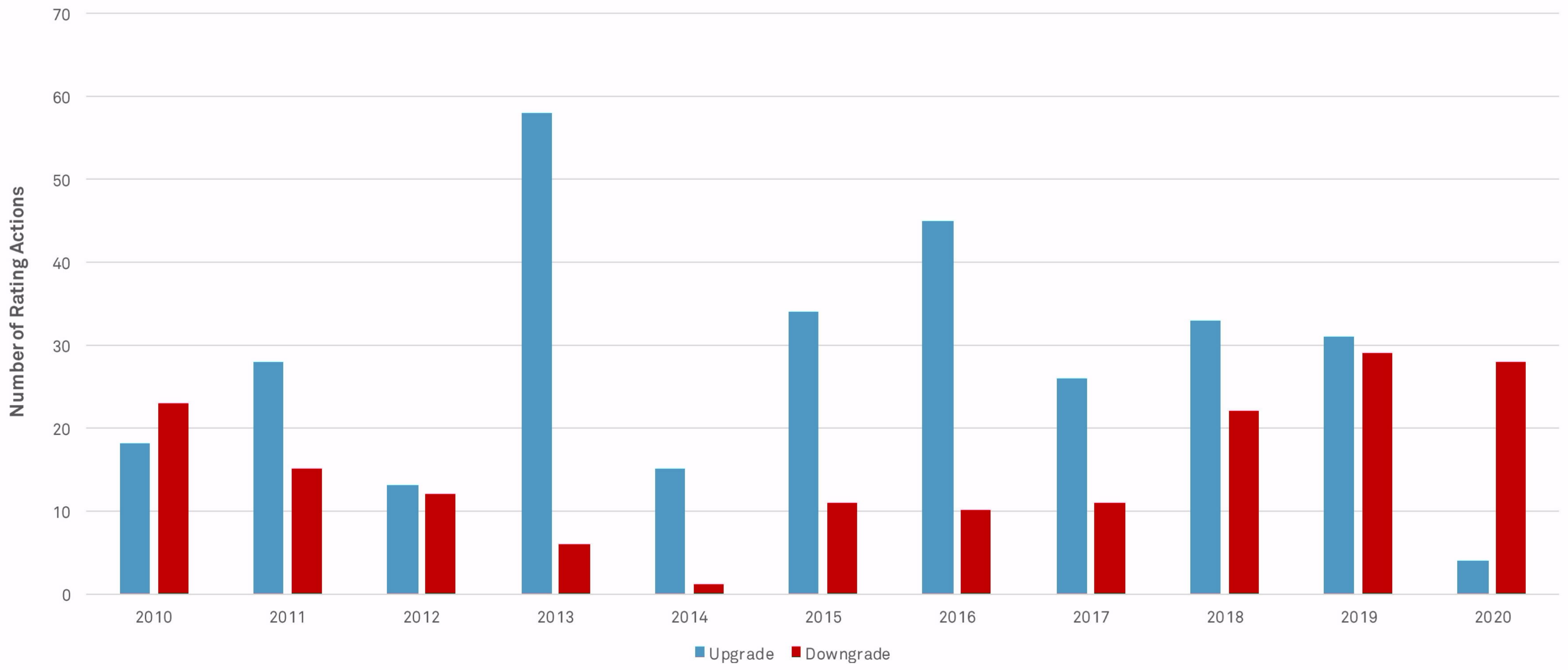
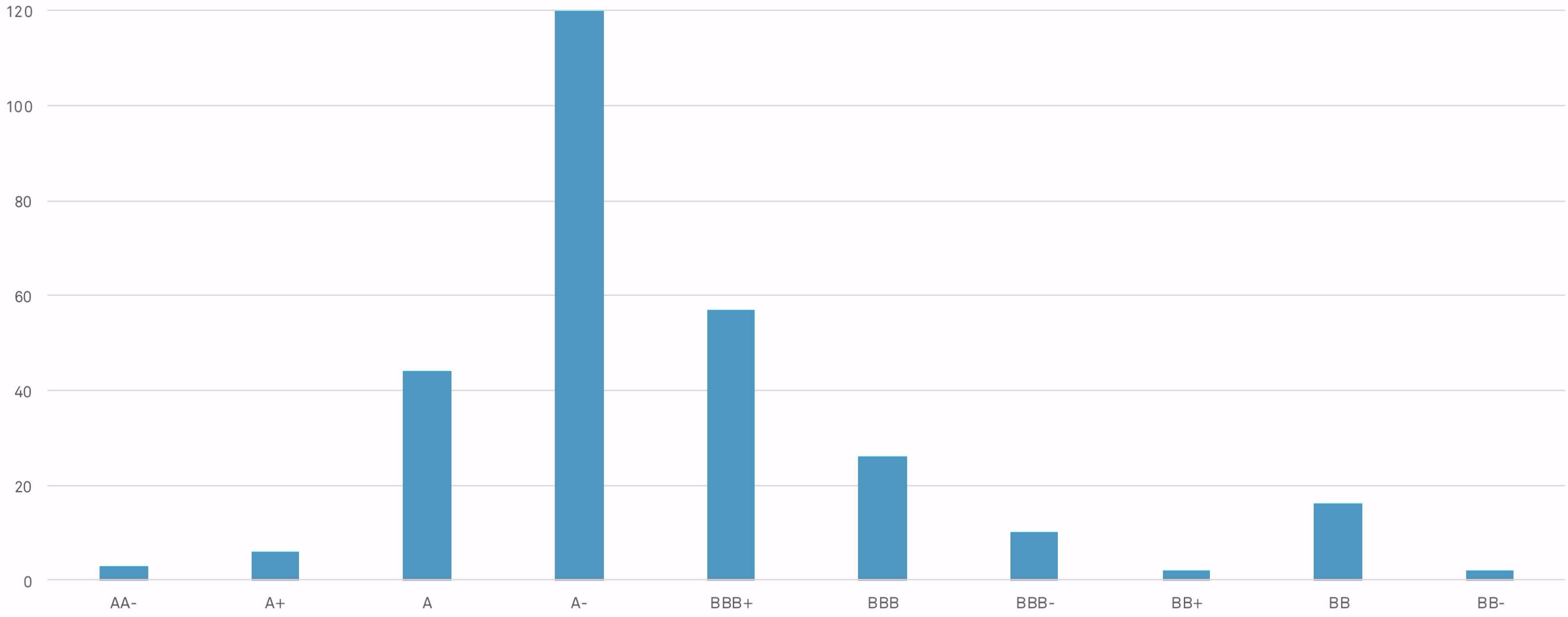
North America Regulated Utilities Upgrades And Downgrades



Source: S&P Global Ratings

North America Regulated Utilities Ratings Distribution



Source: S&P Global Ratings, data as of Dec. 31, 2020

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S&P Global
Ratings

What Drove A Weakening Of Credit Quality In 2020?

ESG Factors

Regulatory Developments

Financial Measures

Source: S&P Global Ratings

ESG

In 2020, there were a number of ESG-related events that included:

Bribery Charges

"Exelon Corp. Outlook Revised To Negative On Bribery Charge; Subsidiary Commonwealth Edison Co. Downgraded," July 21, 2020

California Wildfires

"Edison International And Subsidiary Outlooks Revised To Negative On Adverse Wildfire Conditions; 'BBB' Ratings Affirmed," Sept. 16, 2020

"PG&E Corp. And Subsidiary Outlooks Revised To Negative On Adverse Wildfire Conditions; 'BB-' Ratings Affirmed," Sept. 16, 2020

"San Diego Gas & Electric Co. Outlook Revised To Negative On Adverse Wildfire Conditions; 'BBB+' Rating Affirmed," Sept. 16, 2020

Climate Change Risks

"Entergy New Orleans LLC Downgraded To 'BBB' From 'BBB+' On Storm Risks, Outlook Negative," Oct. 8, 2020

Code of Conduct Violations

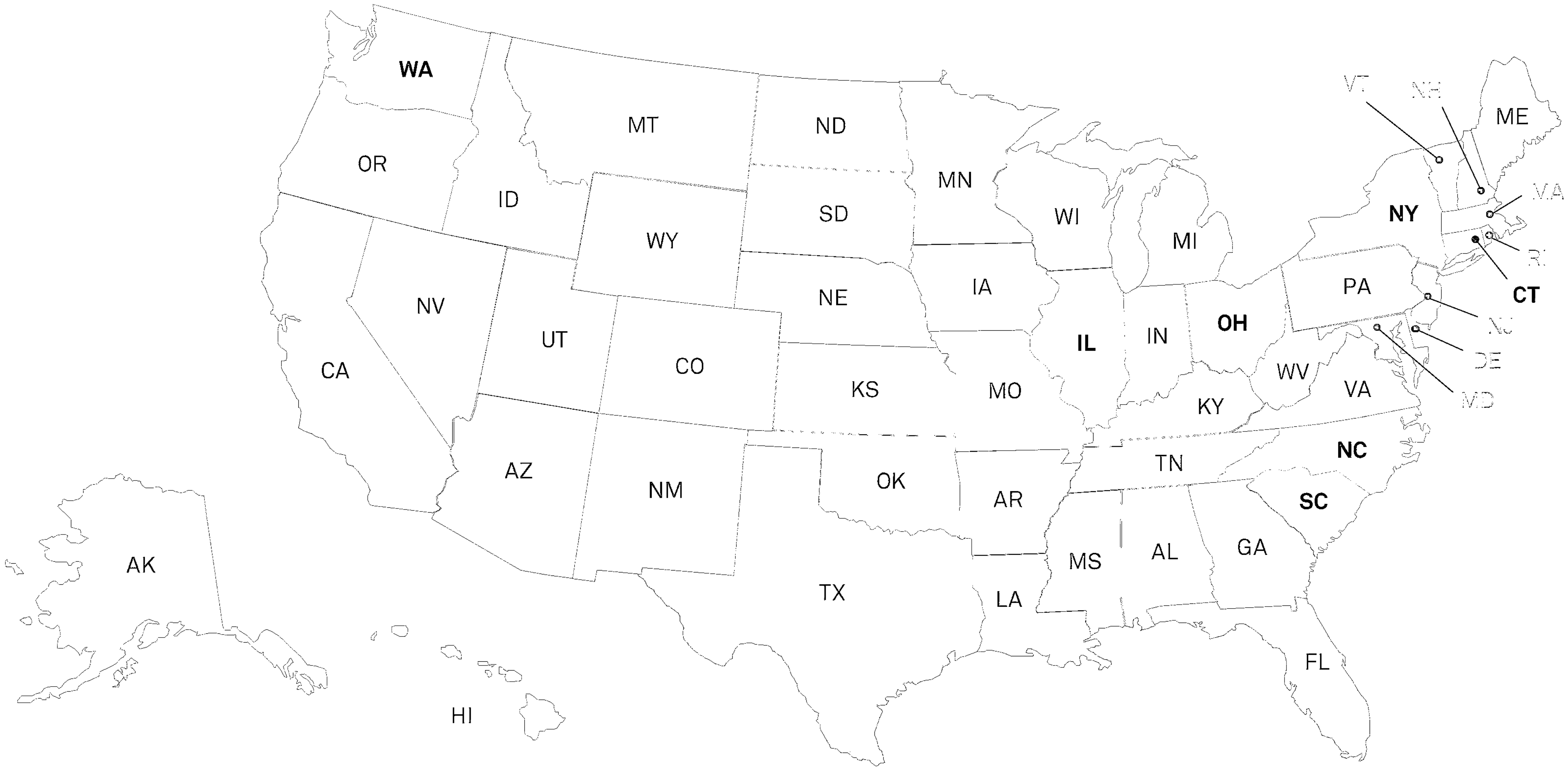
"FirstEnergy Corp. Downgraded to 'BB+' On Termination Of CEO; Ratings Remain On CreditWatch Negative," Oct. 30, 2020

Regulatory and Recovery Risks

"Duke Energy Corp. And Subsidiaries Outlooks Revised To Negative On Higher Regulatory Risks, Elevated Spending Plan," Dec. 15, 2020

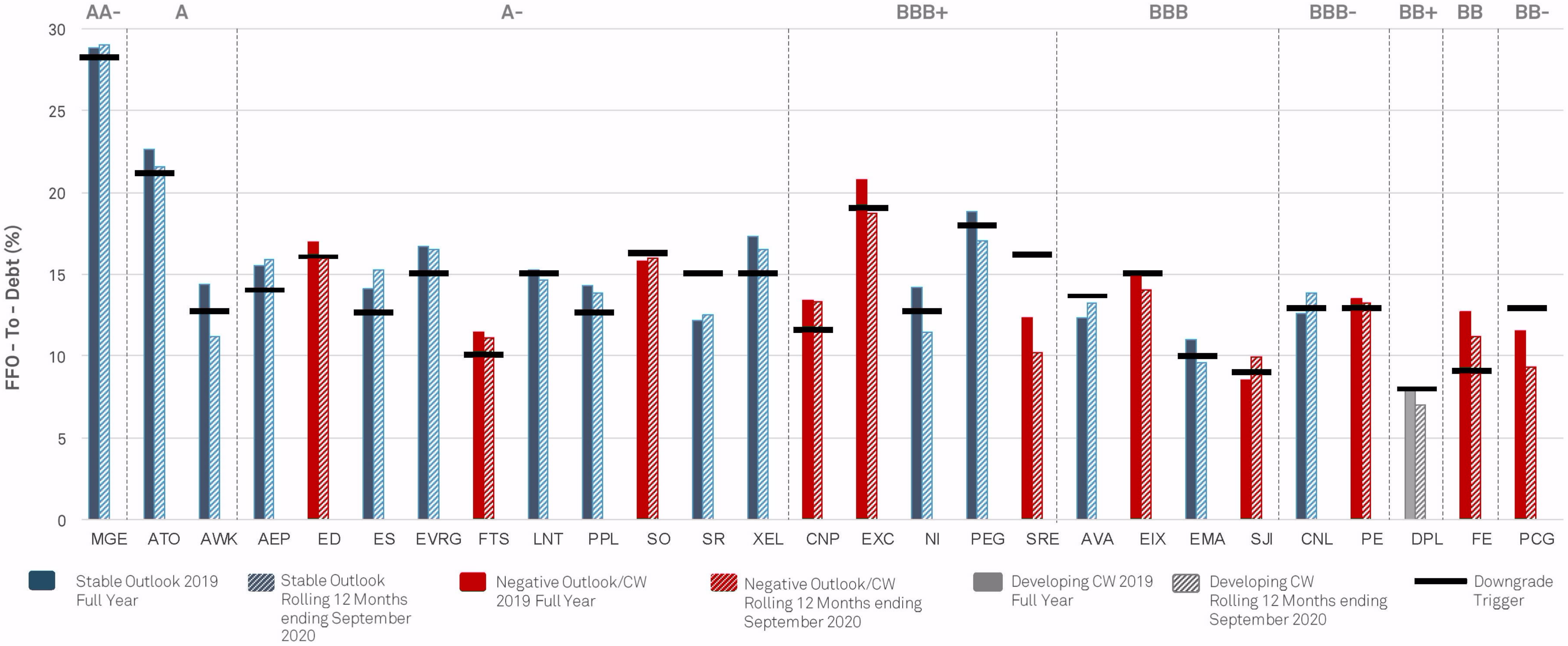
Source: S&P Global Ratings; S&P Capital IQ

Developing Regulatory Environments



Source: S&P Global Ratings

Sampling Of Minimal Cushion At Current Rating Level



Source: S&P Global Ratings and company data; Note: PE is Puget Energy Inc.; CreditWatch (CW)

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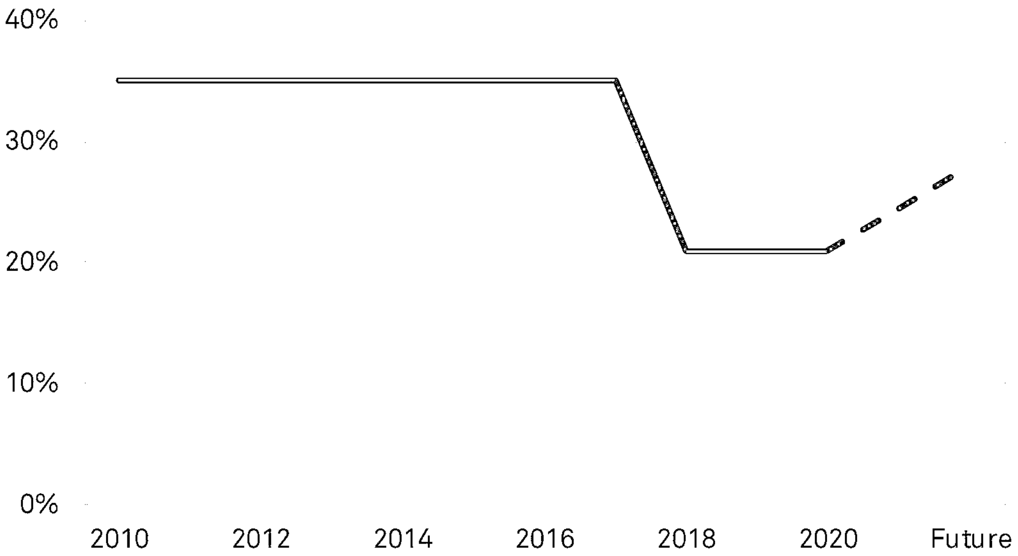
What Do We Expect For 2021?

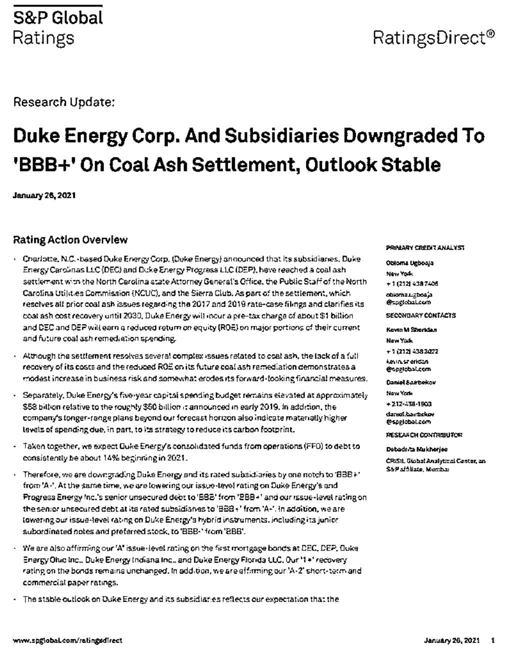
Marginal improvement in credit quality in 2021. ..

Higher corporate tax rate...

