THIS FILING IS	
Item 1 [X] An Initial (Original) Submission	OR [ ] Resubmission No ____

Form 1 Approved
OMB No 1902-0021
(Expires 12/31/2019)

Form 1-F Approved
OMB No 1902-0029
(Expires 12/31/2019)

Form 3-Q Approved
OMB No 1902-0205
(Expires 12/31/2019)

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 2017/Q4

INSTRUCTIONS FOR FILING FERC FORM NOS. 1 and 3-Q

GENERAL INFORMATION

I. Purpose

FERC Form No 1 (FERC Form 1) is an annual regulatory requirement for Major electric utilities, licensees and others (18 C F R § 141 1) FERC Form No 3-Q (FERC Form 3-Q)is a quarterly regulatory requirement which supplements the annual financial reporting requirement (18 C F R § 141 400) These reports are designed to collect financial and operational information from electric utilities, licensees and others subject to the jurisdiction of the Federal Energy Regulatory Commission These reports are also considered to be non-confidential public use forms

II. Who Must Submit

Each Major electric utility, licensee, or other, as classified in the Commission's Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject To the Provisions of The Federal Power Act (18 C F R Part 101), must submit FERC Form 1 (18 C F R § 141 1), and FERC Form 3-Q (18 C F R § 141 400)

Note Major means having, in each of the three previous calendar years, sales or transmission service that exceeds one of the following

(1) one million megawatt hours of total annual sales,
(2) 100 megawatt hours of annual sales for resale,
(3) 500 megawatt hours of annual power exchanges delivered, or
(4) 500 megawatt hours of annual wheeling for others (deliveries plus losses)

III. What and Where to Submit

(a) Submit FERC Forms 1 and 3-Q electronically through the forms submission software Retain one copy of each report for your files Any electronic submission must be created by using the forms submission software provided free by the Commission at its web site http://www.ferc.gov/docs-filing/forms/form-1/elec-subm-soft.asp The software is used to submit the electronic filing to the Commission via the Internet

(b) The Corporate Officer Certification must be submitted electronically as part of the FERC Forms 1 and 3-Q filings

(c) Submit immediately upon publication, by either eFiling or mail, two (2) copies to the Secretary of the Commission, the latest Annual Report to Stockholders Unless eFiling the Annual Report to Stockholders, mail the stockholders report to the Secretary of the Commission at

Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

(d) For the CPA Certification Statement, submit within 30 days after filing the FERC Form 1, a letter or report (not applicable to filers classified as Class C or Class D prior to January 1, 1984) The CPA Certification Statement can be either eFiled or mailed to the Secretary of the Commission at the address above

The CPA Certification Statement should

a) Attest to the conformity, in all material aspects, of the below listed (schedules and pages) with the Commission's applicable Uniform System of Accounts (including applicable notes relating thereto and the Chief Accountant's published accounting releases), and

b) Be signed by independent certified public accountants or an independent licensed public accountant certified or licensed by a regulatory authority of a State or other political subdivision of the U S (See 18 C F R §§ 41 10-41 12 for specific qualifications)

Reference Schedules	Pages
Comparative Balance Sheet	110-113
Statement of Income	114-117
Statement of Retained Earnings	118-119
Statement of Cash Flows	120-121
Notes to Financial Statements	122-123

e) The following format must be used for the CPA Certification Statement unless unusual circumstances or conditions, explained in the letter or report, demand that it be varied Insert parenthetical phrases only when exceptions are reported

"In connection with our regular examination of the financial statements of _____ for the year ended on which we have reported separately under date of ___________ , we have also reviewed schedules ___________________of FERC Form No 1 for the year filed with the Federal Energy Regulatory Commission, for conformity in all material respects with the requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases Our review for this purpose included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances

Based on our review, in our opinion the accompanying schedules identified in the preceding paragraph (except as noted below) conform in all material respects with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases "

The letter or report must state which, if any, of the pages above do not conform to the Commission's requirements Describe the discrepancies that exist

(f) Filers are encouraged to file their Annual Report to Stockholders, and the CPA Certification Statement using eFiling To further that effort, new selections, "Annual Report to Stockholders," and "CPA Certification Statement" have been added to the dropdown "pick list" from which companies must choose when eFiling Further instructions are found on the Commission's website at http://www.ferc.gov/help/how-to.asp

(g) Federal, State and Local Governments and other authorized users may obtain additional blank copies of FERC Form 1 and 3-Q free of charge from http://www.ferc.gov/docs-filing/forms/form-1/form-1.pdf and http://www.ferc.gov/docs-filing/forms.asp#3Q-gas

IV. When to Submit:

FERC Forms 1 and 3-Q must be filed by the following schedule

a) FERC Form 1 for each year ending December 31 must be filed by April 18th of the following year (18 CFR § 141 1), and

b) FERC Form 3-Q for each calendar quarter must be filed within 60 days after the reporting quarter (18 C F R § 141 400)

V. Where to Send Comments on Public Reporting Burden.

The public reporting burden for the FERC Form 1 collection of information is estimated to average 1,168 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data-needed, and completing and reviewing the collection of information The public reporting burden for the FERC Form 3-Q collection of information is estimated to average 168 hours per response

Send comments regarding these burden estimates or any aspect of these collections of information, including suggestions for reducing burden, to the Federal Energy Regulatory Commission, 888 First Street NE, Washington, DC 20426 (Attention Information Clearance Officer), and to the Office of Information and Regulatory Affairs, Office of Management and Budget, Washington, DC 20503 (Attention Desk Officer for the Federal Energy Regulatory Commission) No person shall be subject to any penalty if any collection of information does not display a valid control number (44 U S C § 3512 (a))

GENERAL INSTRUCTIONS

I Prepare this report in conformity with the Uniform System of Accounts (18 CFR Part 101) (USofA) Interpret all accounting words and phrases in accordance with the USofA

II Enter in whole numbers (dollars or MWH) only, except where otherwise noted (Enter cents for averages and figures per unit where cents are important The truncating of cents is allowed except on the four basic financial statements where rounding is required) The amounts shown on all supporting pages must agree with the amounts entered on the statements that they support When applying thresholds to determine significance for reporting purposes, use for balance sheet accounts the balances at the end of the current reporting period, and use for statement of income accounts the current year's year to date amounts

III Complete each question fully and accurately, even if it has been answered in a previous report Enter the word "None" where it truly and completely states the fact

IV For any page(s) that is not applicable to the respondent, omit the page(s) and enter "NA," "NONE," or "Not Applicable" in column (d) on the List of Schedules, pages 2 and 3

V Enter the month, day, and year for all dates Use customary abbreviations **The "Date of Report" included in the header of each page is to be completed only for resubmissions** (see VII below)

VI Generally, except for certain schedules, all numbers, whether they are expected to be debits or credits, must be reported as positive Numbers having a sign that is different from the expected sign must be reported by enclosing the numbers in parentheses

VII For any resubmissions, submit the electronic filing using the form submission software only Please explain the reason for the resubmission in a footnote to the data field

VIII Do not make references to reports of previous periods/years or to other reports in lieu of required entries, except as specifically authorized

IX Wherever (schedule) pages refer to figures from a previous period/year, the figures reported must be based upon those shown by the report of the previous period/year, or an appropriate explanation given as to why the different figures were used

Definitions for statistical classifications used for completing schedules for transmission system reporting are as follows

FNS - Firm Network Transmission Service for Self "Firm" means service that can not be interrupted for economic reasons and is intended to remain reliable even under adverse conditions "Network Service" is Network Transmission Service as described in Order No 888 and the Open Access Transmission Tariff "Self" means the respondent

FNO - Firm Network Service for Others "Firm" means that service cannot be interrupted for economic reasons and is intended to remain reliable even under adverse conditions "Network Service" is Network Transmission Service as described in Order No 888 and the Open Access Transmission Tariff

LFP - for Long-Term Firm Point-to-Point Transmission Reservations "Long-Term" means one year or longer and" firm" means that service cannot be interrupted for economic reasons and is intended to remain reliable even under adverse conditions "Point-to-Point Transmission Reservations" are described in Order No 888 and the Open Access Transmission Tariff For all transactions identified as LFP, provide in a footnote the termination date of the contract defined as the earliest date either buyer or seller can unilaterally cancel the contract

OLF - Other Long-Term Firm Transmission Service Report service provided under contracts which do not conform to the terms of the Open Access Transmission Tariff "Long-Term" means one year or longer and “firm” means that service cannot be interrupted for economic reasons and is intended to remain reliable even under adverse conditions For all transactions identified as OLF, provide in a footnote the termination date of the contract defined as the earliest date either buyer or seller can unilaterally get out of the contract

SFP - Short-Term Firm Point-to-Point Transmission Reservations Use this classification for all firm point-to-point transmission reservations, where the duration of each period of reservation is less than one-year

NF - Non-Firm Transmission Service, where firm means that service cannot be interrupted for economic reasons and is intended to remain reliable even under adverse conditions

OS - Other Transmission Service Use this classification only for those services which can not be placed in the above-mentioned classifications, such as all other service regardless of the length of the contract and service FERC Form Describe the type of service in a footnote for each entry

AD - Out-of-Period Adjustments Use this code for any accounting adjustments or "true-ups" for service provided in prior reporting periods Provide an explanation in a footnote for each adjustment

DEFINITIONS I   Commission Authorization (Comm Auth) -- The authorization of the Federal Energy Regulatory Commission, or any other Commission Name the commission whose authorization was obtained and give date of the authorization II   Respondent -- The person, corporation, licensee, agency, authority, or other Legal entity or instrumentality in whose behalf the report is made

EXCERPTS FROM THE LAW

Federal Power Act, 16 U.S.C. § 791a-825r

Sec 3 The words defined in this section shall have the following meanings for purposes of this Act, to with

(3) 'Corporation' means any corporation, joint-stock company, partnership, association, business trust, organized group of persons, whether incorporated or not, or a receiver or receivers, trustee or trustees of any of the foregoing It shall not include 'municipalities, as hereinafter defined,

(4) 'Person' means an individual or a corporation,

(5) 'Licensee, means any person, State, or municipality Licensed under the provisions of section 4 of this Act, and any assignee or successor in interest thereof,

(7) 'municipality means a city, county, irrigation district, drainage district, or other political subdivision or agency of a State competent under the Laws thereof to carry and the business of developing, transmitting, unitizing, or distributing power,

(11) "project' means a complete unit of improvement or development, consisting of a power house, all water conduits, all dams and appurtenant works and structures (including navigation structures) which are a part of said unit, and all storage, diverting, or fore bay reservoirs directly connected therewith, the primary line or lines transmitting power there from to the point of junction with the distribution system or with the interconnected primary transmission system, all miscellaneous structures used and useful in connection with said unit or any part thereof, and all water rights, rights-of-way, ditches, dams, reservoirs, Lands, or interest in Lands the use and occupancy of which are necessary or appropriate in the maintenance and operation of such unit,

"Sec 4 The Commission is hereby authorized and empowered

(a) To make investigations and to collect and record data concerning the utilization of the water 'resources of any region to be developed, the water-power industry and its relation to other industries and to interstate or foreign commerce, and concerning the location, capacity, development -costs, and relation to markets of power sites, to the extent the Commission may deem necessary or useful for the purposes of this Act "

"Sec 304 (a) Every Licensee and every public utility shall file with the Commission such annual and other periodic or special* reports as the Commission may be rules and regulations or other prescribe as necessary or appropriate to assist the Commission in the -proper administration of this Act The Commission may prescribe the manner and FERC Form in which such reports salt be made, and require from such persons specific answers to all questions upon which the Commission may need information The Commission may require that such reports shall include, among other things, full information as to assets and Liabilities, capitalization, net investment, and reduction thereof, gross receipts, interest due and paid, depreciation, and other reserves, cost of project and other facilities, cost of maintenance and operation of the project and other facilities, cost of renewals and replacement of the project works and other facilities, depreciation, generation, transmission, distribution, delivery, use, and sale of electric energy The Commission may require any such person to make adequate provision for currently determining such costs and other facts Such reports shall be made under oath unless the Commission otherwise specifies* 10

"Sec 309 The Commission shall have power to perform any and all acts, and to prescribe, issue, make, and rescind such orders, rules and regulations as it may find necessary or appropriate to carry out the provisions of this Act Among other things, such rules and regulations may define accounting, technical, and trade terms used in this Act, and may prescribe the FERC Form or FERC Forms of all statements, declarations, applications, and reports to be filed with the Commission, the information which they shall contain, and the time within which they shall be field "

General Penalties

The Commission may assess up to $1 million per day per violation of its rules and regulations. *See* FPA § 316(a) (2005), 16 U.S.C. § 825o(a).

FERC FORM NO. 1/3-Q:
REPORT OF MAJOR ELECTRIC UTILITIES, LICENSEES AND OTHER

IDENTIFICATION

01 Exact Legal Name of Respondent El Paso Electric Company	02 Year/Period of Report End of 2017/Q4
03 Previous Name and Date of Change *(if name changed during year)*	/ /
04 Address of Principal Office at End of Period *(Street, City, State, Zip Code)* P O Box 982, El Paso, TX 79960-0982, 100 North Stanton, El Paso, TX 79901	
05 Name of Contact Person Russell G Gibson	06 Title of Contact Person Vice President & Controller
07 Address of Contact Person *(Street, City, State, Zip Code)* P O Box 982, El Paso, TX 79960-0982, 100 North Stanton, El Paso, TX 79901	

08 Telephone of Contact Person, *Including Area Code* (915) 351-4222	09 This Report Is (1) [X] An Original (2) [ ] A Resubmission	10 Date of Report *(Mo, Da, Yr)* / /

ANNUAL CORPORATE OFFICER CERTIFICATION

The undersigned officer certifies that

I have examined this report and to the best of my knowledge, information, and belief all statements of fact contained in this report are correct statements of the business affairs of the respondent and the financial statements, and other financial information contained in this report, conform in all material respects to the Uniform System of Accounts

01 Name /s/ Russell G Gibson	03 Signature	04 Date Signed *(Mo, Da, Yr)*
02 Title Vice President & Controller	/s/ Russell G Gibson	04/10/2018

Title 18, U S C 1001 makes it a crime for any person to knowingly and willingly to make to any Agency or Department of the United States any false, fictitious or fraudulent statements as to any matter within its jurisdiction

Name of Respondent	This Report Is	Date of Report (Mo, Da, Yr)	Year/Period of Report
El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2017/Q4

LIST OF SCHEDULES (Electric Utility)

Enter in column (c) the terms "none," "not applicable," or "NA," as appropriate, where no information or amounts have been reported for certain pages Omit pages where the respondents are "none," "not applicable," or "NA"

Line No	Title of Schedule (a)	Reference Page No (b)	Remarks (c)
1	General Information	101	
2	Control Over Respondent	102	Not Applicable
3	Corporations Controlled by Respondent	103	Not Applicable
4	Officers	104	
5	Directors	105	
6	Information on Formula Rates	106(a)(b)	
7	Important Changes During the Year	108-109	
8	Comparative Balance Sheet	110-113	
9	Statement of Income for the Year	114-117	
10	Statement of Retained Earnings for the Year	118-119	
11	Statement of Cash Flows	120-121	
12	Notes to Financial Statements	122-123	
13	Statement of Accum Comp Income, Comp Income, and Hedging Activities	122(a)(b)	
14	Summary of Utility Plant & Accumulated Provisions for Dep, Amort & Dep	200-201	
15	Nuclear Fuel Materials	202-203	
16	Electric Plant in Service	204-207	
17	Electric Plant Leased to Others	213	None
18	Electric Plant Held for Future Use	214	None
19	Construction Work in Progress-Electric	216	
20	Accumulated Provision for Depreciation of Electric Utility Plant	219	
21	Investment of Subsidiary Companies	224-225	None
22	Materials and Supplies	227	
23	Allowances	228(ab)-229(ab)	
24	Extraordinary Property Losses	230	None
25	Unrecovered Plant and Regulatory Study Costs	230	None
26	Transmission Service and Generation Interconnection Study Costs	231	
27	Other Regulatory Assets	232	
28	Miscellaneous Deferred Debits	233	
29	Accumulated Deferred Income Taxes	234	
30	Capital Stock	250-251	
31	Other Paid-in Capital	253	
32	Capital Stock Expense	254	
33	Long-Term Debt	256-257	
34	Reconciliation of Reported Net Income with Taxable Inc for Fed Inc Tax	261	
35	Taxes Accrued, Prepaid and Charged During the Year	262-263	
36	Accumulated Deferred Investment Tax Credits	266-267	

Name of Respondent	This Report Is	Date of Report (Mo, Da, Yr)	Year/Period of Report
El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2017/Q4

LIST OF SCHEDULES (Electric Utility) (continued)

Enter in column (c) the terms "none," "not applicable," or "NA," as appropriate, where no information or amounts have been reported for certain pages Omit pages where the respondents are "none," "not applicable," or "NA"

Line No	Title of Schedule (a)	Reference Page No (b)	Remarks (c)
37	Other Deferred Credits	269	
38	Accumulated Deferred Income Taxes-Accelerated Amortization Property	272-273	Not Applicable
39	Accumulated Deferred Income Taxes-Other Property	274-275	
40	Accumulated Deferred Income Taxes-Other	276-277	
41	Other Regulatory Liabilities	278	
42	Electric Operating Revenues	300-301	
43	Regional Transmission Service Revenues (Account 457 1)	302	Not Applicable
44	Sales of Electricity by Rate Schedules	304	
45	Sales for Resale	310-311	
46	Electric Operation and Maintenance Expenses	320-323	
47	Purchased Power	326-327	
48	Transmission of Electricity for Others	328-330	
49	Transmission of Electricity by ISO/RTOs	331	Not Applicable
50	Transmission of Electricity by Others	332	
51	Miscellaneous General Expenses-Electric	335	
52	Depreciation and Amortization of Electric Plant	336-337	
53	Regulatory Commission Expenses	350-351	
54	Research, Development and Demonstration Activities	352-353	None
55	Distribution of Salaries and Wages	354-355	
56	Common Utility Plant and Expenses	356	Not Applicable
57	Amounts included in ISO/RTO Settlement Statements	397	Not Applicable
58	Purchase and Sale of Ancillary Services	398	
59	Monthly Transmission System Peak Load	400	
60	Monthly ISO/RTO Transmission System Peak Load	400a	Not Applicable
61	Electric Energy Account	401	
62	Monthly Peaks and Output	401	
63	Steam Electric Generating Plant Statistics	402-403	
64	Hydroelectric Generating Plant Statistics	406-407	Not Applicable
65	Pumped Storage Generating Plant Statistics	408-409	Not Applicable
66	Generating Plant Statistics Pages	410-411	

Name of Respondent	This Report Is	Date of Report (Mo, Da, Yr)	Year/Period of Report
El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2017/Q4

LIST OF SCHEDULES (Electric Utility) (continued)

Enter in column (c) the terms "none," "not applicable," or "NA," as appropriate, where no information or amounts have been reported for certain pages Omit pages where the respondents are "none," "not applicable," or "NA"

Line No	Title of Schedule (a)	Reference Page No (b)	Remarks (c)
67	Transmission Line Statistics Pages	422-423	
68	Transmission Lines Added During the Year	424-425	None
69	Substations	426-427	
70	Transactions with Associated (Affiliated) Companies	429	None
71	Footnote Data	450	
	Stockholders' Reports Check appropriate box [X] Two copies will be submitted [ ] No annual report to stockholders is prepared		

Name of Respondent El Paso Electric Company	This Report Is (1) [X] An Original (2) [ ] A Resubmission	Date of Report *(Mo, Da, Yr)* / /	Year/Period of Report End of 2017/Q4

GENERAL INFORMATION

1 Provide name and title of officer having custody of the general corporate books of account and address of office where the general corporate books are kept, and address of office where any other corporate books of account are kept, if different from that where the general corporate books are kept

Russell G. Gibson	Mailing Address:
Vice President & Controller	Russell G. Gibson
Stanton Tower, 100 North Stanton	Post Office Box 982
El Paso, Texas 79901	El Paso, Texas 79960-0982

2 Provide the name of the State under the laws of which respondent is incorporated, and date of incorporation If incorporated under a special law, give reference to such law If not incorporated, state that fact and give the type of organization and the date organized

Texas - August 30, 1901

3 If at any time during the year the property of respondent was held by a receiver or trustee, give (a) name of receiver or trustee, (b) date such receiver or trustee took possession, (c) the authority by which the receivership or trusteeship was created, and (d) date when possession by receiver or trustee ceased

Not applicable.

4 State the classes or utility and other services furnished by respondent during the year in each State in which the respondent operated

Electric power generation, transmission and distribution for sale at retail in the states of Texas and New Mexico; and wholesale sales including sales for resale to other electric utilities primarily in the states of Texas, New Mexico and Arizona and sales for resale to power marketers.

5 Have you engaged as the principal accountant to audit your financial statements an accountant who is not the principal accountant for your previous year's certified financial statements?

(1) [ ] Yes Enter the date when such independent accountant was initially engaged
(2) [X] No

Name of Respondent	This Report Is	Date of Report (Mo, Da, Yr)	Year/Period of Report
El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2017/Q4

OFFICERS

1 Report below the name, title and salary for each executive officer whose salary is $50,000 or more An "executive officer" of a respondent includes its president, secretary, treasurer, and vice president in charge of a principal business unit, division or function (such as sales, administration or finance), and any other person who performs similar policy making functions
2 If a change was made during the year in the incumbent of any position, show name and total remuneration of the previous incumbent, and the date the change in incumbency was made

Line No	Title (a)	Name of Officer (b)	Salary for Year (c)
1	President and Chief Executive Officer	Mary E Kipp	674,039
2	Senior Vice President and Chief Financial Officer	Nathan T Hirschi	364,712
3	Senior Vice President - Operations	Steven T Buraczyk	334,808
4	Senior Vice President - Corporate Development and		
5	Chief Compliance Officer	Rocky R Miracle	324,808
6	Senior Vice President - Public and Customer Affairs		
7	and Chief Human Resources Officer	William A Stiller	314,750
8	Senior Vice President - General Counsel	John R Boomer	166,731
9	Senior Vice President - General Counsel and		
10	Assistant Secretary	Adrian J Rodriguez	251,617
11	Vice President - Regulatory Affairs	James A Schichtl	216,423
12	Vice President - Transmission and Distribution		
13	and System Planning	Robert C Doyle	252,885
14	Vice President - Controller	Russell G Gibson	242,865
15	Vice President - Public, Government and		
16	Customer Affairs	Eduardo Gutierrez	211,865
17	Vice President - Generation and System Planning		
18	and Dispatch	David C Hawkins	237,827
19	Vice President - Customer Care	Kerry B Lore	218,923
20	Vice President - Power Generation	Andres R Ramirez	269,904
21	Vice President - Community Outreach	Guillermo Silva, Jr	168,923
22	Vice President - Compliance and Chief Risk Officer	Henry W Soza	231,885
23	Vice President - Renewables Development	Richard E Turner	206,885
24	Vice President - Human Resources and Community		
25	Outreach	Victor F Rueda	
26	Corporate Secretary	Jessica M Goldman	124,866
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Name of Respondent	This Report is	Date of Report	Year/Period of Report
El Paso Electric Company	(1) X An Original (2) __ A Resubmission	(Mo, Da, Yr) / /	2017/Q4

FOOTNOTE DATA

Schedule Page: 104 Line No.: 1 Column: b

On May 25, 2017, Mary E. Kipp was appointed by the Board of Directors of the Company to serve as President of the Company concurrently with her position as the Company's Chief Executive Officer. Ms. Kipp has served as the Company's Chief Executive Officer since December 2015.

Schedule Page: 104 Line No.: 5 Column: b

On May 25, 2017, Rocky R. Miracle, formerly Senior Vice President of Corporate Services and Chief Compliance Officer, was appointed Senior Vice President of Corporate Development and Chief Compliance Officer.

Schedule Page: 104 Line No.: 8 Column: b

On July 7, 2017, John R. Boomer, Senior Vice President and General Counsel, resigned from the Company.

Schedule Page: 104 Line No.: 10 Column: b

On September 18, 2017, Adrian J. Rodriguez was promoted to Senior Vice President, General Counsel and Assistant Secretary. Formerly, Mr. Rodriguez served as Vice President, General Counsel and Assistant Secretary from May 2017 to September 2017, and Principal Attorney from July 2016 to May 2017.

Schedule Page: 104 Line No.: 18 Column: b

On February 5, 2018, David C. Hawkins, formerly Vice President of System Operations, Resource Planning and Management, was apppointed Vice President of Generation and System Planning and Dispatch.

Schedule Page: 104 Line No.: 20 Column: b

On March 1, 2018, Andres R. Ramirez, Vice President of Power Generation, retired from the Company.

Schedule Page: 104 Line No.: 25 Column: b

On March 5, 2018, Victor F. Rueda was appointed Vice President of Human Resources and Community Outreach. Mr. Rueda served as Vice President of Human Resources of Andeavor (formerly Western Refining, Inc.), from 2006 until 2017.

Name of Respondent	This Report Is	Date of Report (Mo, Da, Yr)	Year/Period of Report
El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2017/Q4

DIRECTORS

1 Report below the information called for concerning each director of the respondent who held office at any time during the year Include in column (a), abbreviated titles of the directors who are officers of the respondent
2 Designate members of the Executive Committee by a triple asterisk and the Chairman of the Executive Committee by a double asterisk

Line No	Name (and Title) of Director (a)	Principal Business Address (b)
1	Catherine A Allen - Director***	The Santa Fe Group
2		3 Chamisa Drive North, Suite 2
3		Santa Fe, New Mexico 87508
4		
5	Paul M Barbas - Director	Post Office Box 458
6		Barnstable, Massachusetts 02630
7		
8	John Robert Brown - Former Director	Brownco Capital, LLC
9		6080 Surety Drive, Suite 205
10		El Paso, Texas 79905
11		
12	James W Cicconi - Director***	El Paso Electric Company
13		100 North Stanton
14		El Paso, Texas 79901
15		
16	Edward Escudero - Director and Vice Chairman of the Board***	High Desert Capital, LLC
17		6080 Surety Drive
18		El Paso, Texas 79905
19		
20	James W Harris - Director	OP Food Products, LLC
21		Harris Financial Advisors, LLC
22		Post Office Box 38
23		Manns Harbor, North Carolina 27953
24		
25	Woodley L Hunt - Director	Hunt Companies, Inc
26		4401 North Mesa Street
27		El Paso, Texas 79902
28		
29	Mary E Kipp - Director and President and CEO	El Paso Electric Company
30		100 North Stanton
31		El Paso, Texas 79901
32		
33	Raymond Palacios, Jr - Director	Bravo Cadillac
34		6555 Montana Avenue
35		El Paso, Texas 79925
36		
37	Thomas V Shockley, III - Former Director	El Paso Electric Company
38		100 North Stanton
39		El Paso, Texas 79901
40		
41	Eric B Siegel - Director**	11100 Santa Monica Boulevard, Suite 2000
42		Los Angeles, California 90025
43		
44	Stephen N Wertheimer - Director***	W Capital Partners
45		400 Park Avenue, Suite 910
46		New York, New York 10022
47		
48		

Name of Respondent	This Report Is	Date of Report (Mo, Da, Yr)	Year/Period of Report
El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2017/Q4

DIRECTORS

1 Report below the information called for concerning each director of the respondent who held office at any time during the year Include in column (a), abbreviated titles of the directors who are officers of the respondent

2 Designate members of the Executive Committee by a triple asterisk and the Chairman of the Executive Committee by a double asterisk

Line No	Name (and Title) of Director (a)	Principal Business Address (b)
1	Charles A Yamarone - Director and Chairman of the Board***	Houlihan Lokey
2		10250 Constellation Boulevard, 5th Floor
3		Los Angeles, California 90067
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Name of Respondent	This Report is	Date of Report (Mo, Da, Yr)	Year/Period of Report
El Paso Electric Company	(1) X An Original (2) __ A Resubmission	/ /	2017/Q4

FOOTNOTE DATA

Schedule Page: 105 Line No.: 5 Column: a

On May 25, 2017, Paul M. Barbas was appointed to the Board of Directors filling the unexpired term of Thomas V. Shockley, III.

