changes in estimated probabilities related to timing of settlements Any changes that result in an upward revision to estimated cash flows shall be treated as a new liability Any downward revisions to the estimated cash flows result in a reduction to the previously recorded ARO The 2019 Study resulted in a downward revision of approximately $1 0 million In the second quarter of 2020, the Company implemented the results of the 2019 Study and revised its ARO related to Palo Verde to decrease its estimated cash flows from the 2016 Study to the 2019 Study See Note F of Notes to Financial Statements The assumptions used to calculate the decreases to the Palo Verde ARO liability are as follows

	Escalation Rate	Credit-Risk Adjusted Discount Rate
Original ARO liability	3.60 %	9.50 %
Incremental ARO liability (2010)	3 60 %	6 20 %
Incremental ARO liability (2016)	3.25 %	4.34 %

An analysis of the activity of the Company's total ARO liability from January 1, 2019 through December 31, 2020, including the effects of each year's estimate revisions, is presented below (in thousands)

	2020	2019
ARO liability at beginning of year	$ 110,105	$ 101,108
Liabilities settled	(75)	(118)
Revisions to estimate	(958)	—
Accretion expense	9,847	9,115
ARO liability at end of year	$ 118,919	$ 110,105

The Company has transmission and distribution lines which are operated under various land rights agreements Upon the expiration of any non-perpetual land rights agreement, the Company may have a legal obligation to remove the lines, however, the Company has assessed the likelihood of this occurring as remote The majority of these agreements are perpetual or include renewal options that the Company routinely exercises The amount of cost of removal collected in rates for non-legal liabilities has not been material

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H. Long-Term Debt and Financing Obligations

Outstanding long-term debt and financing obligations, net of issuance costs, are as follows

	December 31, 2020	December 31, 2019
	(In thousands)	
Long-Term Debt:		
Pollution Control Bonds (1)		
3.60% 2009 Series A refunding bonds, due 2040 (3.82% effective interest rate)	$ 62,790	$ 62,765
3 60% 2009 Series B refunding bonds, due 2040 (3 84% effective interest rate)	36,655	36,640
4.50% 2012 Series A refunding bonds, due 2042 (4 63% effective interest rate)	58,590	58,560
Total Pollution Control Bonds	158,035	157,965
Senior Notes (2):		
Senior Notes-Public		
3.30% Senior Notes, net of discount, due 2022 (3.43% effective interest rate)	149,622	149,443
6 00% Senior Notes, net of discount, due 2035 (6 58% effective interest rate)	394,652	394,435
7.50% Senior Notes, net of discount, due 2038 (7 67% effective interest rate)	147,569	147,502
5 00% Senior Notes, net of premium, due 2044 (4 93% effective interest rate)	302,724	302,786
	994,567	994,166
Senior Notes-Private Placement		
4 22% Senior Notes, net of discount, due 2028 (4 31% effective interest rate)	124,283	124,205
Total Senior Notes	1,118,850	1,118,371
RGRT Senior Notes-Private Placement (3):		
5 04% Senior Notes, Series C, due 2020 (5 16% effective interest rate)	—	44,969
4.07% Senior Guaranteed Notes, due 2025 (4.18% effective interest rate)	64,708	64,645
Total RGRT Senior Notes	64,708	109,614
Total Long-Term Debt	1,341,593	1,385,950
Financing Obligations:		
Revolving Credit Facility (4)	192,260	113,801
Total Long-Term Debt and Financing Obligations	1,533,853	1,499,751
Current Portion (amount due within one year):		
Current maturities of long term debt (1)(3)	—	(44,969)
Short-term borrowings under the revolving credit facility	(192,260)	(113,801)
	$ 1,341,593	$ 1,340,981

(1) Pollution Control Bonds ("PCBs")

The Company has three series of tax exempt unsecured PCBs in aggregate principal amount of $159.8 million as of December 31, 2020 The 2012 Series A PCBs have a fixed interest rate of 4 50% per annum until maturity on August 1, 2042 The 2012 Series A PCBs are subject to optional redemption at a redemption price of par on or after August 1, 2022 The 2009 Series A and the 2009 Series B PCBs have a fixed interest rate of 3 60% per annum until maturity on February 1, 2040 and April 1, 2040, respectively The 2009 Series A and the 2009 Series B PCBs are subject to optional redemption at a redemption price of par on or after June 1, 2029

(2) Senior Notes

The Senior Notes are unsecured obligations of the Company The Senior Notes were issued under agreements with contractual covenants that provide limitations on the Company's ability to enter into certain transactions The 6 00% Senior Notes have an aggregate principal amount of $400 0 million and were issued in May 2005 The Company amortizes the loss associated with a cash flow hedge recorded in AOCI to earnings as interest expense over the life of the

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6 00% Senior Notes See Note L of Notes to Financial Statements This amortization is included in the effective interest rate of the 6 00% Senior Notes

The 7 50% Senior Notes due 2038 have an aggregate principal amount of $150.0 million and were issued in June 2008 The 3 30% Senior Notes due 2022 have an aggregate principal amount of $150 0 million and were issued in December 2012

In December 2014, the Company issued 5 00% Senior Notes with an aggregate principal amount of $150 0 million In March 2016, the Company issued additional 5 00% Senior Notes with an aggregate principal amount of $150 0 million After the March 2016 issuance, the Company's 5 00% Senior Notes due 2044 have an aggregate principal balance amount of $300 0 million

The 4 22% Senior Notes issued in June 2018 have an aggregate principal amount of $125 0 million and are due August 15, 2028 The Company pays interest on the notes semi-annually on February 15 and August 15 of each year until maturity, beginning on February 15, 2019 The Company may redeem the notes, in whole or in part, at any time at a redemption price equal to 100% of the principal amount to be redeemed together with the interest on such principal amount accrued to the date of redemption, plus a make-whole amount based on the prevailing market interest rates The issuance and sale of these senior notes was made in reliance on a private placement exemption from the registration provisions of the Securities Act of 1933, as amended (the "Securities Act")

(3) RGRT Senior Notes

In 2010, the Company and the Rio Grande Resources Trust II ("RGRT"), a Texas grantor trust through which the Company finances its portion of fuel for Palo Verde, entered into a note purchase agreement with various institutional purchasers Under the terms of the agreement, RGRT issued and sold to the purchasers $110 0 million aggregate principal amount of Senior Notes ("RGRT Notes") In August 2015, 2017 and 2020, $15 0 million, $50 0 million, and $45 0 million of the RGRT Notes, respectively, matured and were paid with borrowings from the Company's Revolving Credit Facility ("RCF")