U.S. Corporate Tax Rates



...partially offset by ESG risks



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Research Update:

Duke Energy Corp. And Subsidiaries Downgraded To 'BBB+' On Coal Ash Settlement, Outlook Stable

January 26, 2021

Rating Action Overview

- Charlotte, N.C.-based Duke Energy Corp. (Duke Energy) announced that its subsidiaries, Duke Energy Carolinas LLC (DEC) and Duke Energy Progress LLC (DEP), have reached a coal ash settlement with the North Carolina state Attorney General's Office, the Public Staff of the North Carolina Utilities Commission (NCUC), and the Sierra Club. As part of the settlement, which resolves all prior coal ash issues regarding the 2017 and 2019 rate-case filings and clarifies its coal ash cost recovery until 2030, Duke Energy will incur a pre-tax charge of about $1 billion and DEC and DEP will earn a reduced return on equity (ROE) on major portions of their current and future coal ash remediation spending.
- Although the settlement resolves several complex issues related to coal ash, the lack of a full recovery of its costs and the reduced ROE on its future coal ash remediation demonstrates a modest increase in business risk and somewhat erodes its forward-looking financial measures.
- Separately, Duke Energy's five-year capital spending budget remains elevated at approximately $58 billion relative to the roughly $50 billion it announced in early 2019. In addition, the company's longer-range plans beyond our forecast horizon also indicate materially higher levels of spending due, in part, to its strategy to reduce its carbon footprint.
- Taken together, we expect Duke Energy's consolidated funds from operations (FFO) to debt to consistently be about 14% beginning in 2021.
- Therefore, we are downgrading Duke Energy and its rated subsidiaries by one notch to 'BBB+' from 'A-'. At the same time, we are lowering our issue-level rating on Duke Energy's and Progress Energy Inc.'s senior unsecured debt to 'BBB' from 'BBB+' and our issue-level rating on the senior unsecured debt at its rated subsidiaries to 'BBB+' from 'A-'. In addition, we are lowering our issue-level rating on Duke Energy's hybrid instruments, including its junior subordinated notes and preferred stock, to 'BBB-' from 'BBB'.
- We are also affirming our 'A' issue-level rating on the first mortgage bonds at DEC, DEP, Duke Energy Ohio Inc., Duke Energy Indiana Inc., and Duke Energy Florida LLC. Our '1+' recovery rating on the bonds remains unchanged. In addition, we are affirming our 'A-2' short-term and commercial paper ratings.
- The stable outlook on Duke Energy and its subsidiaries reflects our expectation that the

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CRISIL Global Analytical Center, an S&P affiliate, Mumbai

www.spglobal.com/ratingsdirect January 26, 2021 1

Source: S&P Global Ratings; U.S. Internal Revenue Service; S&P Capital IQ

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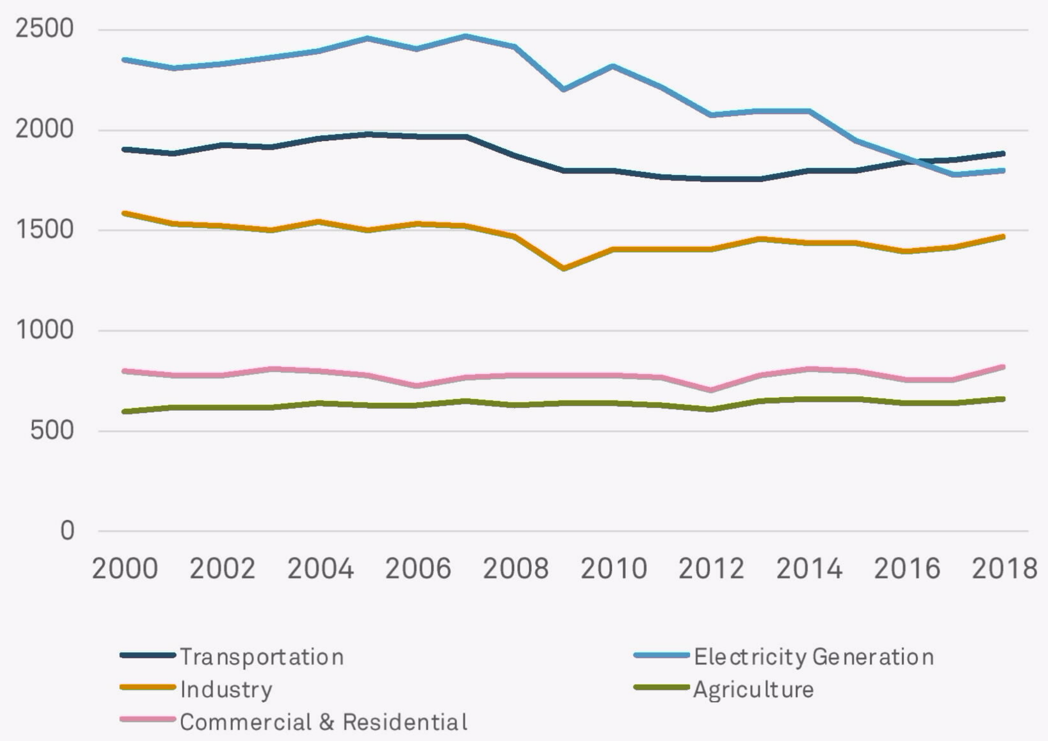
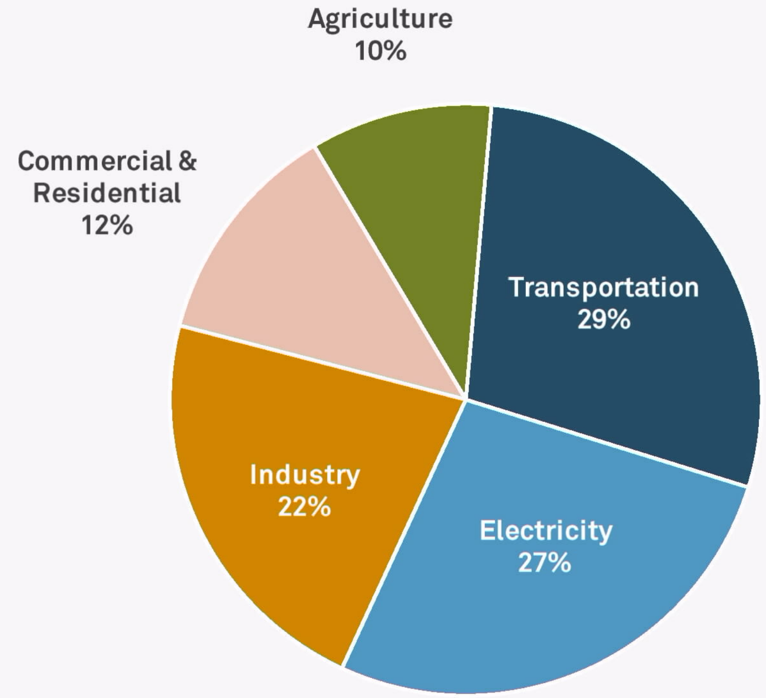
Industry Has Reduced GHG Emissions But Still More Work To Be Done

U.S. GHG Emissions By Economic Sector From 2000 – 2018 (million metric tons of CO_2 equivalents)



Total US GHG Emissions By Economic Sector In 2018[1]



[1]Total Emission in 2018 = 6,677 Million Metric Tons of CO_2 equivalent
Percentages may not add up to 100% due to rounding

Source: U.S. Environmental Protection Agency

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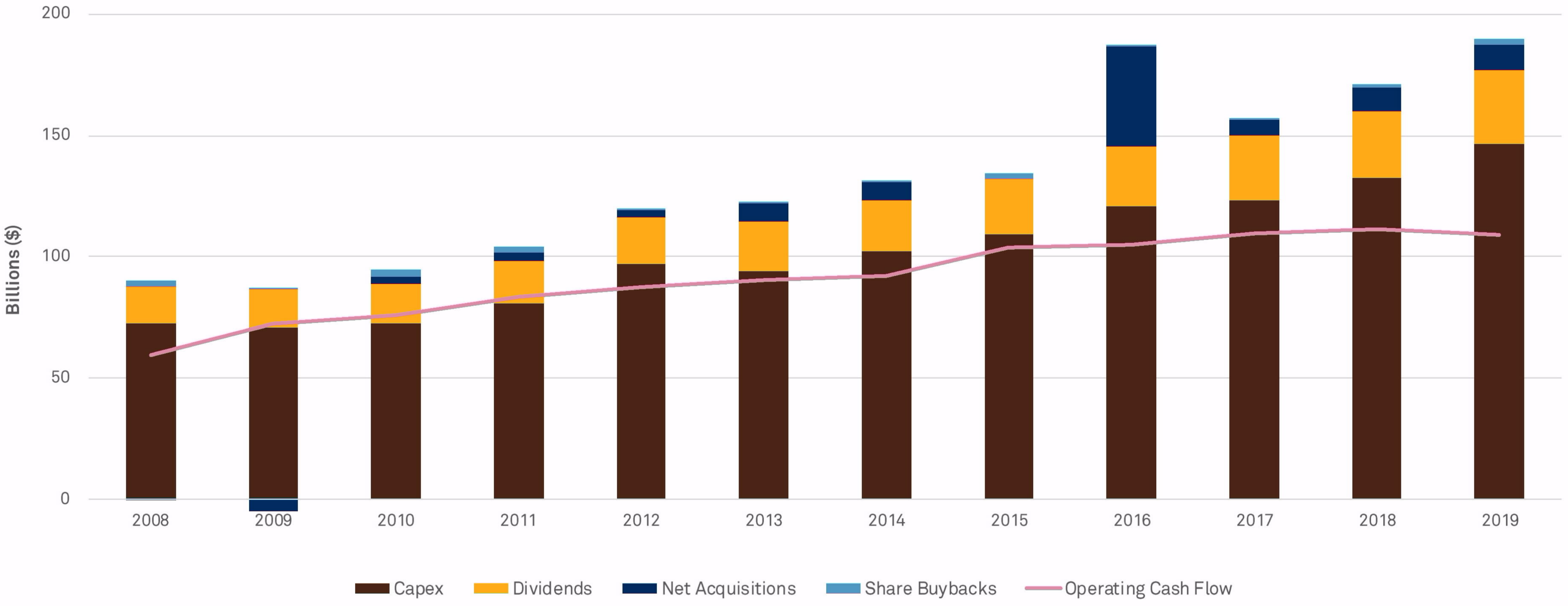
Cash Flow And Primary Uses



Source: S&P Global Ratings and company data

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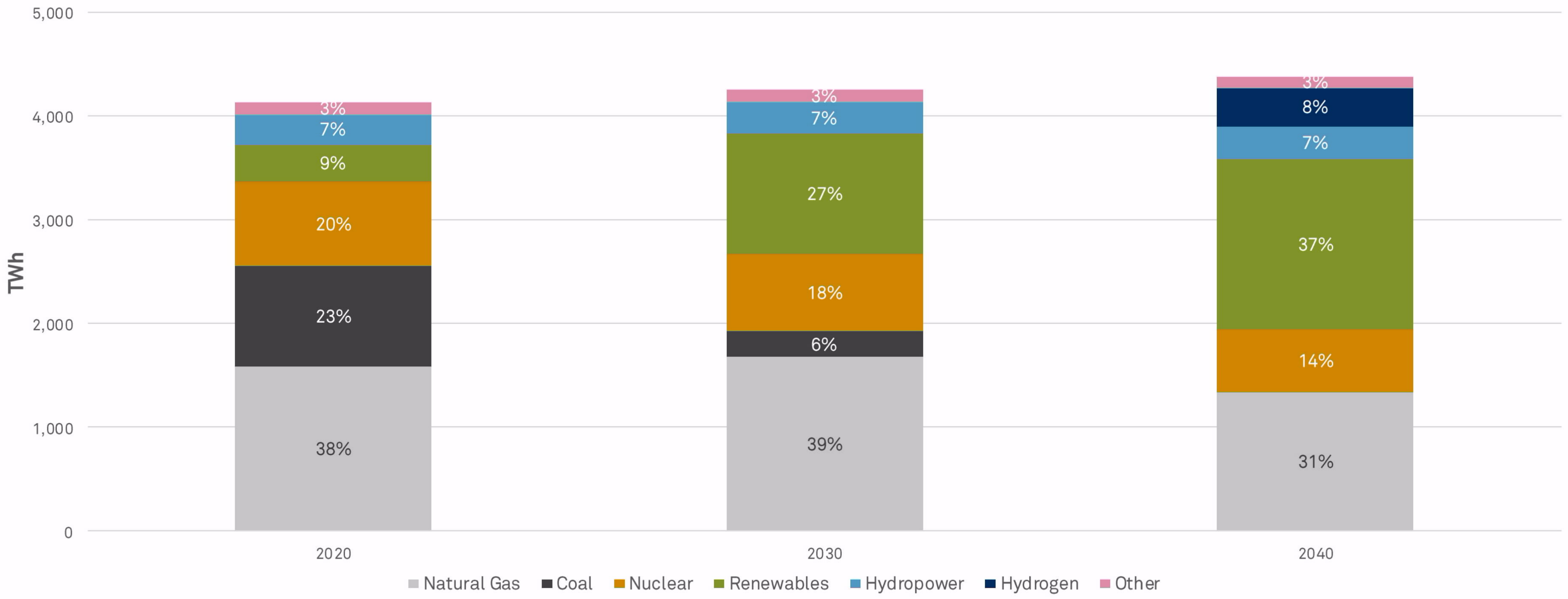
Future Of U.S. Generation Portfolio

S&P Global Ratings' Forecast Of U.S. Generation



Source: S&P Global Ratings

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Related Research

- "Research Update: Duke Energy Corp. And Subsidiaries Downgraded To 'BBB+' On Coal Ash Settlement, Outlook Stable," Jan. 26, 2021
- "North American Regulated Utilities' Negative Outlook Could See Modest Improvement," Jan. 20, 2021
- "Research Update: Duke Energy Corp. And Subsidiaries Outlooks Revised To Negative On Higher Regulatory Risks, Elevated Spending Plan," Dec. 15, 2020
- "Industry Top Trends 2021: North America Regulated Utilities," Dec. 10, 2020
- "Updates And Insights On Regulatory Jurisdictions Shaping Policies For North American Utilities – November 2020," Nov. 9, 2020
- "Research Update: FirstEnergy Corp. Downgraded To 'BB+' On Termination Of CEO; Ratings Remain On CreditWatch Negative," Oct. 30, 2020
- "U.S. Regulated Utilities' Credit Metrics Could Strengthen Under Proposed Biden Tax Plan," Oct. 29, 2020
- "Recent Cases In Ohio And Illinois Underscore The Importance of Effective Governance For North American Regulated Utilities," Oct. 21, 2020
- "Research Update: Entergy New Orleans LLC Downgraded To 'BBB' From 'BBB+' On Storm Risks, Outlook Negative," Oct. 8, 2020
- "Research Update: Edison International And Subsidiary Outlooks Revised To Negative On Adverse Wildfire Conditions; 'BBB' Ratings Affirmed," Sept. 16, 2020
- "Research Update: PG&E Corp. And Subsidiary Outlooks Revised To Negative On Adverse Wildfire Conditions; 'BB-' Ratings Affirmed," Sept. 16, 2020
- "Research Update: San Diego Gas & Electric Co. Outlook Revised To Negative On Adverse Wildfire Conditions; 'BBB+' Rating Affirmed," Sept. 16, 2020
- "Research Update: Exelon Corp. Outlook Revised To Negative On Bribery Charge; Subsidiary Commonwealth Edison Co. Downgraded," Jul. 21, 2020
- "North American Regulated Utilities Face Tough Financial Policy Tradeoffs To Avoid Ratings Pressure Amid The COVID-19 Pandemic," May 11, 2020
- "COVID-19: The Outlook For North American Regulated Utilities Turns Negative," Apr. 2, 2020

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COMMENTS — 7 Apr, 2021 | 19:38 —

APAC, United States of America, Latin America, Canada, EMEA, APAC

North American Regulated Utilities' Credit Quality Begins The Year On A Downward Path

Primary Credit Analyst: **Gabe Grosberg**

Sector **Infrastructure & Utilities, Utilities & Power, Midstream**

Tags **Americas**

View Analyst Contact Information

Table of Contents

Key Takeaways

- Based on the investor-owned North American regulated utility industry's credit performance so far, 2021 could become the second consecutive year that downgrades outpace upgrades.
- In our view, many companies are managing their financial position with little or no financial cushion from their downgrade threshold, increasing the susceptibility to a downgrade if an unexpected event occurs, not incorporated within the base case, that further weakens financial performance.
- The recent Texas storm highlights the continued environmental, social, and governance (ESG) risks that can negatively affect the industry's credit quality.
- Given the magnitude of the financial costs associated with Texas storm for many utilities within the sector and the potential for more extreme weather events, S&P Global Ratings will continue to monitor the industry's physical and financial hedging practices.

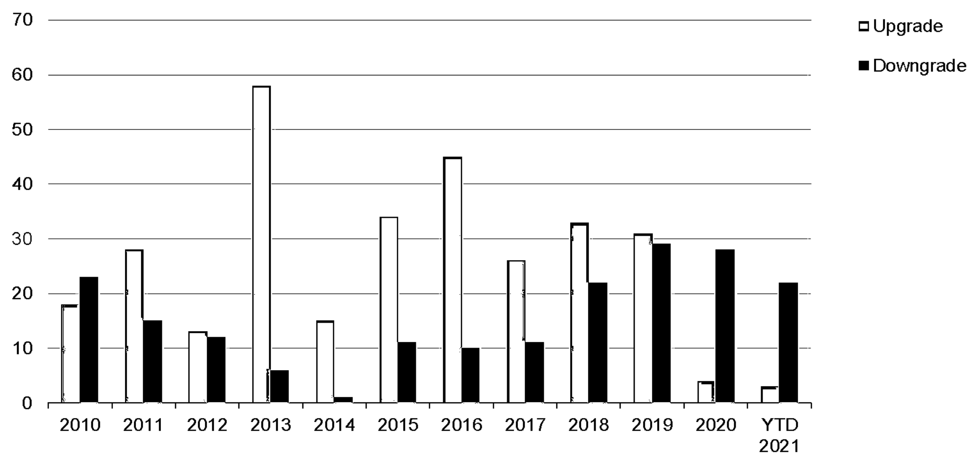
Our ratings on the investor-owned North America regulated utilities began 2021 the same way that it ended 2020--with downgrades. The early 2021 downgrades of Atmos Energy Corp. (A-/Watch Neg/A-2), Duke Energy Corp. (BBB/Stable/A-2), One Gas Inc. (BBB+/Negative/A-2), and National Grid North America Inc. (BBB+/Stable/A-2) reflect our view of the minimal financial cushion at their current rating level prior to the downgrades. This is consistent with the more general industry trend of higher leverage driven by robust capital spending necessary to reduce greenhouse gas emissions, enhance reliability, and improve safety.

Last year was the first year in a decade that our downgrades outpaced upgrades in this sector and at this early 2021 juncture, it appears that for the second consecutive year, downgrades will again outpace upgrades.

Additionally, while our median rating for the industry remains at 'A-', the cushion has significantly shrunken and the median rating is moving ever so close, for first time ever, to the 'BBB' category.

Chart 1

North American Regulated Utilities Upgrades and Downgrades



Source: S&P Global Ratings.