Schedule Page: 105 Line No.: 8 Column: a

On May 25, 2017, John Robert Brown retired from the Board of Directors in accordance with the director retirement age policy in the Company's Corporate Governance Guidelines.

Schedule Page: 105 Line No.: 29 Column: a

On May 25, 2017, Mary E. Kipp was appointed to serve as President of the Company concurrently with her position as the Chief Executive Officer.

Schedule Page: 105 Line No.: 33 Column: a

On May 25, 2017, Raymond Palacios, Jr., was appointed to the Board of Directors filling the unexpired term of John Robert Brown.

Schedule Page: 105 Line No.: 37 Column: a

On May 25, 2017, Thomas V. Shockley, III, retired from the Board of Directors in accordance with the director retirement age policy in the Company's Corporate Governance Guidelines.

Name of Respondent	This Report Is	Date of Report (Mo, Da, Yr)	Year/Period of Report
El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2017/Q4

INFORMATION ON FORMULA RATES
FERC Rate Schedule/Tariff Number FERC Proceeding

Does the respondent have formula rates?

[X] Yes
[ ] No

1 Please list the Commission accepted formula rates including FERC Rate Schedule or Tariff Number and FERC proceeding (i e Docket No) accepting the rate(s) or changes in the accepted rate

Line No	FERC Rate Schedule or Tariff Number	FERC Proceeding
1	Rate Schedule FERC No 18	ER08-742-001
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Name of Respondent	This Report Is	Date of Report (Mo, Da, Yr)	Year/Period of Report
El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2017/Q4

INFORMATION ON FORMULA RATES
FERC Rate Schedule/Tariff Number FERC Proceeding

Does the respondent file with the Commission annual (or more frequent) filings containing the inputs to the formula rate(s)?

[X] Yes
[ ] No

2 If yes, provide a listing of such filings as contained on the Commission's eLibrary website

Line No	Accession No	Document Date \ Filed Date	Docket No	Description	Formula Rate FERC Rate Schedule Number or Tariff Number
1	20170911-5125	09/11/2017		2017 Annual Update Filing	18
2		09/11/2017			
3					
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Name of Respondent	This Report is	Date of Report	Year/Period of Report
El Paso Electric Company	(1) X An Original (2) __ A Resubmission	(Mo, Da, Yr) / /	2017/Q4

FOOTNOTE DATA

Schedule Page: 1061 Line No.: 1 Column: d

The 2017 annual update is to the cost-based formula rate included in the Power Sales Agreement under ER08-742.

Name of Respondent	This Report Is	Date of Report (Mo, Da, Yr)	Year/Period of Report
El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2017/Q4

INFORMATION ON FORMULA RATES
Formula Rate Variances

1 If a respondent does not submit such filings then indicate in a footnote to the applicable Form 1 schedule where formula rate inputs differ from amounts reported in the Form 1
2 The footnote should provide a narrative description explaining how the "rate" (or billing) was derived if different from the reported amount in the Form 1
3 The footnote should explain amounts excluded from the ratebase or where labor or other allocation factors, operating expenses, or other items impacting formula rate inputs differ from amounts reported in Form 1 schedule amounts
4 Where the Commission has provided guidance on formula rate inputs, the specific proceeding should be noted in the footnote

Line No	Page No(s)	Schedule	Column	Line No
1	N/A			
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Name of Respondent	This Report Is	Date of Report	Year/Period of Report
El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2017/Q4

IMPORTANT CHANGES DURING THE QUARTER/YEAR

Give particulars (details) concerning the matters indicated below Make the statements explicit and precise, and number them in accordance with the inquiries Each inquiry should be answered Enter "none," "not applicable," or "NA" where applicable If information which answers an inquiry is given elsewhere in the report, make a reference to the schedule in which it appears

1 Changes in and important additions to franchise rights Describe the actual consideration given therefore and state from whom the franchise rights were acquired If acquired without the payment of consideration, state that fact

2 Acquisition of ownership in other companies by reorganization, merger, or consolidation with other companies Give names of companies involved, particulars concerning the transactions, name of the Commission authorizing the transaction, and reference to Commission authorization

3 Purchase or sale of an operating unit or system Give a brief description of the property, and of the transactions relating thereto, and reference to Commission authorization, if any was required Give date journal entries called for by the Uniform System of Accounts were submitted to the Commission

4 Important leaseholds (other than leaseholds for natural gas lands) that have been acquired or given, assigned or surrendered Give effective dates, lengths of terms, names of parties, rents, and other condition State name of Commission authorizing lease and give reference to such authorization

5 Important extension or reduction of transmission or distribution system State territory added or relinquished and date operations began or ceased and give reference to Commission authorization, if any was required State also the approximate number of customers added or lost and approximate annual revenues of each class of service Each natural gas company must also state major new continuing sources of gas made available to it from purchases, development, purchase contract or otherwise, giving location and approximate total gas volumes available, period of contracts, and other parties to any such arrangements, etc

6 Obligations incurred as a result of issuance of securities or assumption of liabilities or guarantees including issuance of short-term debt and commercial paper having a maturity of one year or less Give reference to FERC or State Commission authorization, as appropriate, and the amount of obligation or guarantee

7 Changes in articles of incorporation or amendments to charter Explain the nature and purpose of such changes or amendments

8 State the estimated annual effect and nature of any important wage scale changes during the year

9 State briefly the status of any materially important legal proceedings pending at the end of the year, and the results of any such proceedings culminated during the year

10 Describe briefly any materially important transactions of the respondent not disclosed elsewhere in this report in which an officer, director, security holder reported on Page 104 or 105 of the Annual Report Form No 1, voting trustee, associated company or known associate of any of these persons was a party or in which any such person had a material interest

11 (Reserved)

12 If the important changes during the year relating to the respondent company appearing in the annual report to stockholders are applicable in every respect and furnish the data required by Instructions 1 to 11 above, such notes may be included on this page

13 Describe fully any changes in officers, directors, major security holders and voting powers of the respondent that may have occurred during the reporting period

14 In the event that the respondent participates in a cash management program(s) and its proprietary capital ratio is less than 30 percent please describe the significant events or transactions causing the proprietary capital ratio to be less than 30 percent, and the extent to which the respondent has amounts loaned or money advanced to its parent, subsidiary, or affiliated companies through a cash management program(s) Additionally, please describe plans, if any to regain at least a 30 percent proprietary ratio

PAGE 108 INTENTIONALLY LEFT BLANK
SEE PAGE 109 FOR REQUIRED INFORMATION

Name of Respondent	This Report is	Date of Report	Year/Period of Report
El Paso Electric Company	(1) X An Original (2) __ A Resubmission	(Mo, Da, Yr) / /	2017/Q4

IMPORTANT CHANGES DURING THE QUARTER/YEAR (Continued)

1 Changes in and Important Additions to Franchise Rights

On March 20, 2018, the City of El Paso passed an ordinance amending its existing franchise agreement with the Company The amendment will increase the supplemental fee reserved for economic development by an additional 1 00%, increasing the total franchise fee to 5 00% of gross revenues, and will extend the expiration date of the franchise agreement by 30 years to July 31, 2060 The 2018 amendment will not become effective, however, until a tariff that allows the Company to recover the cost of the franchise fee increase from customers within the City of El Paso is approved and non-appealable The Company filed the proposed tariff with the City of El Paso on March 23, 2018, and the Company cannot predict as to if or when the tariff will be approved

2 Acquisition of Ownership in Other Companies

None

3 Purchase or Sale of an Operating Unit or System

None

4 Important Leaseholds That Have Been Acquired or Given, Assigned or Surrendered

None

5 Important Extension or Reduction of Transmission or Distribution System

None

6 Obligations Incurred as a Result of Issuance of Securities or Assumption of Liabilities or Guarantees

None

7 Changes in Articles of Incorporation

There were no changes to the Articles of Incorporation On July 27, 2017, the Board of Directors of the Company amended and restated the Bylaws of the Company (the "Amended and Restated Bylaws") The Amended and Restated Bylaws amended the Company's existing Bylaws to provide for, among other things, the position of Vice Chairman of the Board (Article V, Section 5), modifications to the compensation of directors (Article III, Section 14), the duties of certain officers (Article V, Sections 4 and 6), and the definition of "Continuing Directors" (Article VII, Section 8), the duties and powers of the person to preside at meetings of the shareholders of the Company and the conduct of such meetings (Article II, Section 13), and other technical, conforming and clarifying changes, including changing references to the Texas Business Organizations Code instead of the Texas Business Corporation Act

8 Important Wage Scale Changes

Base salaries for non-union employees were increased by an average of approximately 3% effective in January 2017 compared to 2016 through the merit award process The annual effect of this increase was approximately $1 8 million

Base salaries for union employees under contract were increased by 3% effective September 2017 compared to the previous level The annual effect of this increase was approximately $1 0 million

Name of Respondent	This Report is	Date of Report	Year/Period of Report
El Paso Electric Company	(1) X An Original (2) __ A Resubmission	(Mo, Da, Yr) / /	2017/Q4

IMPORTANT CHANGES DURING THE QUARTER/YEAR (Continued)

9 Materially Important Legal Proceedings

The Company is a party to various legal actions In many of these matters, the Company has excess casualty liability insurance that covers the various claims, actions and complaints 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

Also, see Notes C, J, and K of "Notes to Financial Statements "

10 Materially Important Transactions

None

11 Reserved

12 Important changes during the year

2017 Texas Retail Rate Case Filing. On February 13, 2017, the Company filed with the City of El Paso, other municipalities incorporated in the Company's Texas service territory and the Public Utility Commission of Texas ("PUCT") in Docket No 46831, a request for an increase in non-fuel base revenues ("2017 Texas Retail Rate Case") On November 2, 2017, the Company filed the Joint Motion to Implement Uncontested Stipulation and Agreement with the Administrative Law Judges for the 2017 Texas Retail Rate Case

On December 18, 2017, the PUCT issued its final order in the Company's rate case pending in Docket No 46831 ("2017 PUCT Final Order"), which provides, among other things, for the following (i) an annual non-fuel base rate increase of $14 5 million, (ii) a return on equity of 9 65%, (iii) all new plant in service as filed in the Company's rate filing package was prudent and used and useful and therefore is included in rate base, (iv) recovery of the costs of decommissioning Four Corners in the amount of $5 5 million over a seven year period beginning August 1, 2017, (v) the Company to recover reasonable rate case expenses of approximately $3 4 million through a separate surcharge over a three year period, and (vi) a requirement that the Company file a refund tariff if the federal statutory income tax rate, as it relates to the Company, is decreased before the Company files its next rate case The 2017 PUCT Final Order also establishes baseline revenue requirements for recovery of future transmission and distribution investment costs, and includes a minimum monthly bill of $30 00 for new residential customers with distributed generation, such as private rooftop solar Additionally, the 2017 PUCT Final Order allows for the annual recovery of $2 1 million of nuclear decommissioning funding and establishes annual depreciation expense that is approximately $1 9 million lower than the annual amount requested by the Company in its initial filing Finally, the 2017 PUCT Final Order allows for the Company to recover revenues associated with the relate back of rates to consumption on and after July 18, 2017 through a separate surcharge

New base rates, including additional surcharges associated with rate case expenses and the relate back of rates to consumption on and after July 18, 2017 through December 31, 2017 were implemented in January 2018

For financial reporting purposes, the Company deferred any recognition of the Company's request in its 2017 Texas Retail Rate Case until it received the 2017 PUCT Final Order on December 18, 2017 Accordingly, it reported in the fourth quarter of 2017 the cumulative effect of the 2017 PUCT Final Order, which related back to July 18, 2017

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, were decreased before the Company files its next rate case Following the enactment of the Tax Cuts and Jobs Act of 2017 (the "TCJA") on December 22, 2017, and in compliance with the 2017 PUCT Final Order, on

Name of Respondent El Paso Electric Company	This Report is (1) X An Original (2) __ A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report 2017/Q4

IMPORTANT CHANGES DURING THE QUARTER/YEAR (Continued)

March 1, 2018, the Company filed 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 tax law changes This filing was assigned PUCT Docket No 48124 On March 27, 2018, the PUCT approved the Company's proposed tax credits on an interim basis, subject to refund or surcharge, for customer billing effective April 1, 2018 The refund tariff will be reflected in rates over a period of a year and will be updated annually until new base rates are implemented pursuant to the Company's next rate case filing The refund tariff case is pending

Fuel Reconciliation Proceeding On September 27, 2016, the Company filed an application with the PUCT, designated as PUCT Docket No 46308, to reconcile $436 6 million of Texas fuel and purchased power expenses incurred during the period of April 1, 2013 through March 31, 2016 On June 29, 2017, the PUCT approved a settlement in this proceeding The settlement provides for the reconciliation of fuel and purchased power costs incurred from April 1, 2013 through March 31, 2016 Additionally, the settlement modifies and tightens the Palo Verde Nuclear Generating Station ("Palo Verde") performance rewards measurement bands beginning with the 2018 performance period The financial results for the twelve months ended December 31, 2017 include a $5 0 million, pre-tax increase to income reflecting the settlement of the Texas fuel reconciliation proceeding This amount includes Palo Verde performance rewards associated with the 2013 to 2015 performance periods net of disallowed fuel and purchased power costs as approved in the settlement Texas jurisdictional fuel and purchased power costs subject to prudence review are costs from April 1, 2016 through December 31, 2017 that total approximately $250 9 million

New Mexico Order Commencing Review of the Effects of the Federal Tax Cuts and Jobs Act of 2017 on Regulated New Mexico Utilities. On January 24, 2018, the NMPRC initiated an investigation into the impact of the TCJA on New Mexico utilities, Case No 18-00016-UT Following the Company’s filed response to the NMPRC’s queries, the NMPRC issued an order on April 4, 2018 requiring that the Company 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 resulting from the TCJA The proposed rate rider is required to be implemented by May 1, 2018 and is subject to reconciliation In accordance with the NMPRC order, the Company is developing a proposed interim rate rider for filing with the NMPRC and will consult with the New Mexico Attorney General for approval as to the form of the filing The annualized credits expected to be refunded to New Mexico customers beginning May 1, 2018 approximates $4 9 million The order further requires that the Company record and track a regulatory liability for the change in federal corporate income tax rate on the Company’s excess accumulated deferred income taxes, consistent with the effective date of the TCJA, and subject to amortization determined by the Commission in the Company’s next general rate case As discussed in Footnote I Income Taxes, the December 31, 2017 regulatory-basis balance sheet reflects the recording of such a regulatory liability

Inquiry Regarding the Effect of the Tax Cuts and Jobs Act on Commission-Jurisdictional Rates and Order to Show Cause On March 15, 2018, the Federal Energy Regulatory Commission ("FERC") issued two show cause orders under section 206 of the Federal Power Act and Rule 209(a) of the Commission’s Rules of Practice and Procedure, directing 48 individual public utilities with stated transmission rates or transmission formula rates with a fixed line item of 35% for the federal income tax component to, within 60 days of the orders, either (1) propose revisions to their transmission rates under their open access transmission tariffs or transmission owner tariffs on file with the Commission, or (2) show cause why they should not be required to do so The Company is included in the list of public utilities impacted by the FERC orders and is currently evaluating a response to the orders The Company’s existing wholesale transmission rates were approved by FERC in 1999

Also, see response to items 1 to 11 and 13 to 14

13 Changes in officers, directors, major security holders and voting powers of the respondent that may have occurred during the reporting period

Name of Respondent	This Report is	Date of Report (Mo, Da, Yr)	Year/Period of Report
El Paso Electric Company	(1) X An Original (2) __ A Resubmission	/ /	2017/Q4

IMPORTANT CHANGES DURING THE QUARTER/YEAR (Continued)

On May 25, 2017, Mary E Kipp was appointed by the Board of Directors of the Company to serve as President of the Company concurrently with her position as the Company's Chief Executive Officer Ms Kipp has served as the Company's Chief Executive Officer since December 2015

On May 25, 2017, J Robert Brown retired from the Board of Directors of the Company in accordance with the director retirement policy in the Company's Corporate Governance Guidelines

On May 25, 2017, Thomas V Shockley, III, retired from the Board of Directors of the Company in accordance with the director retirement policy in the Company's Corporate Governance Guidelines

On May 25, 2017, Paul M Barbas, was appointed to the Board of Directors of the Company Formerly, Mr Barbas served as President and Chief Executive Officer of DPL Inc , a midsize utility in Dayton, Ohio, and its principal subsidiary, The Dayton Power and Light Company, from October 2006 to December 2011

On May 25, 2017, Raymond Palacios, Jr , was appointed to the Board of Directors of the Company Mr Palacios has served as President of Bravo Cadillac in El Paso, Texas since 2000, and President of Bravo Chevrolet Cadillac in Las Cruces, New Mexico since 2004

On July 7, 2017, John R Boomer, Senior Vice President, resigned from the Company

On September 18, 2017, Adrian J Rodriguez was appointed Senior Vice President, General Counsel and Assistant Secretary Formerly, Mr Rodriguez served as Vice President, General Counsel and Assistant Secretary from May 2017 to September 2017, Principal Attorney from July 2016 to May 2017, Senior Attorney from November 2014 to July 2016, and Staff Attorney from 2013 to November 2014

On March 5, 2018, Victor F Rueda was appointed Vice President of Human Resources and Community Outreach Mr Rueda served as Vice President of Human Resources of Andeavor (formerly Western Refining, Inc), from 2006 until 2017

14 Cash management programs and events causing the proprietary capital to be less than 30 percent

None

Name of Respondent	This Report Is	Date of Report (Mo, Da, Yr)	Year/Period of Report
El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2017/Q4

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)

Line No	Title of Account (a)	Ref Page No (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	**UTILITY PLANT**			
2	Utility Plant (101-106, 114)	200-201	4,912,424,556	4,720,359,747
3	Construction Work in Progress (107)	200-201	146,057,827	154,738,506
4	TOTAL Utility Plant (Enter Total of lines 2 and 3)		5,058,482,383	4,875,098,253
5	(Less) Accum Prov for Depr Amort Depl (108, 110, 111, 115)	200-201	2,240,335,407	2,161,720,490
6	Net Utility Plant (Enter Total of line 4 less 5)		2,818,146,976	2,713,377,763
7	Nuclear Fuel in Process of Ref , Conv ,Enrich , and Fab (120 1)	202-203	0	0
8	Nuclear Fuel Materials and Assemblies-Stock Account (120 2)		0	0
9	Nuclear Fuel Assemblies in Reactor (120 3)		0	0
10	Spent Nuclear Fuel (120 4)		0	0
11	Nuclear Fuel Under Capital Leases (120 6)		195,938,084	196,173,010
12	(Less) Accum Prov for Amort of Nucl Fuel Assemblies (120 5)	202-203	74,727,129	76,343,039
13	Net Nuclear Fuel (Enter Total of lines 7-11 less 12)		121,210,955	119,829,971
14	Net Utility Plant (Enter Total of lines 6 and 13)		2,939,357,931	2,833,207,734
15	Utility Plant Adjustments (116)		0	-947,680
16	Gas Stored Underground - Noncurrent (117)		0	0
17	**OTHER PROPERTY AND INVESTMENTS**			
18	Nonutility Property (121)		709,446	709,446
19	(Less) Accum Prov for Depr and Amort (122)		0	0
20	Investments in Associated Companies (123)		0	0
21	Investment in Subsidiary Companies (123 1)	224-225	0	0
22	(For Cost of Account 123 1, See Footnote Page 224, line 42)			
23	Noncurrent Portion of Allowances	228-229	0	0
24	Other Investments (124)		1,764,256	1,455,555
25	Sinking Funds (125)		0	0
26	Depreciation Fund (126)		0	0
27	Amortization Fund - Federal (127)		0	0
28	Other Special Funds (128)		293,016,062	262,154,162
29	Special Funds (Non Major Only) (129)		0	0
30	Long-Term Portion of Derivative Assets (175)		0	0
31	Long-Term Portion of Derivative Assets – Hedges (176)		0	0
32	TOTAL Other Property and Investments (Lines 18-21 and 23-31)		295,489,764	264,319,163
33	**CURRENT AND ACCRUED ASSETS**			
34	Cash and Working Funds (Non-major Only) (130)		0	0
35	Cash (131)		6,701,768	8,068,258
36	Special Deposits (132-134)		0	0
37	Working Fund (135)		66,552	172,070
38	Temporary Cash Investments (136)		221,525	179,627
39	Notes Receivable (141)		0	0
40	Customer Accounts Receivable (142)		54,852,721	55,437,716
41	Other Accounts Receivable (143)		13,880,761	14,240,188
42	(Less) Accum Prov for Uncollectible Acct -Credit (144)		2,336,990	2,184,779
43	Notes Receivable from Associated Companies (145)		0	0
44	Accounts Receivable from Assoc Companies (146)		0	0
45	Fuel Stock (151)	227	2,071,842	1,831,509
46	Fuel Stock Expenses Undistributed (152)	227	0	0
47	Residuals (Elec) and Extracted Products (153)	227	0	0
48	Plant Materials and Operating Supplies (154)	227	48,791,808	45,355,549
49	Merchandise (155)	227	0	0
50	Other Materials and Supplies (156)	227	0	0
51	Nuclear Materials Held for Sale (157)	202-203/227	0	0
52	Allowances (158 1 and 158 2)	228-229	40,560	27,823

Name of Respondent	This Report Is	Date of Report (Mo, Da, Yr)	Year/Period of Report
El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2017/Q4

COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)(Continued)

Line No	Title of Account (a)	Ref Page No (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
53	(Less) Noncurrent Portion of Allowances		0	0
54	Stores Expense Undistributed (163)	227	6,086	1,106
55	Gas Stored Underground - Current (164 1)		0	0
56	Liquefied Natural Gas Stored and Held for Processing (164 2-164 3)		0	0
57	Prepayments (165)		10,297,791	9,699,364
58	Advances for Gas (166-167)		0	0
59	Interest and Dividends Receivable (171)		3,459	6,388
60	Rents Receivable (172)		0	0
61	Accrued Utility Revenues (173)		22,185,000	20,952,000
62	Miscellaneous Current and Accrued Assets (174)		-19,103	-25,406
63	Derivative Instrument Assets (175)		0	0
64	(Less) Long-Term Portion of Derivative Instrument Assets (175)		0	0
65	Derivative Instrument Assets - Hedges (176)		0	0
66	(Less) Long-Term Portion of Derivative Instrument Assets - Hedges (176		0	0
67	Total Current and Accrued Assets (Lines 34 through 66)		156,763,780	153,761,413
68	**DEFERRED DEBITS**			
69	Unamortized Debt Expenses (181)		12,843,774	13,300,775
70	Extraordinary Property Losses (182 1)	230a	0	0
71	Unrecovered Plant and Regulatory Study Costs (182 2)	230b	0	0
72	Other Regulatory Assets (182 3)	232	96,746,932	145,850,294
73	Prelim Survey and Investigation Charges (Electric) (183)		955,259	865,320
74	Preliminary Natural Gas Survey and Investigation Charges 183 1)		0	0
75	Other Preliminary Survey and Investigation Charges (183 2)		0	0
76	Clearing Accounts (184)		-71,727	-345,325
77	Temporary Facilities (185)		0	0
78	Miscellaneous Deferred Debits (186)	233	5,815,807	5,632,375
79	Def Losses from Disposition of Utility Plt (187)		0	0
80	Research, Devel and Demonstration Expend (188)	352-353	0	0
81	Unamortized Loss on Reaquired Debt (189)		15,687,238	16,573,162
82	Accumulated Deferred Income Taxes (190)	234	191,950,416	251,438,660
83	Unrecovered Purchased Gas Costs (191)		0	0
84	Total Deferred Debits (lines 69 through 83)		323,927,699	433,315,261
85	TOTAL ASSETS (lines 14-16, 32, 67, and 84)		3,715,539,174	3,683,655,891

Name of Respondent	This Report is	Date of Report (mo, da, yr)	Year/Period of Report
El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	end of 2017/Q4

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)