In 2018, the RGRT and the Company entered into a note purchase agreement with several institutional purchasers under which the RGRT issued and sold $65 0 million aggregate principal amount of 4.07% Senior Guaranteed Notes due August 15, 2025 ("RGRT Senior Notes") The Company guaranteed the payment of principal and interest on the RGRT Senior Notes RGRT's assets, liabilities and operations are consolidated in the Company's financial statements and the RGRT Senior Notes are included as long-term debt on the balance sheet The issuance and sale of the RGRT Senior Notes was made in reliance on a private placement exemption from the registration provisions of the Securities Act

RGRT pays interest on the Senior Notes on February 15 and August 15 of each year until maturity, beginning on February 15, 2019 RGRT may redeem the Senior Notes, in whole or in part, at any time at a redemption price equal to 100% of the principal amount to be redeemed together with the interest on such principal amount accrued to the date of redemption, plus a make-whole amount based on the prevailing market interest rates

(4) Revolving Credit Facility

In 2018, the Company and The Bank of New York Mellon Trust Company, N A , as trustee of the RGRT, entered into a third amended and restated credit agreement ("RCF Agreement") with MUFG Union Bank, N A , as administrative agent and as syndication agent, various issuing banks and lending banks party thereto Under the terms of the RCF Agreement, the Company has available a $350.0 million RCF with a $50.0 million subfacility for the issuance of letters of credit, and the Company extended the term of the Company's existing $350 0 million revolving credit agreement to September 13, 2023. On March 20, 2020, the Company exercised its option to extend the maturity of the RCF by one year to September 13, 2024 and to increase the borrowing commitments under the RCF by $50 0 million to $400 0 million The Company has the option to extend the facility by one additional year to September 2025 upon the satisfaction of certain conditions set forth in the RCF Agreement, including requisite lender approval

The RCF Agreement provides that amounts borrowed by the Company may be used for, among other things, working capital and general corporate purposes Any amounts borrowed by the RGRT may be used, among other things, to finance the acquisition and cost to process nuclear fuel Amounts borrowed by the RGRT are guaranteed by the Company and the

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balance borrowed under the RCF Agreement is recorded as short-term borrowings on the balance sheet The RCF Agreement is unsecured As of December 31, 2020, the total amount borrowed by the RGRT was $71 3 million for nuclear fuel under the RCF As of December 31, 2020, $121.0 million of borrowings were outstanding under the RCF for working capital and general corporate purposes The weighted average interest rate on the RCF was 1 4% as of December 31, 2020, with an additional $207.6 million available to borrow

The Merger constituted a "Change in Control" under the RCF and would have resulted in an event of default under the RCF absent a waiver from the lenders On August 9, 2019, the lenders under the RCF agreed to waive any default or event of default that would occur as a result of the Merger

As of December 31, 2020, the principal amount of scheduled maturities for the next five years of long-term debt are as follows (in thousands)

2021	$	—
2022		150,000
2023		—
2024		—
2025		65,000

Pursuant to the Company's debt agreements, the Company is required to comply with various covenants and restrictions, including a total debt to capitalization ratio as required by each one of the Company's and RGRT's private placement debt securities and the RCF The Company is in compliance with all of its debt covenants and restrictions

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I. Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2020 and 2019 are presented below (in thousands)

	December 31, 2020	December 31, 2019
Deferred tax assets:		
Benefit of tax loss carryforwards	$ 1,201	$ —
Pensions and benefits	28,129	33,456
Asset retirement obligations	25,436	23,239
Regulatory liabilities related to income taxes	63,128	63,103
Deferred fuel	—	4,124
Other	2,184	—
Total gross deferred tax assets	120,078	123,922
Deferred tax liabilities:		
Plant, principally related to depreciation and basis differences	(437,686)	(432,073)
Decommissioning	(47,670)	(39,737)
Deferred fuel	(2,543)	—
Other	—	(510)
Total gross deferred tax liabilities	(487,899)	(472,320)
Net accumulated deferred income taxes	$ (367,821)	$ (348,398)

As of December 31, 2020, the Company had fully utilized all alternative minimum tax credit carryforwards, and had $0 9 million in federal and $0 4 million of state tax loss carryforwards Net operating losses ("NOL") arising in tax years ending after 2017 cannot be carried back, but can be carried forward indefinitely The use of NOLs generated after 2017 to offset taxable income is limited to 80% of taxable income Based on the average annual earnings before taxes for the prior two years, and excluding the effects of unusual or infrequent items, the Company believes that the deferred tax assets will be fully realized

The Company recognized income tax expense for 2020 and 2019 as follows (in thousands)

	Years Ended December 31, 2020	Years Ended December 31, 2019
Income tax expense:		
Federal:		
Current	$ 5,419	$ 4,827
Deferred	17,318	28,637
Total federal income tax	22,737	33,464
State:		
Current	386	2,061
Deferred	1,201	(744)
Total state income tax	1,587	1,317
Amortization of accumulated investment tax credits	(750)	(750)
Total income tax expense	$ 23,574	$ 34,031

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Income tax provisions differ from amounts computed by applying the statutory federal income tax rate of 21% for all periods to book income before federal income tax as follows (in thousands)

	Years Ended December 31, 2020	2019
Federal income tax expense computed on income at statutory rate	$ 21,304	$ 32,984
Difference due to		
State taxes, net of federal benefit	1,254	1,041
Permanent tax differences	(1,846)	(1,405)
Other	2,862	1,411
Total income tax expense	$ 23,574	$ 34,031
Effective income tax rate	23.2 %	21.7 %

The Company files income tax returns in the U S federal jurisdiction and in the states of Texas, New Mexico and Arizona The Company is no longer subject to tax examination by the taxing authorities in the federal, Arizona and New Mexico jurisdictions for years prior to 2016

The FASB guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return The Company recorded a decrease of $0 7 million, and $0.4 million in 2020 and 2019, respectively, related to transmission and distribution costs and other amounts deducted in current and prior year Texas franchise tax returns The Company recorded a decrease of $0 3 million in 2020, and an unrecognized tax position of $0 3 million, in 2019, related to tax credits taken and apportionment factors used in prior year Arizona income tax returns, which have been settled through audit A reconciliation of the December 31, 2020 and 2019 amounts of unrecognized tax benefits are as follows (in thousands)

	2020	2019
Balance at January 1	$ 4,600	$ 4,700
Reductions for tax positions related to the current year	—	—
Additions for tax positions of prior years	700	400
Reductions for tax positions of prior years	(1,700)	(500)
Balance at December 31	$ 3,600	$ 4,600

If recognized, $1 6 million of the unrecognized tax position at December 31, 2020, would reduce the effective tax rate The Company recognized an income tax benefit for the decrease in unrecognized tax positions of $1 0 million for the year ended December 31, 2020

