

EL PASO ELECTRIC CO /TX/  
Form 10-Q  
November 06, 2015  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q  
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2015

OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-14206

El Paso Electric Company  
(Exact name of registrant as specified in its charter)  
Texas  
(State or other jurisdiction of incorporation or organization)

74-0607870  
(I.R.S. Employer Identification No.)

Stanton Tower, 100 North Stanton, El Paso, Texas  
(Address of principal executive offices)  
(915) 543-5711  
(Registrant's telephone number, including area code)

79901  
(Zip Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

As of October 31, 2015, there were 40,426,668 shares of the Company's no par value common stock outstanding.



Table of Contents

EL PASO ELECTRIC COMPANY  
INDEX TO FORM 10-Q

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Balance Sheets – September 30, 2015 and December 31, 2014</u>	<u>1</u>
<u>Statements of Operations – Three Months, Nine Months, and Twelve Months Ended September 30, 2015 and 2014</u>	<u>3</u>
<u>Statements of Comprehensive Operations – Three Months, Nine Months, and Twelve Months Ended September 30, 2015 and 2014</u>	<u>5</u>
<u>Statements of Cash Flows – Nine Months Ended September 30, 2015 and 2014</u>	<u>6</u>
<u>Notes to Financial Statements</u>	<u>7</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>28</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>44</u>
Item 4. <u>Controls and Procedures</u>	<u>44</u>
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>45</u>
Item 1A. <u>Risk Factors</u>	<u>45</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>45</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>45</u>
Item 5. <u>Other Information</u>	<u>45</u>
Item 6. <u>Exhibits</u>	<u>45</u>

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

EL PASO ELECTRIC COMPANY  
BALANCE SHEETS

	September 30, 2015 (Unaudited)	December 31, 2014
<b>ASSETS</b>		
(In thousands)		
Utility plant:		
Electric plant in service	\$3,571,195	\$3,229,255
Less accumulated depreciation and amortization	(1,311,260 )	(1,266,672 )
Net plant in service	2,259,935	1,962,583
Construction work in progress	262,591	414,284
Nuclear fuel; includes fuel in process of \$39,810 and \$46,996, respectively	198,359	185,185
Less accumulated amortization	(85,532 )	(73,701 )
Net nuclear fuel	112,827	111,484
Net utility plant	2,635,353	2,488,351
Current assets:		
Cash and cash equivalents	12,573	40,504
Accounts receivable, principally trade, net of allowance for doubtful accounts of \$2,249 and \$2,253, respectively	104,321	71,165
Accumulated deferred income taxes	22,602	13,957
Inventories, at cost	49,115	45,889
Under-collection of fuel revenues	2,429	10,253
Prepayments and other	11,403	12,213
Total current assets	202,443	193,981
Deferred charges and other assets:		
Decommissioning trust funds	231,885	234,286
Regulatory assets	110,354	112,086
Other	29,843	30,597
Total deferred charges and other assets	372,082	376,969
Total assets	\$3,209,878	\$3,059,301

See accompanying notes to financial statements.

Table of ContentsEL PASO ELECTRIC COMPANY  
BALANCE SHEETS (Continued)