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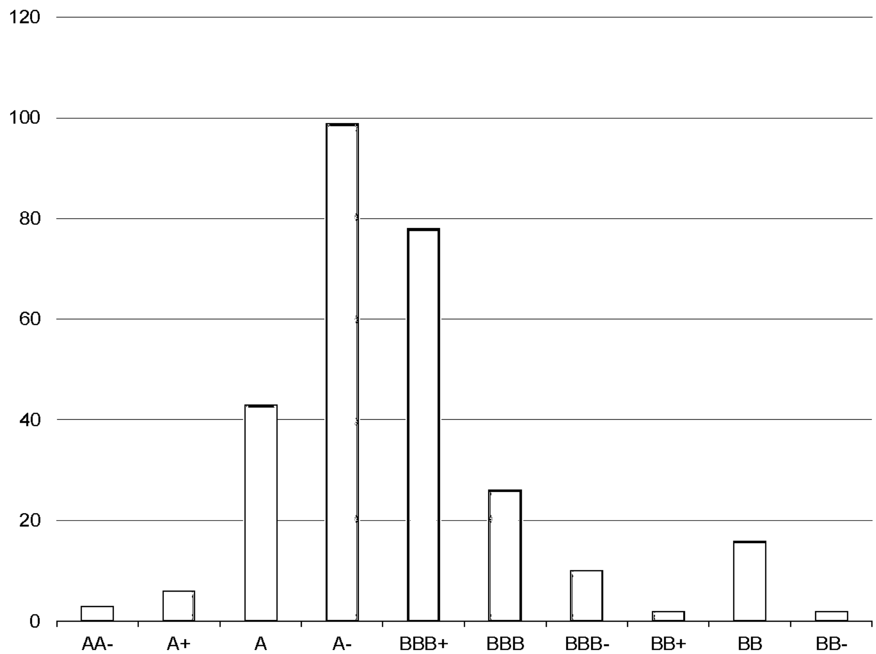
Chart 2

North American Regulated Utilities Ratings Distributions
As of March 3, 2021



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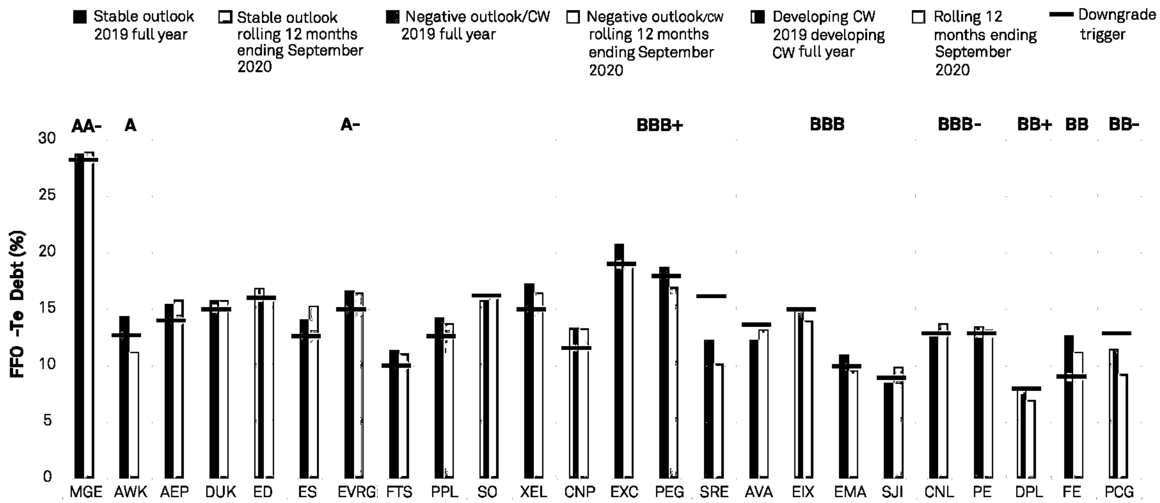
Relying On Only Minimal Financial Cushion

Since we revised our industry outlook to negative at the beginning of 2020 (
COVID-19: The Outlook For North American Regulated Utilities Turns Negative
, April 2, 2020) we have consistently highlighted the lack of financial cushion (see chart). While utility cash flows are generally more predictable than most other industries and therefore utilities can typically manage them closer to their ratings downgrade threshold, unexpected events that arise beyond the base case, can often result in a weakening of credit quality.

Sampling Of Minimal Cushion At Current Rating Level



Note: PE is Puget Energy Inc. Source: S&P Global Ratings and company data.
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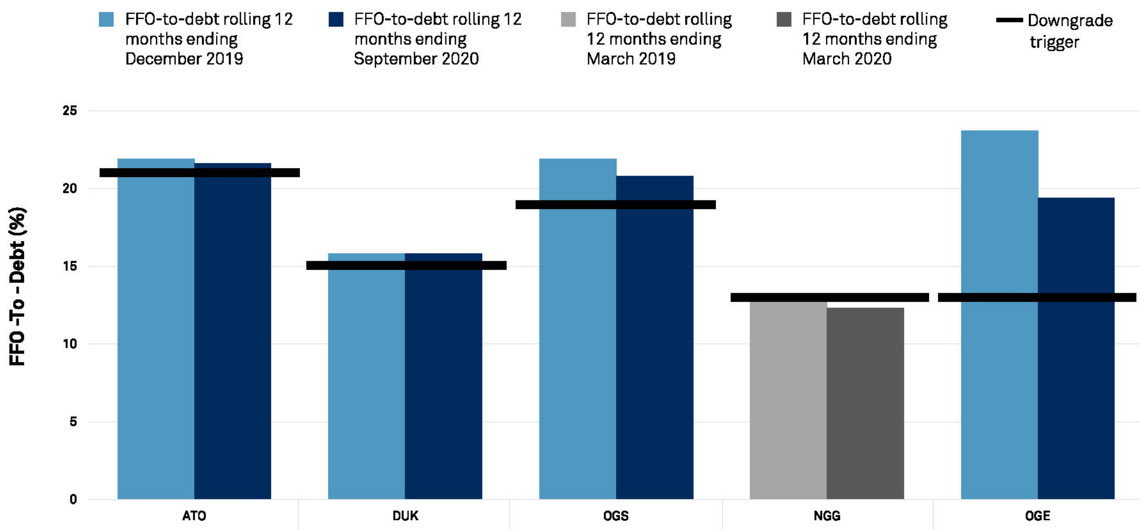
In our view, Atmos Energy, Duke Energy, One Gas, and National Grid were generally operating with minimal cushion, prior to their downgrades. Our rating actions on OGE Energy Corp. stands in contrast to these entities. We affirmed the ratings on OGE Energy Corp. and only revised the outlook to negative, despite the company also being negatively affected by the Texas storm, experiencing $800 million to $1 billion of higher fuel and purchased power costs. The primary reason for the ratings affirmation, despite the high costs, reflects our view of sufficient financial cushion prior to the unexpected winter freeze.

Financial Cushion Prior To 2021 Rating Actions



Source: S&P Global Ratings and company data.
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ESG Risks

S&P Global Ratings has consistently highlighted the many ESG risks that could potentially harm the industry's credit quality (Webinar Spotlights **The North American Regulated Utility Sector's Key Trends And Risks**, Feb. 2, 2021). Some of the potential ESG-related risks include:

- Climate-related risks including wildfires, storms, hurricanes, and extraordinary hot or cold temperatures.
- Regulatory risks. Rising costs and higher capital spending could pressure the industry's regulatory support and expectations of full recovery of such costs from ratepayers.
- Consistent access to the capital markets at a fair price. To the extent that investors are taking environmental concerns into consideration, utilities with higher carbon emissions might not have the same capital market access or pricing as peers, potentially weakening credit quality.
- Stranded asset risk. Should regulators and customers no longer support fossil fuel-based assets and instead determine that full electrification and renewable generation should replace the industry's natural gas distribution system and natural gas-fired generation, these assets could become stranded assets, potentially weakening a utility's financial measures and management of regulatory risk.

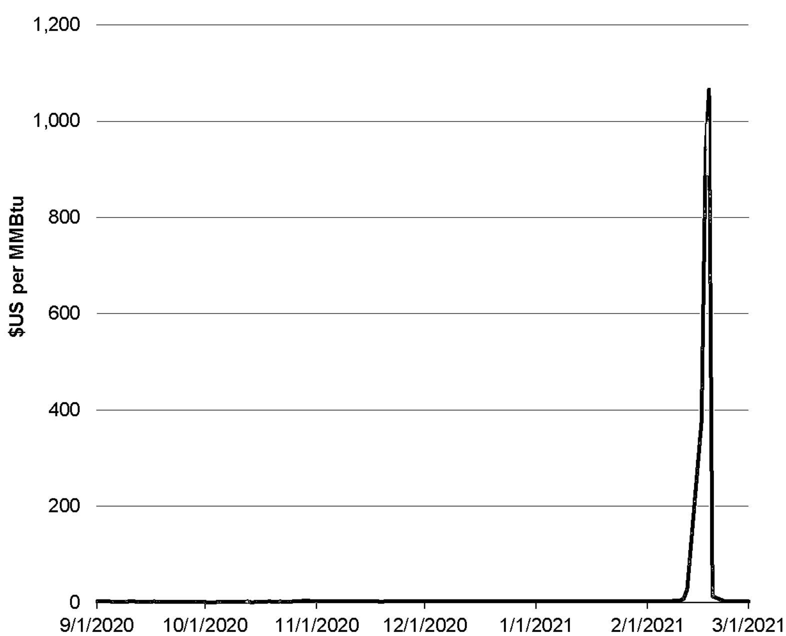
Recent examples underscore the risks

Duke Energy Corp.'s credit quality took a hit when it agreed to a settlement, failing to fully recover its coal ash costs (
Duke Energy Corp. And Subsidiaries Downgraded To 'BBB+' On Coal Ash Settlement, Outlook Stable
, Jan. 26, 2021). The devastating winter storm in February that plunged much of Texas into a deep freeze and knocked out power to millions of homes sharply increased local natural gas spot prices by more than 35,000% during the week of frigid temperatures around the region. During this timeframe, local natural gas prices increased to more than $1,000 per MMBtu from about $3 per MMBtu. As a result of this drastic increase, we downgraded both Atmos Energy Corp. (
Atmos Energy Corp. Downgraded To 'A-' On Weakening Credit Metrics; Ratings Placed On CreditWatch Negative

, Feb. 22, 2021) and One Gas Inc. (
ONE Gas Inc. Downgraded To 'BBB+' From 'A' On Unprecedented Weather Conditions; Outlook Negative
, Feb. 23, 2021), reflecting weaker financial measures from the added leverage necessary to fund the exorbitantly priced natural gas.

Chart 3

Natural Gas Spot Price At Tulsa



Sources: SNL; S&P Global Market Intelligence; S&P Global Ratings.
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Another once in a century event

While some could dismiss the Texas storm as a "once in a century" event, over the past several years we have seen many of these rare and unpredictable events. This includes the polar vortex, the global pandemic, catastrophic wildfires, severe storms, and the recent winter freeze. Our view that these events have affected the credit quality of some of the industry's utilities, demonstrates the need for the industry to proactively reduce its ESG-related risks.

Hindsight

When looking back and assessing the recent winter freeze's negative impact on the natural gas distribution companies' credit quality, we believe a comprehensive hedging program could have limited the billions in higher fuel costs. While we view a utility's ability to fully recover its fuel and purchase power costs from ratepayers as an important credit-supportive component, in this instance, this traditional tool by itself was insufficient.

The Texas storm's unprecedented climate related risks highlights the need for additional credit-supportive measures to maintain credit quality. Because of the spike in natural gas prices, the costs that had to be recovered from ratepayers were simply too burdensome to be recovered through traditional means. Had a utility even attempted to pass these costs onto its ratepayers, it would have overwhelmed the customer bill, probably leading to customer outrage. In fact, a non-rated, retail energy provider attempted to bill customers for these higher costs and it immediately faced enormous public pressure. In hindsight, a comprehensive hedging program that includes both physical and financial hedges could have significantly lowered these higher costs, reducing credit risk.

Looking forward, given the more frequent risks of climate change, a comprehensive physical and financial hedging program could be an additional tool that if more frequently implemented, could potentially reduce the industry's credit risks. Such a program, if implemented properly, has the potential to significantly reduce risk when a utility is facing an unexpected commodity price spike.

Expecting More Of The Unexpected

The industry's credit quality is off to a challenging start, partially reflecting the increasing ESG risks that if not addressed could continue to erode credit quality. What's more, regulated utility companies are not well positioned to handle unexpected events because so many of them operate with minimal financial cushion at their particular rating level. Despite these risks, we expect that a higher corporate tax rate could offset some of this exposure, resulting in a modest improvement in credit quality (
U.S. Regulated Utilities' Credit Metrics Could Strengthen Under Proposed Biden Tax Plan
, Oct. 29, 2020). However, if Congress delays the passing of a higher corporate tax rate, given the increased frequency of ESG risks, we could lower the industry's median rating to the 'BBB' category well before year-end.

Related Research

- **OGE Energy Corp. And Sub. OG&E Outlooks Revised To Negative On Unprecedented Winter Related Costs; Ratings Affirmed**
  , March 3, 2021
- **National Grid North America Inc. Downgraded To 'BBB+' Following Downgrade Of Parent**
  , March 3, 2021
- S&P Global Roundtable: **North American Regulated Utilities**--Jan. 29, 2021, Feb. 2, 2021
- **North American Regulated Utilities' Negative Outlook Could See Modest Improvement**
  , Jan. 20, 2021
- **Industry Top Trends 2021 North America Regulated Utilities**, Dec. 10, 2020

This report does not constitute a rating action.

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PUC DOCKET NO. 52195

APPLICATION OF EL PASO ELECTRIC COMPANY TO CHANGE RATES	§ § §	BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS

EL PASO ELECTRIC COMPANY'S RESPONSE TO
TEXAS INDUSTRIAL ENERGY CONSUMERS'S FIRST REQUEST FOR INFORMATION
QUESTION NOS. TIEC 1-1 THROUGH TIEC 1-17

TIEC 1-6:

Please provide copies of all correspondence, presentations and all other materials that EPE or its parent company provided to credit and equity analysts over the last two years. This is an ongoing request.

RESPONSE:

All presentations and reports that were made or provided to rating agencies and equity analysts for the period specified are listed below and provided as attachments hereto. The presentations and reports have been designated as public or confidential below. As part of El Paso Electric Company's ("EPE") annual meetings with representatives of S&P, Moody's, and Fitch Ratings, EPE provided forecast model information and assumptions which have been included as confidential attachments. EPE is not aware of any additional materials provided by its parent.

Public Presentations and Reports

2nd Quarter 2019 Earnings Conference Call – 08/06/2019 (TIEC 1-6, Attachment 1)
3rd Quarter 2019 Earnings Conference Call – 11/06/2019 (TIEC 1-6, Attachment 2)
4th Quarter 2019 Earnings Conference Call – 02/26/2020 (TIEC 1-6, Attachment 3)
1st Quarter 2020 Earnings Conference Call – 05/07/2020 (TIEC 1-6, Attachment 4)

Confidential Presentations

Fitch Ratings – 05/05/2020 - (TIEC 1-6, Confidential Attachment 5)
Moody's – 05/15/2020 – (TIEC 1-6, Confidential Attachment 6)
Standard & Poor's – 05/19/2020 – (TIEC 1-6, Confidential Attachment 7)
Fitch Ratings – 05/18/2021 – (TIEC 1-6, Confidential Attachment 8)
Moody's – 05/26/2021 – (TIEC 1-6, Confidential Attachment 9)

Confidential Material

Fitch Ratings – Forecast for Fitch Excel format – 5/06/20 (TIEC 1-6, Confidential Attachment 10)

Moody's – Email – 5/14/20 (TIEC 1-6, Confidential Attachment 11)
Standard & Poor's – Email – 5/18/20 (TIEC 1-6, Confidential Attachment 12)
Moody's - Forecast May-20 Excel format (TIEC 1-6, Confidential Attachment 13)
Moody's – Email – 5/19/20 (TIEC 1-6, Confidential Attachment 14)
Standard & Poor's – Forecast May-20 Excel format (TIEC 1-6, Confidential Attachment 15)
Standard & Poor's – Email – 5/19/20 (TIEC 1-6, Confidential Attachment 16)
Standard & Poor's – PPAs and Pension Interest Cost PDF format – 5/20/20 (TIEC 1-6, Confidential Attachment 17)
Standard & Poor's – Email – 5/20/20 (TIEC 1-6, Confidential Attachment 18)
Standard & Poor's –Solar Facilities EPE Existing PPAs Excel format – 5/21/20 (TIEC 1-6, Confidential Attachment 19)
Standard & Poor's – Email – 5/21/20 (TIEC 1-6, Confidential Attachment 20)
Value Line – Email – 7/29/20 (TIEC 1-6, Attachment 21)
Fitch Ratings – Forecast May-21 Using Dec 2020 BOD-for Fitch Excel format (TIEC 1-6, Confidential
Attachment 22)
Fitch Ratings – Email – 5/17/2021 (TIEC 1-6, Confidential Attachment 23)
Moody's – Moody's RFD_El Paso Electric PDF format - 5/26/21 (TIEC 1-6, Confidential Attachment 24)
Moody's – Email – 5/26/21 (TIEC 1-6, Confidential Attachment 25)
Moody's – June 2, 2021 Moody's issuer conference slides final PDF format - 6/11/21 (TIEC 1-6, Confidential Attachment 26)
Moody's – ESG Scores Explained_Regulated electric and gas utilities with generation PDF format - 6/11/21 (TIEC 1-6, Confidential Attachment 27)
Moody's – Email – 6/11/21 (TIEC 1-6, Confidential Attachment 28)
Moody's – Forecast May-21 Using Dec 2020 BOD-for Moody's Excel format – 6/11/21 (TIEC 1-6, Confidential Attachment 29)
Moody's – Email – 6/11/21 (TIEC 1-6, Confidential Attachment 30)
Moody's – 20-00104-UT, Concurrence of Commissioners Hall and Fischmann in the Order Adopting Recommended Decision with Modifications PDF format - 6/24/21 (TIEC 1-6, Attachment 31)
Moody's – 20-00104-UT, Order Adopting Recommended Decision with Modifications PDF format - 6/24/21 (TIEC 1-6, Attachment 32)
Moody's – Email – 6/24/21 (TIEC 1-6, Confidential Attachment 33)
Fitch Ratings – 6.23.21 EPE Statement Regarding 2020 Rate Case Order Issued by New Mexico PRC PDF format – 6/24/2021 (TIEC 1-6, Attachment 34)
Fitch Ratings – Email – 6/24/2021 (TIEC 1-6, Confidential Attachment 35)

Preparer: Richard Gonzalez — Title: Manager – Cash Management & Investor Relations

Sponsor: Lisa D. Budtke — Title: Director – Treasury Services & Investor Relations


PUC Docket No. 52195
SOAH Docket No. 473-21-2606
TIEC's 1st Q No. 1-6
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Second Quarter 2019
Investor Presentation
August 6, 2019

Safe Harbor Statement

This presentation includes statements that are forward-looking statements made pursuant to the safe harbor provisions of the Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the proposed acquisition of El Paso Electric Company ("EE" or the "Company"), shareholder and regulatory approvals, the expected timetable for completing the proposed acquisition of EE and for obtaining such regulatory approvals; statements regarding current regulatory filings and anticipated regulatory filings; statements regarding expected capital expenditures; statements regarding expected dividends; and statements regarding the adequacy of our liquidity to meet cash requirements. This information may involve risks and uncertainties that could cause actual results to differ materially from such forward-looking statements. These risks and uncertainties include, but are not limited to, the failure to obtain the required vote of EE's shareholders; the timing to consummate the proposed acquisition; satisfaction of the conditions to closing may not be satisfied; the risk that a regulatory approval that may be required for the proposed acquisition is not obtained or is obtained subject to conditions that are not anticipated; and the diversion of management's time on the proposed acquisition-related issues. Additional information concerning factors that could cause actual results to differ materially from those expressed in forward-looking statements is contained in EE's most recently filed periodic reports and in other filings made by EE with the U.S. Securities and Exchange Commission (the "SEC"), and include, but is not limited to:

- The impact of the TCJA and other U.S. tax reform legislation
- Increased prices for fuel and purchased power and the possibility that regulators may not permit EE to pass through all such increased costs to customers or to recover previously incurred fuel costs in rates
- Full and timely recovery of capital investments and operating costs through rates in Texas and New Mexico, and at the Federal Energy Regulatory Commission ("FERC")
- Uncertainties and instability in the general economy and the resulting impact on EE's sales and profitability
- Changes in customers' demand for electricity as a result of energy efficiency initiatives and emerging competing services and technologies, including distributed generation
- Unanticipated increased costs associated with scheduled and unscheduled outages of generating plant
- Unanticipated maintenance, repair, or replacement costs for generation, transmission, or distribution facilities and the recovery of proceeds from insurance policies providing coverage for such costs
- The size of our construction program, the receipt of necessary permits and approvals and our ability to complete construction on budget and on time
- Potential delays in our construction and resource contracting schedule due to legal challenges or other reasons
- Costs at Palo Verde
- Decisions and actions of the Company's regulators and the resulting impact on EE's cost of capital, sales, and profitability
- Deregulation and competition in the electric utility industry
- Possible increased costs of compliance with environmental or other laws, regulations and policies
- Possible income tax and interest payments as a result of audit adjustments proposed by the Internal Revenue Service or state taxing authorities
- Uncertainties and instability in the financial markets and the resulting impact on EE's ability to access the capital and credit markets
- Actions by credit rating agencies
- Possible physical or cyber-attacks, intrusions or other catastrophic events
- A U.S. Government shutdown and the resulting impact on EE's sales and profitability
- Other factors of which we are currently unaware or deem immaterial

EE's filings are available from the SEC or may be obtained through EE's website, http://www.epelectric.com. Any such forward-looking statement is qualified by reference to these risks and factors. EE cautions that these risks and factors are not exclusive. Management cautions against putting undue reliance on forward-looking statements or projecting any future results based on such statements or present or prior earnings levels. Forward-looking statements speak only as of the date of this presentation, and EE does not undertake to update any forward-looking statement contained herein.