The Company recognizes in tax expense interest and penalties related to tax benefits that have not been recognized For the years ended December 31, 2020 and 2019, the Company recognized a tax benefit of $0 4 million and tax expense of $0 2 million, respectively The Company had approximately $1 0 million and $1 4 million accrued for the payment of interest and penalties at December 31, 2020 and 2019, respectively

J. Commitments, Contingencies and Uncertainties

Litigation

The Company is involved in various legal, environmental, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business In many of these matters, the Company has excess casualty liability insurance that covers the various claims, actions and complaints The Company regularly analyzes current information and, as necessary, makes provisions in its financial statements for probable liabilities for the eventual disposition of these matters While the outcome of these matters cannot be predicted with certainty, based upon a review of the matters and applicable insurance coverage, the Company believes that none of these matters will have a material adverse effect on the financial position, results of operations or cash flows of the Company The Company expenses legal costs, including expenses related to loss contingencies, as they are incurred

Power Purchase and Sale Contracts

To supplement its own generation and operating reserve requirements and to meet its RPS requirements, the Company engages in power purchase arrangements that may vary in duration and amount based on an evaluation of the Company's resource needs, the economics of the transactions and specific RPS requirements On November 18, 2019, the Company filed for regulatory approval with the NMPRC for power purchase agreements relating to both solar and battery storage resources as a result of the Company's 2017 All Source Request for Proposal for Electric Power Supply and Load Management Resources The two power purchase agreements approved by the NMPRC include (i) a 100 MW solar plant to be constructed in Santa Teresa, New Mexico; and (ii) a 100 MW solar plant combined with a 50 MW battery energy storage to be constructed in Otero County, New Mexico On March 31, 2020 the Company filed for regulatory approval with the NMPRC for two additional power purchase agreements related to meeting RPS requirements in New Mexico These two additional power purchase agreements were approved by the NMPRC on December 2, 2020 and include (i) a 50 MW solar plant to be constructed in Santa Teresa, New Mexico and (ii) a 20 MW solar plant to be constructed in Otero County, New Mexico See Note D of Notes to Financial Statements for further discussion The Company has entered into the following significant agreements with various counterparties for the purchase and sale of electricity

Type of Contract	Counterparty	Quantity		Term	Commercial Operation Date
Power Purchase and Sale Agreement	Freeport	25	MW	December 2008 through December 2021	N/A
Power Purchase and Sale Agreement	Freeport	100	MW	June 2006 through December 2021	N/A
Power Purchase Agreement	Hatch Solar Energy Center I, LLC	5	MW	July 2011 through July 2036	July 2011
Power Purchase Agreement	Solar Roadrunner, LLC	20	MW	August 2011 through August 2031	August 2011
Power Purchase Agreement	SunE EPE1, LLC	10	MW	June 2012 through June 2037	June 2012
Power Purchase Agreement	SunE EPE2, LLC	12	MW	May 2012 through May 2037	May 2012
Power Purchase Agreement	Macho Springs Solar, LLC	50	MW	May 2014 through May 2034	May 2014
Power Purchase Agreement	Newman Solar LLC	10	MW	December 2014 through December 2044	December 2014
Power Purchase Agreement	Buena Vista Energy Center, LLC	150	MW	Twenty years from Commercial Operation	Anticipated May 1, 2022
Power Purchase Agreement	Hecate Energy Santa Teresa, LLC	100	MW	Twenty years from Commercial Operation	Anticipated May 1, 2022
Power Purchase Agreement	Buena Vista Energy Center II, LLC	20	MW	Twenty years from Commercial Operation	Anticipated May 1, 2022
Power Purchase Agreement	Hecate Energy Santa Teresa 2, LLC	50	MW	Twenty years from Commercial Operation	Anticipated May 1, 2022

The Company has a firm 100 MW Power Purchase and Sale Agreement ("Power Purchase and Sale Agreement") with Freeport-McMoRan Copper & Gold Energy Services LLC ("Freeport") that provides for Freeport to deliver energy to the Company from the Luna Energy Facility (a natural gas-fired combined cycle generation facility located in Luna County, New Mexico) and for the Company to deliver a like amount of energy at Greenlee, Arizona The Company may purchase the quantities noted in the table above at a specified price at times when energy is not exchanged under the Power Purchase and Sale Agreement The agreement was approved by the FERC and will continue through an initial term ending December 31, 2021, with subsequent rollovers until terminated Upon mutual agreement, the Power Purchase and Sale Agreement allows the parties to increase the amount of energy that is purchased and sold under the agreement The parties have agreed to increase the amount up to 125 MW through December 2021

The Company has entered into several power purchase agreements to help meet its RPS requirements. Namely, the Company has a 25-year purchase power agreement with Hatch Solar Energy Center I, LLC to purchase all of the output from a solar photovoltaic plant located in southern New Mexico, which began commercial operation in July 2011 In June 2015, the Company entered into a consent agreement with Hatch Solar Energy Center 1, LLC to provide for additional or replacement photovoltaic modules The Company also entered into a 20-year contract with Solar Roadrunner, LLC, a subsidiary of Global Infrastructure Partners, (formerly known as NRG Solar Roadrunner LLC) to purchase all of the output of a solar photovoltaic plant built in southern New Mexico, which began commercial operation in August 2011 In addition, the Company has 25-year purchase power agreements to purchase all of the output of two additional solar photovoltaic plants located in southern New Mexico, SunE EPE1, LLC and SunE EPE2, LLC, which began commercial operation in June 2012 and May 2012, respectively In September 2017, Longroad Solar Portfolio Holdings, LLC purchased SunE EPE1, LLC, and in October 2017, Silicon Ranch Corporation purchased SunE EPE2, LLC with the Company's consent per the terms of both power purchase agreements

The Company has a 20-year power purchase agreement with Macho Springs Solar, LLC to purchase the entire generation output delivered from the 50 MW Macho Springs solar photovoltaic plant located in Luna County, New Mexico, which began commercial operation in May 2014 Additionally, the Company has a 30-year power purchase agreement with Newman Solar LLC to purchase the total output of approximately 10 MW from a solar photovoltaic plant on land subleased from the Company in proximity to Newman This solar photovoltaic plant began commercial operation in December 2014

The Company also entered into four other purchase power agreements (i) a 20-year power purchase agreement with Buena Vista Energy Center, LLC to purchase up to 100 MW plus up to 50 MW of battery storage from the Buena Vista Energy solar photovoltaic plant located in Otero County, New Mexico, (ii) a 20-year purchase power agreement with Hecate Energy Santa Teresa to purchase up to 100 MW from the Hecate photovoltaic plant located in Santa Teresa, New Mexico, (iii) a 20-year power purchase agreement with Buena Vista Energy Center II, LLC to purchase up to 20 MW from the Buena Vista Energy II, LLC photovoltaic plant located in Otero County, New Mexico; and (iv) a 20-year power purchase agreement with Hecate Energy Santa Teresa 2 LLC to purchase up to 50 MW from the Hecate Energy Santa Teresa 2 LLC photovoltaic plant located in Santa Teresa, New Mexico All four of the facilities are anticipated to begin commercial operation by May 1, 2022