Line No	Title of Account (a)	Ref Page No (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	PROPRIETARY CAPITAL			
2	Common Stock Issued (201)	250-251	65,828,688	65,824,151
3	Preferred Stock Issued (204)	250-251	0	0
4	Capital Stock Subscribed (202, 205)		0	0
5	Stock Liability for Conversion (203, 206)		0	0
6	Premium on Capital Stock (207)		312,697,384	310,164,281
7	Other Paid-In Capital (208-211)	253	3,390,298	2,448,606
8	Installments Received on Capital Stock (212)	252	0	0
9	(Less) Discount on Capital Stock (213)	254	0	0
10	(Less) Capital Stock Expense (214)	254b	340,939	340,939
11	Retained Earnings (215, 215 1, 216)	118-119	1,188,438,459	1,142,889,432
12	Unappropriated Undistributed Subsidiary Earnings (216 1)	118-119	0	0
13	(Less) Reaquired Capital Stock (217)	250-251	420,505,805	421,514,793
14	Noncorporate Proprietorship (Non-major only) (218)		0	0
15	Accumulated Other Comprehensive Income (219)	122(a)(b)	11,058,360	-7,116,015
16	Total Proprietary Capital (lines 2 through 15)		1,160,566,445	1,092,354,723
17	LONG-TERM DEBT			
18	Bonds (221)	256-257	159,835,000	193,135,000
19	(Less) Reaquired Bonds (222)	256-257	0	0
20	Advances from Associated Companies (223)	256-257	0	0
21	Other Long-Term Debt (224)	256-257	1,000,000,000	1,000,000,000
22	Unamortized Premium on Long-Term Debt (225)		6,813,217	6,935,167
23	(Less) Unamortized Discount on Long-Term Debt-Debit (226)		3,623,116	3,740,286
24	Total Long-Term Debt (lines 18 through 23)		1,163,025,101	1,196,329,881
25	OTHER NONCURRENT LIABILITIES			
26	Obligations Under Capital Leases - Noncurrent (227)		45,000,000	45,000,000
27	Accumulated Provision for Property Insurance (228 1)		0	0
28	Accumulated Provision for Injuries and Damages (228 2)		0	0
29	Accumulated Provision for Pensions and Benefits (228 3)		110,254,454	127,168,099
30	Accumulated Miscellaneous Operating Provisions (228 4)		0	0
31	Accumulated Provision for Rate Refunds (229)		0	0
32	Long-Term Portion of Derivative Instrument Liabilities		0	0
33	Long-Term Portion of Derivative Instrument Liabilities - Hedges		0	0
34	Asset Retirement Obligations (230)		93,028,714	81,799,925
35	Total Other Noncurrent Liabilities (lines 26 through 34)		248,283,168	253,968,024
36	CURRENT AND ACCRUED LIABILITIES			
37	Notes Payable (231)		85,000,000	44,000,000
38	Accounts Payable (232)		59,270,210	62,953,407
39	Notes Payable to Associated Companies (233)		0	0
40	Accounts Payable to Associated Companies (234)		0	0
41	Customer Deposits (235)		7,013,549	6,753,534
42	Taxes Accrued (236)	262-263	32,817,188	28,776,698
43	Interest Accrued (237)		11,613,171	11,585,596
44	Dividends Declared (238)		0	0
45	Matured Long-Term Debt (239)		0	0

Name of Respondent	This Report is	Date of Report (mo, da, yr)	Year/Period of Report
El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	end of 2017/Q4

COMPARATIVE BALANCE SHEET (LIABILITIES AND OTHER CREDITS)(continued)

Line No	Title of Account (a)	Ref Page No (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
46	Matured Interest (240)		0	0
47	Tax Collections Payable (241)		1,647,615	1,746,875
48	Miscellaneous Current and Accrued Liabilities (242)		20,406,508	21,207,903
49	Obligations Under Capital Leases-Current (243)		89,389,759	89,274,728
50	Derivative Instrument Liabilities (244)		0	0
51	(Less) Long-Term Portion of Derivative Instrument Liabilities		0	0
52	Derivative Instrument Liabilities - Hedges (245)		0	0
53	(Less) Long-Term Portion of Derivative Instrument Liabilities-Hedges		0	0
54	Total Current and Accrued Liabilities (lines 37 through 53)		307,158,000	266,298,741
55	DEFERRED CREDITS			
56	Customer Advances for Construction (252)		20,559,598	18,868,550
57	Accumulated Deferred Investment Tax Credits (255)	266-267	20,392,372	19,772,475
58	Deferred Gains from Disposition of Utility Plant (256)		0	0
59	Other Deferred Credits (253)	269	4,433,668	1,622,814
60	Other Regulatory Liabilities (254)	278	297,855,890	39,901,322
61	Unamortized Gain on Reaquired Debt (257)		0	0
62	Accum Deferred Income Taxes-Accel Amort (281)	272-277	0	0
63	Accum Deferred Income Taxes-Other Property (282)		482,460,890	772,657,141
64	Accum Deferred Income Taxes-Other (283)		10,804,042	21,882,220
65	Total Deferred Credits (lines 56 through 64)		836,506,460	874,704,522
66	TOTAL LIABILITIES AND STOCKHOLDER EQUITY (lines 16, 24, 35, 54 and 65)		3,715,539,174	3,683,655,891

Name of Respondent	This Report Is	Date of Report (Mo, Da, Yr)	Year/Period of Report
El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2017/Q4

STATEMENT OF INCOME

Quarterly
1 Report in column (c) the current year to date balance Column (c) equals the total of adding the data in column (g) plus the data in column (i) plus the data in column (k) Report in column (d) similar data for the previous year This information is reported in the annual filing only
2 Enter in column (e) the balance for the reporting quarter and in column (f) the balance for the same three month period for the prior year
3 Report in column (g) the quarter to date amounts for electric utility function, in column (i) the quarter to date amounts for gas utility, and in column (k) the quarter to date amounts for other utility function for the current year quarter
4 Report in column (h) the quarter to date amounts for electric utility function, in column (j) the quarter to date amounts for gas utility, and in column (l) the quarter to date amounts for other utility function for the prior year quarter
5 If additional columns are needed, place them in a footnote

Annual or Quarterly if applicable
5 Do not report fourth quarter data in columns (e) and (f)
6 Report amounts for accounts 412 and 413, Revenues and Expenses from Utility Plant Leased to Others, in another utility columnin a similar manner to a utility department Spread the amount(s) over lines 2 thru 26 as appropriate Include these amounts in columns (c) and (d) totals
7 Report amounts in account 414, Other Utility Operating Income, in the same manner as accounts 412 and 413 above

Line No	Title of Account (a)	(Ref) Page No (b)	Total Current Year to Date Balance for Quarter/Year (c)	Total Prior Year to Date Balance for Quarter/Year (d)	Current 3 Months Ended Quarterly Only No 4th Quarter (e)	Prior 3 Months Ended Quarterly Only No 4th Quarter (f)
1	UTILITY OPERATING INCOME					
2	Operating Revenues (400)	300-301	916,796,846	886,936,330		
3	Operating Expenses					
4	Operation Expenses (401)	320-323	480,804,299	468,065,677		
5	Maintenance Expenses (402)	320-323	69,458,396	66,746,006		
6	Depreciation Expense (403)	336-337	84,170,742	79,038,903		
7	Depreciation Expense for Asset Retirement Costs (403 1)	336-337	-1,137,735	-1,159,369		
8	Amort & Depl of Utility Plant (404-405)	336-337	6,409,172	5,302,468		
9	Amort of Utility Plant Acq Adj (406)	336-337				
10	Amort Property Losses, Unrecov Plant and Regulatory Study Costs (407)					
11	Amort of Conversion Expenses (407)					
12	Regulatory Debits (407 3)		1,674,952	678,723		
13	(Less) Regulatory Credits (407 4)		261,240	130,620		
14	Taxes Other Than Income Taxes (408 1)	262-263	70,862,859	65,532,681		
15	Income Taxes - Federal (409 1)	262-263	-8,528,717	-7,933,389		
16	- Other (409 1)	262-263	-193,536	775,079		
17	Provision for Deferred Income Taxes (410 1)	234, 272-277	184,203,783	236,095,452		
18	(Less) Provision for Deferred Income Taxes-Cr (411 1)	234, 272-277	136,812,581	185,306,185		
19	Investment Tax Credit Adj - Net (411 4)	266	619,897	-1,552,972		
20	(Less) Gains from Disp of Utility Plant (411 6)					
21	Losses from Disp of Utility Plant (411 7)					
22	(Less) Gains from Disposition of Allowances (411 8)					
23	Losses from Disposition of Allowances (411 9)					
24	Accretion Expense (411 10)		7,648,643	7,171,920		
25	TOTAL Utility Operating Expenses (Enter Total of lines 4 thru 24)		758,918,934	733,324,374		
26	Net Util Oper Inc (Enter Tot line 2 less 25) Carry to Pg117,line 27		157,877,912	153,611,956		

Name of Respondent	This Report Is	Date of Report (Mo, Da, Yr)	Year/Period of Report
El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2017/Q4

STATEMENT OF INCOME FOR THE YEAR (Continued)

9 Use page 122 for important notes regarding the statement of income for any account thereof
10 Give concise explanations concerning unsettled rate proceedings where a contingency exists such that refunds of a material amount may need to be made to the utility's customers or which may result in material refund to the utility with respect to power or gas purchases State for each year effected the gross revenues or costs to which the contingency relates and the tax effects together with an explanation of the major factors which affect the rights of the utility to retain such revenues or recover amounts paid with respect to power or gas purchases
11 Give concise explanations concerning significant amounts of any refunds made or received during the year resulting from settlement of any rate proceeding affecting revenues received or costs incurred for power or gas purches, and a summary of the adjustments made to balance sheet, income, and expense accounts
12 If any notes appearing in the report to stokholders are applicable to the Statement of Income, such notes may be included at page 122
13 Enter on page 122 a concise explanation of only those changes in accounting methods made during the year which had an effect on net income, including the basis of allocations and apportionments from those used in the preceding year Also, give the appropriate dollar effect of such changes
14 Explain in a footnote if the previous year's/quarter's figures are different from that reported in prior reports
15 If the columns are insufficient for reporting additional utility departments, supply the appropriate account titles report the information in a footnote to this schedule

ELECTRIC UTILITY		GAS UTILITY		OTHER UTILITY		
Current Year to Date (in dollars) (g)	Previous Year to Date (in dollars) (h)	Current Year to Date (in dollars) (i)	Previous Year to Date (in dollars) (j)	Current Year to Date (in dollars) (k)	Previous Year to Date (in dollars) (l)	Line No
						1
916,796,846	886,936,330					2
						3
480,804,299	468,065,677					4
69,458,396	66,746,006					5
84,170,742	79,038,903					6
-1,137,735	-1,159,369					7
6,409,172	5,302,468					8
						9
						10
						11
1,674,952	678,723					12
261,240	130,620					13
70,862,859	65,532,681					14
-8,528,717	-7,933,389					15
-193,536	775,079					16
184,203,783	236,095,452					17
136,812,581	185,306,185					18
619,897	-1,552,972					19
						20
						21
						22
						23
7,648,643	7,171,920					24
758,918,934	733,324,374					25
157,877,912	153,611,956					26

Name of Respondent	This Report Is	Date of Report (Mo, Da, Yr)	Year/Period of Report
El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2017/Q4

STATEMENT OF INCOME FOR THE YEAR (continued)

Line No	Title of Account (a)	(Ref) Page No (b)	TOTAL Current Year (c)	TOTAL Previous Year (d)	Current 3 Months Ended Quarterly Only No 4th Quarter (e)	Prior 3 Months Ended Quarterly Only No 4th Quarter (f)
27	Net Utility Operating Income (Carried forward from page 114)		157,877,912	153,611,956		
28	Other Income and Deductions					
29	Other Income					
30	Nonutilty Operating Income					
31	Revenues From Merchandising, Jobbing and Contract Work (415)		551,171	642,611		
32	(Less) Costs and Exp of Merchandising, Job & Contract Work (416)		827,980	889,146		
33	Revenues From Nonutility Operations (417)					
34	(Less) Expenses of Nonutility Operations (417 1)					
35	Nonoperating Rental Income (418)					
36	Equity in Earnings of Subsidiary Companies (418 1)	119				
37	Interest and Dividend Income (419)		6,817,160	6,564,865		
38	Allowance for Other Funds Used During Construction (419 1)		3,024,921	7,022,504		
39	Miscellaneous Nonoperating Income (421)		17,154,888	14,485,711		
40	Gain on Disposition of Property (421 1)		846,238	997,434		
41	TOTAL Other Income (Enter Total of lines 31 thru 40)		27,566,398	28,823,979		
42	Other Income Deductions					
43	Loss on Disposition of Property (421 2)		15,180	947,683		
44	Miscellaneous Amortization (425)			158,343		
45	Donations (426 1)		1,154,604	1,293,118		
46	Life Insurance (426 2)		372,968	358,874		
47	Penalties (426 3)		3,569	1,000		
48	Exp for Certain Civic, Political & Related Activities (426 4)		717,511	722,434		
49	Other Deductions (426 5)		856,344	2,120,685		
50	TOTAL Other Income Deductions (Total of lines 43 thru 49)		3,120,176	5,602,137		
51	Taxes Applic to Other Income and Deductions					
52	Taxes Other Than Income Taxes (408 2)	262-263	9,705	7,923		
53	Income Taxes-Federal (409 2)	262-263	10,909,613	10,168,454		
54	Income Taxes-Other (409 2)	262-263	442,940	449,563		
55	Provision for Deferred Inc Taxes (410 2)	234, 272-277	311,034	788,521		
56	(Less) Provision for Deferred Income Taxes-Cr (411 2)	234, 272-277	286,499	531,298		
57	Investment Tax Credit Adj -Net (411 5)					
58	(Less) Investment Tax Credits (420)					
59	TOTAL Taxes on Other Income and Deductions (Total of lines 52-58)		11,386,793	10,883,163		
60	Net Other Income and Deductions (Total of lines 41, 50, 59)		13,059,429	12,338,679		
61	Interest Charges					
62	Interest on Long-Term Debt (427)		71,177,625	69,667,572		
63	Amort of Debt Disc and Expense (428)		1,028,393	1,106,865		
64	Amortization of Loss on Reaquired Debt (428 1)		885,924	885,924		
65	(Less) Amort of Premium on Debt-Credit (429)		121,950	116,333		
66	(Less) Amortization of Gain on Reaquired Debt-Credit (429 1)					
67	Interest on Debt to Assoc Companies (430)					
68	Other Interest Expense (431)		2,237,756	1,433,391		
69	(Less) Allowance for Borrowed Funds Used During Construction-Cr (432)		2,974,276	4,982,916		
70	Net Interest Charges (Total of lines 62 thru 69)		72,233,472	67,994,503		
71	Income Before Extraordinary Items (Total of lines 27, 60 and 70)		98,703,869	97,956,132		
72	Extraordinary Items					
73	Extraordinary Income (434)					
74	(Less) Extraordinary Deductions (435)					
75	Net Extraordinary Items (Total of line 73 less line 74)					
76	Income Taxes-Federal and Other (409 3)	262-263				
77	Extraordinary Items After Taxes (line 75 less line 76)					
78	Net Income (Total of line 71 and 77)		98,703,869	97,956,132		

Name of Respondent	This Report Is	Date of Report (Mo, Da, Yr)	Year/Period of Report
El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2017/Q4

STATEMENT OF RETAINED EARNINGS

1 Do not report Lines 49-53 on the quarterly version
2 Report all changes in appropriated retained earnings, unappropriated retained earnings, year to date, and unappropriated undistributed subsidiary earnings for the year
3 Each credit and debit during the year should be identified as to the retained earnings account in which recorded (Accounts 433, 436 - 439 inclusive) Show the contra primary account affected in column (b)
4 State the purpose and amount of each reservation or appropriation of retained earnings
5 List first account 439, Adjustments to Retained Earnings, reflecting adjustments to the opening balance of retained earnings Follow by credit, then debit items in that order
6 Show dividends for each class and series of capital stock
7 Show separately the State and Federal income tax effect of items shown in account 439, Adjustments to Retained Earnings
8 Explain in a footnote the basis for determining the amount reserved or appropriated If such reservation or appropriation is to be recurrent, state the number and annual amounts to be reserved or appropriated as well as the totals eventually to be accumulated
9 If any notes appearing in the report to stockholders are applicable to this statement, include them on pages 122-123

Line No	Item (a)	Contra Primary Account Affected (b)	Current Quarter/Year Year to Date Balance (c)	Previous Quarter/Year Year to Date Balance (d)
	UNAPPROPRIATED RETAINED EARNINGS (Account 216)			
1	Balance-Beginning of Period		1,142,889,432	1,094,535,966
2	Changes			
3	Adjustments to Retained Earnings (Account 439)			
4	Federal Income Tax Effect Cummulative Effect Retained Earnings Adjustment			
5	(ASU) 2016-09 Compensation-Stock Compensation (Topic 718)			
6	Improvement to Employee Share-Based Payment Accounting	190	182,628	
7				
8				
9	TOTAL Credits to Retained Earnings (Acct 439)		182,628	
10				
11				
12				
13				
14				
15	TOTAL Debits to Retained Earnings (Acct 439)			
16	Balance Transferred from Income (Account 433 less Account 418 1)		98,703,869	97,956,132
17	Appropriations of Retained Earnings (Acct 436)			
18				
19				
20				
21				
22	TOTAL Appropriations of Retained Earnings (Acct 436)			
23	Dividends Declared-Preferred Stock (Account 437)			
24				
25				
26				
27				
28				
29	TOTAL Dividends Declared-Preferred Stock (Acct 437)			
30	Dividends Declared-Common Stock (Account 438)			
31	Class Common Stock $1 Par Value		-53,337,470	(49,602,666)
32				
33				
34				
35				
36	TOTAL Dividends Declared-Common Stock (Acct 438)		-53,337,470	(49,602,666)
37	Transfers from Acct 216 1, Unapprop Undistrib Subsidiary Earnings			
38	Balance - End of Period (Total 1,9,15,16,22,29,36,37)		1,188,438,459	1,142,889,432
	APPROPRIATED RETAINED EARNINGS (Account 215)			
39				
40				

Name of Respondent	This Report Is	Date of Report (Mo, Da, Yr)	Year/Period of Report
El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2017/Q4

STATEMENT OF RETAINED EARNINGS

1 Do not report Lines 49-53 on the quarterly version
2 Report all changes in appropriated retained earnings, unappropriated retained earnings, year to date, and unappropriated undistributed subsidiary earnings for the year
3 Each credit and debit during the year should be identified as to the retained earnings account in which recorded (Accounts 433, 436 - 439 inclusive) Show the contra primary account affected in column (b)
4 State the purpose and amount of each reservation or appropriation of retained earnings
5 List first account 439, Adjustments to Retained Earnings, reflecting adjustments to the opening balance of retained earnings Follow by credit, then debit items in that order
6 Show dividends for each class and series of capital stock
7 Show separately the State and Federal income tax effect of items shown in account 439, Adjustments to Retained Earnings
8 Explain in a footnote the basis for determining the amount reserved or appropriated If such reservation or appropriation is to be recurrent, state the number and annual amounts to be reserved or appropriated as well as the totals eventually to be accumulated
9 If any notes appearing in the report to stockholders are applicable to this statement, include them on pages 122-123

Line No	Item (a)	Contra Primary Account Affected (b)	Current Quarter/Year Year to Date Balance (c)	Previous Quarter/Year Year to Date Balance (d)
41				
42				
43				
44				
45	TOTAL Appropriated Retained Earnings (Account 215)			
	APPROP RETAINED EARNINGS - AMORT Reserve, Federal (Account 215 1)			
46	TOTAL Approp Retained Earnings-Amort Reserve, Federal (Acct 215 1)			
47	TOTAL Approp Retained Earnings (Acct 215, 215 1) (Total 45,46)			
48	TOTAL Retained Earnings (Acct 215, 215 1, 216) (Total 38, 47) (216 1)		1,188,438,459	1,142,889,432
	UNAPPROPRIATED UNDISTRIBUTED SUBSIDIARY EARNINGS (Account			
	Report only on an Annual Basis, no Quarterly			
49	Balance-Beginning of Year (Debit or Credit)			
50	Equity in Earnings for Year (Credit) (Account 418 1)			
51	(Less) Dividends Received (Debit)			
52				
53	Balance-End of Year (Total lines 49 thru 52)			

Name of Respondent	This Report Is	Date of Report (Mo, Da, Yr)	Year/Period of Report
El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2017/Q4

STATEMENT OF CASH FLOWS

(1) Codes to be used (a) Net Proceeds or Payments,(b)Bonds, debentures and other long-term debt, (c) Include commercial paper, and (d) Identify separately such items as investments, fixed assets, intangibles, etc
(2) Information about noncash investing and financing activities must be provided in the Notes to the Financial statements Also provide a reconciliation between "Cash and Cash Equivalents at End of Period" with related amounts on the Balance Sheet
(3) Operating Activities - Other Include gains and losses pertaining to operating activities only Gains and losses pertaining to investing and financing activities should be reported in those activities Show in the Notes to the Financials the amounts of interest paid (net of amount capitalized) and income taxes paid
(4) Investing Activities Include at Other (line 31) net cash outflow to acquire other companies Provide a reconciliation of assets acquired with liabilities assumed in the Notes to the Financial Statements Do not include on this statement the dollar amount of leases capitalized per the USofA General Instruction 20, instead provide a reconciliation of the dollar amount of leases capitalized with the plant cost

Line No	Description (See Instruction No 1 for Explanation of Codes) (a)	Current Year to Date Quarter/Year (b)	Previous Year to Date Quarter/Year (c)
1	Net Cash Flow from Operating Activities		
2	Net Income (Line 78(c) on page 117)	98,703,869	97,956,132
3	Noncash Charges (Credits) to Income		
4	Depreciation and Depletion	84,170,742	79,038,903
5	Amortization of Other	20,546,826	17,812,027
6	Amortization of Nuclear Fuel	42,689,141	44,001,663
7			
8	Deferred Income Taxes (Net)	47,415,742	51,046,490
9	Investment Tax Credit Adjustment (Net)	619,897	-1,552,972
10	Net (Increase) Decrease in Receivables	-137,824	-17,510,667
11	Net (Increase) Decrease in Inventory	-3,059,832	293,057
12	Net (Increase) Decrease in Allowances Inventory	-12,737	-27,693
13	Net Increase (Decrease) in Payables and Accrued Expenses	3,201,811	1,414,303
14	Net (Increase) Decrease in Other Regulatory Assets	-7,403,523	-19,352,175
15	Net Increase (Decrease) in Other Regulatory Liabilities	17,092,813	-3,767,976
16	(Less) Allowance for Other Funds Used During Construction	3,024,921	7,022,504
17	(Less) Undistributed Earnings from Subsidiary Companies		
18	Other (provide details in footnote)	-6,203,513	-2,430,856
19			
20	Deferred Charges and Credits	-5,142,612	-6,438,358
21	Net (Increase) Decrease in Prepayments and Other	-692,304	-1,183,644
22	Net Cash Provided by (Used in) Operating Activities (Total 2 thru 21)	288,763,575	232,275,730
23			
24	Cash Flows from Investment Activities		
25	Construction and Acquisition of Plant (including land)		
26	Gross Additions to Utility Plant (less nuclear fuel)	-196,305,192	-237,366,911
27	Gross Additions to Nuclear Fuel	-43,705,644	-47,551,046
28	Gross Additions to Common Utility Plant		
29	Gross Additions to Nonutility Plant		
30	(Less) Allowance for Other Funds Used During Construction	-3,024,921	-7,022,504
31	Other (provide details in footnote)		
32			
33			
34	Cash Outflows for Plant (Total of lines 26 thru 33)	-236,985,915	-277,895,453
35			
36	Acquisition of Other Noncurrent Assets (d)		
37	Proceeds from Disposal of Noncurrent Assets (d)	280,894	4,840,917
38			
39	Investments in and Advances to Assoc and Subsidiary Companies		
40	Contributions and Advances from Assoc and Subsidiary Companies		
41	Disposition of Investments in (and Advances to)		
42	Associated and Subsidiary Companies		
43			
44	Purchase of Investment Securities (a)		
45	Proceeds from Sales of Investment Securities (a)		

Name of Respondent	This Report Is	Date of Report (Mo, Da, Yr)	Year/Period of Report
El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2017/Q4

STATEMENT OF CASH FLOWS

(1) Codes to be used (a) Net Proceeds or Payments,(b)Bonds, debentures and other long-term debt, (c) Include commercial paper, and (d) Identify separately such items as investments, fixed assets, intangibles, etc
(2) Information about noncash investing and financing activities must be provided in the Notes to the Financial statements Also provide a reconciliation between "Cash and Cash Equivalents at End of Period" with related amounts on the Balance Sheet
(3) Operating Activities - Other Include gains and losses pertaining to operating activities only Gains and losses pertaining to investing and financing activities should be reported in those activities Show in the Notes to the Financials the amounts of interest paid (net of amount capitalized) and income taxes paid
(4) Investing Activities Include at Other (line 31) net cash outflow to acquire other companies Provide a reconciliation of assets acquired with liabilities assumed in the Notes to the Financial Statements Do not include on this statement the dollar amount of leases capitalized per the USofA General Instruction 20, instead provide a reconciliation of the dollar amount of leases capitalized with the plant cost

Line No	Description (See Instruction No 1 for Explanation of Codes) (a)	Current Year to Date Quarter/Year (b)	Previous Year to Date Quarter/Year (c)
46	Loans Made or Purchased		
47	Collections on Loans		
48			
49	Net (Increase) Decrease in Receivables		
50	Net (Increase) Decrease in Inventory		
51	Net (Increase) Decrease in Allowances Held for Speculation		
52	Net Increase (Decrease) in Payables and Accrued Expenses		
53	Investment in Decommissioning Trust Fund (Purchases)	-102,920,452	-99,497,276
54	Investment in Decomissioning Trust Fund (Sales and Maturities)	97,036,586	91,268,313
55	Other (provided details in footnote)	-1,557,360	4,425,581
56	Net Cash Provided by (Used in) Investing Activities		
57	Total of lines 34 thru 55)	-244,146,247	-276,857,918
58			
59	Cash Flows from Financing Activities		
60	Proceeds from Issuance of		
61	Long-Term Debt (b)		157,051,500
62	Preferred Stock		
63	Common Stock		
64	Other Financing and Other Capital Lease Obligations- Proceeds	638,458,140	355,606,788
65			
66	Net Increase in Short-Term Debt (c)		
67	Other (provide details in footnote)		
68			
69			
70	Cash Provided by Outside Sources (Total 61 thru 69)	638,458,140	512,658,288
71			
72	Payments for Retirement of		
73	Long-term Debt (b)	-33,300,000	
74	Preferred Stock		
75	Common Stock		
76	Other (provide details in footnote)	-1,369,331	-2,067,397
77	Financing and Capital Lease Obligations	-596,498,777	-415,771,127
78	Net Decrease in Short-Term Debt (c)		
79	Tax (Obligations) Benefits from Long-Term Incentive Plans		-363,963
80	Dividends on Preferred Stock		
81	Dividends on Common Stock	-53,337,470	-49,602,666
82	Net Cash Provided by (Used in) Financing Activities		
83	(Total of lines 70 thru 81)	-46,047,438	44,853,135
84			
85	Net Increase (Decrease) in Cash and Cash Equivalents		
86	(Total of lines 22,57 and 83)	-1,430,110	270,947
87			
88	Cash and Cash Equivalents at Beginning of Period	8,419,955	8,149,008
89			
90	Cash and Cash Equivalents at End of period	6,989,845	8,419,955

Name of Respondent	This Report is	Date of Report (Mo, Da, Yr)	Year/Period of Report
El Paso Electric Company	(1) X An Original (2) __ A Resubmission	/ /	2017/Q4