	September 30, 2015 (Unaudited)	December 31, 2014
<b>CAPITALIZATION AND LIABILITIES</b>		
(In thousands except for share data)		
Capitalization:		
Common stock, stated value \$1 per share, 100,000,000 shares authorized, 65,705,078 and 65,725,246 shares issued, and 135,888 and 124,297 restricted shares, respectively	\$65,841	\$65,850
Capital in excess of stated value	319,846	318,515
Retained earnings	1,078,668	1,032,537
Accumulated other comprehensive loss, net of tax	(20,223	) (8,001
	1,444,132	) 1,408,901
Treasury stock, 25,414,298 and 25,492,919 shares, respectively, at cost	(423,337	) (424,647
Common stock equity	1,020,795	984,254
Long-term debt, net of current portion	1,134,258	1,134,179
Total capitalization	2,155,053	2,118,433
Current liabilities:		
Current maturities of long-term debt	—	15,000
Short-term borrowings under the revolving credit facility	118,693	14,532
Accounts payable, principally trade	50,742	78,862
Taxes accrued	33,631	28,210
Interest accrued	16,836	12,758
Over-collection of fuel revenues	4,042	932
Other	26,720	24,715
Total current liabilities	250,664	175,009
Deferred credits and other liabilities:		
Accumulated deferred income taxes	512,672	474,154
Accrued pension liability	86,502	94,272
Accrued post-retirement benefit liability	63,406	59,342
Asset retirement obligation	79,905	74,577
Regulatory liabilities	24,615	26,099
Other	37,061	37,415
Total deferred credits and other liabilities	804,161	765,859
Commitments and contingencies		
Total capitalization and liabilities	\$3,209,878	\$3,059,301
See accompanying notes to financial statements.		

Table of ContentsEL PASO ELECTRIC COMPANY  
STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands except for share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Operating revenues	\$289,713	\$283,645	\$672,967	\$720,962
Energy expenses:				
Fuel	60,798	70,523	148,340	191,781
Purchased and interchanged power	19,520	18,071	42,437	54,114
	80,318	88,594	190,777	245,895
Operating revenues net of energy expenses	209,395	195,051	482,190	475,067
Other operating expenses:				
Other operations	65,360	59,514	178,615	175,937
Maintenance	14,355	15,392	49,772	45,619
Depreciation and amortization	22,380	20,685	67,080	62,336
Taxes other than income taxes	19,253	17,964	48,844	48,883
	121,348	113,555	344,311	332,775
Operating income	88,047	81,496	137,879	142,292
Other income (deductions):				
Allowance for equity funds used during construction	1,874	3,848	8,417	10,215
Investment and interest income, net	5,912	2,373	12,564	8,537
Miscellaneous non-operating income	850	52	1,537	2,159
Miscellaneous non-operating deductions	(1,015)	(1,036)	(2,777)	(2,054)
	7,621	5,237	19,741	18,857
Interest charges (credits):				
Interest on long-term debt and revolving credit facility	16,465	14,617	49,443	43,803
Other interest	424	438	941	899
Capitalized interest	(1,208)	(1,270)	(3,758)	(3,797)
Allowance for borrowed funds used during construction	(1,353)	(2,190)	(5,365)	(5,841)
	14,328	11,595	41,261	35,064
Income before income taxes	81,340	75,138	116,359	126,085
Income tax expense	24,600	22,662	35,089	38,898
Net income	\$56,740	\$52,476	\$81,270	\$87,187
Basic earnings per share	\$1.40	\$1.30	\$2.01	\$2.16
Diluted earnings per share	\$1.40	\$1.30	\$2.01	\$2.16
Dividends declared per share of common stock	\$0.295	\$0.280	\$0.870	\$0.825
Weighted average number of shares outstanding	40,289,010	40,213,741	40,267,533	40,181,367
Weighted average number of shares and dilutive potential shares outstanding	40,329,529	40,264,810	40,299,801	40,209,001

See accompanying notes to financial statements.

Table of ContentsEL PASO ELECTRIC COMPANY  
STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands except for share data)