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Additional Information

Important Additional Information and Where to Find It

In connection with the proposed transaction, EE filed a definitive proxy statement with the SEC on August 2, 2019, and intends to file other materials with the SEC. EE also mailed or otherwise provided to its shareholders such proxy statement regarding the proposed transaction. BEFORE MAKING ANY VOTING DECISION, EE'S SHAREHOLDERS ARE URGED TO CAREFULLY READ THE PROXY STATEMENT IN ITS ENTIRETY AND ANY OTHER DOCUMENTS FILED WITH THE SEC IN CONNECTION WITH THE PROPOSED TRANSACTION OR INCORPORATED BY REFERENCE THEREIN BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTION AND THE PARTIES TO THE PROPOSED TRANSACTION. Investors and security holders may obtain a free copy of the proxy statement and other documents that EE files with the SEC from the SEC's website at www.sec.gov and EE's website at https://ir.epelectric.com. In addition, the proxy statement and other documents filed by EE with the SEC may be obtained from EE free of charge by directing a request to Investor Relations, Phone: 1-800-592-1634. Media inquiries can be directed to Eduardo Gutierrez at EE, Phone: 915-497-3495.

Certain Participants in the Solicitation

EE, its directors and certain of its executive officers and employees may be deemed, under SEC rules, to be participants in the solicitation of proxies from EE shareholders with respect to shareholder approval of the proposed acquisition of EE. Information regarding the names of EE's directors and executive officers and their respective interests in EE by security holdings or otherwise is set forth in EE's Annual Report on Form 10-K for the fiscal year ended December 31, 2018, filed with the SEC on February 28, 2019, and EE's definitive proxy statement for its 2019 Annual Meeting of Shareholders filed with the SEC on April 12, 2019. Additional information regarding the interests of such individuals in the proposed transaction are included in the definitive proxy statement relating to such acquisition. These documents may be obtained free of charge from the SEC's website at www.sec.gov and EE's website at https://ir.epelectric.com.

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IIF Acquisition Update

- On June 1, 2019, EE entered into a definitive agreement to be purchased by Sun Jupiter Holdings, LLC (Parent), an affiliate of Infrastructure Investments Fund (IIF), a private investment vehicle advised by J.P. Morgan Investment Management Inc.(1)
- On July 16, 2019, EE filed a Preliminary Proxy Statement with the SEC
- On August 2, 2019, EE filed a Definitive Proxy Statement with the SEC
- Required regulatory filings(2)

Anticipated Regulatory Filings Beginning in August
Federal Energy Regulatory Commission (FERC)
U.S. Nuclear Regulatory Commission (NRC)
Federal Communications Commission (FCC)
Public Utility Commission of Texas (PUCT)
New Mexico Public Regulation Commission (NMPRC)
City of El Paso
Hart-Scott-Rodino Antitrust

(1) If the acquisition is not consummated by June 1, 2020 because the required approvals have not been obtained, the Parent or EE can extend the date to September 1, 2020

(2) For more information regarding approvals, please reference pages 42-46 of the definitive proxy statement filed with the SEC on August 2, 2019

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Recent Highlights

- Today EE published its second annual Corporate Sustainability Report
  - 2018 energy efficiency achievements
    - 42,587 MWh energy savings
      - 24,000 tons avoided CO_2 emissions
      - 20 million gallons water savings
  - Carbon reduction goals (on a rate per MWh of load served)
    - 25% below 2015 levels by 2025
    - 40% below 2015 levels by 2035
- New Safety Watch Program established to improve safety culture
- Reduced annual interest costs by approximately $3.7 million after remarketing certain Maricopa County, Arizona Pollution Control Bonds (PCBs)

Recent Highlights (cont.)

- Expanded the Texas Community Solar Program (2 MW)
- Recognition from ONCOR for our crews that assisted with power restoration efforts in Dallas, Texas
- Received the United Way Award for #1 in employee donations / largest contributor in the region
- Received the 2019 Energy Star Certified Homes Market Leader Award
- Texas legislation passed in Q2 2019:
  - Providing clarification for Advanced Metering Infrastructure
  - Allowing for the recovery of new generation through a rider

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Regulatory Update

- In Texas, currently in settlement discussions for Transmission & Distribution Cost Recovery Factors (TCRF & DCRF)
- On May 29, 2019, EE issued a separate request for proposal for 141,000 MWh of renewable energy in order to comply with the New Mexico Renewable Portfolio Standard (RPS) and New Mexico's recently signed Energy Transition Act (ETA)
- On July 10, 2019, the NMPRC approved a joint motion to change the date of EE's next general rate case to a date within 3 months of the NMPRC's final order regarding the proposed transaction
- In Q3 2019, anticipate filing a fuel reconciliation proceeding in Texas to reconcile fuel and purchased power expenses incurred from April 1, 2016 through March 31, 2019
- In Q3-Q4 2019, anticipate filing for Power Purchase Agreements and Certificate of Convenience and Necessity regulatory approvals for new generating resources[1]
- In Q4 2019, anticipate filing a FERC general rate case

(1) Summary of anticipated timeline provided on page 16 of appendix

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2nd Quarter and YTD Financial Results

- GAAP – Q2 2019 net income of $26.1 million (or $0.64 per basic share), compared to 2Q 2018 net income of $33.3 million (or $0.82 per basic share)
- GAAP – 2019 YTD net income of $32.2 million (or $0.79 per basic share), compared to 2018 YTD net income of $26.3 million (or $0.65 per basic share)

- Non-GAAP – Q2 2019 adjusted net income of $21.9 million (or $0.54 per basic share), compared to Q2 2018 adjusted net income of $30.8 million (or $0.76 per basic share)(1)
- Non-GAAP – 2019 YTD adjusted net income of $15.2 million (or $0.37 per basic share), compared to 2018 YTD adjusted net income of $25.9 million (or $0.64 per basic share)(1)

(1) Adjusted net income and adjusted basic earnings per share are non-GAAP financial measures that reflect net income and basic earnings per share, respectively (the most comparable GAAP financial measures) adjusted to exclude the impact of changes in fair value of EE's equity securities and realized gains (losses) from the sale of both equity and fixed income securities held in EE's Palo Verde nuclear decommissioning trust funds (NDT). Refer to slide 15 for a reconciliation of adjusted net income and adjusted basic earnings per share (non-GAAP) to net income and basic earnings per share, respectively (the comparable GAAP financial measure).

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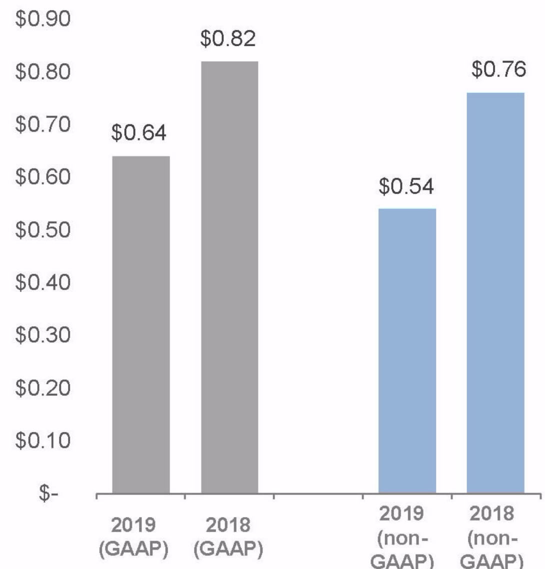
2nd Quarter 2019 Key Earnings Drivers

EPS	Q2
June 30, 2018 (GAAP)	$ 0.82
Changes in:	
Retail non-fuel base revenues	$ (0.24)
Strategic transaction costs	$ (0.11)
O&M expenses at fossil-fuel generating plants	$ 0.08
Investment & interest income, NDT	$ 0.04
Other	$ 0.05
June 30, 2019 (GAAP) *	$ 0.64
Non-GAAP Adjustments	$ (0.10)
June 30, 2019 (non-GAAP) *	$ 0.54

Q2 2019 vs Q2 2018



* Excluding the strategic transaction costs associated with the proposed transaction, Q2 2019 GAAP EPS was $0.75 and Q2 2019 non-GAAP EPS was $0.65. Neither EE nor the Parent will seek to recover transaction costs associated with the proposed transaction.

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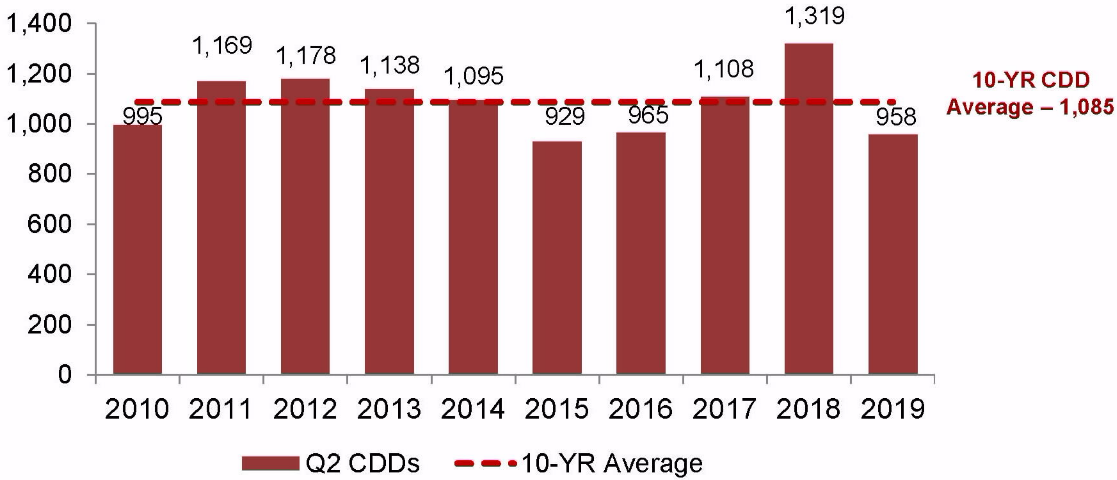
Historical Weather Analysis

2nd Quarter CDDs vs 10-YR Average



2nd Quarter 2019 CDDs

- 27.4% Below 2nd Quarter 2018
- 11.7% Below 10-YR Average

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2nd Quarter Customers and Retail Sales

	Average No. of Retail Customers	Percent Change[1]	MWH	Percent Change[1]
Residential	379,397	1.6%	675,072	(13.9%)
C&I Small	42,546	0.2%	621,484	(5.6%)
C&I Large	48	-	271,857	(3.8%)
Public Authorities	6,294	12.8%	403,498	(7.1%)
Total Retail	428,285	1.6%	1,971,911	(8.7%)
Cooling Degree Days	958	(27.4)%		

(1) Percent change expressed as change in 2019 from 2018

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Capital Requirements and Liquidity

Total Liquidity	June 30, 2019 (in $ millions)
Revolving Credit Facility Availability	$ 189.1
Cash	$ 12.9
Liquidity	$ 202.0

Credit Quality	Moody's(1)	S&P(2)
Rating	Baa1	BBB
Outlook	Rating Under Review	Negative

- On May 22, 2019, EE completed the remarketing of the 7.25% 2009 Series A and B Maricopa County, Arizona PCB's ($100.6 million). The annual interest rate was reset to 3.6%.
- On July 25, 2019, the Board approved a quarterly cash dividend of $0.385 per share of common stock payable on September 30, 2019 to shareholders of record as of the close of business on September 16, 2019(3)
- In light of the proposed transaction, EE will no longer provide guidance nor is it affirming past guidance

(1) On July 1, 2019, Moody's placed EE on review for downgrade
(2) On June 5, 2019, S&P published its rating and outlook
(3) In accordance with the proposed transaction, until closing, shareholders will continue to be entitled to receive any quarterly cash dividends, including a "stub period" dividend with respect to the period between the last quarterly dividend paid by EE and the close of the proposed transaction.

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Appendix

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Use of Non-GAAP Financial Measures

- As required by an accounting standard, changes in the fair value of equity securities are now recognized in EE's Statements of Operations. The adoption of this standard added the potential for significant volatility to the reported results of operations as changes in the fair value of equity securities may occur.
- Accordingly, in addition to disclosing financial results that are determined in accordance with U.S. generally accepted accounting principles ("GAAP"), EE has provided adjusted net income and adjusted basic earnings per share, both of which are non-GAAP financial measures. Management believes that providing this additional information is useful to investors in understanding EE's core operating performance because each measure removes the effects of variances that are not indicative of fundamental changes in the earnings capacity of EE. Adjusted net income and adjusted basic earnings per share are calculated by excluding the impact of changes in fair value from EE's equity securities and realized gains (losses) from the sale of both equity and fixed income securities in the Company's Palo Verde nuclear decommissioning trust funds.
- Adjusted net income and adjusted basic earnings per share are not measures of financial performance under GAAP and should not be considered as an alternative to net income and basic earnings per share, respectively. Furthermore, EE's presentation of any non-GAAP financial measure may not be comparable to similarly titled measures used by other companies. Please refer to slide 15 of this presentation for a reconciliation of adjusted net income and adjusted basic earnings per share to the most directly comparable financial measures, net income and basic earnings per share, respectively, prepared in accordance with GAAP.

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Reconciliation of Net Income (GAAP) and Basic EPS (GAAP) to Adjusted Net Income (Non-GAAP) and Adjusted Basic EPS (Non-GAAP)

Use of Non-GAAP Financial Measures

As required by ASU 2016-01, Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities, changes in the fair value of equity securities are recognized in the Company's Statements of Operations. This standard added the potential for significant volatility to the Company's reported results of operations as changes in the fair value of equity securities may occur. Furthermore, the equity investments included in the NDT are significant and are expected to increase significantly during the remaining life (estimated to be 26 to 29 years) of the Palo Verde Generating Station. Accordingly, the Company has provided the following non-GAAP financial measures to exclude the impact of changes in fair value of equity securities and realized gains (losses) from the sale of both equity and fixed income securities. Reconciliations of both non-GAAP financial measures to the most directly comparable financial information presented in accordance with GAAP are presented in the table below. Non-GAAP adjusted net income is reconciled to GAAP net income, and non-GAAP adjusted basic earnings per share is reconciled to GAAP basic earnings per share.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019 (a)	2018	2019 (a)	2018
	(In thousands except for per share data)		(In thousands except for per share data)	
Net Income (GAAP)	$ 26,126	$ 33,295	$ 32,215	$ 26,329
Adjusting items before income tax effects				
Unrealized (gains) losses, net	(5,209)	(983)	(21,899)	2,798
Realized (gains) losses, net	(17)	(2,119)	684	(3,391)
Total adjustments before income tax effects	(5,226)	(3,102)	(21,215)	(593)
Income taxes on above adjustments	1,045	621	4,243	119
Adjusting items, net of income taxes	(4,181)	(2,481)	(16,972)	(474)
Adjusted net income (non-GAAP)	$ 21,945	$ 30,814	$ 15,243	$ 25,855
Basic earnings per share (GAAP)	$ 0.64	$ 0.82	$ 0.79	$ 0.65
Adjusted basic EPS (non-GAAP)	$ 0.54	$ 0.76	$ 0.37	$ 0.64

As of June 30, 2019, the EE nuclear decommissioning trust portfolio was comprised of 52% equity securities and had a market value of $308 million.

(a) Net income (GAAP) and adjusted net income (non-GAAP) include a pre-tax charge of $5.7 million or $0.11 per share, after tax, of strategic transaction costs.