FOOTNOTE DATA

Schedule Page: 120 Line No.: 18 Column: a

	2017	2016
Other:		
Net Gains on Equity Investments	$ (10,625,851)	$ (7,640,235)
Net Gain on Sale of Property, Plant and Equipment	0	402,654
Amortization of Unearned Compensation	5,091,867	4,252,534
Unrealized (Gains) Losses on Investments in Debt Securities	(314,317)	121,784
Other Operating Activities	(355,212)	432,407
Total	$ (6,203,513)	$ (2,430,856)

Schedule Page: 120 Line No.: 55 Column: a

	2017	2016
Other:		
Net Customer Advances for Construction	$ 1,691,047	$ 3,347,819
Net Salvage Value and Cost of Removal	(3,248,407)	1,077,762
Total	$ (1,557,360)	$ 4,425,581

Name of Respondent	This Report Is	Date of Report	Year/Period of Report
El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2017/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) X An Original (2) __ A Resubmission	(Mo, Da, Yr) / /	2017/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 U S Generally Accepted Accounting Principles ("GAAP") used in the 2017 Form 10-K filed by El Paso Electric Company with the Securities and Exchange Commission Notes A through O of the regulatory-basis financial statements are from the 2017 Form 10-K 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 O is supplemented for additional regulatory-basis disclosures

Regulatory-Basis Financial Statements Compared to GAAP

The significant differences between the Company's 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 ("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 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

GAAP requires earnings per share information on the income statement and the classification of tax assets related to an uncertainty in income taxes as a reduction to the related tax asset rather than as an increase to current liabilities GAAP also requires the classification of interest and penalties related to uncertain tax positions as tax expense rather than as interest and penalty expense

Name of Respondent El Paso Electric Company	This Report is: (1) X An Original (2) __ A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report 2017/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.		2017	2016
	Assets and Other Debits (Pages 110-111)		
2	Utility plant	$ (930,329)	$ (928,794)
5	Accumulated provision for depreciation, amortization and depletion	(920,160)	(917,389)
11	Nuclear fuel under capital lease	(1,005)	(1,331)
12	Accumulated provision for amortization of nuclear fuel	(252)	(741)
15	Utility plant adjustments	0	948
18	Non utility property	(709)	(709)
24	Other investments	(1,764)	(1,456)
28	Other special funds	(293,016)	(262,154)
67	Total current and accrued assets	28	10,437
84	Total deferred debits	75,207	(42,449)
	Liabilities and Other Credits (Pages 112-113)		
2	Common stock issued	0	(2)
6	Premium on capital stock	13,419	12,479
7	Other paid-in capital	(3,390)	(2,449)
10	Capital stock expense	(341)	(341)
11	Retained earnings	(28,771)	(28,328)
24	Total long-term debt	32,963	(817)
35	Total other noncurrent liabilities	(248,283)	(253,968)
54	Total current and accrued liabilities	9,066	37,110
65	Total deferred credits	(6,521)	(71,744)
	Statements of Income for the Year (Pages 114-117)		
25	Total utility operating expenses	(40,376)	(41,249)
26	Net utility operating income	40,376	41,249
60	Net other income and deductions	5,313	6,361
70	Net interest charges	(4,872)	(5,120)
78	Net income	(442)	(1,188)
	Statement of Retained Earnings (Pages 118-119)		
1	Balance – beginning of period	$ (28,328)	$ (27,140)
48	Total retained earnings	(28,770)	(28,328)
	Statement of Cash Flows (Pages 120-121)		
22	Net cash provided by (used in) operating activities	$ (202)	$ (1,126)
57	Net cash provided by (used in) investing activities	202	1,126

Name of Respondent	This Report is:	Date of Report	Year/Period of Report
El Paso Electric Company	(1) X An Original (2) __ A Resubmission	(Mo, Da, Yr) / /	2017/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, 2017 and 2016 consist of the following (in thousands):

	2017	2016
Cash and Cash Equivalents:		
Cash (131)	$ 6,702	$ 8,068
Working funds (135)	67	172
Temporary cash investments (136)	221	180
Cash and cash equivalents at end of period	$ 6,990	$ 8,420
Amortization of Other:		
ARO depreciation (403.1)	$ (1,138)	$ (1,159)
Other utility plant (404)	6,409	5,302
Regulatory assets (407.3)	1,675	679
Regulatory liabilities (407.4)	(261)	(131)
ARO accretion expense (411.10)	7,649	7,172
Miscellaneous amortization (425)	0	158
Debt expense (428)	1,028	1,107
Loss on reacquired debt (428.1)	886	886
Debt premium (429)	(122)	(116)
Interest rate lock losses	533	499
Nuclear fuel financing issuance costs	211	161
Dry cask storage amortization	1,147	1,660
Coal reclamation amortization	575	1,009
Texas rate case amortization	1,526	381
New Mexico rate case amortization	429	204
	$ 20,547	$ 17,812

Utility Plant Adjustments

The following table summarizes amounts reflected as Utility Plant Adjustments for the New Mexico jurisdiction as of December 31, 2017 and 2016 (in thousands):

	December 31, 2016	2017 Activity: Additions (Debits)	2017 Activity: Amortization (Credits)	December 31, 2017
Utility Plant Adjustment (a)	$ 17,848	$ —	$ —	$ 17,848
Accumulated Amortization (a)	(17,848)	—	—	(17,848)
Four Corners reserve for unrecovered cost (b)	(948)	948	—	—
	$ (948)	$ 948	$ —	$ —

(a) Represents the New Mexico jurisdictional difference between FERC regulatory-basis values and GAAP values related to Steam and Other Production assets. Established in 1998 by the Stipulation and Settlement Agreement in New Mexico Public Regulation Commission Case No. 2722. FERC account 116 was utilized to maintain the original cost concept for utility plant and is consistent with FERC's policy on plant write ups. The Company is amortizing this asset over the remaining lives of each respective production unit.
(b) Represents the estimated reserve for unrecovered plant cost in connection with the sale of Four Corners.

Name of Respondent	This Report is	Date of Report	Year/Period of Report
El Paso Electric Company	(1) X An Original (2) __ A Resubmission	(Mo, Da, Yr) / /	2017/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

Accounting and Reporting for New Electric Storage Operations

The Company does not have electric storage assets and therefore does 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 El Paso Electric Company is a public 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

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 Public Utility Commission of Texas (the "PUCT"), the New Mexico Public Regulation Commission (the "NMPRC"), and the FERC), which is a comprehensive basis of accounting other than GAAP

Use of Estimates The preparation of 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 on-going basis, including those related to depreciation, unbilled revenue (or "Accrued Utility Revenue"), income taxes, fuel costs, pension and other post-retirement obligations and asset retirement obligations ("ARO") Actual results could differ from those estimates

Comprehensive Income Certain gains and losses that are not recognized currently in the regulatory-basis statement of income are reflected in the accompanying regulatory-basis balance sheet in Accumulated Other Comprehensive Income in accordance with the FERC guidance for reporting comprehensive income

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 2017 and 2016 was 2 50% and 2 49%, 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

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

Impairment of Long-Lived Assets 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 Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset

Name of Respondent	This Report ıs	Date of Report	Year/Perıod of Report
El Paso Electrıc Company	(1) X An Orıgınal (2) __ A Resubmıssıon	(Mo, Da, Yr) / /	2017/Q4

NOTES TO FINANCIAL STATEMENTS (Contınued)

Allowance for Funds Used Durıng Constructıon and Capıtalızed Interest AFUDC ıs determıned by applyıng an accrual rate to the balance of certaın Constructıon Work ın Progress ("CWIP") The FERC has promulgated procedures for the computatıon (a prescrıbed formula) of the accrual rate The AFUDC average rates used ın 2017 and 2016 were 5 38% and 6 43%, respectıvely The Company capıtalızes ınterest on nuclear fuel ın accordance wıth the FERC Unıform System of Accounts as provıded for ın the FASB guıdance for regulated operatıons

Asset Retırement Oblıgatıon The Company complıes wıth FERC Order No 631, "Accountıng, Fınancıal Reportıng, and Rate Fılıng Requırements for Asset Retırement Oblıgatıons" whıch sets forth accountıng requırements for the recognıtıon and measurement of lıabılıtıes assocıated wıth the retırement of tangıble long-lıved assets An ARO assocıated wıth long-lıved assets ıncluded wıthın the scope of the FERC Order No 631 ıs that for whıch a legal oblıgatıon exısts under enacted laws, statutes, wrıtten or oral contracts, ıncludıng oblıgatıons arısıng under the doctrıne of promıssory estoppel and legal oblıgatıons to perform an asset retırement actıvıty even ıf the tımıng and/or settlement are condıtıoned on a future event that may or may not be wıthın the control of an entıty See Note F Under FERC Order No 631, these lıabılıtıes are recognızed as ıncurred ıf a reasonable estımate of faır value can be establıshed and are capıtalızed as part of the cost of the related tangıble long-lıved assets The Company records the ıncrease ın the ARO due to the passage of tıme as an operatıng expense (accretıon expense)

Cash and Cash Equıvalents Temporary cash ınvestments wıth an orıgınal maturıty of three months or less are consıdered cash equıvalents The Company's cash and cash equıvalents do not ınclude amounts held ın trust by the nuclear decommıssıonıng or the pensıon and other post-retırement benefıt trust funds

Investments The Company's marketable securıtıes, ıncluded ın decommıssıonıng trust funds whıch are reflected ın Other Specıal Funds ın the regulatory-basıs balance sheet, are reported at faır value and consıst of cash, equıty securıtıes and munıcıpal, federal and corporate bonds ın trust funds establıshed for decommıssıonıng of ıts ınterest ın Palo Verde Such marketable securıtıes are classıfıed as "avaılable-for-sale" securıtıes and, as such, unrealızed gaıns and losses are ıncluded ın Accumulated Other Comprehensıve Income However, ıf declınes ın the faır value of marketable securıtıes below orıgınal cost basıs are determıned to be other than temporary, the declınes are reported as losses ın the regulatory-basıs statement of ıncome and a new cost basıs ıs establıshed for the affected securıtıes at faır value Gaıns and losses are determıned usıng the cost of the securıty based on the specıfıc ıdentıfıcatıon basıs See Note N

Derıvatıve Accountıng Accountıng for derıvatıve ınstruments and hedgıng actıvıtıes requıres the recognıtıon of derıvatıves as eıther assets or lıabılıtıes ın the regulatory-basıs balance sheet wıth measurement of those ınstruments at faır value Any changes ın the faır value of these ınstruments are recorded ın earnıngs or other comprehensıve ıncome See Note N

Inventorıes Inventorıes, prımarıly parts, materıals, supplıes, fuel oıl and natural gas are stated at average cost, whıch ıs not to exceed recoverable cost

Operatıng Revenues Net of Energy Expenses The Company accrues revenues for servıces rendered, ıncludıng unbılled electrıc servıce revenues Energy expenses are stated at actual cost ıncurred The Company's Texas retaıl customers are bılled under base rates and a fıxed fuel factor approved by the PUCT The Company's New Mexıco retaıl customers are bılled under base rates and a fuel adjustment clause whıch ıs adjusted monthly, as approved by the NMPRC The Company's FERC sales for resale customer ıs bılled under a formula-based rate and fuel factor and a fuel adjustment clause whıch ıs adjusted monthly The Company's recovery of energy expenses ıs subject to perıodıc reconcılıatıons of actual energy expenses ıncurred to actual fuel revenues collected The dıfference between energy expenses ıncurred and fuel revenues charged to customers ıs reflected ın the accompanyıng regulatory-basıs balance sheet ın Other Regulatory Assets and Other Regulatory Lıabılıtıes, as approprıate See Note C and Note D

Revenues Revenues related to the sale of electrıcıty are generally recorded when servıce ıs provıded or electrıcıty ıs delıvered to customers The bıllıng of electrıcıty sales to retaıl customers ıs based on the readıng of theır meters, whıch occurs on a systematıc basıs throughout the month Accrued Utılıty Revenues are recorded for estımated amounts of energy delıvered ın the perıod followıng the customers bıllıng cycle to the end of the month Accrued Utılıty Revenues are estımated based on monthly generatıon volumes and by applyıng an average revenue/kWh to the number of estımated kWhs delıvered but not bılled The Company recorded $22 2 mıllıon and $21 0 mıllıon of Accrued Utılıty Revenues as of December 31, 2017 and 2016, respectıvely The Company presents revenues net of sales taxes ın ıts regulatory-basıs statement of ıncome

Name of Respondent El Paso Electric Company	This Report is (1) X An Original (2) __ A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report 2017/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

Allowance for Doubtful Accounts 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 Additions, deductions and balances for allowance for doubtful accounts for 2017 and 2016 are as follows (in thousands)

	2017	2016
Balance at beginning of year	$ 2,185	$ 2,078
Additions		
Charged to costs and expense	3,149	2,424
Recovery of previous write-offs	1,122	1,395
Uncollectible receivables written off	4,119	3,712
Balance at end of year	$ 2,337	$ 2,185

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 During the third quarter of 2016, the Company changed its accounting for state income taxes from the flow-through method to the normalization method in accordance with the final orders from the PUCT and the NMPRC in its 2015 rate cases, effective January 1, 2016 See Note C for further discussion 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 returned to customers in which case they are recorded as a regulatory asset or liability See Note I for further discussion 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 I

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 ("TCJA") was enacted Substantially all of the provisions of the TCJA are effective for taxable years beginning after December 31, 2017, with the exception of the discontinuance of bonus depreciation for regulated public utilities which was effective for assets acquired and placed into service after September 27, 2017 The TCJA includes significant changes to the Internal Revenue Code of 1986, as amended, (the "IRC"), including amendments which significantly changed the taxation of business entities and includes specific provisions related to regulated public utilities The more significant changes that impact the Company included in the TCJA are reductions in the corporate federal income tax rate from 35% to 21%, elimination of the corporate alternative minimum tax provisions, additional limitations on deductions of executive compensation, and limiting the utilization of net operating losses ("NOL") arising after December 31, 2017 to 80% of taxable income with no carryback but with an indefinite carryforward The specific provisions related to regulated public utilities in the TCJA generally provide for the continued deductibility of interest expense, the elimination of bonus depreciation for property acquired and placed into service after September 27, 2017 and the continuance of rate normalization requirements for accelerated depreciation benefits and changes to deferred tax balances as a result of the change in corporate federal income tax rate

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 Thus, at the date of enactment of the TCJA, the Company's deferred taxes were re-measured based upon the new corporate federal 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 Notes D and I for further discussion

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El Paso Electric Company	(1) X An Original (2) __ A Resubmission	/ /	2017/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

Stock-Based Compensation The Company has a stock-based long-term incentive plan The Company is required under the FASB guidance 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 are recognized over the period during which an employee is required to provide service in exchange for the award (the "requisite service period") which typically is the vesting period Compensation cost is not recognized for anticipated forfeitures prior to vesting of equity instruments See Note G

Pension and Post-retirement Benefit Accounting See Note L for a discussion of the Company's accounting policies for its employee benefits

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 The FERC has not officially stated its position with respect to all of these standards Accordingly, 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

In March 2016, the FASB issued Accounting Standards Update ("ASU") 2016-09, Compensation - Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting to simplify the accounting for share-based payment transactions, including the income tax consequences, classification of awards either as equity or liabilities, and classification on the statements of cash flows The Company adopted the new standard effective January 1, 2017 The adoption of the new standard did not have a material impact on the Company's financial condition, results of operations or cash flows The cumulative effect of the adoption of the new standard was to increase net operating loss carryforward deferred tax assets and retained earnings by $0 2 million on January 1, 2017

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) to provide a framework that replaces the existing revenue recognition guidance, and has since modified the standard with several ASUs The standard provides that an entity should recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers More specifically, the standard requires entities to recognize revenue through the application of a five-step model, which includes the (i) identification of the contract, (ii) identification of the performance obligations, (iii) determination of the transaction price, (iv) allocation of the transaction price to the performance obligations, and (v) the recognition of revenue as the entity satisfies the performance obligations The Company will adopt the new standard for reporting periods beginning on January 1, 2018, and intends use the modified retrospective approach

The Company has analyzed the impact of the new standard on its various revenue and cash flow streams, and the impact on changes to business processes, systems and controls to support recognition under the new guidance Tariff sales to customers are determined to be in the scope of the new standard and represent a significant portion of the Company’s total operating revenues The Company has determined that the timing or pattern of revenue recognition from tariff sales will not change Implementation of the new standard will also not significantly change the timing or pattern of revenue recognition from other revenue streams Upon adoption of the standard, the Company expects its disclosures to disaggregate revenues primarily by tariff based categories and off-system sales

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Liabilities to enhance the reporting model for financial instruments by addressing certain aspects of recognition, measurement, presentation, and disclosure ASU 2016-01 generally requires entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income The guidance for classifying and measuring investments in debt securities and loans is not changed by this ASU, but requires entities to record changes in other comprehensive income Financial assets and financial liabilities must be separately presented by measurement category on the regulatory-basis balance sheet or in the accompanying notes to the regulatory-basis financial statements ASU 2016-01 clarifies the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets The provisions of this ASU become effective for reporting periods beginning after December 15, 2017 Upon adoption of the new standard, the Company expects to record the cumulative effects as of January 1, 2018 which will result in a net reduction to accumulated other comprehensive income of $41 0 million, net of tax, and a corresponding increase in retained earnings for unrealized gains (losses) related to equity securities owned by the Company

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In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the regulatory-basis balance sheet and requiring qualitative and quantitative disclosures on leasing agreements ASU 2016-02 maintains a distinction between finance leases and operating leases similar to the distinction under previous leases guidance for capital leases and operating leases The impact of leases reported in the Company's operating results and statement of cash flows are expected to be similar to previous GAAP ASU 2016-02 requires the recognition in the regulatory-basis balance sheet, by the lessee, of a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term How leases are recorded in regard to financial position represents a significant change from previous GAAP guidance The lessee is permitted to make an accounting policy election to not recognize lease assets and lease liabilities for short-term leases Implementation of the standard will be required for reporting periods beginning after December 15, 2018 Adoption of the new lease accounting standard will require the Company to apply the new standard to the earliest period using a modified retrospective approach The Company is currently in the process of evaluating the impact of the new standard, which includes continuing to monitor activities of the FASB, including the impact of the recently issued ASU 2018-01, and the proposed project to allow entities to adopt the standard with a cumulative effect adjustment as of the beginning of the adoption year, while maintaining prior year comparative financial information and disclosures as reported ASU 2018-01, Land Easement Practical expedient for Transition to Topic 842, provides an optional practical expedient to not evaluate existing or expired land easements under Topic 842, if those land easements were not previously accounted for as leases under Accounting Standards Codification ("ASC") Topic 840 The Company currently anticipates that it will apply the practical expedient under ASU 2018-01 to its existing or expired land easements as part of its transition to Topic 842 The Company's evaluation process also includes evaluating the impact, if any, on changes to business processes, systems and controls to support recognition and disclosure under the new guidance, however, at this time the Company is unable to determine the impact this standard will have on the financial statements and related disclosures

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326) ASU 2016-13 changes how companies measure and recognize credit impairment for many financial assets The new current expected credit loss model will require 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 The ASU also makes targeted amendments to the current impairment model for available-for-sale debt securities The provisions of ASU 2016-13 will be required for reporting periods beginning after December 15, 2019 ASU 2016-13 will be 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 is implemented The Company is currently assessing the future impact of ASU 2016-13

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments to reduce diversity in practice in how certain cash receipts and cash payments are classified in the regulatory-basis statement of cash flows The provisions of ASU 2016-15 will be required for reporting periods beginning after December 15, 2017 ASU 2016-15 will be applied using a retrospective transition method to each period presented If it is impracticable to apply ASU 2016-15 retrospectively for some of the issues, the amendments for those issues may be applied prospectively as of the earliest date practicable The Company is currently assessing the future impact of this ASU

In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits (Topic 715) Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost ASU 2017-07 amends Accounting Standards Codification 715, Compensation - Retirement Benefits, to require companies to present the service cost component of net benefit cost in the income statement line items where compensation cost is reported Companies will present all other components of net benefit cost separately from the line item(s) that includes the service cost and outside of any subtotal of operating income In addition, only the service cost component will be eligible for capitalization in assets The amendments in ASU 2017-07 will be required for reporting periods beginning after December 15, 2017 for GAAP purposes On December 28, 2017, the FERC issued guidance under Docket No AI18-1-000 to provide guidance for regulated utilities with respect to ASU 2017-07 Based on this guidance, the Company will continue to record all components of net periodic pension and postretirement benefit costs in operating expense in its regulatory-basis statement of income The Company may elect to follow the capitalization under ASU No 2017-07 for regulatory reporting and if it does so, will disclose the potential rate impact of such accounting practice as required in the FERC guidance

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718), Scope of Modification Accounting, to provide guidance about when to account for a change to the terms or conditions of a share-based payment award as a modification Under ASU 2017-09, modification accounting is required only if the fair value, the vesting conditions, or the

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classification of the award (as equity or liability) changes as a result of the change in terms or conditions The amendments of ASU 2017-09 will be required for reporting periods beginning after December 15, 2017 ASU 2017-09 should be applied prospectively to an award modified on or after the adoption date The Company is assessing the future impact of ASU 2017-09, however, it currently does not expect the impact of this ASU to be significant to the Company's financial conditions, results of operations or cash flows

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220) as a result of concerns raised by stakeholders due to the TCJA More specifically, the concerns raised are that because the adjustment due to the reduction of the historical corporate income tax rate of 35% to the newly enacted corporate income tax rate of 21% is required to be made for accumulated deferred income taxes, the tax effect of items within accumulated other comprehensive income ("AOCI") do not reflect the appropriate tax rate under current accounting standards which would result in "stranded taxes" ASU 2018-02 allows companies to reclassify stranded taxes from AOCI to retained earnings The amount of the reclassification would be the difference between the historical corporate income tax rate of 35% and the newly enacted 21% corporate income tax rate The provisions of ASU 2018-02 are effective for fiscal years and interim periods within that reporting period beginning after December 15, 2018 Early adoption is permitted, including adoption in any interim periods for reporting periods for which financial statements have not been issued The Company is currently in the process of evaluating the impact of ASU 2018-02 and its impact on regulated utilities At December 31, 2017, the Company has $7 2 million in stranded taxes in AOCI

C. 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

Texas Regulatory Matters

2015 Texas Retail Rate Case Filing On August 10, 2015, the Company filed with the City of El Paso, other municipalities incorporated in its Texas service territory, and the PUCT in Docket No 44941, a request for an annual increase in non-fuel base revenues ("2015 Texas Retail Rate Case")

On July 21, 2016, the parties to PUCT Docket No 44941 filed the Joint Motion to Implement Uncontested Amended and Restated Stipulation and Agreement which was unopposed by the parties (the "2016 Unopposed Settlement") On August 25, 2016, the PUCT approved the 2016 Unopposed Settlement and issued the 2016 PUCT Final Order, as proposed The 2016 PUCT Final Order provided for (i) an annual non-fuel base rate increase, lower annual depreciation expense, a revised return on equity for AFUDC purposes, and the inclusion of substantially all new plant in service in rate base, (ii) an additional annual non-fuel base rate increase of $3 7 million related to Four Corners Generating Station ("Four Corners") costs, which was collected through a surcharge that terminated on July 11, 2017, (iii) removing the separate rate treatment for residential customers with solar systems that the Company had proposed in its August 10, 2015 filing, (iv) allowing the Company to recover $3 1 million in rate case expenses through a separate surcharge, and (v) allowing the Company to recover revenues associated with the relate back of rates to consumption on and after January 12, 2016 through March 31, 2016 through a separate surcharge

Interim rates associated with the annual non-fuel base rate increase became effective on April 1, 2016 The additional surcharges associated with the incremental Four Corners costs, rate case expenses and the relate back of rates to consumption on and after January 12, 2016 through March 31, 2016 were implemented on October 1, 2016

For financial reporting purposes, the Company deferred any recognition of the Company's request in its 2015 Texas Retail Rate Case until it received the 2016 PUCT Final Order on August 25, 2016 Accordingly, it reported in the third quarter of 2016 the cumulative effect of the 2016 PUCT Final Order, which related back to January 12, 2016

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2017 Texas Retail Rate Case Filing On February 13, 2017, the Company filed with the City of El Paso, other municipalities incorporated in the Company's Texas service territory and the PUCT in Docket No 46831, a request for an increase in non-fuel base revenues ("2017 Texas Retail Rate Case") On November 2, 2017, the Company filed the Joint Motion to Implement Uncontested Stipulation and Agreement with the Administrative Law Judges for the 2017 Texas Retail Rate Case

On December 18, 2017, the PUCT issued its final order in the Company's rate case pending in Docket No 46831 ("2017 PUCT Final Order"), which provides, among other things, for the following (i) an annual non-fuel base rate increase of $14 5 million, (ii) a return on equity of 9 65%, (iii) all new plant in service as filed in the Company's rate filing package was prudent and used and useful and therefore is included in rate base, (iv) recovery of the costs of decommissioning Four Corners in the amount of $5 5 million over a seven year period beginning August 1, 2017, (v) the Company to recover reasonable rate case expenses of approximately $3 4 million through a separate surcharge over a three year period, and (vi) a requirement that the Company file a refund tariff if the federal statutory income tax rate, as it relates to the Company, is decreased before the Company files its next rate case The 2017 PUCT Final Order also establishes baseline revenue requirements for recovery of future transmission and distribution investment costs, and includes a minimum monthly bill of $30 00 for new residential customers with distributed generation, such as private rooftop solar Additionally, the 2017 PUCT Final Order allows for the annual recovery of $2 1 million of nuclear decommissioning funding and establishes annual depreciation expense that is approximately $1 9 million lower than the annual amount requested by the Company in its initial filing Finally, the 2017 PUCT Final Order allows for the Company to recover revenues associated with the relate back of rates to consumption on and after July 18, 2017 through a separate surcharge

New base rates, including additional surcharges associated with rate case expenses and the relate back of rates to consumption on and after July 18, 2017 through December 31, 2017 were implemented in January 2018

For financial reporting purposes, the Company deferred any recognition of the Company's request in its 2017 Texas Retail Rate Case until it received the 2017 PUCT Final Order on December 18, 2017 Accordingly, it reported in the fourth quarter of 2017 the cumulative effect of the 2017 PUCT Final Order, which related back to July 18, 2017

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, were decreased before the Company files its next 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 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 tax law changes This filing was assigned PUCT Docket No 48124 On March 27, 2018, the PUCT approved the Company's proposed tax credits on an interim basis, subject to refund or surcharge, for customer billing effective April 1, 2018 The refund tariff will be reflected in rates over a period of a year and will be updated annually until new base rates are implemented pursuant to the Company's next rate case filing The refund tariff case is pending

