EL PASO ELECTRIC CO /TX/
Form 424B2
March 22, 2016
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Filed Pursuant to Rule 424(B)(2)
Registration No. 333-198989

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Maximum Offering Price Per Unit	Maximum Aggregate Offering Price	Amount of Registration Fee (1)
5.000% Senior Notes due 2044	$ 150,000,000	104.701 %	$ 157,051,500	$ 15,815.10

(1) Calculated pursuant to Rule 457(r) under the Securities Act of 1933, as amended, at the statutory rate of $100.70 per $1,000,000 of securities registered and relating to the Registration Statement on Form S-3 (No. 333-198989) filed by El Paso Electric Company on September 26, 2014.

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PROSPECTUS SUPPLEMENT
(To prospectus dated September 26, 2014)

$150,000,000

El Paso Electric Company
5.000% Senior Notes due 2044

We are offering $150,000,000 aggregate principal amount of our 5.000% notes due December 1, 2044 (the Senior Notes offered hereby). The Senior Notes offered hereby constitute an additional issuance of our 5.000% Senior Notes due 2044 issued on December 1, 2014 in an aggregate principal amount of $150,000,000 and form a single series with such notes (the existing Senior Notes and, unless the context requires otherwise, together with the Senior Notes offered hereby, the Senior Notes). The Senior Notes offered hereby will be issued under the same indenture, will have terms identical to the existing Senior Notes, other than the date of issuance, the initial interest accrual date, the first interest payment date and the issue price, will have the same CUSIP number and will trade interchangeably with the existing Senior Notes immediately upon settlement. Upon the issuance of the Senior Notes offered hereby, the aggregate principal amount of outstanding Senior Notes will be $300,000,000.

We will pay interest on the Senior Notes each December 1 and June 1. The first interest payment will be made on June 1, 2016. The Senior Notes will bear interest at a rate of 5.000% per year and will mature on December 1, 2044. We may redeem some or all of the Senior Notes at any time and from time to time at the applicable redemption price described herein.

The Senior Notes will be our senior unsecured obligations and will rank equally with all our other existing and future senior unsecured debt outstanding from time to time. The Senior Notes will be issued in denominations of $1,000 and integral multiples thereof.

Investing in the Senior Notes involves risks. See Risk Factors beginning on page S-5.

	Price to[(1)] Public	Underwriting Discount and Commissions	Proceeds to El Paso Electric Company (before expenses)
Per Senior Note	104.701 %	0.875 %	103.826 %
Total	$ 157,051,500	$ 1,312,500	$ 155,739,000

(1) Plus accrued interest from and including December 1, 2015, the last day on which interest was paid on the existing Senior Notes, to the date of the issuance of the Senior Notes offered hereby, which must be paid by the purchasers of the Senior Notes offered hereby. The total amount of accrued interest on March 24, 2016 will be $2,354,166.67.

There is no established trading market for the Senior Notes, and we do not intend to apply for listing of the Senior Notes on any securities exchange.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus to which it relates is truthful or complete. Any representation to the contrary is a criminal offense.

We expect that the Senior Notes offered hereby will be ready for delivery only through The Depository Trust Company and its participants, in book-entry form on or about March 24, 2016.

Joint Book-Running Managers

Wells Fargo Securities	**US Bancorp**

The date of this prospectus supplement is March 21, 2016.

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Prospectus Supplement

Prospectus

You should rely only on the information incorporated by reference or provided in this prospectus supplement and the accompanying prospectus and in any written communication from us or the underwriters specifying the final terms of the offering. No person has been authorized to give any information or to make any representation other than as set forth or incorporated by reference in this prospectus supplement and the accompanying prospectus. If anyone gives you additional or different information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information in this prospectus supplement, the accompanying prospectus, any written communication from us or the underwriters specifying the final terms of the offering and the documents incorporated by reference herein or therein is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and documents that are incorporated by reference herein and therein contain statements that are not historical in nature, are predictive in nature, or that depend upon or refer to future events or conditions or contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements often include words like believe, anticipate, target, project, ex predict, pro forma, estimate, intend, will, is designed to, plan and words of similar meaning. Forward-look statements describe our future plans, objectives, expectations or goals. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, no assurances can be given that these expectations will prove to be correct. Such statements address future events and conditions and include, but are not limited to:

- capital expenditures,
- earnings,
- liquidity and capital resources,
- ratemaking/regulatory matters,
- litigation,
- accounting matters,
- possible corporate restructurings, acquisitions and dispositions,
- compliance with debt and other restrictive covenants,
- interest rates and dividends,
- environmental matters,
- nuclear operations, and
- the overall economy of our service area.

These forward-looking statements are based on assumptions and analyses in light of the Company s experience and perception of historical trends, current conditions, expected future developments and other factors the Company believes were appropriate in the circumstances when the statements were made. Forward-looking statements by their nature involve substantial risks and uncertainties that could significantly impact expected results, and actual future results could differ materially from those described in such statements. While it is not possible to identify all factors, the Company continues to face many risks and uncertainties. Factors that would cause or contribute to such differences include, but are not limited to:

- actions of our regulators,
- our ability to fully and timely recover our costs and earn a reasonable rate of return on our invested capital through the rates that we are permitted to charge,
- rates, cost recovery mechanisms and other regulatory matters including the ability to recover fuel costs on a timely basis,
- the ability of our operating partners to maintain plant operations and manage operation and maintenance costs at the Palo Verde Nuclear Generating Station (Palo Verde) and Four Corners Generating Station (Four Corners), including costs to comply with any new or expanded regulatory or environmental requirements,
- reductions in output at generation plants operated by us,
- the size of our construction program and our ability to complete construction on budget and on time,
- our reliance on significant customers,
- the credit worthiness of our customers,
- unscheduled outages of generating units, including outages at Palo Verde,
- changes in customers’ demand for electricity as a result of energy efficiency initiatives and emerging competing services and technologies, including distributed generation,

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- individual customer groups, including distributed generation customers, may not pay their full cost of service, and other customers may or may not be required to pay the difference,
- changes in, and the assumptions used for, pension and other post-retirement and post-employment benefit liability calculations, as well as actual and assumed investment returns on pension plan and other post-retirement plan assets,
- the impact of changing cost escalation and other assumptions on our nuclear decommissioning liability for Palo Verde, as well as actual and assumed investment returns on decommissioning trust fund assets,
- disruptions in our transmission system, and in particular the lines that deliver power from our remote generating facilities,
- electric utility deregulation or re-regulation,
- regulated and competitive markets,
- ongoing municipal, state and federal activities,
- cuts in military spending or shutdowns of the federal government that reduce demand for our services from military and governmental customers,
- political, legislative, judicial and regulatory developments,
- homeland security considerations, including those associated with the U.S./Mexico border region and the energy industry,
- changes in environmental laws and regulations and the enforcement or interpretation thereof, including those related to air, water or greenhouse gas (GHG) emissions or other environmental matters,
- economic and capital market conditions,
- changes in accounting requirements and other accounting matters,
- changing weather trends and the impact of severe weather conditions,
- possible physical or cyber attacks, intrusions or other catastrophic events,
- the impact of lawsuits filed against us,
- the impact of changes in interest rates,
- Texas, New Mexico and electric industry utility service reliability standards,
- coal, uranium, natural gas, oil and wholesale electricity prices and availability,
- possible income tax and interest payments as a result of audit adjustments proposed by the Internal Revenue Service (IRS) or state taxing authorities,
- the impact of U.S. health care reform legislation,
- loss of key personnel, our ability to recruit and retain qualified employees and our ability to successfully implement succession planning, and
- other circumstances affecting anticipated operations, sales and costs.