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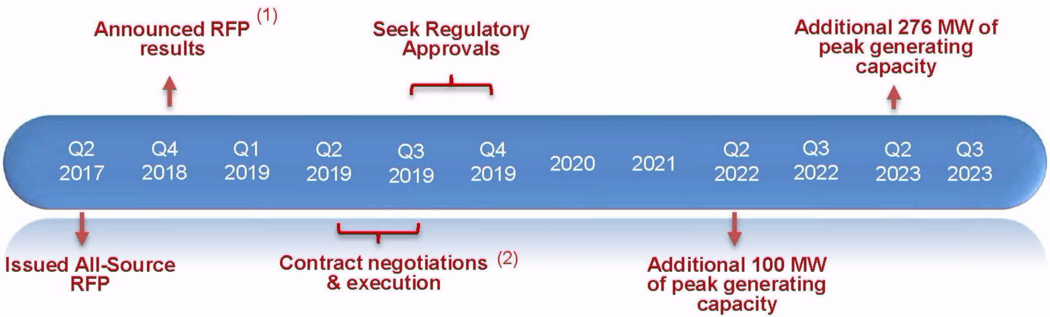
Anticipated Timeline for New Generating Resources



(1) The winning bids include the expected Power Purchase Agreements ("PPAs") of 200 MW of utility scale solar resources, 100 MW of battery storage, and the construction of a 226 MW natural gas combustion turbine generating unit at the Company's Newman Power Station for an expected cost of approximately $143 million

(2) Selected proposals are subject to the execution of contracts following negotiations with the winning bidders, obtaining the applicable environmental and construction related permits, and obtaining the necessary approvals from the PUCT and the NMPRC

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Third Quarter 2019
Investor Presentation
November 6, 2019
The Electric Company
El Paso Electric

Safe Harbor Statement

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- The impact of the TCJA and other U.S. tax reform legislation
- Increased prices for fuel and purchased power and the possibility that regulators may not permit EE to pass through all such increased costs to customers or to recover previously incurred fuel costs in rates
- Full and timely recovery of capital investments and operating costs through rates in Texas and New Mexico, and at the Federal Energy Regulatory Commission
- Uncertainties and instability in the general economy and the resulting impact on EE's sales and profitability
- Changes in customers' demand for electricity as a result of energy efficiency initiatives and emerging competing services and technologies, including distributed generation
- Unanticipated increased costs associated with scheduled and unscheduled outages of generating plant
- Unanticipated maintenance, repair, or replacement costs for generation, transmission, or distribution facilities and the recovery of proceeds from insurance policies providing coverage for such costs
- The size of our construction program, the receipt of necessary permits and approvals and our ability to complete construction on budget and on time
- Potential delays in our construction and resource contracting schedule due to legal challenges or other reasons
- Costs at Palo Verde
- Decisions and actions of EE's regulators and the resulting impact on EE's cost of capital, sales, and profitability
- Deregulation and competition in the electric utility industry
- Possible increased costs of compliance with environmental or other laws, regulations and policies
- Possible income tax and interest payments as a result of audit adjustments proposed by the Internal Revenue Service or state taxing authorities
- Uncertainties and instability in the financial markets and the resulting impact on EE's ability to access the capital and credit markets
- Actions by credit rating agencies
- Possible physical or cyber-attacks, intrusions or other catastrophic events
- A U.S. Government shutdown and the resulting impact on EE's sales and profitability
- Other factors of which EE is currently unaware or deem immaterial

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IIF Acquisition Update

- On September 19, 2019, EE received shareholder approval for the Merger
  - Of the shares voted, 99.61% voted to approve and adopt the Merger
- Required regulatory filings(1)(2)

Regulatory Filing	Proceeding Number	Date Filed	Date Approved
Federal Energy Regulatory Commission ("FERC")(3)	EC19-120-000	August 13, 2019	TBD
U.S. Nuclear Regulatory Commission ("NRC")	NRC-2019-0214	August 13, 2019	TBD
Federal Communications Commission ("FCC")	File Number 0008737430	August 13, 2019	TBD
Public Utility Commission of Texas ("PUCT")(4)(5)	Docket No. 49849	August 13, 2019	TBD
New Mexico Public Regulation Commission ("NMPRC")(6)	Case No. 19-00234-UT	August 13, 2019	TBD
City of El Paso Franchise Agreement	Matter No. 19-1008-126	September 20, 2019	TBD
Federal Trade Commission (Hart-Scott-Rodino Act)	Transaction Number 20191858	August 16, 2019	September 3, 2019

(1) If the Merger is not consummated by June 1, 2020 because the required approvals have not been obtained, Sun Jupiter Holdings, LLC or EE can extend the date to September 1, 2020
(2) For more information regarding approvals, please reference pages 42-46 of the definitive proxy statement filed by EE with the SEC on August 2, 2019
(3) A FERC ruling is required within 180 days of filing, which is February 10, 2020, but the deadline may be extended 180 days
(4) Hearing has been scheduled for November 20-22, 2019
(5) A PUCT ruling is required within 180 days of filing, which is February 10, 2020, but the deadline may be extended 60 days for cause
(6) Hearing has been scheduled for December 3-6, 2019

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Recent Highlights

- On October 1, 2019, EE issued a request for proposals ("RFP") for an Advanced Metering Infrastructure system, which will improve customer service and reliability, provide better customer programs and services, and spur greater sustainability and regional economic development
  - Bidder selection is tentatively scheduled for April 1, 2020
- Evaluating proposals submitted in an RFP for 141,000 MWh of renewable energy to comply with the New Mexico Renewable Portfolio Standard and New Mexico's Energy Transition Act
  - Notice of contract award is tentatively scheduled for October 30, 2019
- On October 15, 2019, finalized a new four year collective bargaining agreement with IBEW Local 960
- Newman Power Plant was awarded 2019 Innovation Project of the Year by Ovation Users' Group for control system upgrades
- Received the 2019 Corporation of the Year Award from the Southwest Minority Supplier Development Council

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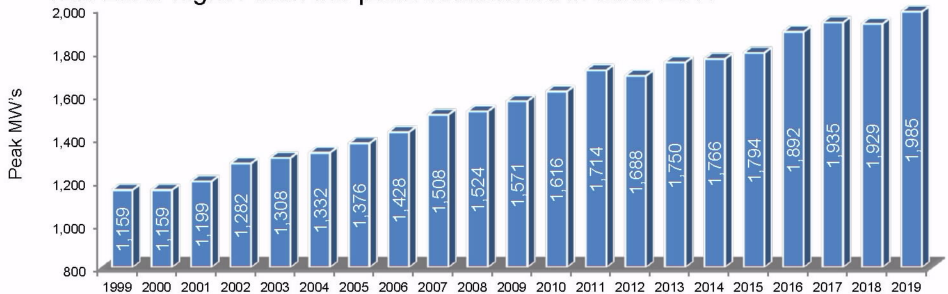
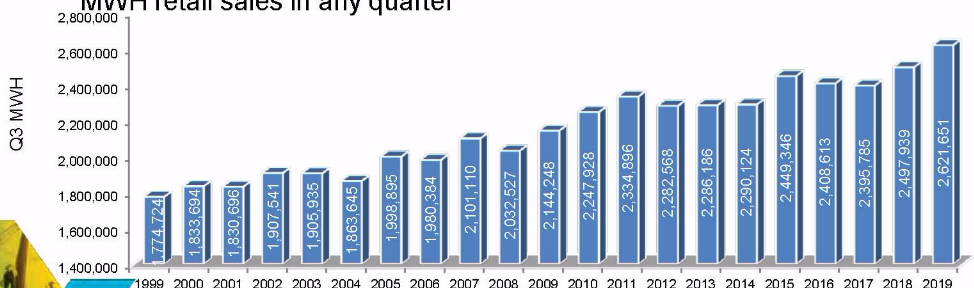
Recent Highlights (cont.)

- On August 26, 2019, EE customers set a new peak demand of 1,985 MW, which was 2.6% higher than the peak established in June 2017 (1)



- During the 3rd Quarter 2019, EE customers established a new record for the most MWH retail sales in any quarter



(1) Two separate new peaks were set in 2019. The first peak of 1,952 MW established on August 7, 2019 surpassed the previous record set in June 2017.

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Regulatory Update

- On September 12, 2019, filed an unopposed settlement agreement and proposed order for the Transmission Cost Recovery Factor ("TCRF"), which is pending approval by the PUCT[(1)]
- On September 13, 2019, filed for a reduction to the Texas fixed fuel factor of 12.21%, which became effective with the first billing cycle of October 2019
- On September 27, 2019, the Distribution Cost Recovery Factor was approved by the PUCT and rates became effective in billings beginning October 1, 2019
- On September 27, 2019, filed a fuel reconciliation application in Texas to reconcile fuel and purchased power expenses incurred from April 1, 2016 through March 31, 2019
- In Q4 2019, anticipate filing for Power Purchase Agreements ("PPAs") and Certificate of Convenience and Necessity regulatory approvals for new generating resources[(2)]
- In Q4 2019 or early 2020, anticipate filing a Federal Energy Regulatory Commission general rate case

(1) On February 20, 2019, EE's TCRF rate was approved on an interim basis effective July 30, 2019, and is subject to any refund or surcharge following final PUCT approval
(2) Summary of anticipated timeline provided on page 15 of appendix

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3rd Quarter and YTD Financial Results

- GAAP – Q3 2019 net income of $77.9 million (or $1.91 per basic share), compared to Q3 2018 net income of $73.3 million (or $1.80 per basic share)
- GAAP – 2019 YTD net income of $110.1 million (or $2.70 per basic share), compared to 2018 YTD net income of $99.6 million (or $2.45 per basic share)

- Non-GAAP – Q3 2019 adjusted net income of $74.5 million (or $1.83 per basic share), compared to Q3 2018 adjusted net income of $66.0 million (or $1.62 per basic share)(1)
- Non-GAAP – 2019 YTD adjusted net income of $89.8 million (or $2.20 per basic share), compared to 2018 YTD adjusted net income of $91.9 million (or $2.26 per basic share)(1)

(1) Adjusted net income and adjusted basic earnings per share are non-GAAP financial measures that reflect net income and basic earnings per share, respectively (the most comparable GAAP financial measures) adjusted to exclude the impact of changes in fair value of EE's equity securities and realized gains (losses) from the sale of both equity and fixed income securities held in EE's Palo Verde nuclear decommissioning trust funds ("NDT"). Refer to slide 14 for a reconciliation of adjusted net income and adjusted basic earnings per share (non-GAAP) to net income and basic earnings per share, respectively (the most comparable GAAP financial measures).

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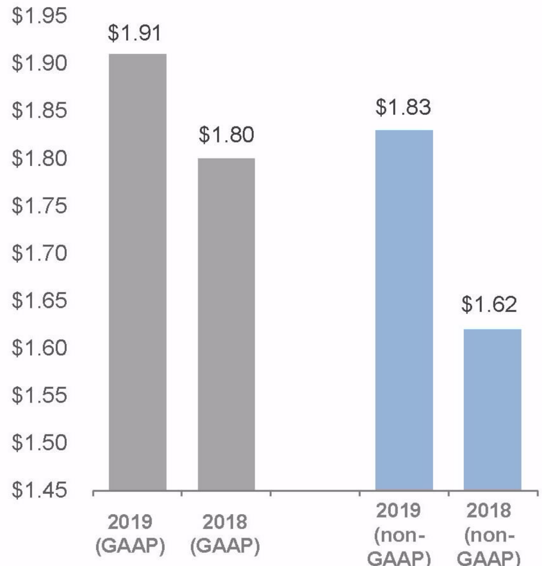
3rd Quarter 2019 Key Earnings Drivers

EPS	Q3
September 30, 2018 (GAAP)	$ 1.80
Changes in:	
Retail non-fuel base revenues	$ 0.27
O&M expenses at fossil-fuel generating plants	$ 0.03
Investment & interest income, NDT	$ (0.10)
Strategic transaction costs	$ (0.08)
Other	$ (0.01)
September 30, 2019 (GAAP) *	$ 1.91
Non-GAAP Adjustments	$ (0.08)
September 30, 2019 (non-GAAP) *	$ 1.83

Q3 2019 vs Q3 2018



* Excluding the strategic transaction costs associated with the proposed Merger, Q3 2019 GAAP EPS was $1.99 and Q3 2019 non-GAAP EPS was $1.91. Neither EE nor Sun Jupiter Holdings, LLC will seek to recover transaction costs associated with the proposed Merger.

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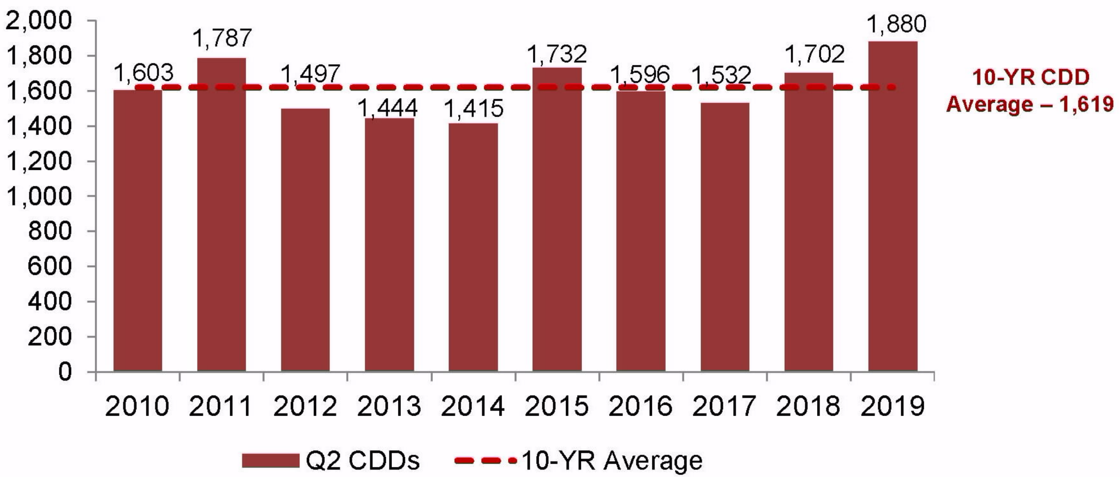
Historical Weather Analysis

3rd Quarter CDDs vs 10-YR Average



3rd Quarter 2019 CDDs

- 10.5% Above 3rd Quarter 2018
- 16.1% Above 10-YR Average

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3rd Quarter Customers and Retail Sales

	Average No. of Retail Customers	Percent Change(1)	MWH	Percent Change(1)
Residential	381,283	1.6%	1,166,364	10.1%
C&I Small	42,856	0.8%	742,939	1.9%
C&I Large	48	-	249,257	(4.9%)
Public Authorities	6,248	8.3%	463,091	3.5%
Total Retail	430,435	1.6%	2,621,651	5.0%
Cooling Degree Days	1,880	10.5%		

(1) Percent change expressed as change in third quarter 2019 from third quarter 2018

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Capital Requirements and Liquidity

Total Liquidity	Sept 30, 2019 (in $ millions)
Revolving Credit Facility Availability	$ 250.0
Cash	$ 15.6
Liquidity	$ 265.6

Credit Quality	Moody's(1)	S&P(2)
Rating	Baa2	BBB
Outlook	Stable	Negative

- On October 17, 2019, the Board approved a quarterly cash dividend of $0.385 per share of common stock payable on December 27, 2019 to shareholders of record as of the close of business on December 13, 2019(3)
- In light of the proposed Merger, EE will no longer provide guidance nor is it affirming past guidance

(1) On September 17, 2019, Moody's downgraded EE from Baa1 to Baa2 and changed its outlook to Stable from Rating Under Review
(2) On June 5, 2019, S&P affirmed EE's BBB credit rating and revised its outlook to Negative from Stable
(3) In accordance with the proposed Merger, until closing, shareholders will continue to be entitled to receive any quarterly cash dividends, including a "stub period" dividend with respect to the period between the last quarterly dividend paid by EE and the close of the proposed Merger.

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Appendix

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Use of Non-GAAP Financial Measures

- As required by an accounting standard, changes in the fair value of equity securities are now recognized in EE's Statements of Operations. The adoption of this standard added the potential for significant volatility to the reported results of operations as changes in the fair value of equity securities may occur.
- Accordingly, in addition to disclosing financial results that are determined in accordance with U.S. generally accepted accounting principles ("GAAP"), EE has provided adjusted net income and adjusted basic earnings per share, both of which are non-GAAP financial measures. Management believes that providing this additional information is useful to investors in understanding EE's core operating performance because each measure removes the effects of variances that are not indicative of fundamental changes in the earnings capacity of EE. Adjusted net income and adjusted basic earnings per share are calculated by excluding the impact of changes in fair value from EE's equity securities and realized gains (losses) from the sale of both equity and fixed income securities in the Company's Palo Verde nuclear decommissioning trust funds.
- Adjusted net income and adjusted basic earnings per share are not measures of financial performance under GAAP and should not be considered as an alternative to net income and basic earnings per share, respectively. Furthermore, EE's presentation of any non-GAAP financial measure may not be comparable to similarly titled measures used by other companies. Please refer to slide 14 of this presentation for a reconciliation of adjusted net income and adjusted basic earnings per share to the most directly comparable financial measures, net income and basic earnings per share, respectively, prepared in accordance with GAAP.

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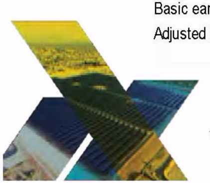
Reconciliation of Net Income (GAAP) and Basic EPS (GAAP) to Adjusted Net Income (Non-GAAP) and Adjusted Basic EPS (Non-GAAP)

Use of Non-GAAP Financial Measures

As required by ASU 2016-01, Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities, changes in the fair value of equity securities are recognized in the Company's Statements of Operations. This standard added the potential for significant volatility to the Company's reported results of operations as changes in the fair value of equity securities may occur. Furthermore, the equity investments included in the NDT are significant and are expected to increase significantly during the remaining life (estimated to be 26 to 29 years) of the Palo Verde Generating Station. Accordingly, the Company has provided the following non-GAAP financial measures to exclude the impact of changes in fair value of equity securities and realized gains (losses) from the sale of both equity and fixed income securities. Reconciliations of both non-GAAP financial measures to the most directly comparable financial measures prepared in accordance with GAAP are presented in the table below. Non-GAAP adjusted net income is reconciled to GAAP net income, and non-GAAP adjusted basic earnings per share is reconciled to GAAP basic earnings per share.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019 (a)	2018	2019 (b)	2018
	(In thousands except for per share data)		(In thousands except for per share data)	
Net Income (GAAP)	$ 77,880	$ 73,271	$ 110,095	$ 99,600
Adjusting items before income tax effects				
Unrealized gains, net	(874)	(6,528)	(22,773)	(3,730)
Realized gains, net	(3,338)	(2,562)	(2,654)	(5,953)
Total adjustments before income tax effects	(4,212)	(9,090)	(25,427)	(9,683)
Income taxes on above adjustments	842	1,818	5,085	1,937
Adjusting items, net of income taxes	(3,370)	(7,272)	(20,342)	(7,746)
Adjusted net income (non-GAAP)	$ 74,510	$ 65,999	$ 89,753	$ 91,854
Basic earnings per share (GAAP)	$ 1.91	$ 1.80	$ 2.70	$ 2.45
Adjusted basic EPS (non-GAAP)	$ 1.83	$ 1.62	$ 2.20	$ 2.26

As of September 30, 2019, the EE nuclear decommissioning trust portfolio had a market value of $312 million.



(a) Net income (GAAP) and adjusted net income (non-GAAP) include a pre-tax charge of $3.8 million or $0.08 per share, after tax, of strategic transaction costs.
(b) Net income (GAAP) and adjusted net income (non-GAAP) include a pre-tax charge of $9.5 million or $0.19 per share, after tax, of strategic transaction costs.