Energy Efficiency Cost Recovery Factor On May 1, 2017, the Company filed its annual application, which was assigned PUCT Docket No 47125, to establish its energy efficiency cost recovery factor ("EECRF") for 2018 In addition to projected energy efficiency costs for 2018 and a true-up to prior year actual costs, the Company requested approval of an incentive bonus for the 2016 energy efficiency program results in accordance with PUCT rules Interim rates were approved effective January 1, 2018 The Company, the staff of the PUCT, and the City of El Paso reached an agreement that includes an incentive bonus of $0 8 million The agreement was filed on January 25, 2018, and was approved by the PUCT on February 15, 2018

Fuel and Purchased Power Costs The Company's actual fuel costs, including purchased power energy costs, are recovered from customers through a fixed fuel factor The PUCT has adopted a fuel cost recovery rule (the "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 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 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 fuel reconciliation proceedings

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On November 30, 2016, the Company filed a request, which was assigned PUCT Docket No 46610, to increase its fixed fuel factor by approximately 28 8% to reflect increased fuel expenses primarily related to an increase in the price of natural gas used to generate power The increase in the fixed fuel factor was effective on an interim basis January 1, 2017 and approved by the PUCT on January 10, 2017 As of September 30, 2017, the Company had over-recovered fuel costs in the amount of $1 1 million for the Texas jurisdiction On October 13, 2017, the Company filed a request, which was assigned PUCT Docket No 47692, to decrease the Texas fixed fuel factor by approximately 19% to reflect decreased fuel expenses primarily related to a decrease in the price of natural gas used to generate power The decrease in the Texas fixed fuel factor became effective beginning with the November 2017 billing month and will continue thereafter until changed by the PUCT At December 31, 2017, the Company had a net fuel over-recovery balance of approximately $5 8 million in Texas

Fuel Reconciliation Proceeding On September 27, 2016, the Company filed an application with the PUCT, designated as PUCT Docket No 46308, to reconcile $436 6 million of Texas fuel and purchased power expenses incurred during the period of April 1, 2013 through March 31, 2016 On June 29, 2017, the PUCT approved a settlement in this proceeding The settlement provides for the reconciliation of fuel and purchased power costs incurred from April 1, 2013 through March 31, 2016 Additionally, the settlement modifies and tightens the Palo Verde performance rewards measurement bands beginning with the 2018 performance period The financial results for the twelve months ended December 31, 2017 include a $5 0 million, pre-tax increase to income reflecting the settlement of the Texas fuel reconciliation proceeding This amount represents Palo Verde performance rewards associated with the 2013 to 2015 performance periods net of disallowed fuel and purchased power costs as approved in the settlement Texas jurisdictional fuel and purchased power costs subject to prudence review are costs from April 1, 2016 through December 31, 2017 that total approximately $250 9 million

Community Solar On June 8, 2015, the Company filed a petition with the PUCT to initiate a community solar program that includes the construction and ownership of a 3 MW solar photovoltaic system located at the Company's Montana Power Station ("MPS") Participation is on a voluntary basis, and customers contract for a set capacity (kW) amount and receive all energy produced This case was assigned PUCT Docket No 44800 The Company filed a settlement agreement among all parties on July 1, 2016 approving the program, and the PUCT approved the settlement agreement and program on September 1, 2016 On April 19, 2017, the Company announced that the entire 3 MW program was fully subscribed by approximately 1,500 Texas customers The Community Solar facility began commercial operation on May 31, 2017

On March 20, 2018, the Company filed a petition with the PUCT and each of its regulatory authorities to expand its community solar program to include 2 MW of solar powered generation from the 10 MW solar photovoltaic facility located at the Company's Newman Power Station and to reduce rates under the Community Solar tariff The case before the PUCT was assigned Docket No 48181 and is currently pending

Four Corners Generating Station On February 17, 2015, the Company and Arizona Public Service Company ("APS") entered into an asset purchase agreement (the "Purchase and Sale Agreement") providing for the sale of the Company's interest in Four Corners to APS The sale of the Company's interest in Four Corners closed on July 6, 2016 See Note E for further details on the sale of Four Corners

On June 10, 2015, the Company filed an application in Texas requesting reasonableness and public interest findings and certain rate and accounting findings related to the Purchase and Sale Agreement This case was assigned PUCT Docket No 44805 Subsequent to the filing of the application, the case was subject to numerous procedural matters, including a March 23, 2016 order in which the PUCT determined not to dismiss the reasonableness and public interest issues in this docket but to consider the requested rate and accounting findings, including coal mine reclamation costs, in a rate case proceeding On September 1, 2016, a motion by parties in the proceeding to suspend the procedural schedule in order to pursue settlement was approved On March 3, 2017, the Company filed a Joint Motion to Implement Stipulation and Agreement (the "Stipulation and Agreement"), and PUCT Staff filed its recommendation that the Company's disposition of its interest in Four Corners was reasonable and consistent with the public interest Additionally, the signatories of the Stipulation and Agreement agreed to support the recovery of the Company's Four Corners decommissioning costs in the 2017 Texas Retail Rate Case A final order approving the Stipulation and Agreement was adopted by the PUCT on March 30, 2017 The approval to recover Four Corners decommissioning costs was included in the 2017 PUCT Final Order

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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

2015 New Mexico Rate Case Filing On May 11, 2015, the Company filed a request with the NMPRC, in Case No 15-00127-UT, for an annual increase in non-fuel base rates On June 8, 2016, the NMPRC issued the NMPRC Final Order which approved an annual increase in non-fuel base rates of approximately $0 6 million, an increase of approximately $0 5 million in other service fees and a decrease in the Company's allowed return on equity to 9 48% The NMPRC Final Order concluded that all of the Company's new plant in service was reasonable and necessary and therefore would be recoverable in rates The Company's rates were approved by the NMPRC effective July 1, 2016 and implemented at such time

Future New Mexico Rate Case Filing NMPRC Case No 15-00109-UT required the Company to make a rate filing in New Mexico in the second quarter of 2017 using a historical test year ended December 31, 2016 On March 24, 2017, the Company, NMPRC Utility Division Staff and the New Mexico Attorney General filed a Joint Motion to Modify Filing Date Stated in Final Order requesting that the rate filing date be changed to no later than July 31, 2019, using the appropriate historical test year period The joint request was approved by the NMPRC on April 12, 2017

New Mexico Order Commencing Review of the Effects of the Federal Tax Cuts and Jobs Act of 2017 on Regulated New Mexico Utilities On January 24, 2018, the NMPRC initiated an investigation into the impact of the TCJA on New Mexico utilities, Case No 18-00016-UT Following the Company's filed response to the NMPRC's queries, the NMPRC issued an order on April 4, 2018 requiring that the Company 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 resulting from the TCJA The proposed rate rider is required to be implemented by May 1, 2018 and is subject to reconciliation In accordance with the NMPRC order, the Company is developing a proposed interim rate rider for filing with the NMPRC and will consult with the New Mexico Attorney General for approval as to the form of the filing The annualized credits expected to be refunded to New Mexico customers beginning May 1, 2018 approximates $4 9 million The order further requires that the Company record and track a regulatory liability for the change in federal corporate income tax rate on the Company's excess accumulated deferred income taxes, consistent with the effective date of the TCJA, and subject to amortization determined by the Commission in the Company's next general rate case As discussed in Footnote I Income Taxes, the December 31, 2017 regulatory-basis balance sheet reflects the recording of such a regulatory liability

Fuel and Purchased Power Costs Historically, fuel and purchased power costs were recovered through base rates and a Fuel and Purchased Power Cost Adjustment Clause (the "FPPCAC") that accounts for changes in the costs of fuel relative to the amount included in base rates Effective July 1, 2016, with the implementation of the NMPRC Final Order, fuel and purchased power costs are no longer recovered through base rates but are recovered through the FPPCAC The Company's request to reconcile its fuel and purchased power costs for the period January 1, 2013 through December 31, 2014 was approved in Case No 15-00127-UT New Mexico jurisdictional costs subject to prudence review are costs from January 1, 2015 through December 31, 2017 that total approximately $173 1 million At December 31, 2017, the Company had a net fuel over-recovery balance of approximately $0 4 million in New Mexico As required, the Company filed a request to continue use of its FPPCAC with the NMPRC on January 5, 2018 which was assigned NMPRC Case No 18-00006-UT Hearings in the case are scheduled to begin in July 2018

5 MW Holloman Air Force Base ("HAFB") Facility Certificate of Convenience and Necessity ("CCN") On October 7, 2015, in NMPRC Case No 15-00185-UT, the NMPRC issued a final order approving a CCN for a 5 MW solar power generation facility located on HAFB in the Company's service territory in New Mexico The Company and HAFB negotiated a retail contract, which includes a power sales agreement for the facility, to replace the existing load retention agreement which was approved by final order issued October 5, 2016 in NMPRC Case No 16-00224-UT Construction of the solar generation facility is expected to be completed in the third quarter of 2018

New Mexico Efficient Use of Energy Recovery Factor On July 1, 2016, the Company filed its annual application requesting approval of its 2017 Energy Efficiency and Load Management Plan and to establish energy efficiency cost recovery factors for 2017 In addition to projected energy efficiency costs for 2017, the Company requested approval of a $0 4 million incentive for 2017 energy efficiency programs in accordance with NMPRC rules This case was assigned Case No 16-00185-UT On February 22, 2017, the NMPRC issued a Final Order approving the Company's 2017 Energy Efficiency and Load Management Plan and authorizing

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recovery in 2017 of a base incentive of $0 4 million The Company's energy efficiency cost recovery factors were approved and effective in customer bills beginning on March 1, 2017

On July 1, 2016, the Company filed its 2015 Annual Report for Energy Efficiency Programs, which included an incentive for verified 2015 program performance of $0 3 million, which was approved in Case No 13-00176-UT The Company recorded the $0 3 million approved incentive in operating revenues in the first quarter of 2017 In addition, on June 30, 2017, the Company filed its 2016 Annual Report for Energy Efficiency Programs, which included an incentive for verified 2016 program performance of $0 4 million that was approved in Case No 13-00176-UT The Company recorded the $0 4 million approved incentive in operating revenues in the third quarter of 2017

Revolving Credit Facility, Issuance of Long-Term Debt, and Securities Financing On October 7, 2015, the Company received approval in NMPRC Case No 15-00280-UT to guarantee the issuance of up to $65 0 million of long-term debt by the Rio Grande Resources Trust ("RGRT") to finance future purchases of nuclear fuel and to refinance existing nuclear fuel debt obligations, which remains effective On October 4, 2017, the Company received additional approval in NMPRC Case No 17-00217-UT to amend and extend its Revolving Credit Facility ("RCF"), issue up to $350 0 million in long-term debt and to redeem and refinance the $63 5 million 2009 Series A 7 25% Pollution Control Bonds and the $37 1 million 2009 Series B 7 25% Pollution Control Bonds, which have optional redemptions beginning in 2019 The NMPRC approval to issue $350 0 million in long-term debt supersedes its prior approval

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

Revolving Credit Facility, Issuance of Long-Term Debt, Securities Financing, and Guarantee of Debt On October 31, 2017, the FERC issued an order in Docket No ES17-54-000 approving the Company's filing to (i) amend and extend the RCF, (ii) issue up to $350 0 million in long-term debt, (iii) guarantee the issuance of up to $65 0 million of long-term debt by the RGRT, and (iv) redeem and refinance the $63 5 million 2009 Series A 7 25% Pollution Control Bonds and the $37 1 million 2009 Series B 7 25% Pollution Control Bonds, which have optional redemptions beginning in 2019 The order also approves the Company's request to continue to utilize the Company's existing RCF with the ability to amend and extend at a future date The authorization is effective from November 15, 2017 through November 14, 2019 and supersedes prior FERC approvals

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

United States 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 facilities crossing the United States/Mexico border

The DOE is authorized to assess operators of nuclear generating facilities a share of the costs of decommissioning the DOE's uranium enrichment facilities and for the ultimate costs of disposal of spent nuclear fuel See Note E for discussion of spent fuel storage and disposal costs

Inquiry Regarding the Effect of the Tax Cuts and Jobs Act on Commission-Jurisdictional Rates and Order to Show Cause On March 15, 2018, the FERC issued two show cause orders under section 206 of the Federal Power Act and Rule 209(a) of the Commission's Rules of Practice and Procedure, directing 48 individual public utilities with stated transmission rates or transmission formula rates with a fixed line item of 35% for the federal income tax component to, within 60 days of the orders, either (1) propose revisions to their transmission rates under their open access transmission tariffs or transmission owner tariffs on file with the Commission, or (2) show cause why they should not be required to do so The Company is included in the list of public utilities impacted by the FERC orders and is currently evaluating a response to the orders The Company's existing wholesale transmission rates were approved by FERC in 1999

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Sales for Resale and Network Transmission Service to Rio Grande Electric Cooperative

The Company provides firm capacity and associated energy to the Rio Grande Electric Cooperative ("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 Open Access Transmission Tariff ("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.

D. 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 regulatory-basis balance sheet are presented below (in thousands):

	Amortization Period Ends	December 31, 2017	December 31, 2016
Regulatory assets			
Regulatory tax assets	(a)	$ 56,651	$ 98,841
Final coal reclamation	(b)(c)	4,726	8,181
Four Corners decommissioning	(d)	6,604	1,400
Nuclear fuel postload daily financing charge	(c)	3,795	4,100
Texas 2015 rate case costs (e)	January 2021	1,144	2,670
Texas 2017 rate case costs	January 2021	3,642	246
Texas relate back surcharge (f)	January 2019	8,591	6,455
Texas demand response program	(g)	133	—
Texas military base discount and recovery factor	(h)	213	—
New Mexico renewable energy credits and related costs (i)	June 2022	5,823	6,937
New Mexico 2010 FPPCAC audit	June 2019	326	398
New Mexico Palo Verde deferred depreciation	(j)	4,263	4,415
New Mexico 2015 rate case costs	June 2019	644	1,074
New Mexico 2017 rate case costs		—	10
New Mexico demand response program	(k)	192	—
Undercollection of fuel revenues	(l)	—	11,123
Total regulatory assets		$ 96,747	$ 145,850
Regulatory liabilities			
Regulatory tax liabilities	(m)	$ 288,775	$ 35,187
Texas energy efficiency	(n)	895	1,288
New Mexico energy efficiency	(n)	1,394	2,159
Texas military base discount and recovery factor	(h)	—	184
New Mexico gain on sale of assets (o)	June 2019	567	828
Overcollection of fuel revenues	(l)	6,225	255
Total regulatory liabilities		$ 297,856	$ 39,901

(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 2016 PUCT Final Order and the NMPRC Final Order.

(b) This item relates to coal reclamation costs associated with Four Corners. The Texas portion was approved for recovery in the 2016 Texas Fuel Reconciliation and will be recovered over seven years through June 2023. The New Mexico amortization period is anticipated to be established in the next general rate case.

(c) This item is recovered through fuel recovery mechanisms established by tariffs.

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(d) This item relates to the decommissioning of Four Corners. The Texas portion was approved for recovery in the 2017 PUCT Final Order and will be recovered over seven years through July 2024. The New Mexico amortization period is anticipated to be established in the next New Mexico general rate case.
(e) The 2017 PUCT Final Order approved a new recovery period for these costs, beginning January 10, 2018.
(f) This item relates to the recovery of revenues through two separate surcharges; one surcharge for the 2015 Texas Retail Rate Case relate back revenues beginning October 1, 2016 and ending September 30, 2017, and a second surcharge for the 2017 Texas Retail Rate Case relate back revenues beginning January 10, 2018 and ending January 9, 2019. See Note C.
(g) Recovery of this item will be addressed in the next Texas EECRF filing.
(h) This item represents the net asset/net liability related to the military discount which is recovered from non-military customers through a recovery factor that is set annually.
(i) 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. The remaining balance will be requested for recovery in the next New Mexico general rate case.
(j) The amortization period for this item is based upon the Nuclear Regulatory Commission license life for each unit at Palo Verde.
(k) Amortization period is anticipated to be established in next New Mexico general rate case.
(l) This item is recovered or refunded through fuel adjustment mechanism in each jurisdiction.
(m) 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 I for further details.
(n) This item is recovered or credited through a recovery factor that is set annually.
(o) This item relates to the gains on the sales of assets the Company shares with its New Mexico customers over a three year period.

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

The table below presents the balance of each major class of depreciable assets at December 31, 2017 (in thousands):

	Gross Plant	Accumulated Depreciation	Net Plant
Nuclear production	$ 1,909,766	$ (1,239,042)	$ 670,724
Steam and other	1,017,120	(282,134)	734,986
Total production	2,926,886	(1,521,176)	1,405,710
Transmission	476,433	(224,290)	252,143
Distribution	1,170,991	(361,186)	809,805
General	232,506	(72,023)	160,483
Intangible	105,609	(61,660)	43,949
Total	$ 4,912,425	$ (2,240,335)	$ 2,672,090

The Company owns a 15.8% interest in each of the three nuclear generating units and common facilities at Palo Verde, in Wintersburg, Arizona. The Palo Verde Participants include the Company and six other utilities: APS, Southern California Edison Company ("SCE"), PNM, Southern California Public Power Authority, Salt River Project Agricultural Improvement and Power District ("SRP") 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, 2017 and 2016 is as follows (in thousands):

	December 31, 2017		December 31, 2016	
	Palo Verde	Other (a)	Palo Verde	Other (a)
Electric plant in service	$ 1,909,766	$ 87,641	$ 1,867,543	$ 87,457
Accumulated depreciation	(1,239,042)	(65,590)	(1,222,958)	(64,686)
Construction work in progress	40,946	1,014	50,598	1,895
Total	$ 711,670	$ 23,065	$ 695,183	$ 24,666

(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 2016 and 2017 and for the next five years (in thousands)

2016	$ 5,302
2017	6,409
2018 (estimated)	6,835
2019 (estimated)	6,485
2020 (estimated)	6,048
2021 (estimated)	5,128
2022 (estimated)	4,328

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 (the "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, other operations, maintenance and capital costs The Company's share of direct expenses in Palo Verde and other jointly-owned utility plants is reflected in fuel expense, other operations expense, maintenance 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 Nuclear Regulatory Commission ("NRC") regulates the operation of all commercial nuclear power reactors in the United States, 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 external trusts 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, 2017, the Company's decommissioning trust fund had a balance of $286 9 million, which is above its minimum funding level The Company monitors the status of its decommissioning funds and adjusts deposits, if necessary

Decommissioning costs are estimated every three years based upon engineering cost studies performed by outside engineers retained by APS In April 2017, the Palo Verde Participants approved the 2016 Palo Verde decommissioning study ("2016 Study") The 2016 Study estimated that the Company must fund approximately $432 8 million (stated in 2016 dollars) to cover its share of decommissioning costs which was an increase in decommissioning costs of $52 1 million (stated in 2016 dollars) from the 2013 Palo Verde decommissioning study The effect of this change increased the ARO by $3 5 million, which was recorded during the second quarter of 2017, and increased annual expenses starting in April 2017 Although the 2016 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 participants are required to conduct a new decommissioning study every three years While the Company attempts to

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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 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 "NWPA"), 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 (the "Standard Contract") 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 through June 30, 2011 On August 18, 2014, APS and the DOE entered into a settlement agreement stipulating to a dismissal of the lawsuit Pursuant to the terms of the August 18, 2014 settlement agreement, APS files annual claims for the period July 1 of the then-previous year to June 30 of the then-current year The settlement agreement, as amended, provides APS with a method for submitting claims and receiving recovery for costs incurred through December 31, 2016, which has been extended to December 31, 2019 The Company's share of costs recovered are presented below (in thousands)

Costs Recovery Period	Amount Refunded	Amount Credited to Customers through Fuel Adjustment Clauses	Period Credited to Customers
January 2007 – June 2011	$ 9,076	$ 7,944	September 2014
July 2011 – June 2014	6,643	5,759	March 2015
July 2014 – June 2015	1,884	1,581	March 2016
July 2015 – June 2016	1,779	1,432	March 2017

On October 31, 2017, APS filed an $8 9 million claim for the period July 1, 2016 through June 30, 2017 The Company's share of this claim is approximately $1 4 million In February 2018, the DOE approved this claim The Company received the refund in March 2018, and the majority of the reimbursement received by the Company will be credited to customers through the applicable fuel adjustment clauses

DOE's Construction Authorization Application for Yucca Mountain The DOE had planned to meet its disposal obligations by designing, licensing, constructing and operating a permanent geologic repository in Yucca Mountain, Nevada In March 2010, the DOE filed a motion to dismiss with prejudice its Yucca Mountain construction authorization application that was pending before the NRC Several interested parties have intervened in the NRC proceeding The Company cannot predict when spent fuel shipments to the DOE will commence

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 United States 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 4 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 $127 3 million, subject to an annual limit of $19 0 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 $60 4 million, with an annual payment limitation of approximately $9 0 million

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The Palo Verde Partıcıpants maıntaın $2 75 bıllıon of "all rısk" nuclear property ınsurance The ınsurance provıdes coverage for property damage and decontamınatıon at Palo Verde For covered ıncıdents ınvolvıng property damage not accompanıed by a release of radıoactıve materıal, the polıcy's coverage lımıt ıs $2 25 bıllıon The Company has also secured ınsurance agaınst portıons of any ıncreased cost of generatıon or purchased power and busıness ınterruptıon resultıng from a sudden and unforeseen outage of any of the three unıts The ınsurance coverage dıscussed ın thıs and the prevıous paragraph ıs subject to certaın polıcy condıtıons and exclusıons A mutual ınsurance company whose members are utılıtıes wıth nuclear facılıtıes ıssues these polıcıes If losses at any nuclear facılıty covered by thıs mutual ınsurance company were to exceed the accumulated funds for these ınsurance programs, the Company could be assessed retrospectıve premıum adjustments of up to $13 0 mıllıon for the current polıcy perıod

Palo Verde Operatıons and Maıntenance Expense Included ın other operatıons and maıntenance expenses are expenses assocıated wıth Palo Verde as follows (ın thousands)

Years Ended December 31, 2017	Years Ended December 31, 2016
$ 99,364	$ 96,914

Four Corners

On July 6, 2016, the Company sold ıts ınterests ın Four Corners for $32 0 mıllıon to 4C Acquısıtıon, LLC, an affılıate of APS ("APS's affılıate"), and Pınnacle West Capıtal Corporatıon ("Pınnacle West"), the parent company of APS and APS's affılıate No sıgnıfıcant gaın or loss was recorded for thıs sale APS's affılıate assumed responsıbılıty for all Four Corners capıtal expendıtures made after July 6, 2016, whıch assumptıon ıs guaranteed by Pınnacle West In addıtıon, APS's affılıate wıll ındemnıfy the Company agaınst certaın lıabılıtıes and costs related to the future operatıon of Four Corners, whıch ındemnıfıcatıon ıs guaranteed by Pınnacle West See Note C for a dıscussıon of regulatory fılıngs assocıated wıth Four Corners

F. Accounting for Asset Retirement Obligation

The Company complıes wıth FERC Order No 631 guıdance for ARO FERC Order No 631 affects the accountıng for the decommıssıonıng of Palo Verde and the method used to report the decommıssıonıng oblıgatıon The Company also complıes wıth the FASB guıdance for condıtıonal ARO whıch prımarıly affects the accountıng for the dısposal oblıgatıons of the Company's fuel oıl storage tanks, water wells, evaporatıve ponds and asbestos found at the Company's gas-fıred generatıng plants The Company's ARO are subject to varıous assumptıons and determınatıons such as (ı) whether a legal oblıgatıon exısts to remove assets, (ıı) estımatıon of the faır value of the costs of removal, (ııı) when fınal removal wıll occur, (ıv) future changes ın decommıssıonıng cost escalatıon rates, and (v) the credıt-adjusted ınterest rates to be utılızed ın dıscountıng future lıabılıtıes Changes that may arıse over tıme wıth regard to these assumptıons and determınatıons wıll change amounts recorded ın the future as an expense for ARO The Company records the ıncrease ın the ARO due to the passage of tıme as an operatıng expense (accretıon expense) If the Company ıncurs or assumes any lıabılıty ın retırıng any asset at the end of ıts useful lıfe wıthout a legal oblıgatıon to do so, ıt wıll record such retırement costs as ıncurred

The ARO lıabılıty for Palo Verde ıs based upon the estımated cost of decommıssıonıng the plant from the 2016 Palo Verde decommıssıonıng study See Note E The ARO lıabılıty ıs calculated by adjustıng the estımated decommıssıonıng costs for spent fuel storage and a profıt margın and market-rısk premıum factor The resultıng costs are escalated over the remaınıng lıfe of the plant and fınally dıscounted usıng a credıt-rısk adjusted dıscount rate As Palo Verde approaches the end of ıts estımated useful lıfe, the dıfference between the ARO lıabılıty and future current cost estımates wıll narrow over tıme due to the accretıon of the ARO lıabılıty Because the DOE ıs oblıgated to assume responsıbılıty for the permanent dısposal of spent fuel, such costs have not been ıncluded ın the ARO calculatıon The Company maıntaıns sıx external trust funds wıth an ındependent trustee that are legally restrıcted to settlıng ıts ARO at Palo Verde The faır value of the funds at December 31, 2017 ıs $286 9 mıllıon

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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 2013 Study resulted in a downward revision of $1 9 million In the second quarter of 2017, the Company implemented the results of the 2016 Palo Verde decommissioning study and revised its ARO related to Palo Verde to increase its estimated cash flows from the 2013 Study to the 2016 Study See Note E The assumptions used to calculate the increases 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, 2016 through December 31, 2017, including the effects of each year's estimate revisions, is presented below (in thousands) In 2017, the estimate revision reflects increases in the estimated cash flows related to Palo Verde's decommissioning due to implementing the 2016 Palo Verde decommissioning study In 2016, the settled liabilities reflect the sale of the Company's interest in Four Corners including the related ARO

	2017	2016
ARO liability at beginning of year	$ 81,800	$ 81,621
Liabilities incurred	138	—
Liabilities settled	(19)	(6,993)
Revisions to estimate	3,461	—
Accretion expense	7,649	7,172
ARO liability at end of year	$ 93,029	$ 81,800

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 which the Company routinely exercises The amount of cost of removal collected in rates for non-legal liabilities has not been material

G. Common Stock

Overview

The Company's common stock has a stated value of $1 per share, with no cumulative voting rights or preemptive rights Holders of the common stock have the right to elect the Company's directors and to vote on other matters

Long-Term Incentive Plan

On May 29, 2014, the Company's shareholders approved an amended and restated stock-based long-term incentive plan (the "Amended and Restated 2007 LTIP") and authorized the issuance of up to 1 7 million shares of the Company's common stock for the benefit of directors and employees Under the Amended and Restated 2007 LTIP, shares of the Company's common stock may be issued through the award or grant of non-statutory stock options, incentive stock options, stock appreciation rights, restricted stock, bonus stock, performance stock, cash-based awards and other stock-based awards The Company may issue new shares, purchase shares on the open market, or issue shares from shares of the Company's common stock the Company has repurchased to meet the share requirements of the Amended and Restated 2007 LTIP Beginning in 2015, shares of the Company's common stock issued for employee benefit and stock incentive plans have been issued from the shares repurchased and held in treasury stock As discussed in Note A, the Company accounts for its stock-based long-term incentive plan under the FASB guidance for stock-based compensation

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Restricted Stock with Service Condition and Other Stock-Based Awards. The Company has awarded restricted stock and other stock-based awards under its long-term incentive plan. Restrictions from resale on restricted stock awards generally lapse and awards vest over periods of one to three years, subject to continuous service requirements. The market value of the unvested restricted stock at the date of grant is amortized to expense over the restriction period net of anticipated forfeitures. Other stock-based awards, granted to directors in lieu of cash for retainers and meeting fees, are fully vested and are expensed at fair value on the date of grant and are not included in the tables below.