These lists are not all-inclusive because it is not possible to predict all factors. A discussion of some of these factors is included in Risk Factors in this prospectus supplement, in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 (our 2015 Form 10-K), which Form 10-K is incorporated herein by reference, and under the headings Management s Discussion and Analysis of Financial Condition and Results of Operations, —Summary of Critical Accounting Policies and Estimates and —Liquidity and Capital Resources in Item 7 of our 2015 Form 10-K. You should read this prospectus supplement, the accompanying prospectus and our reports and other filings with the Securities and Exchange Commission (the SEC) incorporated by reference herein and therein in their entirety. 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. Any forward-looking statement speaks only as of the date such statement was made, and we are not obligated to update any forward-looking statement to reflect events or circumstances after the date on which such statement was made, except as required by applicable laws or regulations.

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SUMMARY

The following summary information is qualified in its entirety by the information contained elsewhere in this prospectus supplement and the accompanying prospectus, including the documents we have incorporated by reference, and in the indenture as described herein under Description of the Senior Notes. You should read this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein in their entirety. All references in this prospectus supplement to El Paso, the Company, we, us, the Registrant, our, or similar words are to El Paso Electric Company.

The Company

We are a public utility engaged in the generation, transmission and distribution of electricity in an area of approximately 10,000 square miles in west Texas and southern New Mexico. We also serve a full requirements wholesale customer in Texas. We own or have significant ownership interests in several electrical generating facilities, currently providing us with a net dependable generating capability of approximately 2,055 megawatts (MW). For the year ended December 31, 2015, our energy sources consisted of approximately 47% nuclear fuel, 34% natural gas, 6% coal, 13% purchased power and less than 1% generated by Company-owned solar photovoltaic panels and wind turbines. The Company continues to expand its portfolio of renewable energy sources, particularly solar photovoltaic generation. As of December 31, 2015, the Company has power purchase agreements for 107 MW from solar photovoltaic generation facilities.

We currently serve approximately 404,500 residential, commercial, industrial, public authority and wholesale customers. We distribute electricity to retail customers principally in El Paso, Texas and Las Cruces, New Mexico (representing approximately 63% and 12%, respectively, of our retail revenues for the year ended December 31, 2015). In addition, our wholesale sales include sales for resale to other electric utilities and power marketers. Our principal industrial, public authority and other large retail customers include United States military installations, including Fort Bliss in Texas and White Sands Missile Range and Holloman Air Force Base in New Mexico, an oil refinery, several medical centers, two large universities and a steel production facility.

We were incorporated in Texas in 1901. As of January 31, 2016, we had approximately 1,100 employees, 38% of whom are covered by a collective bargaining agreement.

Our principal offices are located at the Stanton Tower, 100 North Stanton, El Paso, Texas 79901 (telephone 915-543-5711). We maintain a website at *www.epelectric.com*, where general information about us is available. We are not incorporating the contents of the website into this prospectus supplement or the accompanying prospectus.

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The Offering

Issuer:
El Paso Electric Company, a Texas corporation.
Securities Offered:
$150,000,000 aggregate principal amount of 5.000% Senior Notes due December 1, 2044. The Senior Notes offered hereby constitute an additional issuance of our 5.000% Senior Notes due 2044 issued on December 1, 2014 in an aggregate principal amount of $150,000,000 and form a single series with such notes (the existing Senior Notes and, unless the context requires otherwise, together with the Senior Notes offered hereby, the Senior Notes). The Senior Notes offered hereby will be issued under the same indenture, will have terms identical to the existing Senior Notes, other than the date of issuance, the initial interest accrual date, the first interest payment date and the issue price, will have the same CUSIP number and will trade interchangeably with the existing Senior Notes immediately upon settlement.
Maturity:
December 1, 2044.
Interest Payment Dates:
December 1 and June 1 of each year, commencing on June 1, 2016.
Interest Rate:
5.000% per year. Interest on the Senior Notes offered hereby will accrue from December 1, 2015.
Further Issuances:
We may, without the consent of the holders of the Senior Notes offered hereby, issue an unlimited amount of additional debt securities under the indenture relating to the Senior Notes having the same terms and CUSIP number as the Senior Notes in all respects, except for the date of issuance, the initial interest accrual date, the first interest payment date and/or the issue price. Any such additional debt securities will be consolidated with and form a single series with the Senior Notes offered hereby, provided that if such additional notes are not fungible with the original Senior Notes for U.S. federal income tax purposes, such additional notes will have a separate CUSIP number.
In addition to the Senior Notes, we may issue other series of debt securities under the indenture relating to the Senior Notes. There is no limit on the total aggregate principal amount of debt securities that we can issue under the indenture relating to the Senior Notes.