Environmental Matters

The Company is subject to extensive laws, regulations and permit requirements with respect to air and greenhouse gas ("GHG") emissions, water discharges, soil and water quality, waste management and disposal, natural resources and other environmental matters by federal, state, regional, tribal and local authorities Failure to comply with such laws, regulations and requirements can result in actions by authorities or other third parties that might seek to impose on the Company administrative, civil and/or criminal penalties or other sanctions In addition, releases of pollutants or contaminants into the environment can result in costly cleanup liabilities These laws, regulations and requirements are subject to change through modification or reinterpretation, or the introduction of new laws and regulations and, as a result, the Company may face additional capital and operating costs to comply

National Ambient Air Quality Standards ("NAAQS"). Under the U.S Clean Air Act ("CAA"), the U S Environmental Protection Agency ("EPA") sets NAAQS for six criteria pollutants considered harmful to public health and the environment, including particulate matter, nitrogen oxide, carbon monoxide, ozone and sulfur dioxide In June 2018, the EPA designated El Paso County, Texas, as "attainment/unclassifiable" under the 2015 ozone NAAQS and designated a section of southern Doña Ana County, New Mexico, as "nonattainment " In August 2018, a petition for review was filed by the City of Sunland Park, New Mexico in the U S Court of Appeals for the District of Columbia Circuit ("D C Circuit"), specifically challenging the "attainment/unclassifiable" designation of El Paso County, Texas In July 2020, the D C Circuit issued a decision granting the EPA a voluntary remand without vacatur for the El Paso designation Pending further agency action, El Paso's attainment/ unclassifiable designation remains in place In response to the remand, EPA could either retain the current attainment/ unclassifiable designation for El Paso or change it to another designation such as "nonattainment "

States, including New Mexico, that contain any areas designated as nonattainment are required to complete development of implementation plans The exact attainment date by which nonattainment areas will be required to meet the primary (health) standard will vary based on the ozone level in the area The Company continues to evaluate what impact these final and proposed NAAQS could have on its operations If the Company is required to install additional equipment to control emissions at its facilities, the NAAQS, individually or in the aggregate, could have a material impact on its operations and financial results

Climate Change The federal government has considered, proposed and/or finalized legislation or regulations to address climate change and limit GHG emissions, including carbon dioxide In particular, the Biden Administration in January 2021, issued an Executive Order broadly addressing means to tackle climate change, including the proposition of decarbonizing the power sector by 2035

Internationally, the United Nations Framework Convention on Climate Change finalized an agreement among 195 nations at the 21st Conference of the Parties in Paris with an overarching goal of preventing global temperatures from rising more than 2 degrees Celsius (the "Paris Agreement") The Paris Agreement includes provisions requiring every country to lower emissions, but there are no requirements specifying how or by what amount emissions should be lowered In January 2021, the U S committed to rejoining the Paris Agreement.

New legislation, regulations or international agreements could result in increased costs to operate and maintain our facilities, capital expenditures to install new emission controls at our facilities, and costs to administer and manage any potential GHG emissions or carbon trading or tax programs These costs and capital expenditures could be material The potential impact of the Paris Agreement, GHG regulations, and climate initiatives on the Company is unknown at this time, but could result in significant costs, limitations on operating hours, and/or changes in construction schedules for future generating units

Union Matters

The Company employs approximately 1,200 individuals, about 38% of which are covered by a collective bargaining agreement. The International Brotherhood of Electrical Workers Local 960 ("Local 960") represents the Company's employees working primarily in power generation, transmission and distribution, communications, material services, fleet services, facilities services, customer services and meter reading, and field services. On October 15, 2019, the Company reached agreement on the terms of a new collective bargaining agreement with Local 960, to be effective September 3, 2019, for a four-year term ending September 3, 2023 The agreement provides for pay increases for bargaining unit employees of 3 25% on September 3, 2019, 3 00% on September 3, 2020, 3 00% on September 3, 2021, and 3 20% on September 3, 2022

Franchises

The Company operates under franchise agreements with several cities in its service territory, including one with El Paso, Texas, the largest city it serves The franchise agreement allows the Company to utilize public rights-of-way necessary to serve its customers within El Paso Pursuant to the El Paso franchise agreement, the Company pays to the City of El Paso, on a quarterly basis, a fee equal to 5 00% of gross revenues the Company receives for the generation, transmission and distribution of electrical energy and other services within the city The Company sought approval from the City of El Paso on September 20, 2019, for a deemed assignment of the franchise agreement as a result of the Merger, which approval was granted on February 4, 2020 The El Paso franchise agreement is set to expire on July 31, 2060

The Company does not have a written franchise agreement with Las Cruces, New Mexico, the second largest city in its service territory The Company utilizes public rights-of-way necessary to service its customers within Las Cruces under an implied franchise pursuant to state law by satisfying all obligations under the franchise agreement that expired on April 30, 2009 The Company pays the City of Las Cruces a franchise fee of 2 00% of gross revenues the Company receives from services within the City of Las Cruces

The Company also maintains franchise agreements with other municipalities, and applicable counties, within its service territories

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Significant Customers - Military Installations

The Company serves Holloman Air Force Base ("HAFB"), White Sands Missile Range ("White Sands") and Fort Bliss U.S Army Post ("Fort Bliss") These military installations represent approximately 2 6% of the Company's annual retail revenues in 2020 In July 2014, the Company signed an agreement with Fort Bliss under which Fort Bliss takes retail electric service from the Company under the applicable Texas tariffs The Company serves White Sands under the applicable New Mexico tariffs In August 2016, the Company signed a contract with HAFB under which the Company provides retail electric service and limited wheeling services to HAFB under the applicable New Mexico tariffs Pursuant to the contract, HAFB purchases the full output of a Company-owned 5-MW solar facility HAFB's other power requirements are provided under the applicable New Mexico tariffs with limited wheeling services under the contract

K. Employee Benefits

The Company early adopted ASU 2018-14, Compensation – Retirement Benefits – Defined Benefit Plans (Subtopic 715-20) effective December 31, 2020 The adoption did not have a significant impact on the Company's financial statement disclosures See Note B of Notes to Financial Statements for further discussion