The expense, deferred tax benefit, and current tax expense recognized related to restricted stock and other stock-based awards in 2017 and 2016 is presented below (in thousands):

	2017	2016
Expense (a)	$ 2,997	$ 2,594
Deferred tax benefit	1,049	908
Current tax benefit recognized	318	183

(a) Any capitalized costs related to these expenses is less than $0.3 million for all years.

The aggregate intrinsic value and fair value at grant date of restricted stock and other stock-based awards which vested in 2017 and 2016 is presented below (in thousands):

	2017	2016
Aggregated intrinsic value	$ 3,711	$ 2,515
Fair value at grant date	2,803	1,993

The unvested restricted stock transactions for 2017 are presented below:

	Total Shares	Weighted Average Grant Date Fair Value	Unrecognized Compensation Expense (a) (In thousands)	Aggregate Intrinsic Value (In thousands)
Restricted shares outstanding at December 31, 2016 (b)	109,393	$ 39.90		
Stock awards	70,273	49.78		
Vested	(68,470)	40.93		
Forfeitures	(4,961)	40.18		
Restricted shares outstanding at December 31, 2017 (b)	106,235	45.76	$ 2,005	$ 5,880

(a) The unrecognized compensation expense is expected to be recognized over the weighted average remaining contractual term of the outstanding restricted stock of approximately one year.
(b) Excludes the stock based retention grant to the President and Chief Executive Officer ("CEO") of 27,624 shares. See "Restricted Stock with a Market Condition (Performance Shares)" section below for further details.

The weighted average fair value per share at grant date for restricted stock and other stock-base awards granted during 2017 and 2016 were:

	2017	2016
Weighted average fair value per share	$ 49.78	$ 40.95

The holder of a restricted stock award has rights as a shareholder of the Company, including the right to vote and receive cash dividends on restricted stock.

Restricted Stock with a Market Condition (Performance Shares). The Company has granted performance share awards to certain officers under the Company's Amended and Restated 2007 LTIP, which provides for issuance of Company stock based on the achievement of certain performance criteria over a three-year period. The payout varies between 0% to 200% of performance share awards.

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Detail of performance shares vested follows:

Date Vested	Payout Ratio	Performance Shares Awarded	Compensation Costs Expensed (In thousands)	Period Compensation Costs Expensed	Aggregate Intrinsic Value (In thousands)
January 31, 2018	175%	68,379	$ 1,499	2015-2017	$ 3,569
January 25, 2017	32%	11,314	932	2014-2016	512
January 27, 2016	0%	0	851	2013-2015	—

In 2018, 2019 and 2020, subject to meeting certain performance criteria and continuous service requirements, additional performance shares could vest. In accordance with the FASB guidance related to stock-based compensation, the Company recognizes the related compensation expense by ratably amortizing the grant date fair value of awards over the requisite service period and the compensation expense is only adjusted for forfeitures. As of December 31, 2017, the maximum number of shares that can be issued under the plan are 280,159 shares.

The fair value at the date of each separate grant of performance shares was based upon a Monte Carlo simulation. The Monte Carlo simulation reflected the structure of the performance plan which calculates the share payout on performance of the Company relative to a defined peer group over a three-year performance period based upon total return to shareholders. The fair value was determined as the average payout of one million simulation paths discounted to the grant date using a risk-free interest rate based upon the constant maturity treasury rate yield curve at the grant date. The expected volatility of total return to shareholders is calculated in accordance with the performance shares' term structure and includes the volatilities of all members of the defined peer group.

The outstanding performance share awards at the 100% performance level is summarized below:

	Number Outstanding	Weighted Average Grant Date Fair Value	Unrecognized Compensation Expense (b) (In thousands)	Aggregate Intrinsic Value (In thousands)
Performance shares outstanding at December 31, 2016 (a)	166,444	$ 34.40		
Performance shares awards	51,493	42.62		
Performance shares vested	(11,314)	26.36		
Performance shares expired	(24,057)	26.36		
Performance shares forfeited	(9,975)	39.53		
Performance shares outstanding at December 31, 2017 (a)	172,591	38.21	$ 2,048	$ 9,553

(a) On December 15, 2015, the Company issued a stock based retention grant to the President and CEO of 27,624 shares in accordance with the Amended and Restated 2007 LTIP that is eligible for vesting based on the achievement of certain performance conditions and a five year service period, as stated in the CEO's employment agreement. The performance condition was met as of November 2016 as determined by the Compensation Committee, and has been included in the beginning and ending balance in the table above.

(b) The unrecognized compensation expense is expected to be recognized over the weighted average remaining contractual term of the awards of approximately one year, except for the CEO retention grant.

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A summary of information related to performance shares for 2017 and 2016 is presented below:

	2017	2016
Weighted average per share grant date fair value per share of performance shares awarded	$ 42.62	$ 38.11
Fair value of performance shares vested (in thousands)	298	—
Intrinsic value of performance shares vested (in thousands) (a)	512	—
Compensation expense (in thousands) (b) (c)	2,012	1,655
Deferred tax benefit related to compensation expense (in thousands) (b)	704	579

(a) Based on a 100% performance level.
(b) Includes adjustments for estimated forfeitures.
(c) Includes CEO retention grant.

Repurchase Program

No shares of the Company's common stock were repurchased during the twelve months ended December 31, 2017. Detail regarding the Company's stock repurchase program are presented below:

	Since 1999 (a)	Authorized Shares
Shares repurchased (b)	25,406,184	
Cost, including commission (in thousands)	$ 423,647	
Total remaining shares available for repurchase at December 31, 2017		393,816

(a) Represents repurchased shares and cost since inception of the stock repurchase program in 1999.
(b) Shares repurchased does not include 86,735 treasury shares related to employee compensation arrangements outside of the Company's repurchase programs. Beginning in 2015, shares of the Company's common stock issued for employee benefit and stock incentive plans have been issued from the shares repurchased and held in treasury stock. The Company awarded 256,929 shares, net of shares withheld for taxes, out of treasury stock during 2017.

The Company may in the future make purchases of shares of its common stock pursuant to its authorized program in open market transactions at prevailing prices and may engage in private transactions where appropriate. The repurchased shares will be available for issuance under employee benefit and stock incentive plans, or may be retired.

Dividend Policy

On December 29, 2017, the Company paid $13.6 million in quarterly cash dividends to shareholders. The Company paid a total of $53.3 million and $49.6 million in cash dividends during the twelve months ended December 31, 2017 and 2016, respectively. On February 1, 2018, the Board of Directors declared a quarterly cash dividend of $0.335 per share payable on March 30, 2018 to shareholders of record as of the close of business on March 16, 2018.

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

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

	December 31, 2017	December 31, 2016
Bonds (Account 221):		
Pollution Control Bonds (1):		
7.25% 2009 Series A refunding bonds, due 2040 (7.46% effective interest rate)	$ 63,500	$ 63,500
4.50% 2012 Series A refunding bonds, due 2042 (4.63% effective interest rate)	59,235	59,235
7.25% 2009 Series B refunding bonds, due 2040 (7.49% effective interest rate)	37,100	37,100
1.875% 2012 Series A refunding bonds, due 2032 (2.35% effective interest rate)	—	33,300
Total Account 221	159,835	193,135
Other Long –Term Debt (Accounts 224, 225 and 226):		
Senior Notes (2):		
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
3.30% Senior Notes, net of discount, due 2022 (3.43% effective interest rate)	150,000	150,000
5.00% Senior Notes, net of discount, due 2044 (4.93% effective interest rate)	300,000	300,000
Total Account 224	1,000,000	1,000,000
Unamortized premium on long-term debt Account 225	6,813	6,935
Unamortized discount on long-term debt Account 226	(3,623)	(3,740)
Total long-term debt	$ 1,163,025	$ 1,196,330
Obligations Under Capital Lease – Noncurrent (Account 227):		
RGRT Senior Notes (3):		
5.04% Senior Notes, Series C, due 2020 (5.16% effective interest rate)	$ 45,000	$ 45,000
Total Capital Lease Obligations Noncurrent	$ 45,000	$ 45,000
Obligations Under Capital Lease – Current (Account 243):		
RGRT Senior Notes (3):		
4.47% Senior Notes, Series B, due 2017 (4.62% effective interest rate)	$ —	$ 50,000
Revolving Credit Facility (4)	89,390	39,275
Total Capital Lease Obligations Current	$ 89,390	$ 89,275

1. Pollution Control Bonds ("PCBs")

The Company had four series of tax exempt unsecured PCBs in aggregate principal amount of $193.1 million. In September 2017, the $33.3 million 2012 Series A 1.875% PCBs, which were subject to mandatory tender for purchase, were redeemed and retired utilizing funds borrowed under the RCF. As of December 31, 2017, the Company's aggregate principal amount on PCBs was $159.8 million. The 7.25% 2009 Series A and the 7.25% 2009 Series B PCBs with an aggregate principal amount, together, of $100.6 million have optional redemptions beginning in February 2019 and April 2019, respectively.

2. Senior Notes

The Senior Notes are unsecured obligations of the Company. They were issued pursuant to bond 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 proceeds, net of a $2.3 million discount, were used to fund the retirement of the Company's first mortgage bonds. The Company amortizes the loss associated with a cash flow hedge recorded in accumulated other comprehensive income to earnings as interest expense over the life of the 6.00% Senior Notes. See Note N. This amortization is included in the effective interest rate of the 6.00% Senior Notes.

The 7.50% Senior Notes have an aggregate principal amount of $150.0 million and were issued in June 2008. The proceeds, net of a $1.3 million discount, were used to repay short-term borrowings of $44.0 million, fund capital expenditures and for other general corporate purposes.

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The 3 30% Senior Notes have an aggregate principal amount of $150 0 million and were issued in December 2012 The proceeds, net of a $0 3 million discount, were used to fund construction expenditures and for working capital and general corporate purposes

In December 2014, the Company issued 5 00% Senior Notes with an aggregate principal amount of $150 0 million The proceeds, net of a $0 5 million discount, were used to fund construction expenditures and for working capital and general corporate purposes In March 2016, the Company issued additional 5 00% Senior Notes with an aggregate principal amount of $150 0 million The proceeds from this issuance, after deducting the underwriters' commission, were $158 1 million These proceeds included accrued interest of $2 4 million and a $7 1 million premium before expenses The net proceeds, from the sale of these senior notes were used to repay outstanding short-term borrowings under the RCF After the March 2016 issuance, the Company's 5 00% Senior Notes due 2044 had a total principal amount outstanding of $300 0 million

3 RGRT Senior Notes

In 2010, the Company and 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 sold to the purchasers $110 million aggregate principal amount of Senior Notes ("RGRT Notes") In August 2015 and 2017, $15 0 million and $50 0 million of these RGRT Notes, respectively, matured and were paid with borrowings from the RCF The Company guarantees the payment of principal and interest on the RGRT Notes In the Company's regulatory-basis financial statements, the obligations to the RGRT are reported as obligations under capital leases of nuclear fuel

RGRT pays interest on the RGRT Notes on February 15 and August 15 of each year until maturity RGRT may redeem the RGRT 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 agreement requires compliance with certain covenants, including a total debt to capitalization ratio The Company was in compliance with these requirements throughout 2017

The sale of the RGRT Notes was made by RGRT in reliance on a private placement exemption from registration under the Securities Act of 1933, as amended The proceeds of $109 4 million, net of issuance costs, from the sale of the RGRT Notes was used by RGRT to repay amounts borrowed under the RCF and will enable future nuclear fuel financing requirements of RGRT to be met with a combination of the RGRT Notes and amounts borrowed from the RCF

4 Revolving Credit Facility

On January 14, 2014, the Company and RGRT entered into a second amended and restated credit agreement related to the RCF with JP Morgan Chase Bank, N A , as administrative agent and issuing bank, and Union Bank, N A , as syndication agent, and various lending banks party thereto As of December 31, 2016, the Company had available $300 million and the ability to increase the RCF by up to $100 million with a term ending January 2019 On January 9, 2017, the Company exercised its option to extend the maturity of the RCF by one year to January 14, 2020 and to increase the size of the facility by $50 million to $350 million The Company still has the option to extend the facility by one additional year to January 2021 and to increase the RCF by up to $50 million (up to a total of $400 million) upon the satisfaction of certain conditions, more fully set forth in the agreement, including obtaining commitments from lenders or third party financial institutions

The RCF provides that amounts borrowed by the Company may be used for, among other things, working capital and general corporate purposes Any amounts borrowed by RGRT may be used, among other things, to finance the acquisition and processing of nuclear fuel Amounts borrowed by RGRT are guaranteed by the Company and the balance borrowed under the RCF 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 is unsecured The RCF requires compliance with certain covenants, including a total debt to capitalization ratio The Company was in compliance with these requirements throughout 2017 In August 2015 and 2017, $15 0 million aggregate principal amount of Series A 3 67% Senior Notes and $50 0 million aggregate principal amount of Series B 4 47% Senior Notes of RGRT, respectively, matured and were paid with borrowings from the RCF As of December 31, 2017, the total amount borrowed by RGRT was $89 4 million for nuclear fuel under the RCF As of December 31, 2017, $85 0 million of borrowings were outstanding under this facility for working capital and general corporate purposes The weighted average interest rate on the RCF was 2 7% as of December 31, 2017

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As of December 31, 2017, the principal amount of scheduled maturities for the next five years of long-term debt are as follows (in thousands)

2018	$ —
2019	—
2020	45,000
2021	—
2022	—

I. Income Taxes

On December 22, 2017, the TCJA was enacted The TCJA includes significant changes to the IRC, including amendments which significantly changed the taxation of business entities and includes specific provisions related to regulated public utilities The more significant changes that impact the Company included in the TCJA are reductions in the corporate federal income tax rate from 35% to 21%, elimination of the corporate alternative minimum tax provision, additional limitations on deductions of executive compensation, and limitations on the utilization of NOLs arising after December 31, 2017, to 80% of taxable income with no carryback but with an indefinite carryforward The specific provisions related to regulated public utilities in the TCJA generally provide for the continued deductibility of interest expense, the elimination of bonus depreciation for property acquired and placed into service after September 27, 2017, and the continuance of rate normalization requirements for accelerated depreciation benefits and changes to deferred tax balances as a result of the change in the corporate federal income tax rate

The results for the twelve months ended December 31, 2017 contain provisional estimates of the impact of the TCJA These amounts are considered provisional because they use estimates for which tax returns have not yet been filed and because estimated amounts may be impacted by future regulatory and accounting guidance if and when issued The Company will adjust these provisional amounts as further information becomes available and as we refine our calculations As permitted by recent guidance issued by the Securities and Exchange Commission, these adjustments will occur during a reasonable "measurement period" not to exceed twelve months from the date of enactment

Provisional reductions in accumulated deferred federal income taxes ("ADFIT") due to the reduction in the corporate income tax rate to 21% under the provisions of the TCJA will result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers, generally through reductions in future rates The TCJA includes provisions that stipulate how these excess deferred taxes are to be returned to customers for certain accelerated tax depreciation benefits Potential refunds of other deferred taxes will be determined by the Company's regulators The December 31, 2017 regulatory-basis balance sheet reflects the impact of the TCJA which reduced ADFIT by $296 1 million, reduced regulatory assets by $39 3 million and increased regulatory liabilities by $256 8 million The changes in deferred taxes were recorded at the amount of the reduced future cash flow expected to be included in rates, as required in ASC 740 These adjustments had no impact on the Company's cash flows for the year ended December 31, 2017

In February 2018, the FASB issued ASU 2018-02, as a result of concerns raised by stakeholders due to the TCJA ASU 2018-02 addresses concerns that the tax reduction due to the change in the corporate tax rate from 35% to 21% would be "stranded" in AOCI ASU 2018-02 allows companies to reclassify stranded taxes from AOCI to retained earnings The Company is currently in the process of evaluating the impact of ASU 2018-02 and its impact on regulated utilities At December 31, 2017, the Company has $7 2 million in stranded taxes in AOCI

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The provisional tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2017 and 2016 are presented below (in thousands):

	December 31, 2017	December 31, 2016
Deferred tax assets:		
Plant, principally due to capitalized costs	$ 30,269	$ 58,613
Benefits of tax loss carryforwards	24,852	61,293
Pensions and benefits	32,534	57,698
Alternative minimum tax credit carryforward	16,620	16,620
Regulatory liabilities related to income taxes	65,846	6,120
Asset retirement obligation	19,530	30,462
Other	2,299	20,633
Total gross deferred tax assets	191,950	251,439
Deferred tax liabilities:		
Plant, principally due to depreciation and basis differences	(421,974)	(664,228)
Regulatory assets related to income taxes	(42,250)	(81,066)
Decommissioning	(24,728)	(36,934)
Other	(4,313)	(12,312)
Total gross deferred tax liabilities	(493,265)	(794,540)
Net accumulated deferred income taxes	$ (301,315)	$ (543,101)

Based on the average annual earnings before taxes for the prior three 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 2017 and 2016 as follows (in thousands):

	Years Ended December 31, 2017	Years Ended December 31, 2016
Income tax expense:		
Federal:		
Current	$ 2,381	$ 2,235
Deferred	45,241	47,412
Investment tax credit	620	(1,553)
Total federal income tax	$ 48,242	$ 48,094
State:		
Current	$ 250	$ 1,225
Deferred	2,174	3,634
Total state income tax	$ 2,424	$ 4,859

As of December 31, 2017, the Company had $16.6 million of alternative minimum tax ("AMT") credit carryforwards. Based on the TCJA provisions, the Company may claim a refund of 50% of the remaining AMT credits (to the extent the credits exceed the Company's regular tax liability for the year) in 2018, 2019 and 2020. Any AMT credits remaining after 2020 will be refunded in 2021. As of December 31, 2017, the Company had $23.8 million of federal and $1.4 million of state tax loss carryforwards. Under the TCJA, NOLs 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. Federal NOLs generated prior to 2018 are able to offset 100% of future taxable income to the extent available but have lives of only 20 years.

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Federal income tax provisions differ from amounts computed by applying the statutory federal income tax rate of 35% to book income before federal income tax as follows (in thousands):

	Years Ended December 31, 2017	2016
Federal income tax expense computed on income at statutory rate	$ 52,279	$ 52,818
Difference due to:		
State income taxes (federal effect)	(848)	(1,701)
Investment Tax Credit, net of deferred taxes	403	(1,009)
Allowance for equity funds used during construction	295	(314)
Amortization of excess deferred taxes	962	849
Amortization of regulatory assets and liabilities	217	(544)
Permanent tax differences	(5,066)	(2,292)
Other	—	287
Total federal income tax expense	$ 48,242	$ 48,094

The Company files income tax returns in the United States 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 2013. In August 2017, the Company reached an agreement with the Texas Comptroller of Public Accounts and settled audits in Texas for tax years 2007 through 2011.

In the third quarter of 2016, the Company changed its accounting for state income taxes from the flow-through method to the normalization method in accordance with the 2016 PUCT Final Order and the NMPRC Final Order. Under the flow-through method, the Company previously recorded deferred state income taxes and regulatory liabilities and assets offsetting such deferred state income taxes at the expected cash flow to be reflected in future rates. Upon implementation of normalization, the Company began amortizing the net regulatory asset for deferred state income taxes to deferred income tax expense over a 15 year period as allowed by the regulators. In the third quarter of 2016, the Company began recording deferred state income tax expense as required by normalization, retroactive to January 2016 as provided in the final orders. The impact of the change was additional income tax expense of $1.9 million and $5.1 million for the years ended December 31, 2017 and 2016, respectively.

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, 2017 and 2016.

The Company recognizes in interest and penalties expense accounts, interest and penalties related to tax benefits that are uncertain. For the year ended December 31, 2017, the Company recognized a benefit of approximately $0.2 million. For the year ended December 31, 2016 the Company recognized an expense of approximately $0.1 million. The Company had approximately $0.7 million and $0.8 million accrued for the payment of interest and penalties at December 31, 2017 and 2016, respectively.

J. Commitments, Contingencies and Uncertainties

Power Purchase and Sale Contracts

To supplement its own generation and operating reserve requirements and to meet required renewable portfolio standards, 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 renewable portfolio requirements. 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 2018	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	NRG	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

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The Company has a firm 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 2018

The Company has entered into several power purchase agreements to help meet its renewable portfolio requirements Namely, the Company has a 25-year power purchase 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 NRG Solar Roadrunner LLC ("NRG") 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 power purchase 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

Furthermore, 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 Finally, 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 its Newman Power Station ("Newman") This solar photovoltaic plant began commercial operation in December 2014

Environmental Matters

General 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

Environmental Litigation and Investigations Since July 2011, the U S Department of Justice (the "DOJ"), on behalf of the EPA, and APS have been engaged in substantive settlement negotiations in an effort to resolve certain of the pending matters The allegations being addressed through settlement negotiations are that APS failed to obtain the necessary permits and install the controls necessary under the Clean Air Act ("CAA") to reduce sulfur dioxide ("SO2"), nitrogen oxides ("NOx"), and particulate matter ("PM"), and that defendants failed to obtain an operating permit under Title V of the CAA that reflects applicable requirements imposed by law On June 24, 2015, the parties filed with the U S District Court for New Mexico a settlement agreement ("CAA Settlement Agreement") resolving this matter On August 17, 2015, the U S District Court for New Mexico entered the CAA Settlement Agreement The agreement imposes a total civil penalty payable by the co-owners of Four Corners collectively in the amount of $1 5 million, and it requires the co-owners to pay $6 7 million for environmental mitigation projects At December 31, 2017, the Company has accrued its remaining unpaid share of approximately $0 2 million related to this matter

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Lease Agreements

The Company leases land in El Paso, Texas, adjacent to Newman under a lease which expires in June 2033 with a renewal option of 25 years The Company also has several other leases for office, parking facilities and equipment which expire within the next 5 years The Company has transmission and distribution lines which are operated under various land rights agreements, including easements, leases, permits and franchises The majority of these agreements include renewal options which the Company routinely exercises These agreements generally do not impose any restrictions relating to issuance of additional debt, payment of dividends or entering into other lease arrangements

Nuclear Fuel Capital Lease Obligation The Company's capital lease obligation for the financing of nuclear fuel is accomplished through RGRT RGRT had $110 million aggregate principal amount borrowed in the form of senior notes In August 2015 and August 2017, $15 0 million and $50 0 million, respectively, matured and were paid with borrowings from the RCF The Company guarantees the payment of principal and interest on the senior notes The nuclear fuel financing requirements of RGRT are met with a combination of the senior notes and short-term borrowings under the RCF

The Company's total annual rental expense related to operating leases was $2 4 million and $1 7 million for 2017 and 2016, respectively As of December 31, 2017, the Company's minimum future rental payments for the next five years are as follows (in thousands)

2018	$	951
2019		893
2020		820
2021		675
2022		595

Union Matters

The Company has approximately 1,100 employees, about 38% of whom 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 the power plants, substations, line crews, meter reading and collection, facilities services, and customer service The Company entered into a new collective bargaining agreement effective September 3, 2016, with Local 960 for a three-year term ending September 3, 2019 The agreement provides for pay increases of 3% on September 3, 2016, September 3, 2017 and on September 3, 2018, respectively

K. 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

See Note C and Note J for discussion of the effects of government legislation and regulation on the Company as well as certain pending legal proceedings

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L. Employee Benefits

Retirement Plans

The Company's Retirement Income Plan (the "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 Internal Revenue Service ("IRS"), 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.

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

	December 31,			
	2017		2016	
	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	$ 337,768	$ 27,462	$ 325,706	$ 26,958
Service cost	8,156	362	7,705	296
Interest cost	12,196	863	12,161	878
Actuarial loss	20,829	2,217	7,988	1,267
Benefits paid	(16,960)	(2,512)	(15,792)	(1,937)
Benefit obligation at end of year	361,989	28,392	337,768	27,462
Change in plan assets:				
Fair value of plan assets at end of prior year	269,766	—	260,035	—
Actual return on plan assets	44,283	—	18,223	—
Employer contribution	7,300	2,512	7,300	1,937
Benefits paid	(16,960)	(2,512)	(15,792)	(1,937)
Fair value of plan assets at end of year	304,389	—	269,766	—
Funded status at end of year	$ (57,600)	$ (28,392)	$ (68,002)	$ (27,462)

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Amounts recognized in the Company's regulatory-basis balance sheets consist of the following (in thousands):

	December 31, 2017		2016	
	Retirement Income Plan	Non-Qualified Retirement Plans	Retirement Income Plan	Non-Qualified Retirement Plans
Current liabilities	$ —	$ (2,154)	$ —	$ (2,696)
Noncurrent liabilities	(57,600)	(26,238)	(68,002)	(24,766)
Total	$ (57,600)	$ (28,392)	$ (68,002)	$ (27,462)

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

	December 31, 2017		2016	
	Retirement Income Plan	Non-Qualified Retirement Plans	Retirement Income Plan	Non-Qualified Retirement Plans
Projected benefit obligation	$ (361,989)	$ (28,392)	$ (337,768)	$ (27,462)
Accumulated benefit obligation	(329,279)	(25,370)	(314,071)	(25,550)
Fair value of plan assets	304,389	—	269,766	—

Pre-tax amounts recognized in accumulated other comprehensive income consist of the following (in thousands):

	Years Ended December 31, 2017		2016	
	Retirement Income Plan	Non-Qualified Retirement Plans	Retirement Income Plan	Non-Qualified Retirement Plans
Net loss	$ 109,215	$ 11,408	$ 121,052	$ 10,073
Prior service benefit	(20,410)	(146)	(23,877)	(185)
Total	$ 88,805	$ 11,262	$ 97,175	$ 9,888

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

	December 31, 2017			2016		
		Non-Qualified			Non-Qualified	
	Retirement Income Plan	Supplemental Retirement Plan	Excess Benefit Plan	Retirement Income Plan	Supplemental Retirement Plan	Excess Benefit Plan
Discount rate	3.77%	3.40%	3.81%	4.29%	3.76%	4.34%
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. A 1% increase in the discount rate would decrease the December 31, 2017 retirement plans' projected benefit obligation by 12.4%. A 1% decrease in the discount rate would increase the December 31, 2017 retirement plans' projected benefit obligation by 15.6%.