Covenants:
The Senior Notes will be subject to covenants that will limit our ability to:

- Create liens on our operating property; and
- Consolidate with or merge into, or transfer all or substantially all of our assets to any other party.

These covenants are subject to important exceptions and qualifications that are described under Description of Debt Securities—Successor Obligor in the

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accompanying prospectus and in this prospectus supplement under Description of the Senior Notes—Limitation on Liens.

Events of Default:
The Senior Notes will be subject to the events of default described under Description of Debt Securities—Default and Remedies in the accompanying prospectus.
In addition, it will be an event of default under the Senior Notes if we fail to observe or perform any term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any of our indebtedness in a principal amount in excess of $10,000,000 if the effect of any such failure is to cause such indebtedness to become due prior to its maturity. See Description of the Senior Notes—Events of Default in this prospectus supplement.

Optional Redemption:
Prior to June 1, 2044, we may redeem the Senior Notes at any time in whole, or from time to time in part, at the make-whole premium indicated under the section entitled Description of the Senior Notes—Optional Redemption in this prospectus supplement.
On or after June 1, 2044, we may redeem the Senior Notes at any time in whole, or from time to time in part, at a redemption price equal to 100% of the principal amount of the Senior Notes to be redeemed plus accrued and unpaid interest thereon to but excluding the date of redemption. See Description of the Senior Notes—Optional Redemption in this prospectus supplement.

Ranking:
The Senior Notes will be our senior unsecured obligations and will rank equally with all our other existing and future senior unsecured debt outstanding from time to time, including all other debt securities issued under the indenture relating to the Senior Notes. As of December 31, 2015, we had no secured debt outstanding under our Mortgage (as defined herein). See Description of Debt Securities—Ranking in the accompanying prospectus.
Form and Denomination:
The Senior Notes will be issued in fully registered form in denominations of $1,000 and in integral multiples thereof.
DTC Eligibility:
The Senior Notes will be issued in book-entry form and will be represented by global certificates deposited with, or on behalf of, The Depository Trust Company (DTC) or its nominee. See Description of the Senior Notes—Book-Entry System in this prospectus supplement.
Same Day Settlement:
Beneficial interests in the Senior Notes will trade in DTC s same-day funds settlement system until maturity. Therefore, secondary market trading activity in such interests will be settled in immediately available funds.

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Use of Proceeds:

We intend to use the net proceeds from the sale of the Senior Notes offered hereby for general corporate purposes, which may include funding capital expenditures, and to repay outstanding short-term borrowings used for working capital and general corporate purposes under our Credit Facility (as defined herein). See Use of Proceeds in this prospectus supplement.

Conflicts of Interest:

Affiliates of certain of the underwriters are lenders under our Credit Facility (as defined herein). As described under Use of Proceeds in this prospectus supplement, a portion of the net proceeds from this offering may be applied to repay outstanding short-term borrowings under the Credit Facility. In such event, it is possible that such underwriters or their affiliates could receive at least 5% of the net proceeds of this offering. In the event of any such conflict of interest, such underwriters would be required to conduct the distribution of the Senior Notes in accordance with Rule 5121 (Public Offerings of Securities with Conflicts of Interest) of the Financial Industry Regulatory Authority, Inc. (FINRA). See Underwriting (Conflicts of Interest)—Conflicts of Interest in this prospectus supplement.