Retirement Plans

The Company's Retirement Income Plan ("Retirement Plan") is a qualified noncontributory defined benefit plan Upon retirement or death of a vested plan participant, assets of the Retirement Plan are used to pay benefit obligations under the Retirement Plan Contributions from the Company are based on various factors, such as the minimum funding amounts required by the U S Internal Revenue Service, state and federal regulatory requirements, amounts requested from customers in the Company's Texas and New Mexico jurisdictions, and the annual net periodic benefit cost of the Retirement Plan, as actuarially calculated The assets of the Retirement Plan are primarily invested in common collective trusts which hold equity securities, debt securities and cash equivalents and are managed by a professional investment manager appointed by the Company

The Company has two non-qualified retirement plans that are non-funded defined benefit plans The Company's Supplemental Retirement Plan covers certain former employees and directors of the Company The Excess Benefit Plan was adopted in 2004 and covers certain active and former employees of the Company The net periodic benefit cost for the non-qualified retirement plans are based on substantially the same actuarial methods and economic assumptions as those used for the Retirement Plan

The Retirement Plan was amended effective April 1, 2014 to offer a cash balance pension benefit as an alternative to its existing final average pay pension benefit for employees hired prior to January 1, 2014 Employees hired after January 1, 2014 are automatically enrolled in the cash balance pension benefit

Prior to December 31, 2013, employees who completed one year of service with the Company and worked at least a minimum number of hours each year were covered by the final average pay formula of the plan For participants that continue to be covered by the final average pay formula, retirement benefits are based on the employee's final average pay and years of service The cash balance pension benefit covers employees beginning on their employment commencement date or re-employment commencement date Retirement benefits under the cash balance pension benefit are based on the employee's cash balance account, consisting of pay credits and interest credits

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The obligations and funded status of the plans are presented below (in thousands)

	December 31,			
	2020		2019	
	Retirement Income Plan	Non-Qualified Retirement Plans	Retirement Income Plan	Non-Qualified Retirement Plans
Change in projected benefit obligation:				
Benefit obligation at end of prior year	$ 398,107	$ 27,821	$ 335,496	$ 26,719
Service cost	9,303	273	8,127	415
Interest cost	11,517	775	13,451	1,003
Actuarial loss	39,537	4,160	56,988	1,624
Benefits paid	(16,450)	(2,054)	(15,955)	(1,940)
Benefit obligation at end of year	442,014	30,975	398,107	27,821
Change in plan assets:				
Fair value of plan assets at end of prior year	327,152	—	272,803	—
Actual return on plan assets	59,651	—	64,368	—
Employer contribution	7,300	2,054	7,300	1,940
Benefits paid	(16,450)	(2,054)	(15,955)	(1,940)
Administrative and investment expenses	(2,326)	—	(1,364)	—
Fair value of plan assets at end of year	375,327	—	327,152	—
Funded status at end of year	$ (66,687)	$ (30,975)	$ (70,955)	$ (27,821)

Amounts recognized in the Company's balance sheets consist of the following (in thousands)

	December 31,			
	2020		2019	
	Retirement Income Plan	Non-Qualified Retirement Plans	Retirement Income Plan	Non-Qualified Retirement Plans
Current liabilities	$ —	$ (2,043)	$ —	$ (2,031)
Noncurrent liabilities	(66,687)	(28,932)	(70,955)	(25,790)
Total	$ (66,687)	$ (30,975)	$ (70,955)	$ (27,821)

The accumulated benefit obligation in excess of plan assets is as follows (in thousands)

	December 31,			
	2020		2019	
	Retirement Income Plan	Non-Qualified Retirement Plans	Retirement Income Plan	Non-Qualified Retirement Plans
Projected benefit obligation	$ (442,014)	$ (30,975)	$ (398,107)	$ (27,821)
Accumulated benefit obligation	(403,882)	(29,198)	(364,941)	(26,413)
Fair value of plan assets	375,327	—	327,152	—

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Pre-tax amounts recognized in AOCI consist of the following (in thousands)

	Years Ended December 31,			
	2020		2019	
	Retirement Income Plan	Non-Qualified Retirement Plans	Retirement Income Plan	Non-Qualified Retirement Plans
Net loss	$ 116,595	$ 13,380	$ 121,622	$ 10,153
Prior service benefit	(10,008)	(29)	(13,475)	(68)
Total	$ 106,587	$ 13,351	$ 108,147	$ 10,085

The plan's actuarial losses were due to the actuarial transition, changes in assumptions for the year ended 2020, and demographic experience different from that which was assumed There were also actuarial gains due to actual investment return being different from that assumed during the year ended 2019 Significant reasons for these changes include the following (i) the actual return on the fair value of plan assets since the prior measurement date was greater than assumed, which improved the funded position and (ii) the single equivalent discount rate used to measure accumulated and PBO decreased significantly compared to the year ended December 31, 2019, which decreased the funding position of the plan

The following are the weighted-average actuarial assumptions used to determine the benefit obligations

	December 31,					
	2020			2019		
		Non-Qualified			Non-Qualified	
	Retirement Income Plan	Supplemental Retirement Plan	Excess Benefit Plan	Retirement Income Plan	Supplemental Retirement Plan	Excess Benefit Plan
Discount rate	2.66 %	2.05 %	2.65 %	3.32 %	2 87 %	3.31 %
Rate of compensation increase	4.5 %	N/A	4 5 %	4 5 %	N/A	4 5 %

The Company reassesses various actuarial assumptions at least on an annual basis The discount rate is reviewed and updated at each measurement date. The discount rate used to measure the fiscal year end obligation is based on a segmented spot rate yield curve that matches projected future payments with the appropriate interest rate applicable to the timing of the projected future benefit payments

The cash balance interest crediting rate is based on a 20-year expectation of long-term government bonds, since the plan credits interest to cash balance accounts using the 30-year Treasury rate, but with a minimum interest crediting rate of 3 8%

The components of net periodic benefit cost are presented below (in thousands)

	Years Ended December 31,			
	2020		2019	
	Retirement Income Plan	Non-Qualified Retirement Plans	Retirement Income Plan	Non-Qualified Retirement Plans
Service cost (a)	$ 11,629	$ 273	$ 9,491	$ 415
Interest cost	11,517	775	13,451	1,003
Expected return on plan assets	(22,978)	—	(21,492)	—
Amortization of				
Net loss	7,890	934	5,022	770
Prior service benefit	(3,467)	(39)	(3,467)	(39)
Net periodic benefit cost	$ 4,591	$ 1,943	$ 3,005	$ 2,149

(a) Service cost for the Retirement Plan includes expenses of $2 3 million and $1 4 million, for 2020 and 2019, respectively, for administrative and investment expenses paid from plan assets during the year

The changes in benefit obligations and plan assets recognized in other comprehensive income are presented below (in thousands)