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

	Years Ended December 31,			
	2017		2016	
	Retirement Income Plan	Non-Qualified Retirement Plans	Retirement Income Plan	Non-Qualified Retirement Plans
Service cost	$ 8,156	$ 362	$ 7,705	$ 296
Interest cost	12,196	863	12,161	878
Expected return on plan assets	(19,189)	—	(18,879)	—
Amortization of:				
Net loss	7,572	882	6,554	785
Prior service benefit	(3,467)	(39)	(3,467)	(39)
Net periodic benefit cost	$ 5,268	$ 2,068	$ 4,074	$ 1,920

In 2016, the Company changed the method used to estimate the service and interest components of net periodic benefit cost for pension benefits. This change, compared to the previous method, resulted in a decrease of approximately $2.9 million in the service cost and interest cost components in 2016. Historically, the Company estimated service and interest costs utilizing a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. In 2016, the Company elected to utilize a full yield curve approach to estimate these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. The Company believes the new approach provides a more precise measurement of service and interest costs by aligning the timing of the plan's liability cash flows to the corresponding spot rates on the yield curve. The Company accounted for this change as a change in accounting estimate and accordingly, accounted for this prospectively.

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

	Years Ended December 31,			
	2017		2016	
	Retirement Income Plan	Non-Qualified Retirement Plans	Retirement Income Plan	Non-Qualified Retirement Plans
Net (gain) loss	$ (4,265)	$ 2,217	$ 8,644	$ 1,266
Amortization of:				
Net loss	(7,572)	(882)	(6,554)	(785)
Prior service benefit	3,467	39	3,467	39
Total recognized in other comprehensive income	$ (8,370)	$ 1,374	$ 5,557	$ 520

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

	Years Ended December 31,			
	2017		2016	
	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	$ (3,102)	$ 3,442	$ 9,631	$ 2,440

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The following are amounts in accumulated other comprehensive income that are expected to be recognized as components of net periodic benefit cost during 2018 (in thousands):

	Retirement Income Plan	Non-Qualified Retirement Plans
Net loss	$ 7,450	$ 960
Prior service benefit	(3,470)	(40)

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

	2017			2016		
		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	4.30%	3.76%	4.35%	4.57%	3.99%	4.63%
Service cost	4.51%	N/A	4.52%	4.83%	N/A	4.87%
Interest cost	3.70%	2.94%	3.78%	3.86%	3.04%	3.9%
Expected long-term return on plan assets	7.0%	N/A	N/A	7.0%	N/A	N/A
Rate of compensation increase	4.5%	N/A	4.5%	4.5%	N/A	4.5%

The Company's overall expected long-term rate of return on assets is 7.5% effective January 1, 2018, 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, 2017
Equity securities	50%
Fixed income	40%
Alternative investments	10%
Total	100%

As of January 1, 2018, the long-term rate of return assumption was updated to be gross of administrative expenses paid to the trust. Net of administrative expenses, the reported long-term rate of return would have been 7.0%.

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 and equity securities of real estate companies, primarily in real estate investment trusts, and other property trusts. 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 and real estate 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.

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The FASB guidance on disclosure for pension plans requires disclosure of fair value measurements of plan assets. 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. Prices of securities held in the mutual funds and underlying portfolios of the Retirement Plan are primarily obtained from independent pricing services. These prices are based on observable market data. The Common Collective Trusts 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 in the Common Collective Trusts 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 are 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.

The fair value of the Company's Retirement Plan assets at December 31, 2017 and 2016, 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, 2017	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	$ 1,582	$ 1,582	$ —	$ —
Common Collective Trusts (a)				
Equity funds	158,684	158,684	—	—
Fixed income funds	124,491	124,491	—	—
Real estate funds	15,779	15,779	—	—
Total Common Collective Trusts	298,954	298,954	—	—
Limited Partnership Interest in Real Estate (b)(c)	3,853			
Total Plan Investments	$ 304,389	$ 300,536	$ —	$ —

Description of Securities	Fair Value as of December 31, 2016	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	$ 932	$ 932	$ —	$ —
Common Collective Trusts (a)				
Equity funds	144,081	144,081	—	—
Fixed income funds	109,356	109,356	—	—
Real estate funds	8,406	8,406	—	—
Total Common Collective Trusts	261,843	261,843	—	—
Limited Partnership Interest in Real Estate (b)(c)	6,991			
Total Plan Investments	$ 269,766	$ 262,775	$ —	$ —

(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.

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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 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.

(c) In the first quarter of 2016, the Company implemented ASU 2015-07, Fair Value Measurement (Topic 820) which eliminates the requirement to categorize investments in the fair value hierarchy if the fair value is measured at NAV per share (or its equivalent) using the practical expedient in the FASB's fair value measurement guidance. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the regulatory-basis balance sheet.

The table below reflects the changes in the fair value of investments in the real estate limited partnership during the period (in thousands):

	Fair Value of Investments in Real Estate
Balances at December 31, 2015	$ 8,588
Sale of land	(775)
Unrealized loss in fair value	(822)
Balances at December 31, 2016	6,991
Sale of land	(2,687)
Unrealized loss in fair value	(451)
Balances at December 31, 2017	$ 3,853

There were no transfers in or out of Level 1 and Level 2 fair value measurements categories due to changes in observable inputs during the twelve month periods ending December 31, 2017 and 2016. There were no purchases, issuances, and settlements related to the assets in the Level 3 fair value measurement category during the twelve month periods ending December 31, 2017 and 2016.

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 Department of Labor ("DOL") regulations.

The Company contributes at least the minimum funding amounts required by the IRS for the Retirement Plan, as actuarially calculated.

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

	Retirement Income Plan	Non-Qualified Retirement Plan
2018	$ 17,166	$ 2,154
2019	17,656	2,032
2020	17,938	1,975
2021	18,612	1,926
2022	19,247	1,876
2023-2027	105,915	8,754

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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 2017 and 2016 were $4.4 million and $4.1 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 (the "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, the IRS tax deductible limit, 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.

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, 2017	December 31, 2016
Change in benefit obligation:		
Benefit obligation at end of prior year	$ 73,515	$ 92,643
Service cost	2,236	2,769
Interest cost	2,723	3,167
Actuarial (gain) loss	(8,319)	10,751
Amendment (a)	—	(32,697)
Benefits paid	(4,087)	(4,428)
Retiree contributions	1,222	1,310
Benefit obligation at end of year	67,290	73,515
Change in plan assets:		
Fair value of plan assets at end of prior year	39,115	38,090
Actual return on plan assets	4,173	2,443
Employer contribution	450	1,700
Benefits paid	(4,087)	(4,428)
Retiree contributions	1,222	1,310
Fair value of plan assets at end of year	40,873	39,115
Funded status at end of year	$ (26,417)	$ (34,400)

(a) During October 2016, the Company approved and communicated a plan amendment that resulted in a remeasurement of the Company's Other Post-retirement Benefit Plan. Effective January 1, 2017, retirees and dependents that are less than 65 years of age are offered a choice between a $1,000 and $2,250 deductible plan. Additionally, retirees and dependents that are 65 years of age or greater were covered by a fully insured Medicare advantage plan.

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Amounts recognized in the Company's regulatory-basis balance sheets consist of the following (in thousands):

	December 31, 2017	December 31, 2016
Current liabilities	$ —	$ —
Noncurrent liabilities	(26,417)	(34,400)
Total	$ (26,417)	$ (34,400)

Pre-tax amounts recognized in accumulated other comprehensive income consist of the following (in thousands):

	December 31, 2017	December 31, 2016
Net gain	$ (35,194)	$ (26,285)
Prior service benefit	(34,857)	(41,009)
Total	$ (70,051)	$ (67,294)

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

	December 31, 2017	December 31, 2016
Discount rate at end of year	3.79%	4.36%
Health care cost trend rates:		
Initial		
Pre-65 medical	6.25%	6.50%
Post-65 medical	4.50%	4.50%
Pre-65 drug	7.25%	7.50%
Post-65 drug	10.00%	10.50%
Ultimate	4.50%	4.50%
Year ultimate reached (a)	2026	2026

(a) Pre-65 medical reaches the ultimate trend rate in 2025. Additionally, the Post-65 medical trend is assumed to be 4.50% for all years into the future.

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. A 1% increase in the discount rate would decrease the December 31, 2017 accumulated post-retirement benefit obligation by 14.2%. A 1% decrease in the discount rate would increase the December 31, 2017 accumulated post-retirement benefit obligation by 18.5%.

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

	Years Ended December 31, 2017	Years Ended December 31, 2016
Service cost	$ 2,236	$ 2,769
Interest cost	2,723	3,167
Expected return on plan assets	(1,907)	(1,835)
Amortization of:		
Prior service benefit	(6,151)	(3,901)
Net gain	(1,678)	(2,374)
Net periodic benefit	$ (4,777)	$ (2,174)

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In 2016, the Company changed the method used to estimate the service and interest components of net periodic benefit cost for other post-retirement benefits. This change, compared to the previous method, resulted in a decrease of approximately $0.8 million in the service cost and interest cost components in 2016. Historically, the Company estimated service and interest costs utilizing a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. In 2016, the Company elected to utilize a full yield curve approach to estimate these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. The Company believes the new approach provides a more precise measurement of service and interest costs by aligning the timing of the plan's liability cash flows to the corresponding spot rates on the yield curve. The Company accounted for this change as a change in accounting estimate and accordingly, accounted for this prospectively.

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

	Years Ended December 31, 2017	2016
Net (gain) loss	$ (10,586)	$ 10,143
Prior service benefit	—	(32,697)
Amortization of:		
Prior service benefit	6,151	3,901
Net gain	1,678	2,374
Total recognized in other comprehensive income	$ (2,757)	$ (16,279)

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

	Years Ended December 31, 2017	2016
Total recognized in net periodic benefit cost and other comprehensive income	$ (7,534)	$ (18,453)

The amount in accumulated other comprehensive income that is expected to be recognized as a component of net periodic benefit cost during 2018 is a prior service benefit of $6.2 million and a net gain of $2.1 million.

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

	2017	2016 (a) January 1 - September 30	2016 (a) October 1 - December 31
Discount rate			
Benefit obligation	4.37%	4.59%	3.75%
Service cost	4.59%	4.91%	4.03%
Interest cost	3.76%	3.86%	3.15%
Expected long-term return on plan assets	4.875	4.875%	
Health care cost trend rates:			
Initial			
Pre-65 medical	6.5%	7.0%	
Post-65 medical	4.5%	7.0%	
Pre-65 drug	7.5%	7.0%	
Post-65 drug	10.5%	7.0%	
Ultimate	4.5%	4.5%	
Year ultimate reached (b)	2026	2026	

(a) The actuarial assumptions are evaluated by the Company at each measurement date. The OPEB Plan was remeasured at October 1, 2016 due to a plan amendment.
(b) Pre-65 medical reaches the ultimate trend rate in 2025. Additionally, the Post-65 medical trend is assumed to be 4.50% for all years into the future.

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Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan The effect of a 1% change in these assumed health care cost trend rates would increase or decrease the December 31, 2017 benefit obligation by $11 3 million or $8 8 million, respectively In addition, a 1% change in said rate would increase or decrease the aggregate 2017 service and interest cost components of the net periodic benefit cost by $1 1 million or $0 8 million, respectively

The Company's overall expected long-term rate of return on assets is 7 85%, effective January 1, 2018, on a pre-tax basis The expected gross long-term rate of return on assets on an after-tax basis is 6 12% effective January 1, 2018 The trust's tax rate was assumed to be 35% at January 1, 2017 and 22% at January 1, 2018 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, 2017
Equity securities	48%
Fixed income	33%
Alternative investments	19%
Total	100%

As of January 1, 2018, the long-term rate of return assumption was updated to be gross of administrative expenses paid from the trust Net of administrative expenses, the reported long-term rate of return would have been 7 5%

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 commercial real estate securities, known as 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 will remain 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 FASB guidance on disclosure for other post-retirement benefit plans requires disclosure of fair value measurements of plan assets 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 Prices of securities held in the mutual funds and underlying portfolios of the Other Post-retirement Benefits Plan are primarily obtained from independent pricing services These prices are based on observable market data The institutional funds are valued using the 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 in the institutional funds 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 are 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

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The fair value of the Company's OPEB Plan assets at December 31, 2017 and 2016, 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, 2017	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	$ 809	$ 809	$ —	$ —
Institutional Funds (a)				
Equity funds	19,862	19,862	—	—
Fixed income funds	17,823	17,823	—	—
Real estate funds	1,657	1,657	—	—
Total Institutional Funds	39,342	39,342	—	—
Limited Partnership Interest in Real Estate (b) (c)	722			
Total Plan Investments	$ 40,873	$ 40,151	$ —	$ —

Description of Securities	Fair Value as of December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Institutional Funds (a)				
Equity funds	$ 26,133	$ 26,133	$ —	$ —
Fixed income funds	11,671	11,671	—	—
Total Institutional Funds	37,804	37,804	—	—
Limited Partnership Interest in Real Estate (b) (c)	1,311			
Total Plan Investments	$ 39,115	$ 37,804	$	$

(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.

(c) In the first quarter of 2016, the Company implemented ASU 2015-07, Fair Value Measurement (Topic 820) which eliminates the requirement to categorize investments in the fair value hierarchy if the fair value is measured at NAV per share (or its equivalent) using the practical expedient in the FASB's fair value measurement guidance. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the regulatory-basis balance sheet.

The table below reflects the changes in the fair value of the investments in real estate during the period (in thousands):

	Fair Value of Investments in Real Estate
Balance at December 31, 2015	$ 1,610
Sale of land	(145)
Unrealized loss in fair value	(154)
Balance at December 31, 2016	1,311
Sale of land	(504)
Unrealized loss in fair value	(85)
Balance at December 31, 2017	$ 722

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There were no transfers in or out of Level 1 and Level 2 fair value measurements categories due to changes in observable inputs during the twelve month periods ending December 31, 2017 and 2016 There were no purchases, issuances, and settlements related to the assets in the Level 3 fair value measurement category during the twelve month periods ending December 31, 2017 and 2016

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 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 guidelines prescribed by the Company the fiduciaries responsible for the OPEB 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 ERISA and DOL regulations

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

2018	$ 2,260
2019	2,404
2020	2,607
2021	2,771
2022	2,937
2023-2027	16,440

Annual Short-Term Incentive Plan

The Annual Short-Term Incentive Plan (the "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 Company's Board of Directors' Compensation Committee Generally, these performance measures are based on meeting certain financial, operational and individual performance criteria The financial performance goals are based on earnings per share and certain operations and maintenance expenses The operational performance goals are based on reliability, customer satisfaction, and compliance If a specified level of earnings per share is not attained, no amounts will be paid under the Incentive Plan, unless the Compensation Committee determines otherwise In 2017, the Company reached the required levels of earnings per share, certain operations and maintenance expenses, customer satisfaction, and compliance goals for an incentive payment of $9 7 million In 2016, the Company achieved required levels of similar goals for incentive payments of $12 5 million

M. Franchises and Significant Customers

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, as amended in 2010, the Company pays to the City of El Paso, on a quarterly basis, a fee equal to 4 00% of gross revenues the Company receives for the generation, transmission and distribution of electrical energy and other services within the city The 2005 El Paso franchise agreement set the franchise fee at 3 25% of gross revenues, but an amendment in 2010 added an incremental fee equal to 0 75% of gross revenues to be placed in a restricted fund to be used by the city solely for economic development and renewable energy purposes Any assignment of the franchise agreement, including a deemed assignment as a result of a change in control of the Company, requires the consent of the City of El Paso The El Paso franchise agreement is currently set to expire on July 31, 2030

An amendment to the franchise agreement passed by the City of El Paso on March 20, 2018, will increase the supplemental fee reserved for economic development by an additional 1 00%, increasing the total franchise fee to 5 00% of gross revenues, and will extend the expiration date of the franchise agreement to July 31, 2060 The 2018 amendment will not become effective, however, until a tariff that allows the Company to recover the cost of the franchise fee increase from customers within the City of El Paso is approved and non-appealable The Company filed the proposed tariff with the City of El Paso on March 23, 2018, and the Company cannot predict as to if or when the tariff will be approved

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NOTES TO FINANCIAL STATEMENTS (Continued)

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 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

Military Installations

The Company serves HAFB, White Sands Missile Range ("White Sands") and Fort Bliss These military installations represent approximately 2 5% of the Company's annual retail revenues 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 As stated in the contract, HAFB will purchase the full output of a Company-owned 5 MW solar facility upon its completed construction, with HAFB's other power requirements and limited wheeling services provided under the applicable New Mexico tariffs

N. 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, decommissioning trust funds, long-term debt, financing 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 decommissioning trust funds are carried at estimated fair value

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,			
	2017		2016	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Pollution Control Bonds (1)	$ 159,835	$ 169,186	$ 193,135	$ 206,818
Senior Notes	1,003,190	1,211,922	1,003,195	1,112,285
RGRT Senior Notes (2)	45,000	47,070	95,000	98,855
RCF (2)	174,390	174,390	83,275	83,275
Total	$ 1,382,415	$ 1,602,568	$ 1,374,605	$ 1,501,233

(1) In September 2017, the $33 3 million 2012 Series A 1 875% Pollution Control Bonds which were subject to mandatory tender for purchase were redeemed and retired utilizing funds borrowed under the RCF

(2) Nuclear fuel capital lease obligations, as of December 31, 2017 and December 31, 2016, is funded through $45 million and $95 million RGRT Senior Notes and $89 4 million and $39 3 million, respectively under the RCF In August 2017, RGRT's $50 0 million Series B 4 47% Senior Notes matured and were paid utilizing funds borrowed under the RCF As of December 31, 2017, $85 0 million was outstanding under the RCF for working capital or general corporate purposes As of December 31, 2016, $44 0 million amount was outstanding under the RCF for working capital or general corporate purposes The interest rate on the Company's borrowings under the RCF is reset throughout the period reflecting current market rates Consequently, the carrying value approximates fair value

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 In 2018, approximately $0 6 million of this accumulated other comprehensive loss item will be reclassified to interest expense

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El Paso Electric Company	(1) X An Original (2) __ A Resubmission	(Mo, Da, Yr) / /	2017/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

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, 2017, 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 decommissioning trust funds in the regulatory-basis balance sheet, are reported at fair value which was $286.9 million and $255.7 million at December 31, 2017 and 2016, respectively. These securities are classified as available for sale and recorded at their estimated fair value using the FASB guidance for certain investments in debt and equity securities. The reported fair values include gross unrealized losses on marketable securities whose impairment the Company has deemed to be temporary. The tables below present the gross unrealized losses and the fair value of these securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position (in thousands):

	December 31, 2017					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities (1):						
Federal Agency Mortgage Backed Securities	$ 4,700	$ (46)	$ 10,099	$ (165)	$ 14,799	$ (211)
U.S. Government Bonds	28,866	(416)	18,186	(969)	47,052	(1,385)
Municipal Debt Obligations	4,290	(73)	9,736	(742)	14,026	(815)
Corporate Debt Obligations	10,685	(107)	4,475	(331)	15,160	(438)
Total Debt Securities	48,541	(642)	42,496	(2,207)	91,037	(2,849)
Common Stock	962	(210)	—	—	962	(210)
Total Temporarily Impaired Securities	$ 49,503	$ (852)	$ 42,496	$ (2,207)	$ 91,999	$ (3,059)

(1) Includes approximately 146 securities.

	December 31, 2016					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities (2):						
Federal Agency Mortgage Backed Securities	$ 11,582	$ (239)	$ 436	$ (22)	$ 12,018	$ (261)
U.S. Government Bonds	31,655	(762)	17,976	(835)	49,631	(1,597)
Municipal Debt Obligations	9,596	(394)	4,067	(372)	13,663	(766)
Corporate Debt Obligations	7,971	(172)	2,092	(172)	10,063	(344)
Total Debt Securities	60,804	(1,567)	24,571	(1,401)	85,375	(2,968)
Common Stock	2,760	(167)	—	—	2,760	(167)
Institutional Funds-International Equity	22,945	(110)	—	—	22,945	(110)
Total Temporarily Impaired Securities	$ 86,509	$ (1,844)	$ 24,571	$ (1,401)	$ 111,080	$ (3,245)

(2) Includes approximately 152 securities.

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NOTES TO FINANCIAL STATEMENTS (Continued)

The Company monitors the length of time specific securities trade below its cost basis along with the amount and percentage of the unrealized loss in determining if a decline in fair value of marketable securities below recorded cost is considered to be other than temporary. The Company recognizes impairment losses on certain of its securities deemed to be other than temporary. In accordance with the FASB guidance, these impairment losses are recognized in net income, and a lower cost basis is established for these securities. In addition, the Company will research the future prospects of individual securities as necessary. The Company does not anticipate expending monies held in trust before 2044 or a later period when decommissioning of Palo Verde begins.

For the twelve months ended December 31, 2017 and 2016, the Company recognized other than temporary impairment losses on its available-for-sale securities as follows (in thousands):

	2017	2016
Unrealized holding losses included in pre-tax income	$ —	$ (352)

The reported securities also include gross unrealized gains on marketable securities which have not been recognized in the Company’s net income. The table below presents the unrecognized gross unrealized gains and the fair value of these securities, aggregated by investment category (in thousands):

	December 31, 2017		December 31, 2016	
	Fair Value	Unrealized Gains	Fair Value	Unrealized Gains
Description of Securities:				
Federal Agency Mortgage Backed Securities	$ 5,933	$ 203	$ 7,430	$ 319
U.S. Government Bonds	11,129	256	12,237	138
Municipal Debt Obligations	2,558	109	2,481	144
Corporate Debt Obligations	19,514	1,067	12,350	655
Total Debt Securities	39,134	1,635	34,498	1,256
Common Stock	52,879	32,625	61,884	34,066
Equity Mutual Funds	67,186	12,962	42,244	3,345
Institutional Funds-International Equity	28,804	5,908	—	—
Cash and Cash Equivalents	6,864	—	6,002	—
Total	$ 194,867	$ 53,130	$ 144,628	$ 38,667

The Company’s marketable securities include investments in mortgage backed securities, municipal, corporate and federal debt obligations. The contractual year for maturity for these available-for-sale securities as of December 31, 2017 is as follows (in thousands):

	Total	2018	2019 through 2022	2023 through 2027	2028 and Beyond
Federal Agency Mortgage Backed Securities	$ 20,732	$ —	$ 18	$ 280	$ 20,434
U.S. Government Bonds	58,181	5,251	27,181	11,663	14,086
Municipal Debt Obligations	16,584	511	7,690	7,064	1,319
Corporate Debt Obligations	34,674	215	16,946	7,601	9,912

Name of Respondent El Paso Electric Company	This Report is: (1) X An Original (2) __ A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report 2017/Q4

NOTES TO FINANCIAL STATEMENTS (Continued)

The Company's marketable securities in its decommissioning trust funds are sold from time to time and the Company uses the specific identification basis to determine the amount to reclassify from accumulated other comprehensive income into net income. The proceeds from the sale of these securities during the twelve months ended December 31, 2017 and 2016 and the related effects on pre-tax income are as follows (in thousands):

	2017	2016
Proceeds from sales of available-for-sale securities	$ 97,037	$ 91,268
Gross realized gains included in pre-tax income	$ 11,773	$ 9,212
Gross realized losses included in pre-tax income	(1,147)	(1,220)
Gross unrealized losses included in pre-tax income	—	(352)
Net gains included in pre-tax income	$ 10,626	$ 7,640
Net unrealized holding gains included in accumulated other comprehensive income	$ 25,275	$ 8,444
Net gains reclassified out of accumulated other comprehensive income	(10,626)	(7,640)
Net gains in other comprehensive income	$ 14,649	$ 804

Fair Value Measurements. The FASB guidance requires the Company to provide expanded quantitative disclosures for financial assets and liabilities recorded on the regulatory-basis balance sheet at fair value. Financial assets carried at fair value include the Company's decommissioning trust investments and investments in debt securities which are included in Other Special Funds and Other Investments, respectively, on the regulatory-basis balance sheet. The Company has no liabilities that are measured at fair value on a recurring basis. The FASB guidance establishes 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 inputs include the nuclear decommissioning trust investments in active exchange-traded equity securities, mutual funds and U.S. Treasury securities that are in a highly liquid and active market. The Institutional Funds are valued using the 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 Institutional Funds-International Equity 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. Financial assets utilizing Level 2 inputs include the nuclear decommissioning trust investments in fixed income securities. The fair value of these financial instruments 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. Financial assets utilizing Level 3 inputs are the Company's investment in debt securities.

The securities in the Company's decommissioning trust funds are valued using prices and other relevant information generated by market transactions involving identical or comparable securities. The FASB guidance identifies this valuation technique as the "market approach" with observable inputs. The Company analyzes available-for-sale securities to determine if losses are other than temporary.

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NOTES TO FINANCIAL STATEMENTS (Continued)

The fair value of the Company's decommissioning trust funds and investments in debt securities at December 31, 2017 and 2016, 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, 2017	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	$ 1,735	$ —	$ —	$ 1,735
Available for Sale:				
Federal Agency Mortgage Backed Securities	$ 20,732	$ —	$ 20,732	$ —
U.S. Government Bonds	58,181	58,181	—	—
Municipal Debt Obligations	16,584	—	16,584	—
Corporate Debt Obligations	34,674	—	34,674	—
Subtotal, Debt Securities	130,171	58,181	71,990	—
Common Stock	53,841	53,841	—	—
Equity Mutual Funds	67,186	67,186	—	—
Institutional Funds-International Equity	28,804	28,804	—	—
Cash and Cash Equivalents	6,864	6,864	—	—
Total Available for Sale	$ 286,866	$ 214,876	$ 71,990	$ —

Description of Securities	Fair Value as of December 31, 2016	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	$ 1,421	$ —	$ —	$ 1,421
Available for Sale:				
Federal Agency Mortgage Backed Securities	$ 19,448	$ —	$ 19,448	$ —
U.S. Government Bonds	61,868	61,868	—	—
Municipal Debt Obligations	16,144	—	16,144	—
Corporate Debt Obligations	22,413	—	22,413	—
Subtotal, Debt Securities	119,873	61,868	58,005	—
Common Stock	64,644	64,644	—	—
Equity Mutual Funds	42,244	42,244	—	—
Institutional Funds-International Equity	22,945	22,945	—	—
Cash and Cash Equivalents	6,002	6,002	—	—
Total Available for Sale	$ 255,708	$ 197,703	$ 58,005	$ —

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

	2017	2016
Balance at January 1	$ 1,421	$ 1,543
Net unrealized gains (losses) in fair value recognized in oncome (a)	314	(122)
Balance at December 31	$ 1,735	$ 1,421

(a) These amounts are reflected in the Company's regulatory-basis statement of income as other income.