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Anticipated Timeline for New Generating Resources

(1) The winning bids include: (a) the construction of a 228 MW natural gas combustion turbine generating unit at the Company's Newman Power Station for an expected cost of approximately $143 million, (b) the expected PPAs of 200 MW of utility scale solar resources, and (c) the potential PPA of 100 MW of battery storage

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Fourth Quarter 2019
Investor Presentation
February 26, 2020
The Electric Company
El Paso Electric

Safe Harbor Statement

This presentation includes statements that are forward-looking statements made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the pending acquisition of El Paso Electric Company ("EE" or the "Company") by an affiliate of the Infrastructure Investments Fund (the "Merger"), regulatory approvals, the expected timetable for completing the pending Merger and for obtaining such regulatory approvals; statements regarding current regulatory filings and anticipated regulatory filings; statements regarding expected capital expenditures; statements regarding expected dividends; and statements regarding the adequacy of our liquidity to meet cash requirements. This information may involve risks and uncertainties that could cause actual results to differ materially from such forward-looking statements. These risks and uncertainties include, but are not limited to: the timing to consummate the pending Merger; satisfaction of the conditions to closing of the pending Merger may not be satisfied; the risk that a regulatory approval that may be required for the pending Merger is not obtained or is obtained subject to conditions that are not anticipated; and the diversion of management's time on Merger-related issues. Additional information concerning factors that could cause actual results to differ materially from those expressed in forward-looking statements is contained in EE's most recently filed periodic reports and in other filings made by EE with the U.S. Securities and Exchange Commission (the "SEC"), and include, but is not limited to:

- The impact of changes to U.S. tax laws
- Increased prices for fuel and purchased power and the possibility that regulators may not permit EE to pass through all such increased costs to customers or to recover previously incurred fuel costs in rates
- Full and timely recovery of capital investments and operating costs through rates in Texas and New Mexico, and at the Federal Energy Regulatory Commission
- Uncertainties and instability in the general economy and the resulting impact on EE's sales and profitability
- Changes in customers' demand for electricity as a result of energy efficiency initiatives and emerging competing services and technologies, including distributed generation
- Unanticipated increased costs associated with scheduled and unscheduled outages of generating plant
- Unanticipated maintenance, repair, or replacement costs for generation, transmission, or distribution facilities and the recovery of proceeds from insurance policies providing coverage for such costs
- The size of our construction program, the receipt of necessary permits and approvals and our ability to complete construction on budget and on time
- Potential delays in our construction and resource contracting schedule due to legal challenges or other reasons
- Costs at Palo Verde
- Decisions and actions of EE's regulators and the resulting impact on EE's cost of capital, sales, and profitability
- Deregulation and competition in the electric utility industry
- Possible increased costs of compliance with environmental or other laws, regulations and policies
- Possible income tax and interest payments as a result of audit adjustments proposed by the Internal Revenue Service or state taxing authorities
- Uncertainties and instability in the financial markets and the resulting impact on EE's ability to access the capital and credit markets
- Actions by credit rating agencies
- Possible physical or cyber-attacks, intrusions or other catastrophic events
- A U.S. Government shutdown and the resulting impact on EE's sales and profitability
- Other factors of which EE is currently unaware or deem immaterial

EE's filings are available from the SEC or may be obtained through EE's website, http://www.epelectric.com. Any such forward-looking statement is qualified by reference to these risks and factors. EE cautions that these risks and factors are not exclusive. Management cautions against putting undue reliance on forward-looking statements or projecting any future results based on such statements or present or prior earnings levels. Forward-looking statements speak only as of the date of this presentation, and EE does not undertake to update any forward-looking statement contained herein.

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IIF Acquisition Update

- On September 19, 2019, EE received shareholder approval for the pending Merger
  - Of the shares voted, 99.61% voted to approve and adopt the pending Merger
- Required regulatory filings(1)(2)(3)

Regulatory Filing	Proceeding Number	Date Filed	Date Approved
Federal Energy Regulatory Commission ("FERC")	Docket No. EC19-120-000	August 13, 2019	TBD
U.S. Nuclear Regulatory Commission ("NRC")	Docket ID NRC-2019-0214	August 13, 2019	TBD
Federal Communications Commission ("FCC")	File No. 0008737430	August 13, 2019	December 4, 2019
Public Utility Commission of Texas ("PUCT") (4)	Docket No. 49849	August 13, 2019	January 16, 2020
New Mexico Public Regulation Commission ("NMPRC")(5)	Case No. 19-00234-UT	August 13, 2019	TBD
City of El Paso Franchise Agreement(6)	Matter No. 19-1008-126	September 20, 2019	February 4, 2020
Federal Trade Commission (Hart-Scott-Rodino Act)	Transaction No. 20191858	August 16, 2019	September 3, 2019

(1) If the Merger is not consummated by June 1, 2020 because the required approvals have not been obtained, Sun Jupiter Holdings, LLC or EE can extend the date to September 1, 2020.
(2) For more information regarding approvals, please reference pages 42-46 of the definitive proxy statement filed by EE with the SEC on August 2, 2019.
(3) EE anticipates receiving all regulatory approvals and closing the pending Merger in the first half of 2020.
(4) The PUCT issued its final order on January 28, 2020.
(5) On February 12, 2020, the NMPRC Hearing Examiner issued an Amended Certification of Stipulation and recommended that the NMPRC approve the unopposed stipulation subject to a few modifications.
(6) On February 4, 2020, the City of El Paso passed an ordinance, Ordinance No. 019022, approving the Franchise Agreement Assignment Application and granting the City of El Paso's consent to the pending Merger.

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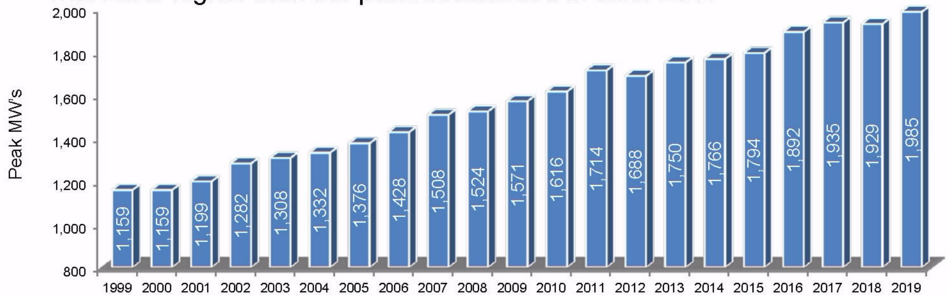
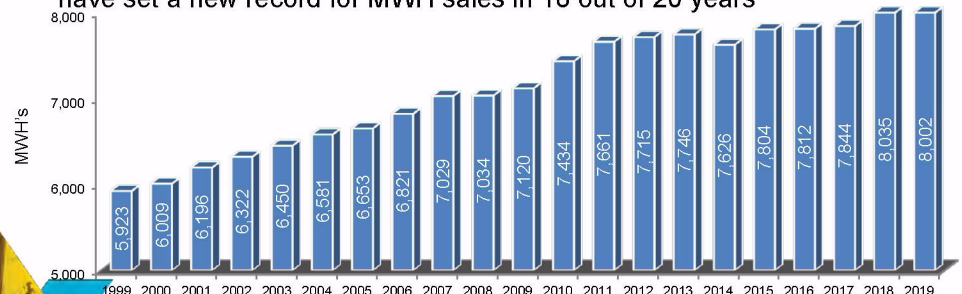
Recent Highlights (cont.)

- On August 26, 2019, EE customers set a new peak demand of 1,985 MW, which was 2.6% higher than the peak established in June 2017 (1)



- MWH retail sales have grown by approximately 35% since 1999 and EE customers have set a new record for MWH sales in 18 out of 20 years



(1) Two separate new peaks were set in 2019. The first peak of 1,952 MW established on August 7, 2019 surpassed the previous record set in June 2017.

El Paso Electric

4th Quarter and Fiscal Year ("FY") Financial Results

- GAAP – Q4 2019 net income of $12.9 million (or $0.32 per basic share), compared to Q4 2018 net loss of $15.3 million (or $0.38 per basic share) (1)
- GAAP – FY 2019 net income of $123.0 million (or $3.02 per basic share), compared to FY 2018 net income of $84.3 million (or $2.07 per basic share) (2)

- Non-GAAP – Q4 2019 adjusted net income of $2.5 million (or $0.06 per basic share), compared to Q4 2018 adjusted net income of $2.8 million (or $0.07 per basic share)(1) (3)
- Non-GAAP – FY 2019 adjusted net income of $92.2 million (or $2.26 per basic share), compared to FY 2018 adjusted net income of $94.7 million (or $2.33 per basic share) (2) (3)

(1) Net income (GAAP) and Adjusted net income (non-GAAP) for Q4 2019 include a pre-tax charge of $2.6 million or $0.06 per share, after-tax, of strategic transaction costs

(2) Net income (GAAP) and Adjusted net income (non-GAAP) for FY 2019 include a pre-tax charge of $12.1 million or $0.25 per share, after-tax, of strategic transaction costs

(3) Adjusted net income and adjusted basic earnings per share are non-GAAP financial measures that reflect net income and basic earnings per share, respectively (the most comparable GAAP financial measures) adjusted to exclude the impact of changes in fair value of EE's equity securities and realized gains (losses) from the sale of both equity and fixed income securities held in EE's Palo Verde nuclear decommissioning trust funds ("NDT"). Refer to slide 12 for a reconciliation of adjusted net income and adjusted basic earnings per share (non-GAAP) to net income and basic earnings per share, respectively (the most comparable GAAP financial measures).

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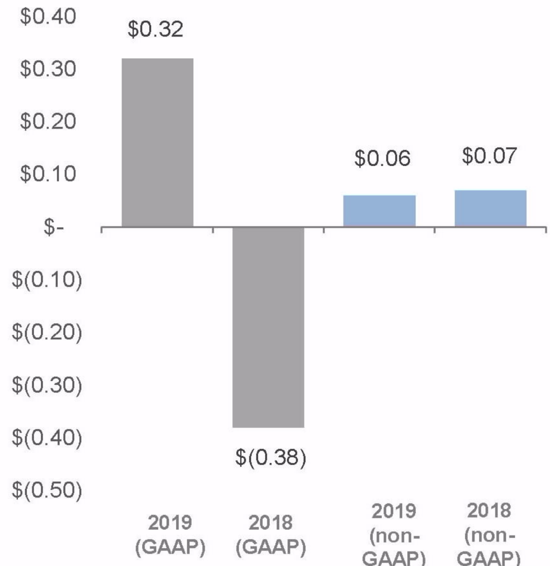
4th Quarter 2019 Key Earnings Drivers

EPS	Q4
December 31, 2018 (GAAP)	$ (0.38)
Changes in:	
Investment & interest income, NDT	$ 0.70
Retail non-fuel base revenues	$ 0.14
Strategic transaction costs	$ (0.06)
O&M expenses at fossil-fuel generating plants	$ (0.04)
Depreciation and amortization	$ (0.03)
Other	$ (0.01)
December 31, 2019 (GAAP) *	$ 0.32
Non-GAAP Adjustments	$ (0.26)
December 31, 2019 (non-GAAP) *	$ 0.06

Q4 2019 vs Q4 2018



* Excluding the strategic transaction costs associated with the pending Merger, Q4 2019 GAAP EPS was $0.38 and Q4 2019 non-GAAP EPS was $0.12. Neither EE nor Sun Jupiter Holdings LLC will seek to recover strategic transaction costs associated with the pending Merger from ratepayers.

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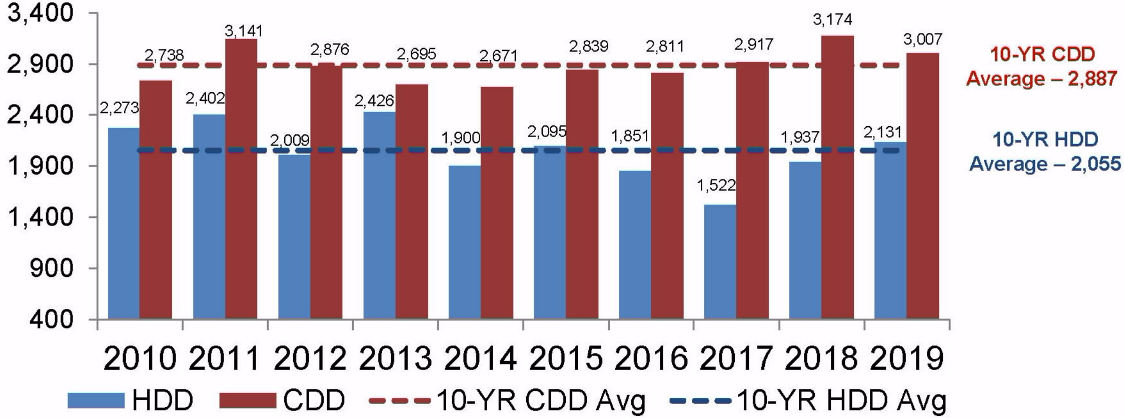
Historical Weather Analysis

Calendar Year HDDs & CDDs



Calendar Year 2019 CDDs

- 4.2% Above 10-YR Average
- 5.3% Below 2018

Calendar Year 2019 HDDs

- 3.7% Above 10-YR Average
- 10.0% Above 2018

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4th Quarter 2019 Customers and Retail Sales

	Average No. of Retail Customers	Percent Change(1)	MWH	Percent Change(1)
Residential	382,547	1.6%	582,992	(0.6%)
C&I Small	43,114	2.1%	545,833	0.1%
C&I Large	48	-	254,992	(1.2%)
Public Authorities	6,463	7.1%	369,822	4.7%
Total Retail	432,172	1.8%	1,753,639	0.6%
Heating Degree Days	944	(1.8%)		

(1) Percent change expressed as change in fourth quarter 2019 from fourth quarter 2018

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Capital Requirements and Liquidity

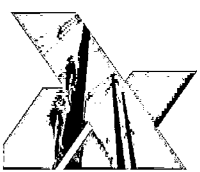
Total Liquidity	Dec 31, 2019 (in $ millions)
Revolving Credit Facility Availability	$ 236.0
Cash	$ 10.8
Liquidity	$ 246.8

Credit Quality	Moody's[1]	S&P[2]
Rating	Baa2	BBB
Outlook	Stable	Negative

- On December 27, 2019, EE paid a quarterly cash dividend of $0.385 per share, or $15.7 million, to shareholders of record as of the close of business on December 13, 2019[3]
- In light of the pending Merger, EE no longer provides guidance

(1) On September 17, 2019, Moody's downgraded EE from Baa1 to Baa2 and changed its outlook to Stable from Rating Under Review
(2) On June 5, 2019, S&P affirmed EE's BBB credit rating and revised its outlook to Negative from Stable
(3) Pursuant to the Merger Agreement, until closing, shareholders will continue to be entitled to receive any quarterly cash dividends declared by the Company, including a "stub period" dividend with respect to the period between the record date of the last quarterly regular dividend paid by EE and the closing date of the pending Merger.

Appendix



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Use of Non-GAAP Financial Measures

- As required by an accounting standard, changes in the fair value of equity securities are now recognized in EE's Statements of Operations. The adoption of this standard added the potential for significant volatility to the reported results of operations as changes in the fair value of equity securities may occur.
- Accordingly, in addition to disclosing financial results that are determined in accordance with U.S. generally accepted accounting principles ("GAAP"), EE has provided adjusted net income and adjusted basic earnings per share, both of which are non-GAAP financial measures. Management believes that providing this additional information is useful to investors in understanding EE's core operating performance because each measure removes the effects of variances that are not indicative of fundamental changes in the earnings capacity of EE. Adjusted net income and adjusted basic earnings per share are calculated by excluding the impact of changes in fair value from EE's equity securities and realized gains (losses) from the sale of both equity and fixed income securities in the Company's Palo Verde nuclear decommissioning trust funds.
- Adjusted net income and adjusted basic earnings per share are not measures of financial performance under GAAP and should not be considered as an alternative to net income and basic earnings per share, respectively. Furthermore, EE's presentation of any non-GAAP financial measure may not be comparable to similarly titled measures used by other companies. Please refer to slide 12 of this presentation for a reconciliation of adjusted net income and adjusted basic earnings per share to the most directly comparable financial measures, net income (loss) and basic earnings (loss) per share, respectively, prepared in accordance with GAAP.

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Reconciliation of Net Income (Loss) (GAAP) and Basic Earnings (Loss) Per Share (GAAP) to Adjusted Net Income (Non-GAAP) and Adjusted Basic Earnings Per Share (Non-GAAP)

Use of Non-GAAP Financial Measures

As required by ASU 2016-01, Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities, changes in the fair value of equity securities are recognized in the Company's Statements of Operations. This standard added the potential for significant volatility to the Company's reported results of operations as changes in the fair value of equity securities may occur. Furthermore, the equity investments included in the NDT are significant and are expected to increase significantly during the remaining life (estimated to be 26 to 29 years) of the Palo Verde Generating Station. Accordingly, the Company has provided the following non-GAAP financial measures to exclude the impact of changes in fair value of equity securities and realized gains (losses) from the sale of both equity and fixed income securities. Reconciliations of both non-GAAP financial measures to the most directly comparable financial measures prepared in accordance with GAAP are presented in the table below. Non-GAAP adjusted net income is reconciled to GAAP net income (loss), and non-GAAP adjusted basic earnings per share is reconciled to GAAP basic earnings (loss) per share.

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2019 (a)	2018	2019 (b)	2018
	(In thousands except for per share data)		(In thousands except for per share data)	
Net Income (loss) (GAAP)	$ 12,942	$ (15,285)	$ 123,037	$ 84,315
Adjusting items before income tax effects				
Unrealized (gains) losses, net	(13,079)	22,331	(35,852)	18,601
Realized (gains) losses, net	(8)	319	(2,662)	(5,634)
Total adjustments before income tax effects	(13,087)	22,650	(38,514)	12,967
Income taxes on above adjustments	2,618	(4,530)	7,703	(2,593)
Adjusting items, net of income taxes	(10,469)	18,120	(30,811)	10,374
Adjusted net income (non-GAAP)	$ 2,473	$ 2,835	$ 92,226	$ 94,689
Basic earnings (loss) per share (GAAP)	$ 0.32	$ (0.38)	$ 3.02	$ 2.07
Adjusted basic EPS (non-GAAP)	$ 0.06	$ 0.07	$ 2.26	$ 2.33

As of December 31, 2019, the EE nuclear decommissioning trust portfolio had a market value of $326 million.

(a) Net income (GAAP) and Adjusted net income (non-GAAP) include a pre-tax charge of $2.6 million or $0.06 per share, after tax, of strategic transaction costs.

(b) Net income (GAAP) and Adjusted net income (non-GAAP) include a pre-tax charge of $12.1 million or $0.25 per share, after tax, of strategic transaction costs.