	Years Ended December 31,			
	2020		2019	
	Retirement Income Plan	Non-Qualified Retirement Plans	Retirement Income Plan	Non-Qualified Retirement Plans
Net (gain) loss	$ 2,864	$ 4,160	$ 14,112	$ 1,624
Amortization of				
Net loss	(7,890)	(934)	(5,022)	(770)
Prior service benefit	3,467	39	3,467	39
Total recognized in other comprehensive income	$ (1,559)	$ 3,265	$ 12,557	$ 893

The total amount recognized in net periodic benefit costs and other comprehensive income are presented below (in thousands)

	Years Ended December 31,			
	2020		2019	
	Retirement Income Plan	Non-Qualified Retirement Plans	Retirement Income Plan	Non-Qualified Retirement Plans
Total recognized in net periodic benefit cost and other comprehensive income	$ 3,032	$ 5,208	$ 15,562	$ 3,042

The following are the weighted-average actuarial assumptions used to determine the net periodic benefit cost for the years ended December 31

	2020			2019		
		Non-Qualified			Non-Qualified	
	Retirement Income Plan	Supplemental Retirement Plan	Excess Benefit Plan	Retirement Income Plan	Supplemental Retirement Plan	Excess Benefit Plan
Discount rate						
Benefit obligation	3 39 %	2 99 %	3 39 %	4 42 %	4 11 %	4 45 %
Service cost	3.60 %	N/A	3.46 %	4.50 %	N/A	4.53 %
Interest cost	2 99 %	2 60 %	3 04 %	4 12 %	3 68 %	4.18 %
Expected long-term return on plan assets	7 5 %	N/A	N/A	7 5 %	N/A	N/A
Rate of compensation increase	4 5 %	N/A	4 5 %	4 5 %	N/A	4 5 %

Effective January 1, 2021, the Company's overall expected long-term rate of return on assets was reduced to 7 0%, which is both a pre-tax and after-tax rate as pension funds are generally not subject to income tax The expected long-term rate of return is based on the weighted average of the expected returns on investments based upon the target asset allocation of the pension fund

The Company's target allocations for the plan's assets are presented below

	December 31, 2020
Equity securities	49 7 %
Fixed income	42 3 %
Alternative investments	8.0 %
Total	100 0 %

The Retirement Plan invests the majority of its plan assets in common collective trusts which includes a diversified portfolio of domestic and international equity securities and fixed income securities Alternative investments of the Retirement Plan are comprised of a real estate limited partnership, equity securities of real estate companies, primarily in real estate investment trusts and equity securities of listed companies involved in infrastructure activities The expected rate of returns for the funds are assessed annually and are based on long-term relationships among major asset classes and the level of incremental returns that can be earned by the successful implementation of different active investment management strategies Equity, real estate equity and infrastructure equity returns are based on estimates of long-term inflation rate, real rate of return, 10-year Treasury bond premium over cash, an expected equity risk premium, as well as other economic factors Fixed income returns are based on maturity, long-term inflation, real rate of return and credit spreads. These assumptions also capture the expected correlation of returns between these asset classes over the long term

Fair Value Measurements The FASB requires the Company to provide expanded quantitative disclosures for financial assets and liabilities recorded on the balance sheet at fair value To increase consistency and comparability in fair value measurements, the FASB guidance on fair value measurements established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows

- Level 1 – Observable inputs that reflect quoted market prices for identical assets and liabilities in active markets Financial assets utilizing Level 1 input include investments that are in a highly liquid and active market Prices of securities held in the mutual funds and underlying portfolios are primarily obtained from independent pricing services These prices are based on observable market data The investments are valued using the Net Asset Value ("NAV") provided by the administrator of the fund The NAV price is quoted on a restrictive market although the underlying investments are traded on active markets The NAV used for determining the fair value of the investments have readily determinable fair values Accordingly, such fund values are categorized as Level 1

- Level 2 – Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability either directly or indirectly The fair value of these investments is based on evaluated prices that reflect observable market information, such as actual trade information of similar securities, adjusted for observable differences

- Level 3 – Unobservable inputs using data that is not corroborated by market data and primarily based on internal Company analysis using models and various other analysis

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The fair value of the Company's Retirement Plan assets at December 31, 2020 and 2019, and the level within the three levels of the fair value hierarchy defined by the FASB guidance on fair value measurements are presented in the table below (in thousands)

Description of Securities	Fair Value as of December 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and Cash Equivalents	$ 1,360	$ 1,360	$ —	$ —
Common Collective Trusts (a)				
Equity funds	186,105	186,105	—	—
Fixed income funds	156,583	156,583	—	—
Real asset funds	29,802	29,802	—	—
Total Common Collective Trusts	372,490	372,490	—	—
Limited Partnership Interest in Real Estate (b)	1,477			
Total Plan Investments	$ 375,327	$ 373,850	$ —	$ —

Description of Securities	Fair Value as of December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and Cash Equivalents	$ 2,622	$ 2,622	$ —	$ —
Common Collective Trusts (a)				
Equity funds	148,163	148,163	—	—
Fixed income funds	150,439	150,439	—	—
Real asset funds	24,119	24,119	—	—
Total Common Collective Trusts	322,721	322,721	—	—
Limited Partnership Interest in Real Estate (b)	1,809			
Total Plan Investments	$ 327,152	$ 325,343	$ —	$ —

(a) The Common Collective Trusts are invested in equity and fixed income securities, or a combination thereof The investment objective of each fund is to produce returns in excess of, or commensurate with, its predefined index

(b) This investment is a commercial real estate partnership that purchases land, develops limited infrastructure and sells it for commercial development The Company was restricted from selling its partnership interest during the life of the partnership, which spanned 7 years Return on investment is realized as land is sold The fair value of the limited partnership interest in real estate is based on the NAV of the partnership which reflects the appraised value of the land The partnership term expired on June 30, 2016 Upon expiration, dissolution of the partnership commenced and, as a result, the general partner of the partnership is attempting to sell the remaining inventory as soon as possible at the highest pricing possible.