There were no transfers in or out of Level 1 and Level 2 fair value measurements categories due to changes in observable inputs during the twelve month periods ending December 31, 2017 and 2016. There were no purchases, sales, issuances, and settlements related to the assets in the Level 3 fair value measurement category during the twelve month periods ending December 31, 2017 and 2016.

O. Supplemental Statements of Cash Flows Disclosures

	Years Ended December 31, 2017	Years Ended December 31, 2016
Cash paid for:		
Interest on long-term debt and borrowing under the revolving credit facility	$ 70,523	$ 69,990
Income tax, net of refund	2,055	2,328
Non-cash investing and financing activities:		
Sale of interest in Four Corners Generating Station (a)	—	27,720
Changes in accrued plant additions	(5,090)	4,789
Grants of restricted shares of common stock	1,171	1,236
Issuance of performance shares	932	—

(a) The Company sold its interest in Four Corners in July 2016. The sales proceeds were reduced by the settlement of other obligations between the Company and APS and its affiliate, 4C Acquisition, LLC. See Note E.

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El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2017/Q4

STATEMENTS OF ACCUMULATED COMPREHENSIVE INCOME, COMPREHENSIVE INCOME, AND HEDGING ACTIVITIES

1 Report in columns (b),(c),(d) and (e) the amounts of accumulated other comprehensive income items, on a net-of-tax basis, where appropriate
2 Report in columns (f) and (g) the amounts of other categories of other cash flow hedges
3 For each category of hedges that have been accounted for as "fair value hedges", report the accounts affected and the related amounts in a footnote
4 Report data on a year-to-date basis

Line No	Item (a)	Unrealized Gains and Losses on Available-for-Sale Securities (b)	Minimum Pension Liability adjustment (net amount) (c)	Foreign Currency Hedges (d)	Other Adjustments (e)
1	Balance of Account 219 at Beginning of Preceding Year	27,764,941			(29,868,700)
2	Preceding Qtr/Yr to Date Reclassifications from Acct 219 to Net Income	(6,206,182)			(1,422,220)
3	Preceding Quarter/Year to Date Changes in Fair Value	6,903,785			7,363,039
4	Total (lines 2 and 3)	697,603			5,940,819
5	Balance of Account 219 at End of Preceding Quarter/Year	28,462,544			(23,927,881)
6	Balance of Account 219 at Beginning of Current Year	28,462,544			(23,927,881)
7	Current Qtr/Yr to Date Reclassifications from Acct 219 to Net Income	(8,523,889)			(1,813,331)
8	Current Quarter/Year to Date Changes in Fair Value	20,251,071			7,951,360
9	Total (lines 7 and 8)	11,727,182			6,138,029
10	Balance of Account 219 at End of Current Quarter/Year	40,189,726			(17,789,852)

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El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2017/Q4

STATEMENTS OF ACCUMULATED COMPREHENSIVE INCOME, COMPREHENSIVE INCOME, AND HEDGING ACTIVITIES

Line No	Other Cash Flow Hedges Interest Rate Swaps (f)	Other Cash Flow Hedges [Insert Footnote at Line 1 to specify] (g)	Totals for each category of items recorded in Account 219 (h)	Net Income (Carried Forward from Page 117, Line 78) (i)	Total Comprehensive Income (j)
1		(11,810,046)	(13,913,805)		
2		159,368	(7,469,034)		
3			14,266,824		
4		159,368	6,797,790	97,956,132	104,753,922
5		(11,650,678)	(7,116,015)		
6		(11,650,678)	(7,116,015)		
7		309,164	(10,028,056)		
8			28,202,431		
9		309,164	18,174,375	98,703,869	116,878,244
10		(11,341,514)	11,058,360		

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FOOTNOTE DATA

Schedule Page: 122(a)(b) Line No.: 1 Column: b

The Company's decommissioning trust funds include marketable securities which are reported at fair value. These securities are classified as available for sale under Financial Accounting Standards Board ("FASB") guidance for certain investments in debt and equity securities and are valued using prices and other relevant information generated by market transactions involving identical or comparable securities.

Schedule Page: 122(a)(b) Line No.: 1 Column: e

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

Schedule Page: 122(a)(b) Line No.: 1 Column: g

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 income. In May 2005, the Company began to recognize in earnings (as additional interest expense) the accumulated other comprehensive income associated with the cash flow hedge. During the next twelve month period, approximately $0.6 million pre-tax of this accumulated other comprehensive income item will be reclassified to interest expense.

Name of Respondent	This Report Is	Date of Report (Mo, Da, Yr)	Year/Period of Report
El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2017/Q4

SUMMARY OF UTILITY PLANT AND ACCUMULATED PROVISIONS FOR DEPRECIATION AMORTIZATION AND DEPLETION

Report in Column (c) the amount for electric function, in column (d) the amount for gas function, in column (e), (f), and (g) report other (specify) and in column (h) common function

Line No	Classification (a)	Total Company for the Current Year/Quarter Ended (b)	Electric (c)
1	Utility Plant		
2	In Service		
3	Plant in Service (Classified)	4,073,574,596	4,073,574,596
4	Property Under Capital Leases		
5	Plant Purchased or Sold		
6	Completed Construction not Classified	838,849,960	838,849,960
7	Experimental Plant Unclassified		
8	Total (3 thru 7)	4,912,424,556	4,912,424,556
9	Leased to Others		
10	Held for Future Use		
11	Construction Work in Progress	146,057,827	146,057,827
12	Acquisition Adjustments		
13	Total Utility Plant (8 thru 12)	5,058,482,383	5,058,482,383
14	Accum Prov for Depr, Amort, & Depl	2,240,335,407	2,240,335,407
15	Net Utility Plant (13 less 14)	2,818,146,976	2,818,146,976
16	Detail of Accum Prov for Depr, Amort & Depl		
17	In Service		
18	Depreciation	2,178,675,282	2,178,675,282
19	Amort & Depl of Producing Nat Gas Land/Land Right		
20	Amort of Underground Storage Land/Land Rights		
21	Amort of Other Utility Plant	61,660,125	61,660,125
22	Total In Service (18 thru 21)	2,240,335,407	2,240,335,407
23	Leased to Others		
24	Depreciation		
25	Amortization and Depletion		
26	Total Leased to Others (24 & 25)		
27	Held for Future Use		
28	Depreciation		
29	Amortization		
30	Total Held for Future Use (28 & 29)		
31	Abandonment of Leases (Natural Gas)		
32	Amort of Plant Acquisition Adj		
33	Total Accum Prov (equals 14) (22,26,30,31,32)	2,240,335,407	2,240,335,407

Name of Respondent	This Report Is	Date of Report (Mo, Da, Yr)	Year/Period of Report
El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2017/Q4

SUMMARY OF UTILITY PLANT AND ACCUMULATED PROVISIONS
FOR DEPRECIATION AMORTIZATION AND DEPLETION

Gas (d)	Other (Specify) (e)	Other (Specify) (f)	Other (Specify) (g)	Common (h)	Line No
					1
					2
					3
					4
					5
					6
					7
					8
					9
					10
					11
					12
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					31
					32
					33

Name of Respondent	This Report Is	Date of Report (Mo, Da, Yr)	Year/Period of Report
El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2017/Q4

NUCLEAR FUEL MATERIALS (Account 120 1 through 120 6 and 157)

1 Report below the costs incurred for nuclear fuel materials in process of fabrication, on hand, in reactor, and in cooling, owned by the respondent
2 If the nuclear fuel stock is obtained under leasing arrangements, attach a statement showing the amount of nuclear fuel leased, the quantity used and quantity on hand, and the costs incurred under such leasing arrangements

Line No	Description of item (a)	Balance Beginning of Year (b)	Changes during Year Additions (c)
1	Nuclear Fuel in process of Refinement, Conv, Enrichment & Fab (120 1)		
2	Fabrication		
3	Nuclear Materials		
4	Allowance for Funds Used during Construction		
5	(Other Overhead Construction Costs, provide details in footnote)		
6	SUBTOTAL (Total 2 thru 5)		
7	Nuclear Fuel Materials and Assemblies		
8	In Stock (120 2)		
9	In Reactor (120 3)		
10	SUBTOTAL (Total 8 & 9)		
11	Spent Nuclear Fuel (120 4)		
12	Nuclear Fuel Under Capital Leases (120 6)	196,173,010	39,720,959
13	(Less) Accum Prov for Amortization of Nuclear Fuel Assem (120 5)	76,343,039	-2,756,540
14	TOTAL Nuclear Fuel Stock (Total 6, 10, 11, 12, less 13)	119,829,971	
15	Estimated net Salvage Value of Nuclear Materials in line 9		
16	Estimated net Salvage Value of Nuclear Materials in line 11		
17	Est Net Salvage Value of Nuclear Materials in Chemical Processing		
18	Nuclear Materials held for Sale (157)		
19	Uranium		
20	Plutonium		
21	Other (provide details in footnote)		
22	TOTAL Nuclear Materials held for Sale (Total 19, 20, and 21)		

Name of Respondent	This Report Is	Date of Report (Mo, Da, Yr)	Year/Period of Report
El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2017/Q4

NUCLEAR FUEL MATERIALS (Account 120 1 through 120 6 and 157)

Changes during Year: Amortization (d)	Changes during Year: Other Reductions (Explain in a footnote) (e)	Balance End of Year (f)	Line No
			1
			2
			3
			4
			5
			6
			7
			8
			9
			10
			11
	39,955,885	195,938,084	12
-41,096,515	39,955,885	74,727,129	13
		121,210,955	14
			15
			16
			17
			18
			19
			20
			21
			22

Name of Respondent El Paso Electric Company	This Report is (1) X An Original (2) __ A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report 2017/Q4

FOOTNOTE DATA

Schedule Page: 202 Line No.: 12 Column: c

During 2017, the Company capitalized approximately $2.5 million of costs, including interest on trust borrowings, issuance costs and accrued interest on the senior notes and trustee fees in connection with the financing of nuclear fuel through the trust. Information on quantities of nuclear fuel materials is not available.

Schedule Page: 202 Line No.: 12 Column: e

Retirement of fully amortized nuclear fuel in connection with the 2017 reloads for Palo Verde Units 1 and 2.

Schedule Page: 202 Line No.: 13 Column: c

Dry cask storage costs allocated to Palo Verde Units 1, 2 and 3.

Schedule Page: 202 Line No.: 13 Column: e

Retirement of fully amortized nuclear fuel in connection with the 2017 reloads for Palo Verde Units 1 and 2.

Schedule Page: 202 Line No.: 14 Column: f

ll of the Company's nuclear fuel financing is accomplished through the RGRT trust that has amounts borrowed through senior notes and borrowings under a revolving credit facility. The assets and liabilities of the trust are reported on the Company's regulatory basis balance sheets. The total amount borrowed for nuclear fuel by the trust at December 31, 2017 was $134.4 million of which $89.4 million had been borrowed under the revolving credit facility, and $45 million was borrowed through senior notes. The Company paid at maturity the $50 million of senior notes in August 2017 with borrowings under the Company's revolving credit facility.

Name of Respondent	This Report Is	Date of Report (Mo, Da, Yr)	Year/Period of Report
El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2017/Q4

ELECTRIC PLANT IN SERVICE (Account 101, 102, 103 and 106)

1 Report below the original cost of electric plant in service according to the prescribed accounts
2 In addition to Account 101, Electric Plant in Service (Classified), this page and the next include Account 102, Electric Plant Purchased or Sold, Account 103, Experimental Electric Plant Unclassified, and Account 106, Completed Construction Not Classified-Electric
3 Include in column (c) or (d), as appropriate, corrections of additions and retirements for the current or preceding year
4 For revisions to the amount of initial asset retirement costs capitalized, included by primary plant account, increases in column (c) additions and reductions in column (e) adjustments
5 Enclose in parentheses credit adjustments of plant accounts to indicate the negative effect of such accounts
6 Classify Account 106 according to prescribed accounts, on an estimated basis if necessary, and include the entries in column (c) Also to be included in column (c) are entries for reversals of tentative distributions of prior year reported in column (b) Likewise, if the respondent has a significant amount of plant retirements which have not been classified to primary accounts at the end of the year, include in column (d) a tentative distribution of such retirements, on an estimated basis, with appropriate contra entry to the account for accumulated depreciation provision Include also in column (d)

Line No	Account (a)	Balance Beginning of Year (b)	Additions (c)
1	1 INTANGIBLE PLANT		
2	(301) Organization		
3	(302) Franchises and Consents		
4	(303) Miscellaneous Intangible Plant	134,178,937	22,170,840
5	TOTAL Intangible Plant (Enter Total of lines 2, 3, and 4)	134,178,937	22,170,840
6	2 PRODUCTION PLANT		
7	A Steam Production Plant		
8	(310) Land and Land Rights	282,846	
9	(311) Structures and Improvements	53,480,065	1,283,938
10	(312) Boiler Plant Equipment	156,017,632	6,518,757
11	(313) Engines and Engine-Driven Generators	68,238,646	790,062
12	(314) Turbogenerator Units	128,366,265	22,622,498
13	(315) Accessory Electric Equipment	34,807,272	46,588
14	(316) Misc Power Plant Equipment	52,516,656	289,550
15	(317) Asset Retirement Costs for Steam Production	2,215,138	
16	TOTAL Steam Production Plant (Enter Total of lines 8 thru 15)	495,924,520	31,551,393
17	B Nuclear Production Plant		
18	(320) Land and Land Rights	2,347,713	
19	(321) Structures and Improvements	526,665,602	4,768,081
20	(322) Reactor Plant Equipment	768,464,150	10,079,034
21	(323) Turbogenerator Units	243,665,737	10,891,379
22	(324) Accessory Electric Equipment	176,360,052	2,401,430
23	(325) Misc Power Plant Equipment	116,317,227	14,587,399
24	(326) Asset Retirement Costs for Nuclear Production	-42,229,190	
25	TOTAL Nuclear Production Plant (Enter Total of lines 18 thru 24)	1,791,591,291	42,727,323
26	C Hydraulic Production Plant		
27	(330) Land and Land Rights		
28	(331) Structures and Improvements		
29	(332) Reservoirs, Dams, and Waterways		
30	(333) Water Wheels, Turbines, and Generators		
31	(334) Accessory Electric Equipment		
32	(335) Misc Power PLant Equipment		
33	(336) Roads, Railroads, and Bridges		
34	(337) Asset Retirement Costs for Hydraulic Production		
35	TOTAL Hydraulic Production Plant (Enter Total of lines 27 thru 34)		
36	D Other Production Plant		
37	(340) Land and Land Rights	2,607,376	
38	(341) Structures and Improvements	100,003,518	514,228
39	(342) Fuel Holders, Products, and Accessories	19,379,817	-81,654
40	(343) Prime Movers	299,885,605	1,285,678
41	(344) Generators	40,460,049	6,225,937
42	(345) Accessory Electric Equipment	25,136,888	1,374,986
43	(346) Misc Power Plant Equipment	6,962,813	117,822
44	(347) Asset Retirement Costs for Other Production	204,814	
45	TOTAL Other Prod Plant (Enter Total of lines 37 thru 44)	494,640,880	9,436,997
46	TOTAL Prod Plant (Enter Total of lines 16, 25, 35, and 45)	2,782,156,691	83,715,713

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ELECTRIC PLANT IN SERVICE (Account 101, 102, 103 and 106) (Continued)

distributions of these tentative classifications in columns (c) and (d), including the reversals of the prior years tentative account distributions of these amounts Careful observance of the above instructions and the texts of Accounts 101 and 106 will avoid serious omissions of the reported amount of respondent's plant actually in service at end of year
7 Show in column (f) reclassifications or transfers within utility plant accounts Include also in column (f) the additions or reductions of primary account classifications arising from distribution of amounts initially recorded in Account 102, include in column (e) the amounts with respect to accumulated provision for depreciation, acquisition adjustments, etc , and show in column (f) only the offset to the debits or credits distributed in column (f) to primary account classifications
8 For Account 399, state the nature and use of plant included in this account and if substantial in amount submit a supplementary statement showing subaccount classification of such plant conforming to the requirement of these pages
9 For each amount comprising the reported balance and changes in Account 102, state the property purchased or sold, name of vendor or purchase, and date of transaction If proposed journal entries have been filed with the Commission as required by the Uniform System of Accounts, give also date

Retirements (d)	Adjustments (e)	Transfers (f)	Balance at End of Year (g)		Line No
					1
					2
					3
805,651			155,544,126		4
805,651			155,544,126		5
					6
					7
			282,846		8
80,097			54,683,906		9
910,491			161,625,898		10
3,482,012			65,546,696		11
7,272,190			143,716,573		12
			34,853,860		13
33,076			52,773,130		14
	-2,463,625		-248,487		15
11,777,866	-2,463,625		513,234,422		16
					17
			2,347,713		18
1,551,383			529,882,300		19
654,375			777,888,809		20
1,906,884			252,650,232		21
240,280			178,521,202		22
828,531			130,076,095		23
	3,460,697		-38,768,493		24
5,181,453	3,460,697		1,832,597,858		25
					26
					27
					28
					29
					30
					31
					32
					33
					34
					35
					36
			2,607,376		37
			100,517,746		38
			19,298,163		39
204,330			300,966,953		40
39,284			46,646,702		41
			26,511,874		42
			7,080,635		43
	51,067		255,881		44
243,614	51,067		503,885,330		45
17,202,933	1,048,139		2,849,717,610		46

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ELECTRIC PLANT IN SERVICE (Account 101, 102, 103 and 106) (Continued)

Line No	Account (a)	Balance Beginning of Year (b)	Additions (c)
47	3 TRANSMISSION PLANT		
48	(350) Land and Land Rights	14,497,199	540,150
49	(352) Structures and Improvements	10,724,473	421,104
50	(353) Station Equipment	187,890,084	8,748,779
51	(354) Towers and Fixtures	28,375,751	3,293,594
52	(355) Poles and Fixtures	129,180,920	9,875,729
53	(356) Overhead Conductors and Devices	95,738,740	1,078,321
54	(357) Underground Conduit		
55	(358) Underground Conductors and Devices		
56	(359) Roads and Trails	2,214,575	17,066
57	(359 1) Asset Retirement Costs for Transmission Plant		
58	TOTAL Transmission Plant (Enter Total of lines 48 thru 57)	468,621,742	23,974,743
59	4 DISTRIBUTION PLANT		
60	(360) Land and Land Rights	7,232,311	99,507
61	(361) Structures and Improvements	10,606,938	3,581,378
62	(362) Station Equipment	201,337,945	11,925,797
63	(363) Storage Battery Equipment		
64	(364) Poles, Towers, and Fixtures	162,065,785	6,467,937
65	(365) Overhead Conductors and Devices	97,583,328	4,582,595
66	(366) Underground Conduit	123,709,425	5,067,904
67	(367) Underground Conductors and Devices	137,572,400	11,681,822
68	(368) Line Transformers	247,497,720	15,340,480
69	(369) Services	47,355,277	2,990,342
70	(370) Meters	52,598,768	2,686,807
71	(371) Installations on Customer Premises	13,089,687	707,130
72	(372) Leased Property on Customer Premises		
73	(373) Street Lighting and Signal Systems	10,939,583	373,863
74	(374) Asset Retirement Costs for Distribution Plant		
75	TOTAL Distribution Plant (Enter Total of lines 60 thru 74)	1,111,589,167	65,505,562
76	5 REGIONAL TRANSMISSION AND MARKET OPERATION PLANT		
77	(380) Land and Land Rights		
78	(381) Structures and Improvements		
79	(382) Computer Hardware		
80	(383) Computer Software		
81	(384) Communication Equipment		
82	(385) Miscellaneous Regional Transmission and Market Operation Plant		
83	(386) Asset Retirement Costs for Regional Transmission and Market Oper		
84	TOTAL Transmission and Market Operation Plant (Total lines 77 thru 83)		
85	6 GENERAL PLANT		
86	(389) Land and Land Rights	1,549,284	135,872
87	(390) Structures and Improvements	104,507,734	5,638,785
88	(391) Office Furniture and Equipment	25,714,599	6,856,497
89	(392) Transportation Equipment	43,914,035	3,478,522
90	(393) Stores Equipment	53,347	
91	(394) Tools, Shop and Garage Equipment	3,889,164	803,244
92	(395) Laboratory Equipment	3,794,086	931,011
93	(396) Power Operated Equipment	8,490,417	249,304
94	(397) Communication Equipment	28,232,628	4,106,803
95	(398) Miscellaneous Equipment	3,667,916	730,250
96	SUBTOTAL (Enter Total of lines 86 thru 95)	223,813,210	22,930,288
97	(399) Other Tangible Property		
98	(399 1) Asset Retirement Costs for General Plant		87,400
99	TOTAL General Plant (Enter Total of lines 96, 97 and 98)	223,813,210	23,017,688
100	TOTAL (Accounts 101 and 106)	4,720,359,747	218,384,546
101	(102) Electric Plant Purchased (See Instr 8)		
102	(Less) (102) Electric Plant Sold (See Instr 8)		
103	(103) Experimental Plant Unclassified		
104	TOTAL Electric Plant in Service (Enter Total of lines 100 thru 103)	4,720,359,747	218,384,546

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El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2017/Q4

ELECTRIC PLANT IN SERVICE (Account 101, 102, 103 and 106) (Continued)

Retirements (d)	Adjustments (e)	Transfers (f)	Balance at End of Year (g)		Line No
					47
			15,037,349		48
			11,145,577		49
1,053,037			195,585,826		50
			31,669,345		51
86,212			138,970,437		52
18,901			96,798,160		53
					54
					55
			2,231,641		56
					57
1,158,150			491,438,335		58
					59
			7,331,818		60
			14,188,316		61
2,040,737			211,223,005		62
					63
736,428			167,797,294		64
625,348			101,540,575		65
			128,777,329		66
760,396			148,493,826		67
1,572,066			261,266,134		68
			50,345,619		69
			55,285,575		70
350,450			13,446,367		71
					72
18,947			11,294,499		73
					74
6,104,372			1,170,990,357		75
					76
					77
					78
					79
					80
					81
					82
					83
					84
					85
			1,685,156		86
			110,146,519		87
266,261			32,304,835		88
1,415,686		-48,600	45,928,271		89
			53,347		90
56,112			4,636,296		91
103,854			4,621,243		92
77,155		48,600	8,711,166		93
177,702			32,161,729		94
			4,398,166		95
2,096,770			244,646,728		96
					97
			87,400		98
2,096,770			244,734,128		99
27,367,876	1,048,139		4,912,424,556		100
					101
					102
					103
27,367,876	1,048,139		4,912,424,556		104

Name of Respondent	This Report Is	Date of Report (Mo, Da, Yr)	Year/Period of Report
El Paso Electric Company	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2017/Q4

CONSTRUCTION WORK IN PROGRESS - - ELECTRIC (Account 107)

1 Report below descriptions and balances at end of year of projects in process of construction (107)
2 Show items relating to "research, development, and demonstration" projects last, under a caption Research, Development, and Demonstrating (see Account 107 of the Uniform System of Accounts)
3 Minor projects (5% of the Balance End of the Year for Account 107 or $1,000,000, whichever is less) may be grouped

Line No	Description of Project (a)	Construction work in progress - Electric (Account 107) (b)
1	PALO VERDE CAPITAL IMPROVEMENTS	40,950,046
2	SCOTSDALE SUBSTATION TRANSFORMER AND SWITCHGEAR REPLACEMENT	7,635,119
3	RIO GRANDE TO SUNSET TRANSMISSION LINE REBUILD	6,354,302
4	HOLLOMAN AIR FORCE BASE SOLAR FACILITY - 5MW	4,604,445
5	SPARKS SUBSTATION TRANSFORMER ADDITION	4,122,592
6	DISTRIBUTION COMMERCIAL CONSTRUCTION - TEXAS	3,976,793
7	LANE TO COPPER TRANSMISSION LINE REBUILD	3,888,733
8	AFTON TO AIRPORT TRANSMISSION LINE	2,874,114
9	TRANSMOUNTAIN SUBSTATION	2,858,121
10	DISTRIBUTION BETTERMENT - TEXAS	2,834,834
11	PELLICANO SUBSTATION TRANSFORMER ADDITION	2,759,063
12	ARIZONA INTERCONNECTION PROJECT TRANSMISSION LINE ACCESS	2,680,399
13	SANTA FE REGULATOR AND SWITCHGEAR REPLACEMENT	2,408,613
14	NEWMAN UNIT 5 STEAM TURBINE UPGRADE	2,032,364
15	DISTRIBUTION RESIDENTIAL CONSTRUCTION - TEXAS	1,954,094
16	GLOBAL REACH SUBSTATION TRANSFORMER AND SWITCHGEAR	1,887,320
17	ASSET RESOURCE MANAGEMENT EXPANSION FOR TRANSMISSION AND SUBSTATION	1,688,755
18	MONTANA POWER STATION BLACK START GENERATORS	1,675,699
19	NEWMAN UNIT 5 GT4 WET COMPRESSION UPGRADE	1,607,166
20	DALLAS SUBSTATION TRANSFORMER REPLACEMENT	1,494,541
21	SUNSET NORTH SUBSTATION AUTO TRANSFORMER REPLACEMENT	1,479,383
22	TRANSMISSION BLANKET PROJECT	1,439,316
23	RIO BOSQUE 69KV CAPITAL PROJECT	1,419,835
24	TRANSPORTATION CAPITAL BLANKET	1,339,769
25	MONTANA POWER STATION SUBSTATION BREAKER UPGRADE	1,226,182
26	SUNSET UNDERGROUND BREAKER UPGRADE	1,214,442
27	TEXAS AREA 4KV CONVERSIONS	1,211,418
28	FABENS SUBSTATION CAPACITOR BANK	1,148,959
29	PICANTE SUBSTATION REACTOR ADDITION	1,123,550
30	NEWMAN CAPITAL IMPROVEMENTS	1,102,466
31	AFTON NORTH SUBSTATION	1,031,764
32	ANTHONY SUBSTATION TRANSFORMER REPLACEMENT	1,008,400
33	FARMER-ALAMO STRUCTURE REPLACEMENT	1,004,793
34	MINOR PROJECTS	30,020,437
35		
36		
37		
38		
39		
40		
41		
42		
43	TOTAL	146,057,827