	Twelve Months Ended September 30,	
	2015	2014
Operating revenues	\$869,530	\$911,259
Energy expenses:		
Fuel	207,564	243,452
Purchased and interchanged power	53,127	70,292
	260,691	313,744
Operating revenues net of energy expenses	608,839	597,515
Other operating expenses:		
Other operations	241,510	239,282
Maintenance	69,782	65,427
Depreciation and amortization	88,086	82,616
Taxes other than income taxes	62,711	61,848
	462,089	449,173
Operating income	146,750	148,342
Other income (deductions):		
Allowance for equity funds used during construction	12,864	12,758
Investment and interest income, net	17,660	10,419
Miscellaneous non-operating income	3,453	3,054
Miscellaneous non-operating deductions	(4,922)	(3,048)
	29,055	23,183
Interest charges (credits):		
Interest on long-term debt and revolving credit facility	64,668	58,609
Other interest	1,292	874
Capitalized interest	(5,053)	(5,185)
Allowance for borrowed funds used during construction	(7,892)	(7,376)
	53,015	46,922
Income before income taxes	122,790	124,603
Income tax expense	37,279	36,225
Net income	\$85,511	\$88,378
Basic earnings per share	\$2.12	\$2.19
Diluted earnings per share	\$2.12	\$2.19
Dividends declared per share of common stock	\$1.15	\$1.09
Weighted average number of shares outstanding	40,255,439	40,169,801
Weighted average number of shares and dilutive potential shares outstanding	40,279,640	40,190,527

See accompanying notes to financial statements.





Table of Contents

EL PASO ELECTRIC COMPANY  
 STATEMENTS OF COMPREHENSIVE OPERATIONS  
 (Unaudited)  
 (In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,	
	2015	2014	2015	2014	2015	2014
Net income	\$56,740	\$52,476	\$81,270	\$87,187	\$85,511	\$88,378
Other comprehensive income (loss):						
Unrecognized pension and post-retirement benefit costs:						
Net gain (loss) arising during period	—	—	—	19,700	(74,028 )	102,664
Prior service benefit	—	—	—	—	34,200	97
Reclassification adjustments included in net income for amortization of:						
Prior service benefit	(1,606 )	(2,065 )	(4,931 )	(5,594 )	(6,996 )	(6,985 )
Net loss	1,966	1,615	6,466	4,567	8,081	6,716
Net unrealized gains/losses on marketable securities:						
Net holding gains (losses) arising during period	(8,092 )	897	(8,641 )	7,965	(5,779 )	16,803
Reclassification adjustments for net gains included in net income	(4,324 )	(824 )	(7,887 )	(3,791 )	(11,446 )	(4,057 )
Net losses on cash flow hedges:						
Reclassification adjustment for interest expense included in net income	118	110	348	326	460	431
Total other comprehensive income (loss) before income taxes	(11,938 )	(267 )	(14,645 )	23,173	(55,508 )	115,669
Income tax benefit (expense) related to items of other comprehensive income (loss):						
Unrecognized pension and post-retirement benefit costs	(134 )	171	(756 )	(7,161 )	14,456	(39,177 )
Net unrealized losses (gains) on marketable securities	2,459	(31 )	3,340	(889 )	3,469	(2,556 )
Losses on cash flow hedges	(46 )	(42 )	(161 )	(174 )	(201 )	(213 )
Total income tax benefit (expense)	2,279	98	2,423	(8,224 )	17,724	(41,946 )
Other comprehensive income (loss), net of tax	(9,659 )	(169 )	(12,222 )	14,949	(37,784 )	73,723
Comprehensive income	\$47,081	\$52,307	\$69,048	\$102,136	\$47,727	\$162,101
See accompanying notes to financial statements.						

Table of Contents

EL PASO ELECTRIC COMPANY  
 STATEMENTS OF CASH FLOWS  
 (Unaudited)  
 (In thousands)