There were no purchases, issuances, and settlements related to the assets in the Level 3 fair value measurement category during the twelve-month period ending December 31, 2020

The Company and the fiduciaries responsible for the Retirement Plan adhere to the traditional capital market pricing theory which maintains that over the long term, the risk of owning equities should be rewarded with a greater return than available from fixed income investments The Company and the fiduciaries responsible for the Retirement Plan seek to minimize the risk of owning equity securities by investing in funds that pursue risk minimization strategies and by diversifying its investments to limit its risks during falling markets The investment manager has full discretionary authority to direct the investment of plan assets held in trust within the guidelines prescribed by the Company and the fiduciaries responsible for the Retirement Plan through the plan's investment policy statement including the ability to hold cash equivalents The investment guidelines of the investment policy statement are in accordance with the Employee Retirement Income Security Act of 1974 ("ERISA") and U S Department of Labor ("DOL") regulations

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The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands)

	Retirement Income Plan	Non-Qualified Retirement Plans
2021	$ 21,159	$ 2,045
2022	23,134	2,023
2023	22,805	1,950
2024	22,411	1,907
2025	23,033	1,860
2026-2030	118,726	8,752

401(k) Defined Contribution Plans

The Company sponsors 401(k) defined contribution plans covering substantially all employees The Company provides a 50 percent matching contribution up to 6 percent of the employee's compensation for employees who are enrolled in the final average pay pension benefit of the Retirement Plan and a 100 percent matching contribution up to 6 percent of the employee's compensation for employees who are enrolled in the cash balance pension benefit of the Retirement Plan, subject to certain other limits and exclusions Annual matching contributions made to the savings plans for the years 2020 and 2019 were $5.2 million and $4 7 million, respectively

Other Post-Retirement Benefits

The Company provides certain other post-retirement benefits, including health care benefits for retired employees and their eligible dependents and life insurance benefits for retired employees only ("OPEB Plan") Substantially all of the Company's employees may become eligible for those benefits if they retire while working for the Company. Contributions from the Company are based on various factors such as the OPEB Plan's funded status, tax deductibility of contributions to the OPEB Plan, state and federal regulatory requirements, amounts requested from customers in the Company's Texas and New Mexico jurisdictions and the annual net periodic benefit cost of the OPEB Plan, as actuarially calculated The assets of the OPEB Plan are primarily invested in institutional funds which hold equity securities, debt securities and cash equivalents and are managed by a professional investment manager appointed by the Company

Effective February 1, 2020, the Company amended the OPEB Plan and restructured the OPEB Plan's Voluntary Employee Benefit Association ("VEBA") trust fund into four separate VEBA trust funds to reduce federal income tax on the OPEB Plan's unrelated business income without modifying OPEB Plan benefits offered to retirees The restructuring involved establishing separate trust arrangements for the distinction between collective and non-collective bargaining retirees and between health and life insurance benefits The transfer of trust assets to the new trusts was initiated on September 9, 2020, as specified in the amended trust agreements effective August 1, 2020

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The following table contains a reconciliation of the change in the benefit obligation, the fair value of plan assets and the funded status of the OPEB Plan (in thousands)

	December 31, 2020	December 31, 2019
Change in benefit obligation:		
Benefit obligation at end of prior year	$ 64,892	$ 60,862
Service cost	2,417	2,242
Interest cost	1,849	2,456
Actuarial (gain) loss	(16,898)	889
Benefits paid from plan assets	(2,580)	(2,643)
Benefits paid from corporate assets	(190)	(176)
Retiree contributions	1,362	1,262
Benefit obligation at end of year	50,852	64,892
Change in plan assets:		
Fair value of plan assets at end of prior year	41,811	36,287
Actual return on plan assets	4,700	6,636
Employer contribution	465	450
Benefits paid from plan assets	(2,580)	(2,643)
Retiree contributions	1,362	1,262
Administrative and investment expenses	(161)	(181)
Fair value of plan assets at end of year	45,597	41,811
Funded status at end of year	$ (5,255)	$ (23,081)

Amounts recognized in the Company's balance sheets consist of the following (in thousands)

	December 31, 2020	December 31, 2019
Current liabilities	$ —	$ —
Noncurrent liabilities	(5,255)	(23,081)
Total	$ (5,255)	$ (23,081)

Pre-tax amounts recognized in AOCI consist of the following (in thousands)

	December 31, 2020	December 31, 2019
Net gain	$ (54,555)	$ (38,139)
Prior service benefit	(20,379)	(23,472)
Total	$ (74,934)	$ (61,611)

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The following are the weighted-average actuarial assumptions used to determine the accrued benefit obligations

	December 31, 2020	December 31, 2019
Discount rate at end of year	2.76 %	3 41 %
Health care cost trend rates		
Initial		
Pre-65 medical	6 50 %	5 75 %
Post-65 medical	6.50 %	4 50 %
Pre-65 drug	6 50 %	6 75 %
Post-65 drug	6.50 %	7.00 %
Ultimate	4 50 %	4 50 %
Year ultimate reached	2026	2026

The Company reassesses various actuarial assumptions at least on an annual basis The discount rate is reviewed and updated at each measurement date The discount rate used to measure the fiscal year end obligation is based on a segmented spot rate yield curve that matches projected future payments with the appropriate interest rate applicable to the timing of the projected future benefit payments

Net periodic benefit cost is made up of the components listed below (in thousands)

	Years Ended December 31, 2020	Years Ended December 31, 2019
Service cost (a)	$ 2,578	$ 2,423
Interest cost	1,849	2,456
Expected return on plan assets	(2,455)	(2,120)
Amortization of		
Prior service benefit	(3,093)	(5,234)
Net gain	(2,728)	(2,377)
Net periodic benefit cost	$ (3,849)	$ (4,852)

(a) Service cost includes expenses of $161 and $181 thousand for 2020 and 2019, respectively, for administrative and investment expenses paid from plan assets during the year.

The changes in benefit obligations and plan assets recognized in other comprehensive income are presented below (in thousands)

	Years Ended December 31, 2020	Years Ended December 31, 2019
Net gain	$ (19,144)	$ (3,626)
Amortization of		
Prior service benefit	3,093	5,234
Net gain	2,728	2,377
Total recognized in other comprehensive income	$ (13,323)	$ 3,985

The total amount recognized in net periodic benefit cost and other comprehensive income are presented below (in thousands)

	Years Ended December 31, 2020	Years Ended December 31, 2019
Total recognized in net periodic benefit cost and other comprehensive income	$ (17,172)	$ (867)

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The plan's actuarial gains were due to actual investment return being different from assumed during the year ended 2019, as well as changes in the provider for the benefits offered to the Medicare-eligible population There were also actuarial losses due to the actuarial transition, changes in assumptions for the year ended 2020, and demographic experience different from assumed Significant reasons for these changes include the following (i) updated underlying yield curve used to calculate the discount rate, (ii) changes in the provider for the retiree medical benefits offered to the Medicare-eligible population which resulted in significant post-65 premium gains, reducing the net periodic cost and improving the plan's funded status, (iii) the actual return on the fair value of plan assets since the prior measurement date was greater than assumed, which improved the funded position and reduced the net periodic cost, and (iv) contributions to the plans during the year ended 2019 improved the funded status and therefore reduced the net periodic cost.