El Paso Electric

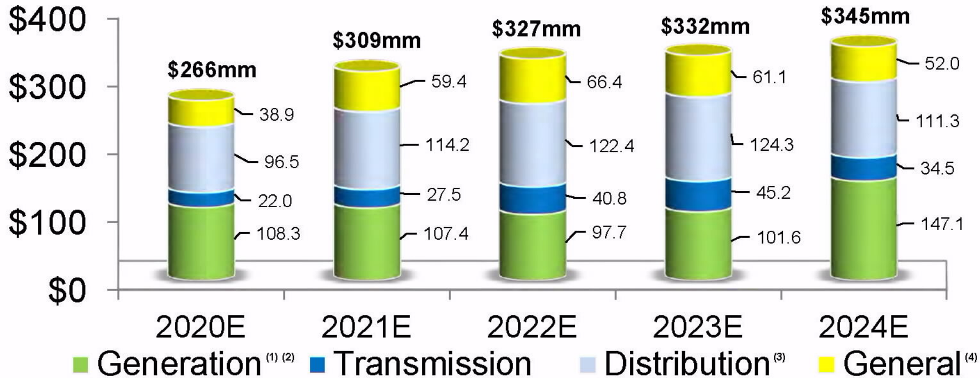
Anticipated Timeline for New Generating Resources

(1) The winning bids include: (a) the construction of a 228 MW natural gas combustion turbine generating unit at the Company’s Newman Power Station for an expected cost of approximately $143 million, (b) the Purchased Power Agreements (“PPAs”) of 200 MW of utility scale solar resources, and (c) the PPAs of 100 MW of battery storage

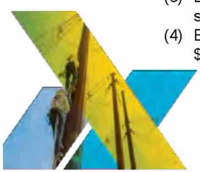
The Electric Company
El Paso Electric

Five Year Cash Capital Expenditures

Estimated Costs of ~ $1.6 billion



(1) Estimates include $136 million for the construction of a 228 MW combustion turbine generating unit at the Company's Newman Power Station with an anticipated operational date of 2023.
(2) Estimates include $134 million of initial construction costs for a 320 MW combined cycle generating unit currently scheduled to be completed in 2027, but is subject to change as the construction program is reviewed and updated in conjunction with recent legislative and regulatory activities pertaining to renewable requirements. Estimates also include $283 million of other generation costs, including $183 million for Palo Verde Generating Station.
(3) Estimates include $111 million of initial project costs for Advanced Metering Infrastructure, including deployment of the back-office systems and meters. Estimates are subject to change based on legislative and regulatory approvals.
(4) Estimates include upgrades of $153 million for information technology projects, including telecommunications network enhancements, $94 million for the Company's facilities and $31 million for the Company's fleet.



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The Electric Company
El Paso Electric
First Quarter 2020
Investor Presentation
May 7, 2020

Safe Harbor Statement

This presentation includes statements that are forward-looking statements made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the acquisition of El Paso Electric Company ("EE" or the "Company") by an affiliate of the Infrastructure Investments Fund (the "Merger"), regulatory approvals, the expected timetable for completing the Merger and for obtaining such regulatory approval; statements regarding the impact of the COVID-19 pandemic; statements regarding current regulatory filings and anticipated regulatory filings; statements regarding expected capital expenditures; statements regarding expected dividends; and statements regarding the adequacy of our liquidity to meet cash requirements. This information may involve risks and uncertainties that could cause actual results to differ materially from such forward-looking statements. These risks and uncertainties include, but are not limited to: the timing to consummate the Merger; satisfaction of the conditions to closing of the Merger may not be satisfied; the risk that a regulatory approval that may be required for the Merger is not obtained or is obtained subject to conditions that are not anticipated; and the diversion of management's time on Merger-related issues. Additional information concerning factors that could cause actual results to differ materially from those expressed in forward-looking statements is contained in EE's most recently filed periodic reports and in other filings made by EE with the U.S. Securities and Exchange Commission (the "SEC"), and include, but is not limited to:

- The impact of the COVID-19 pandemic and its effects on the Company, its business, vendors, customers and the communities it serves, U.S. and world financial markets, potential regulatory actions, changes in customer and stakeholder behaviors and impacts on and modifications to the Company's operations, business and financial condition relating thereto
- The impact of changes to U.S. tax reform legislation
- Increased prices for fuel and purchased power and the possibility that regulators may not permit EE to pass through all such increased costs to customers or to recover previously incurred fuel costs in rates
- Full and timely recovery of capital investments and operating costs through rates in Texas and New Mexico, and at the Federal Energy Regulatory Commission
- Uncertainties and instability in the general economy and the resulting impact on EE's sales and profitability
- Changes in customers' demand for electricity as a result of energy efficiency initiatives and emerging competing services and technologies, including distributed generation
- Unanticipated increased costs associated with scheduled and unscheduled outages of generating plant
- Unanticipated maintenance, repair, or replacement costs for generation, transmission, or distribution facilities and the recovery of proceeds from insurance policies providing coverage for such costs
- The size of our construction program, the receipt of necessary permits and approvals and our ability to complete construction on budget and on time
- Potential delays in our construction and resource contracting schedule due to legal challenges or other reasons
- Costs at Palo Verde
- Decisions and actions of EE's regulators and the resulting impact on EE's cost of capital, sales and profitability
- Deregulation and competition in the electric utility industry
- Possible increased costs of compliance with environmental or other laws, regulations and policies
- Possible income tax and interest payments as a result of audit adjustments proposed by the Internal Revenue Service or state taxing authorities
- Uncertainties and instability in the financial markets and the resulting impact on EE's ability to access the capital and credit markets
- Actions by credit rating agencies
- Possible physical or cyber-attacks, intrusions or other catastrophic events
- A U.S. Government shutdown and the resulting impact on EE's sales and profitability
- Other factors of which EE is currently unaware or deem immaterial

EE's filings are available from the SEC or may be obtained through EE's website, http://www.epelectric.com. Any such forward-looking statement is qualified by reference to these risks and factors. EE cautions that these risks and factors are not exclusive. Management cautions against putting undue reliance on forward-looking statements or projecting any future results based on such statements or present or prior earnings levels. Forward-looking statements speak only as of the date of this presentation, and EE does not undertake to update any forward-looking statement contained herein.

El Paso Electric

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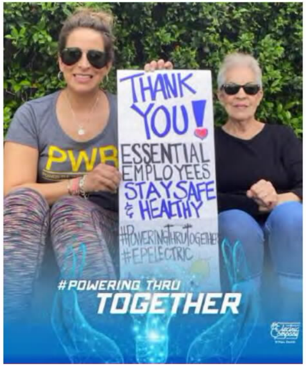
COVID-19 Company Update



- Implemented business continuity plan focusing on the safety of employees, customers, contractors, and vendors
  - On March 16, 2020, employees were directed to work remotely to the extent possible
  - Enhanced safety and health protocols were implemented for frontline employees
- Provided additional resources to employees who require pandemic-related absence from work
- Suspended service disconnections for nonpayment by customers
- Made charitable contributions to local organizations for pandemic assistance in EE's communities
- Immediately increased cash position to preserve financial flexibility, and increased borrowing commitments under EE's revolving credit facility ("RCF")
- The COVID-19 pandemic continues to rapidly evolve, and therefore EE cannot predict the duration of the COVID-19 pandemic and its impact on EE's financial condition, results of operations and cash flows
- EE's dedicated and hardworking employees remain committed to providing safe and reliable energy as the region comes together to mitigate and reduce exposure to COVID-19

IIF Acquisition Update

- On September 19, 2019, EE received shareholder approval for the Merger; of the shares voted, 99.61% voted to approve and adopt the Merger
- Required regulatory filings(1)(2)(3)

Regulatory Filing	Proceeding Number	Date Filed	Date Approved
Federal Energy Regulatory Commission ("FERC") (4)	Docket No. EC19-120-000	August 13, 2019	Pending
U.S. Nuclear Regulatory Commission ("NRC")	Docket ID NRC-2019-0214	August 13, 2019	March 6, 2020
Federal Communications Commission ("FCC")	File No. 0008737430	August 13, 2019	December 4, 2019
Public Utility Commission of Texas ("PUCT") (5)	Docket No. 49849	August 13, 2019	January 16, 2020
New Mexico Public Regulation Commission ("NMPRC")	Case No. 19-00234-UT	August 13, 2019	March 11, 2020
City of El Paso Franchise Agreement (6)	Matter No. 19-1008-126	September 20, 2019	February 4, 2020
Federal Trade Commission (Hart-Scott-Rodino Act)	Transaction No. 20191858	August 16, 2019	September 3, 2019

(1) If the Merger is not consummated by June 1, 2020 because the required approvals have not been obtained, Sun Jupiter or EE can extend the date to September 1, 2020.

(2) For more information regarding approvals, please reference pages 42-46 of the definitive proxy statement filed by EE with the SEC on August 2, 2019.

(3) EE anticipates closing the Merger in the second quarter of 2020.

(4) On March 30, 2020, the FERC issued an order (the "FERC Order") authorizing the Merger, subject to the FERC's approval of mitigation to address certain discrete competitive effects of the Merger that could arise. The FERC concluded that the Merger, as conditioned, satisfies governing federal standards and authorized the Merger as consistent with the public interest. The proposed mitigation was required to be filed within 45 days of the issuance of the FERC Order. On April 15, 2020, IIF and EPE filed proposed mitigation options with the FERC. The matter is pending final approval from the FERC.

(5) The PUCT issued its final order on January 28, 2020.

(6) On February 4, 2020, the City of El Paso passed an ordinance, Ordinance No. 019022, approving the Franchise Agreement Assignment Application and granting the City of El Paso's consent to the Merger.

El Paso Electric

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1st Quarter 2020 Financial Results

- GAAP – Q1 2020 net loss of $35.2 million (or $0.87 per basic share), compared to Q1 2019 net income of $6.1 million (or $0.15 per basic share) (1)

- Non-GAAP – Q1 2020 adjusted net loss of $8.7 million (or $0.21 per basic share), compared to Q1 2019 adjusted net loss of $6.7 million (or $0.17 per basic share)(1) (2)

(1) Net loss (GAAP) and Adjusted net loss (non-GAAP) for Q1 2020 include a pre-tax charge of $1.3 million or $0.03 per share, after-tax, of strategic transaction costs associated with the Merger.

(2) Adjusted net loss and adjusted basic loss per share are non-GAAP financial measures that reflect net loss and basic loss per share, respectively (the most comparable GAAP financial measures) adjusted to exclude the impact of changes in fair value of EE's equity securities and realized gains (losses) from the sale of both equity and fixed income securities held in EE's Palo Verde nuclear decommissioning trust funds ("NDT"). Refer to slide 12 for a reconciliation of adjusted net loss and adjusted basic loss per share (non-GAAP) to net loss and basic loss per share, respectively (the most comparable GAAP financial measures).

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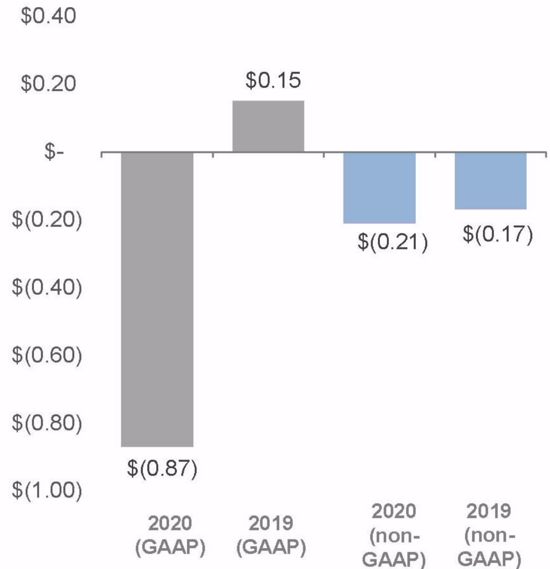
1st Quarter 2020 Key Earnings Drivers

EPS	Q1
March 31, 2019 (GAAP)	$ 0.15
Changes in:	
Investment & interest income, NDT	$ (0.98)
O&M expenses at fossil-fuel generating plants	$ (0.03)
Strategic transaction costs	$ (0.03)
Depreciation and amortization	$ (0.03)
Retail non-fuel base revenues	$ 0.02
Other	$ 0.03
March 31, 2020 (GAAP) *	$ (0.87)
Non-GAAP Adjustments	$ 0.66
March 31, 2020 (non-GAAP) *	$ (0.21)

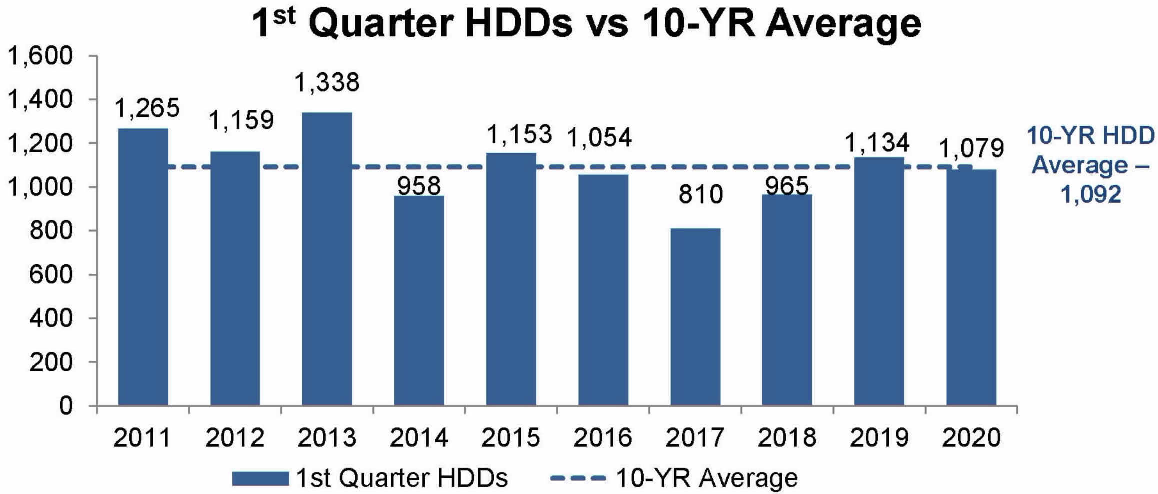
Q1 2020 vs Q1 2019



* Excluding the strategic transaction costs associated with the Merger, Q1 2020 GAAP EPS (loss) was $(0.84) and Q1 2020 non-GAAP adjusted EPS (loss) was $(0.18). Neither EE nor Sun Jupiter Holdings LLC will seek to recover strategic transaction costs associated with the Merger from ratepayers.

The Electric Company El Paso Electric

Historical Weather Analysis



1st Quarter 2020 HDDs

- 1.2% Below 10-YR Average
- 4.9% Below 1st Quarter 2019

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1st Quarter 2020 Customers and Retail Sales

	Average No. of Retail Customers	Percent Change[1]	MWH	Percent Change[1]
Residential	383,958	1.7%	574,083	-
C&I Small	43,212	2.3%	486,410	(2.0%)
C&I Large[2]	48	-	231,676	(8.1%)
Public Authorities	6,659	7.3%	331,249	(0.2%)
Total Retail	433,877	1.9%	1,623,418	(1.9%)
Heating Degree Days	1,079	(4.9%)		

(1) Percent change expressed as change in first quarter 2020 from first quarter 2019. Sales for the three months ended March 31, 2020 were not significantly adversely impacted by the COVID-19 outbreak.

(2) Decrease in commercial and industrial large is primarily due to reduced demand by a customer during their facility upgrade over a five-week period completed in February 2020.

The Electric Company
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Capital Requirements and Liquidity

Total Liquidity	Mar 31, 2020 (in millions)
RCF Availability	$ 159.0
Cash	$ 57.4
Liquidity	$ 216.4

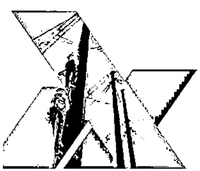
Credit Quality	Moody's(1)	S&P(2)
Rating	Baa2	BBB
Outlook	Stable	Negative

- On March 13, 2020, as a precautionary measure in response to COVID-19 pandemic, borrowed $50 million under the RCF
- On March 20, 2020, increased the borrowing commitments under the RCF by $50 million to $400 million and extended the maturity date of the RCF by one year to September 13, 2024
- On March 31, 2020, EE paid a quarterly cash dividend of $0.385 per share, or $15.7 million, to shareholders of record as of the close of business on March 17, 2020[3]
- In light of the Merger, EE no longer provides guidance

(1) On September 17, 2019, Moody's downgraded EE from Baa1 to Baa2 and changed its outlook to Stable from Rating Under Review
(2) On June 5, 2019, S&P affirmed EE's BBB credit rating and revised its outlook to Negative from Stable
(3) Pursuant to the Merger Agreement, until closing, EE is allowed to declare and pay any quarterly cash dividends declared by the Company's Board of Directors, including a "stub period" dividend with respect to the period between the record date of the last quarterly regular dividend paid by EE and the closing date of the Merger.

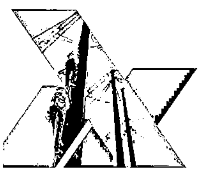
El Paso Electric

Appendix



Use of Non-GAAP Financial Measures

- As required by an accounting standard, changes in the fair value of equity securities are now recognized in EE's Statements of Operations. The adoption of this standard added the potential for significant volatility to the reported results of operations as changes in the fair value of equity securities may occur.
- Accordingly, in addition to disclosing financial results that are determined in accordance with U.S. generally accepted accounting principles ("GAAP"), EE has provided adjusted net loss and adjusted basic loss per share, both of which are non-GAAP financial measures. Management believes that providing this additional information is useful to investors in understanding EE's core operating performance because each measure removes the effects of variances that are not indicative of fundamental changes in the earnings capacity of EE. Adjusted net loss and adjusted basic loss per share are calculated by excluding the impact of changes in fair value from EE's equity securities and realized gains (losses) from the sale of both equity and fixed income securities in the Company's Palo Verde nuclear decommissioning trust funds.
- Adjusted net loss and adjusted basic loss per share are not measures of financial performance under GAAP and should not be considered as alternatives to net loss and basic loss per share, respectively. Furthermore, EE's presentation of any non-GAAP financial measure may not be comparable to similarly titled measures used by other companies. Please refer to slide 12 of this presentation for a reconciliation of adjusted net loss and adjusted basic loss per share to the most directly comparable financial measures, net loss and basic loss per share, respectively, prepared in accordance with GAAP.



El Paso Electric

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Reconciliation of Net Income (Loss) (GAAP) and Basic Earnings (Loss) Per Share (GAAP) to Adjusted Net Loss (Non-GAAP) and Adjusted Basic Loss Per Share (Non-GAAP)

Use of Non-GAAP Financial Measures

As required by ASU 2016-01, Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities, changes in the fair value of equity securities are recognized in the Company's Statements of Operations. This standard added the potential for significant volatility to the Company's reported results of operations as changes in the fair value of equity securities may occur. Furthermore, the equity investments included in the NDT are significant and are expected to increase significantly during the remaining life (estimated to be 25 to 28 years) of the Palo Verde Generating Station. Accordingly, the Company has provided the following non-GAAP financial measures to exclude the impact of changes in fair value of equity securities and realized gains (losses) from the sale of both equity and fixed income securities. Reconciliations of both non-GAAP financial measures to the most directly comparable financial measures prepared in accordance with GAAP are presented in the table below. Non-GAAP adjusted net loss is reconciled to GAAP net income (loss), and non-GAAP adjusted basic loss per share is reconciled to GAAP basic earnings (loss) per share.