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$81,270	\$87,187
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of electric plant in service	67,080	62,336
Amortization of nuclear fuel	32,864	33,942
Deferred income taxes, net	32,090	35,990
Allowance for equity funds used during construction	(8,417	) (10,215
Other amortization and accretion	13,273	14,470
Gain on sale of property, plant and equipment	(587	) (2,092
Net gains on sale of decommissioning trust funds	(7,887	) (3,791
Other operating activities	387	(52
Change in:		
Accounts receivable	(33,156	) (47,331
Inventories	(3,226	) (1,000
Net over-collection (under-collection) of fuel revenues	10,934	(1,233
Prepayments and other	(5,401	) (4,381
Accounts payable	(14,397	) 3,557
Taxes accrued	8,747	7,669
Interest accrued	4,078	2,202
Other current liabilities	2,005	1,053
Deferred charges and credits	(3,227	) (3,674
Net cash provided by operating activities	176,430	174,637
Cash flows from investing activities:		
Cash additions to utility property, plant and equipment	(211,516	) (189,273
Cash additions to nuclear fuel	(30,483	) (28,772
Capitalized interest and AFUDC:		
Utility property, plant and equipment	(13,782	) (16,056
Nuclear fuel	(3,758	) (3,797
Allowance for equity funds used during construction	8,417	10,215
Decommissioning trust funds:		
Purchases, including funding of \$3.4 million	(70,016	) (54,343
Sales and maturities	63,776	47,355
Proceeds from sale of property, plant and equipment	644	2,395
Other investing activities	(627	) 4,438
Net cash used for investing activities	(257,345	) (227,838
Cash flows from financing activities:		
Dividends paid	(35,138	) (33,261
Borrowings under the revolving credit facility:		
Proceeds	266,779	186,215
Payments	(162,618	) (111,039
Payment on maturing RGRT senior notes	(15,000	) —
Other financing activities	(1,039	) (896

Edgar Filing: EL PASO ELECTRIC CO /TX/ - Form 10-Q

Net cash provided by financing activities	52,984	41,019	
Net decrease in cash and cash equivalents	(27,931	) (12,182	)
Cash and cash equivalents at beginning of period	40,504	25,592	
Cash and cash equivalents at end of period	\$12,573	\$13,410	
See accompanying notes to financial statements.			

Table of Contents

EL PASO ELECTRIC COMPANY  
 NOTES TO FINANCIAL STATEMENTS  
 (Unaudited)

## A. Principles of Preparation

These condensed financial statements should be read in conjunction with the financial statements and notes thereto in the Annual Report of El Paso Electric Company on Form 10-K for the year ended December 31, 2014 (the "2014 Form 10-K"). Capitalized terms used in this report and not defined herein have the meaning ascribed to such terms in the 2014 Form 10-K. In the opinion of the Company's management, the accompanying financial statements contain all adjustments necessary to present fairly the financial position of the Company at September 30, 2015 and December 31, 2014; the results of its operations and comprehensive operations for the three, nine and twelve months ended September 30, 2015 and 2014; and its cash flows for the nine months ended September 30, 2015 and 2014. The results of operations and comprehensive operations for the three and nine months ended September 30, 2015 and the cash flows for the nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the full calendar year.

Pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"), certain financial information has been condensed and certain footnote disclosures have been omitted. Such information and disclosures are normally included in financial statements prepared in accordance with generally accepted accounting principles.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenues. Revenues related to the sale of electricity are generally recorded when service is rendered or electricity is delivered to customers. The billing of electricity sales to retail customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. Unbilled revenues are estimated based on monthly generation volumes and by applying an average revenue/kWh to the number of estimated kWhs delivered but not billed. Accounts receivable included accrued unbilled revenues of \$30.1 million at September 30, 2015 and \$21.2 million at December 31, 2014. The Company presents revenues net of sales taxes in its statements of operations.

Supplemental Cash Flow Disclosures (in thousands)

	Nine Months Ended September 30,	
	2015	2014
Cash paid (received) for:		
Interest on long-term debt and borrowing under the revolving credit facility	\$41,406	\$37,689
Income tax paid (refunded), net	(272	) 2,969
Non-cash investing and financing activities:		
Changes in accrued plant additions	(13,150	) (3,762
Grants of restricted shares of common stock	1,106	3,025

New Accounting Standards. In May 2014, the Financial Accounting Standards Board ("FASB") issued new guidance (Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606)) to provide a framework that replaces the existing revenue recognition guidance. ASU 2014-09 is the result of a joint effort by the FASB and the International Accounting Standards Board intended to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. Generally Accepted Accounting Principles ("GAAP") and International Financial Reporting Standards. ASU 2014-09 provides that an entity should recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 was originally intended to be effective for annual periods and interim periods within that reporting period beginning after December 15, 2016, for public business entities. In August 2015, FASB issued ASU 2015-14 to defer the effective date of ASU 2014-09 for all entities by one year. Public business entities will apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017 and interim periods within that reporting

period. Early adoption of ASU 2014-09 is permitted after December 15, 2016. The Company is currently assessing the future impact of this ASU.