The following are the weighted-average actuarial assumptions used to determine the net periodic benefit cost for the years ended December 31

	Years Ended December 31, 2020	2019
Discount rate:		
Benefit obligation	3 54 %	4 44 %
Service cost	3.86 %	4.51 %
Interest cost	3 09 %	4 15 %
Expected long-term return on plan assets	6.00 %	6 00 %
Health care cost trend rates		
Initial		
Pre-65 medical	6 5 %	6 0 %
Post-65 medical	6.5 %	4 5 %
Pre-65 drug	6 5 %	7 0 %
Post-65 drug	6 5 %	8 5 %
Ultimate	4 5 %	4 5 %
Year ultimate reached	2026	2026

Effective January 1, 2021, the Company's overall expected long-term rate of return on assets was 7 85%, on a pre-tax basis The expected weighted average long-term rate of return on assets on an after-tax basis is 7 35% as of January 1, 2021 The expected long-term rate of return on an after-tax basis for the non-collective bargaining retirees VEBA is 5 65%, which is the only funding vehicle subject to taxation The non-collective bargaining retirees VEBA trust's tax rate was assumed to be 28 00% at January 1, 2021 Prior to the OPEB plan restructure, the trust's tax rate was assumed to be 23 60% at January 1, 2020 The expected long-term rate of return is based on the after-tax weighted average of the expected returns on investments based upon the target asset allocation

The Company's target allocations for the plan's assets are presented below

	December 31, 2020
Equity securities	49.3 %
Fixed income	34 3 %
Alternative investments	16 4 %
Total	100 0 %

The OPEB Plan invests the majority of its plan assets in institutional funds which includes a diversified portfolio of domestic and international equity securities and fixed income securities Alternative investments of the OPEB Plan are comprised of a real estate limited partnership and equity securities of real estate companies, primarily in real estate investment trusts The alternative investments also include equity securities of a dynamic, diversified portfolio designed to capture market opportunities The underlying allocations to various asset classes in this portfolio will shift over time, but the overall strategic allocation is as follows 75% global equity, 15% marketable real assets and 10% global fixed income The expected rates of return for the funds are assessed annually and are based on long-term relationships among major asset classes and the level of incremental returns that can be earned by the successful implementation of different active investment management strategies Equity returns are based on estimates of long-term inflation rate, real rate of return, 10-year Treasury bond premium over cash, an expected equity risk premium, as well as other economic factors Fixed income returns are based on maturity, long-term inflation, real rate of return and credit spreads These assumptions also capture the expected correlation of returns between these asset classes over the long term

The fair value of the Company's OPEB Plan assets at December 31, 2020 and 2019 and the level within the three levels of the fair value hierarchy defined by the FASB guidance on fair value measurements are presented in the table below (in thousands)

Description of Securities	Fair Value as of December 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and Cash Equivalents	$ 1,143	$ 1,143	$ —	$ —
Institutional Funds (a)				
Equity funds	22,345	22,345	—	—
Fixed income funds	15,064	15,064	—	—
Multi asset funds	4,647	4,647	—	—
Real asset funds	1,827	1,827	—	—
Total Institutional Funds	43,883	43,883	—	—
Limited Partnership Interest in Real Estate (b)	571			
Total Plan Investments	$ 45,597	$ 45,026	$ —	$ —

Description of Securities	Fair Value as of December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and Cash Equivalents	$ 2,522	$ 2,522	$ —	$ —
Institutional Funds (a)				
Equity funds	18,664	18,664	—	—
Fixed income funds	15,038	15,038	—	—
Multi asset funds	3,766	3,766	—	—
Real asset funds	1,482	1,482	—	—
Total Institutional Funds	38,950	38,950	—	—
Limited Partnership Interest in Real Estate (b)	339			
Total Plan Investments	$ 41,811	$ 41,472	$ —	$ —

(a) The institutional funds are invested in equity or fixed income securities, or a combination thereof. The investment objective of each fund is to produce returns in excess of, or commensurate with, its predefined index

(b) This investment is a commercial real estate partnership that purchases land, develops limited infrastructure and sells it for commercial development The OPEB Plan trust was restricted from selling its partnership interest during the life of the partnership, which spanned 7 years Return of investment is realized as land is sold. The fair value of the limited partnership interest in real estate is based on the NAV of the partnership which reflects the appraised value of the land The partnership term expired on June 30, 2016 Upon expiration, dissolution of the partnership commenced and, as a result, the general partner of the partnership is attempting to sell the remaining inventory as soon as possible at the highest pricing possible

There were no purchases, issuances and settlements related to the assets in the Level 3 fair value measurement category during the twelve-month period ending December 31, 2020

The Company and the fiduciaries responsible for the OPEB Plan adhere to the traditional capital market pricing theory, which maintains that over the long term, the risk of owning equities should be rewarded with a greater return than available from fixed income investments The Company and the fiduciaries responsible for the OPEB Plan seek to minimize the risk of owning equity securities by investing in funds that pursue risk minimization strategies and by diversifying its investments to limit its risks during falling markets The investment manager has full discretionary authority to direct the investment of plan assets held in trust within the investment policy guidelines prescribed by the Company The investment guidelines of the investment policy statement are in accordance with the ERISA and DOL regulations

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in thousands)

2021	$ 2,002
2022	2,128
2023	2,192
2024	2,279
2025	2,416
2026-2030	13,297

Annual Short-Term Incentive Plan

The Annual Short-Term Incentive Plan ("Incentive Plan") provides for the payment of cash awards to eligible Company employees, including each of its named executive officers Payment of awards is based on the achievement of performance measures reviewed and approved by the People And Remuneration Committee ("PARCO") Generally, these performance measures are based on meeting certain financial, operational and individual performance criteria The financial performance goals are based on specified levels of earnings and certain O&M expenses The operational performance goals are based on reliability and customer satisfaction If a minimum level of earnings is not attained, no amounts will be paid under the Incentive Plan, unless the PARCO determines otherwise For 2020, pursuant to the Merger Agreement, the incentive amount was determined based on the greater of (a) the level of attainment of the applicable performance criteria under the Incentive Plan and (b) the level of payout associated with target performance In 2020, the approved amount was a target level award of $10 7 million In 2019, the Company reached the required level of earnings, certain O&M expenses, reliability and customer satisfaction goals for incentive payments of $14 4 million

L. Financial Instruments and Investments

The FASB guidance requires the Company to disclose estimated fair values for its financial instruments The Company has determined that cash and temporary investments, investment in debt securities, accounts receivable, NDT, long-term debt, short-term borrowings under the RCF, accounts payable and customer deposits meet the definition of financial instruments The carrying amounts of cash and temporary investments, accounts receivable, accounts payable and customer deposits approximate fair value because of the short maturity of these items Investments in debt securities and NDT are carried at estimated fair value

Long-Term Debt and Short-Term Borrowings Under the RCF The fair values of the Company's long-term debt and short-term borrowings under the RCF are based on estimated market prices for similar issues and are presented below (in thousands)