	Three Months Ended March 31,	
	2020 (a)	2019
	(In thousands except for per share data)	
Net Income (loss) (GAAP)	$ (35,209)	$ 6,089
Adjusting items before income tax effects		
Unrealized (gains) losses, net	33,188	(16,690)
Realized (gains) losses, net	(24)	701
Total adjustments before income tax effects	33,164	(15,989)
Income taxes on above adjustments	(6,633)	3,198
Adjusting items, net of income taxes	26,531	(12,791)
Adjusted net loss (non-GAAP)	$ (8,678)	$ (6,702)
Basic earnings (loss) per share (GAAP)	$ (0.87)	$ 0.15
Adjusted basic loss per share (non-GAAP)	$ (0.21)	$ (0.17)

As of March 31, 2020, the NDT portfolio had a market value of $295 million.

(a) Net loss (GAAP) and Adjusted net loss (non-GAAP) include a pre-tax charge of $1.3 million or $0.03 per share, after tax, of strategic transaction costs associated with the Merger.

El Paso Electric

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TIEC 1-6 Attachments 5 through 20 are CONFIDENTIAL and/or HIGHLY SENSITIVE PROTECTED MATERIALS attachments.

From: Pdebbas@valueline.com
To: Gonzalez, Richard S
Subject: Closing of deal
Date: Wednesday, July 29, 2020 1:54:38 PM

Notice: This email originated outside of EPE, exercise caution with links and attachments.
This email came from **valueline.com**, were you expecting it? **Think before you Click!**

Richard,

I saw that the acquisition has been completed. I wish you, Nathan, and Lisa the best, and I thank you for the assistance you provided over the years.

Paul Debbas| Equity Analyst | 212.907.1724 | pdebbas@valueline.com
Value Line | Free Value Line® Reports on Dow 30 Stocks
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TIEC 1-6 Attachments 2 through 30 are CONFIDENTIAL and/or HIGHLY SENSITIVE PROTECTED MATERIALS attachments.

Sullivan-Leshin, Isaac, PRC

From:	Sullivan-Leshin, Isaac, PRC
Sent:	Wednesday, June 23, 2021 3:30 PM
To:	Records, PRC, PRC
Subject:	20-00104-UT; Filing Submission
Attachments:	20-00104-UT, Concurrence of Commissioners Hall and Fischmann in the Commission's Order Adopting Recommended Decision with Modifications.pdf

IN THE MATTER OF THE APPLICATION OF EL PASO ELECTRIC COMPANY FOR REVISION OF ITS RETAIL ELECTRIC RATES PURSUANT TO ADVICE NOTICE NO. 267	))))	**Docket No. 20-00104-UT**

Please file the attached CONCURRENCE OF COMMISSIONERS HALL AND FISCHMANN IN THE COMMISSION'S ORDER ADOPTING RECOMMENDED DECISION WITH MODIFICATIONS into the above captioned case.

Thank you.

Isaac Sullivan-Leshin
Paralegal for Office of General Counsel
NEW MEXICO PUBLIC REGULATION COMMISSION
New Mexico Public Regulation Commission
PO Box 1269
Santa Fe, New Mexico 87504-1269
isaac.sullivan-leshin@state.nm.us
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BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION OF EL PASO ELECTRIC COMPANY FOR REVISION OF ITS RETAIL ELECTRIC RATES PURSUANT TO ADVICE NOTICE NO. 267	))))	**Docket No. 20-00104-UT**

CONCURRENCE OF COMMISSIONERS HALL AND FISCHMANN IN THE COMMISSION'S ORDER ADOPTING RECOMMENDED DECISION WITH MODIFICATIONS

The Commission's decision today to grant El Paso Electric Company a 9.0% return on equity (ROE) is reasonable, but does not do justice to customers.

While a 9.0% ROE is within the range of reasonableness determined by the hearing examiner, there was ample basis in the record to approve a lower ROE in order to maintain the proper balance between consumer and shareholder. Specifically, two witnesses, Kahal and Garrett, calculated ROEs of 8.6% and 7.0%, respectively. Yet, they each recommended a 9.0% ROE notwithstanding, invoking subjective factors (possible slightly higher risk than proxy group; gradualism approach to lowering ROE) not substantiated by their own calculations. Why would that happen?

The standard argument against lowering ROE, raised in this case, is that it hurts utilities' credit ratings, impairing the ability of the utility to raise capital, causing future borrowings to cost more, leading to higher rates, which parties shrink from causing (the "capital attraction" issue). Importantly, witness Kahal explained on the stand how EPE's credit rating would be unharmed by a 0.8% drop in ROE, based on the drop's miniscule effect on cash flow relative to EPE's total cash flow, the most important metric influencing credit ratings.

Another possibility is regulatory inertia, a phenomenon characterized by witness Kahal as "state regulatory commissions not lik[ing] to make drastic changes in authorized ROEs from year to year." This phenomenon has contributed to a lag in the decrease in ROEs nationwide relative to the actual cost of capital, to the detriment of ratepayers (who pay for that ROE) and the benefit of shareholders (whose stock dividends reflect that ROE).

In this case, the opportunity was presented to lower the ROE to 8.85% from 9.48 %, a 0.63% drop, based on unrefuted evidence of no harm to the utility's credit rating from such a change, yet the Commission declined to do so, and in so declining, set an example for everyone involved.

What are the consequences of awarding an ROE in excess of what is needed to maintain credit rating and attract capital? Witness Garrett cites Roger A. Morin:

> [I]f the allowed rate of return is greater than the cost of capital, capital investments are undertaken and investors' opportunity costs are more than achieved. **Any excess earnings over and above those required to service debt capital accrue to the equity holders, and the stock price increases. In this case, the wealth transfer occurs from ratepayers to shareholders.**

D. Garrett Direct at 23 (emphasis added). Garrett also cites Charles S. Griffey:

> The 'risk premium' being granted to utility shareholders is now higher than it has ever been over the last 35 years. **Excessive utility ROEs are detrimental to utility customers and the economy as a whole. From a societal standpoint, granting ROEs that are higher than necessary to attract investment creates an inefficient allocation of capital, diverting available funds away from more efficient investments. From the utility customer perspective, if a utility's awarded and/or achieved ROE is higher than necessary to attract capital, customers pay higher rates without receiving any corresponding benefits.**

D. Garrett Direct at 30 (emphasis added).

Electric utilities in general have an extremely low risk profile because they are government sanctioned monopolies. To the extent that treasury rates fall, as they have for 30 years, and the authorized ROE does not keep pace, shareholders experience a windfall at the expense of the consumer. Going forward, one hopes that all parties feel that it is safe to base their recommendations on their mathematical models in lieu of being swayed by subjective arguments or stayed by Commissioners' inertia.

A 9.0% authorized ROE is a reasonable adjustment from 9.48% in this case, since it falls within the zone of reasonableness. But our standard of review is "just and reasonable," under *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944):

> We held in Federal Power Commission v. Natural Gas Pipeline Co., 315 U.S. 575 (1942), that the Commission was not bound to the use of any single formula or combination of formulas in determining rates. . . . Under the statutory Standard of 'just and reasonable' it is the result reached, not the method employed, which is controlling. **It is not the theory but the impact of the rate which counts.** If the total effect of the rate order cannot be said to be unjust and unreasonable, judicial inquiry under the Federal Power Act is at an end.

Id. (emphasis added).

Given that a 9.0% ROE is in excess of what is necessary to attract capital in this case (evidenced by the Kahal testimony that EPE's credit rating won't be harmed if it dropped 0.8% from the current 9.48%) and thus given that ratepayers will likely pay higher rates without receiving corresponding benefits, the 9.0% ROE approved today results in rates that may be reasonable, but they are not just.

The current record lacks important information that should be considered in future rate cases. As witness Garrett points out, utility ROEs are determined in an echo chamber. Only utility stocks are chosen for proxy portfolios, yet the Hope standard suggests that returns should be assessed in terms of all investments in the marketplace. Utility stocks are an anomaly in the market place because their prospective profits are determined by regulators, not competitive forces. This has a profound effect on their market prices and risk profiles.

To better assess the cost of equity in future dockets, record evidence should include more information on market returns projected for equities in general. This could include cost of equity projections from pension funds, public and private investment funds, and investment houses. There should also be close analysis of electric utility stock prices to determine the real market return investors are asking for today. Proxy investment comparisons should include non-utility companies with risk profiles similar to utilities.

Taking these steps would be major strides toward bringing utilities' ROEs down to a level grounded in real value, enabling rates that are truly both just and reasonable.

ISSUED at Santa Fe, New Mexico this 23rd day of June, 2021.

/s/ Cynthia B. Hall, electronically signed
CYNTHIA B. HALL, COMMISSIONER DISTRICT 1

/s/ Stephen Fischmann, electronically signed
STEPHEN FISCHMANN, COMMISSIONER DISTRICT 5

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION OF EL PASO ELECTRIC COMPANY FOR REVISION OF ITS RETAIL ELECTRIC RATES PURSUANT TO ADVICE NOTICE NO. 267	))))	**Docket No. 20-00104-UT**

CERTIFICATE OF SERVICE

I certify that on this date I served upon the parties listed below, via email only, a true and correct copy of the **Concurrence of Commissioners Hall and Fischmann in the Commission's Order Adopting Recommended Decision with Modifications.**

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Issued at Santa Fe, New Mexico on June 23, 2021.

NEW MEXICO PUBLIC REGULATION COMMISSION

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Sullivan-Leshin, Isaac, PRC

From:	Sullivan-Leshin, Isaac, PRC
Sent:	Wednesday, June 23, 2021 3:11 PM
To:	Records, PRC, PRC
Subject:	20-00104-UT; Filing Submission
Attachments:	20-00104-UT, Order Adopting Recommended Decision with Modifications.pdf

IN THE MATTER OF THE APPLICATION OF EL PASO ELECTRIC	)	
COMPANY FOR REVISION OF ITS RETAIL ELECTRIC RATES	)	**Docket No. 20-00104-UT**
PURSUANT TO ADVICE NOTICE NO. 267	)	
	)	

Please file the attached ORDER ADOPTING RECOMMENDED DECISION WITH MODIFICATIONS into the above captioned case.

Thank you.

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BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION OF EL PASO ELECTRIC COMPANY FOR REVISION OF ITS RETAIL ELECTRIC RATES PURSUANT TO ADVICE NOTICE NO. 267	) **Docket No. 20-00104-UT**

ORDER ADOPTING RECOMMENDED DECISION WITH MODIFICATIONS

THIS MATTER comes before the New Mexico Public Regulation Commission ("Commission") upon the Recommended Decision described below.

Whereupon, being duly informed,

THE COMMISSION FINDS AS FOLLOWS:

1. Hearing Examiner Carolyn Glick issued her Recommended Decision in this case on April 6, 2021 (the "RD").

2. In total, there were 16 exceptions to the RD, filed by three parties. El Paso Electric Company ("EPE") filed 11 exceptions. The City of Las Cruces ("CLC") filed 5 exceptions. Yellow Bird Services ("YBS") filed 5 exceptions as well.

3. EPE filed responses to all of CLC's exceptions and to 3 of YBS's exceptions. CLC filed responses to all of EPE's exceptions. YBS filed a response to one of EPE's exceptions. Doña Ana County ("DAC") filed a general response to EPE's and CLC's exceptions, in which DAC urges the Commission to adopt the RD with the changes recommended in CLC's exceptions. .

4. The Commission has jurisdiction over the parties and the subject matter of this case.

<u>EPE Exception No. 1 – Return on Equity</u>

5. EPE argues that the RD's exclusive use of the constant growth DCF model results in an unreasonably low recommended 9.0% ROE and is contrary to the practice of virtually every other regulatory jurisdiction in the country, including the FERC. EPE further argues that, even accepting for the sake of argument the exclusive use of the constant growth DCF model, the RD

erred by not adjusting its DCF results for EPE-specific risk. EPE claims that the record is uncontested that EPE has a greater level of risk than the companies in the proxy groups used in the RD's DCF model. According to EPE, in recent Commission cases when this occurred, the Commission approved an ROE that was equal to the average of the mean and high DCF results. EPE contends that, if this prior Commission practice were applied to the range of DCF results employed by the RD in this case, the ROE would be equal to 9.345%. EPE concludes that, at a minimum, Staff's recommended 9.3% should be the lowest ROE value considered by the Commission.

6. In response to EPE's exception, CLC argues that EPE has not provided evidence or precedent from the Commission or other jurisdictions that supports its qualitative conclusion that 9.0% is "unreasonably" low. CLC takes issue with EPE's criticism of the RD for "entirely discount[ing]" ROE awards in other jurisdictions. CLC argues that its expert witness, David J. Garrett, testified persuasively about the "echo chamber" effect that arises when commissions rely on the ROE awards granted by other regulatory commissions. CLC goes on to say that, in response to examination by Commissioner Fischmann, Mr. Garrett testified that it seems that commissions are under pressure to conform to an average set by other commissions because it may be less risky, and because commissions are looking at the average, it prevents the average from moving other than very gradually to reflect changing market conditions. CLC praises the RD for reaching the conclusion that "this Commission should follow its practice of authorizing an ROE for EPE based on the evidence in this case, not authorized returns nationwide."

7. The Commission rejects EPE's exception. The Commission finds that the Hearing Examiner has properly weighed the evidence, has applied the appropriate legal standards, and has provided an ROE recommendation based on a well-reasoned analysis. The RD anticipates and

effectively addresses most of the issues raised in EPE's exceptions, and the Commission does not address such issues here. The Commission here addresses the major differences in the approaches taken by the Hearing Examiner and EPE and explains why the Commission finds EPE's approach incoherent and incomplete.

8. The RD correctly begins and ends its ROE analysis with the overriding concern that the Commission give due regard to the interests of both shareholders and ratepayers. EPE's analysis focuses almost entirely on the interests of its shareholders and is thus incomplete. Some observers might respond that it is typically the utility's role in a rate case to advocate for its shareholders' interests while it is the role of the Office of the Attorney General for the State of New Mexico, Staff, and intervenors to advocate for the ratepayers' interests. However, to the extent that a utility adopts such a narrow view in preparing its ROE recommendation, such a recommendation is not compelling.

9. The Commission is wary of reaching a decision on the ROE that is merely a compromise among highly subjective ROEs, each one of which is predictably skewed in the direction favored by the party presenting it. The Commission is not a mediator seeking a compromise solution, The ROE analysis is a factual inquiry, albeit one with some unavoidable level of subjectivity and, of course, the need for expert testimony. Accordingly, the Commission is persuaded to adopt the Hearing Examiner's reasoned analysis, which accepts certain methods and approaches while rejecting others based upon the extent to which they bear indicators of reliability. The Commission is not persuaded by EPE's unreasoned recommendation to blend the results of multiple tests and adjust the blended result if it is not in line with recent ROE decisions by other utility regulators.

10. The Commission agrees with the finding of the RD that no party provided sufficient justification to depart from Commission precedent indicating that the results of the Constant Growth DCF method should be used to determine a reasonable range of ROEs in this case. The Commission prefers this test over others primarily for the reason that, as stated in the RD, the DCF method is a market-based measure of return, "meaning it assumes that the current market price of the stock incorporates all investor expectations regarding risk, dividend growth and earnings growth. *Zia Nat'l Gas Co. v. New Mexico Pub. Util. Comm'n*, 2000-NMSC-011, ¶ 15, 128 N.M. 728. "The current price of the stock is reflective of all investment opportunities at the time." *Id.* The Commission can reduce the level of subjectivity in its ROE analysis by increasing reliance upon market-based measures.

11. Including other methods of determining ROE alongside or as an adjustment to the DCF method would introduce additional subjectivity into the analysis in two different ways. First, as the RD points out, the other methods variously advocated by the parties are, on an individual basis, methods that rely more heavily on subjective factors than does the DCF method. Perhaps more significant is the second way that additional subjectivity is introduced – through the combination of the results of the various tests. With each alternative method of determining ROE, there is at least a theoretical underpinning to each method for the decisionmaker to assess when choosing among them. Not so for the methods of combining the results. One regulator may use a particular method to determine where to locate the correct ROE within a range of ROEs determined by another method though both methods are, on their own terms, methods to determine the correct ROE.

12. None of the tests to determine the correct ROE were developed as additives to improve the results of other ROE tests, yet EPE urges the Commission to treat the tests as such.

The notion that including the results of more tests will result in a more accurate ROE implies that the tests are somehow complementary, but no witness has actually made that claim or argued why that might be so. That portion of EPE's exception seems to rest on the assumption that more is inherently better. The Commission does not agree that each additional test result blended into the mix brings us closer to the true ROE.

13. To that extent, the Commission does not agree with the FERC's reasoning in *Ass'n of Businesses Advocating Tariff Equity v. ALLETE, Inc.*, 117 F.E.R.C. P61, 154 (2020), "that ROE determinations should consider multiple models, both to capture the variety of models used by investors and to mitigate model risk." 117 F.E.R.C. P61 at *62188. With regard to mitigating model risk, FERC assumes that, because different models do not share the same flaws, averaging the results of these models will reduce the risk of error associated with each model. However, this is tantamount to saying that several wrongs make a right. There is no reason to believe that different types of errors will tend to cancel each other out. An error in an ROE model can only move in one of two wrong directions – too high or too low. It is just as likely that two unrelated errors in two different models will push the ROE in the same wrong direction, increasing the level of error of either model on its own. It makes far more sense to address the flaws in one's chosen model in a direct manner, by making reasoned adjustments aimed at the particular flaws.

14. With regard to FERC's other justification for averaging the results of multiple models, to capture the variety of models used by investors, the Commission finds that use of the constant growth DCF model provides an alternative type of analysis that does not call for such an extensive inquiry into the various sources of information that an investor might take into account. Two of the three inputs to the constant growth DCF model are directly observable- the stock price and dividends – and thus, objective. The underlying assumption that the current stock price

incorporates all known information and all reasonable expectations is a relatively sound assumption. The assumption is sound in that the stock price is the result of actual market transactions, i.e., actions actually taken by investors. The third input in the model is the only subjective factor – i.e., the only factor that is not directly observable and that requires making inferences about investors' subjective expectations. However, the subjective inquiry here is narrower in scope than it is in other models, especially blended models. The subjectivity in this model is limited to the attempt to understand investors' expectations with regard to growth rates, which are inferred using analysts' forecasted growth rates, a sound basis for such an inference.

15. The Commission also rejects EPE's argument that an ROE that is an outlier among ROEs determined by other public utility regulators must to that extent be in error. Again, in its exception, EPE is not pointing out the inherent wisdom of what any particular regulator is doing but implying that the average result of many regulators' efforts is inherently more accurate. Such an approach, however, can only tell us what is an average and what is an outlier, but it does not give any indication as to which result is more accurate. Moreover, such an approach is certain to contribute to the echo chamber of regulator-set ROEs.

EPE Exception No. 2 and CLC Exception No. 2 – Palo Verde Generating Station Unit 3

16. EPE takes exception to the RD's treatment of the pricing of nuclear energy from Palo Verde Generation Station ("PVGS") Unit 3. EPE states that PVGS Unit 3 offers a carbon-free, baseload resource that operates at capacity factors of 90% or greater. EPE further states that this resource "is highly reliable and has low and stable fuel costs that have insulated New Mexico customers from the volatile natural gas market." EPE argues that the RD "fails to identify a proxy price for PVGS Unit 3, [] recommends preventing EPE from recovering its cost of service from other Commission-approved resources, and "would require EPE to use market purchases to fill the