Table of Contents

EL PASO ELECTRIC COMPANY  
NOTES TO FINANCIAL STATEMENTS  
(Unaudited)

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Topic 715) to simplify the presentation of debt issuance costs. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this ASU. ASU 2015-03 is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. In August 2015, FASB issued ASU 2015-15, Interest - Imputation of Interest (Subtopic 835-30), to provide further clarification to ASU 2015-03 as it relates to the presentation and subsequent measurement of debt issuance costs associated with line of credit arrangements. The Company does not expect ASU 2015-03 and ASU 2015-15 to materially impact the Company's results of operations and cash flows. In May 2015, FASB issued ASU 2015-07, Fair Value Measurement (Topic 820) to eliminate the requirement to categorize investments in the fair value hierarchy if the fair value is measured at net asset value ("NAV") per share (or its equivalent) using the practical expedient in the FASB's fair value measurement guidance. Reporting entities must still provide sufficient information to enable users to reconcile total investments in the fair value hierarchy and total investments measured at fair value in the financial statements. Additionally, the scope of current disclosure requirements for investments eligible to be measured at NAV will be limited to investments to which the practical expedient is applied. This ASU is effective in fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The ASU requires retrospective application. Early adoption is permitted. The Company is currently assessing the future impact of this ASU.

Table of Contents

EL PASO ELECTRIC COMPANY

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

## B. Accumulated Other Comprehensive Income (Loss)

Changes in Accumulated Other Comprehensive Income (Loss) (net of tax) by component are presented below (in thousands):

	Three Months Ended September 30, 2015				Three Months Ended September 30, 2014			
	Unrecognized Pension and Post-retirement Benefit Costs	Net Unrealized Gains (Losses) on Marketable Securities	Net Losses on Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)	Unrecognized Pension and Post-retirement Benefit Costs	Net Unrealized Gains (Losses) on Marketable Securities	Net Losses on Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
Balance at beginning of period	\$(34,331 )	\$ 35,726	\$(11,959)	\$ (10,564 )	\$(9,539 )	\$ 39,483	\$(12,214)	\$ 17,730
Other comprehensive income (loss) before reclassifications	—	(6,485 )	—	(6,485 )	—	733	—	733
Amounts reclassified from accumulated other comprehensive income (loss)	226	(3,472 )	72	(3,174 )	(279 )	(691 )	68	(902 )
Balance at end of period	\$(34,105 )	\$ 25,769	\$(11,887)	\$ (20,223 )	\$(9,818 )	\$ 39,525	\$(12,146)	\$ 17,561

	Nine Months Ended September 30, 2015				Nine Months Ended September 30, 2014			
	Unrecognized Pension and Post-retirement Benefit Costs	Net Unrealized Gains (Losses) on Marketable Securities	Net Losses on Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)	Unrecognized Pension and Post-retirement Benefit Costs	Net Unrealized Gains (Losses) on Marketable Securities	Net Losses on Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
Balance at beginning of period	\$(34,331 )	\$ 35,726	\$(11,959)	\$ (10,564 )	\$(9,539 )	\$ 39,483	\$(12,214)	\$ 17,730
Other comprehensive income (loss) before reclassifications	—	(6,485 )	—	(6,485 )	—	733	—	733
Amounts reclassified from accumulated other comprehensive income (loss)	226	(3,472 )	72	(3,174 )	(279 )	(691 )	68	(902 )
Balance at end of period	\$(34,105 )	\$ 25,769	\$(11,887)	\$ (20,223 )	\$(9,818 )	\$ 39,525	\$(12,146)	\$ 17,561