Risk Factors:

You should carefully consider all of the information in this prospectus supplement and the accompanying prospectus and the documents incorporated by reference herein and therein. In particular, you should evaluate the information set forth under Risk Factors beginning on page S-5 of this prospectus supplement for a discussion of factors you should carefully consider before investing in the Senior Notes.

Trustee:

The Bank of New York Mellon Trust Company, N.A. (formerly known as The Bank of New York Trust Company, N.A.), as successor to JPMorgan Chase Bank, National Association.

Market for the Senior Notes:

The Senior Notes offered hereby will not be listed on any national securities exchange or quoted on any automated quotation system. The underwriters have advised us that they intend to make a market in the Senior Notes, but they are not obligated to do so. At their sole discretion, the underwriters may discontinue any market making in the Senior Notes at any time without notice. See Underwriting (Conflicts of Interest).

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RISK FACTORS

Like other companies in our industry, our financial results are impacted by weather, the economy of our service territory, market prices for power, fuel prices, and the decisions of regulatory agencies. Our common stock price and creditworthiness will be affected by local, regional and national macroeconomic trends, general market conditions and the expectations of the investment community, all of which are largely beyond our control. In addition, the following statements highlight risk factors that may affect our financial condition and results of operations. These are not intended to be an exhaustive discussion of all such risks, and the statements below must be read together with risk factors discussed elsewhere in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein, including the information provided under the caption Risk Factors in our 2015 Form 10-K, and our other filings with the SEC.

Risks Related to Our Business

Our revenues and profitability depend upon regulated rates.

Our retail rates are subject to regulation by incorporated municipalities in Texas, the Public Utility Commission of Texas (PUCT), the New Mexico Public Regulation Commission (the NMPRC) and the Federal Energy Regulatory Commission (the FERC). The settlement approved in our 2012 Texas rate case, PUCT Docket No. 40094, established our current retail base rates in Texas, effective May 1, 2012. In addition, the settlement in our 2009 New Mexico rate case, NMPRC Case No. 09-00171-UT, established rates in New Mexico that became effective in January 2010.

Our profitability depends on our ability to recover the costs, including a reasonable return on invested capital, of providing electric service to our customers through base rates approved by our regulators. These rates are generally established based on an analysis of the expenses we incur in a historical test year, and as a result, the rates ultimately approved by our regulators may or may not match our expenses at any given time and recovery of expenses may lag behind the occurrence of those expenses. Rates in New Mexico may be established using projected costs and investment for a future test year period in certain instances. While rate regulation is based on the assumption that we will have a reasonable opportunity to recover our costs and earn a reasonable rate of return on our invested capital, there can be no assurance that our future Texas rate cases or New Mexico rate cases will result in base rates that will allow us to fully recover our costs, including a reasonable return on invested capital. There can be no assurance that regulators will determine that all of our costs are reasonable and have been prudently incurred including costs associated with future plant retirement and asset retirement obligations. It is also likely that third parties will intervene in any rate cases and challenge whether our costs are reasonable and necessary. If all of our costs are not recovered through the retail base rates ultimately approved by our regulators, our profitability and cash flow could be adversely affected, which, over time, could adversely affect our ability to meet our financial obligations.

On May 11, 2015 and August 10, 2015, we filed a general rate case with the NMPRC, Case No. 15-00127-UT (the 2015 New Mexico rate case) and the PUCT, Docket No. 44941 (the 2015 Texas rate case), respectively, to establish new rates and to request recovery of new plant placed into service since 2009. Third parties have intervened in both rate cases and have challenged whether certain of our costs are reasonable and necessary. On February 29, 2016, the City of El Paso approved in principle proposed settlement terms for the 2015 Texas rate case. The proposed settlement remains subject to approval by the PUCT. We anticipate a resolution of the 2015 New Mexico rate case in the second quarter of 2016 and a final settlement of the 2015 Texas rate case in the second quarter of 2016. If the NMPRC and PUCT do not increase our rates adequately, our future operations, cash flow and financial condition could be materially adversely affected.

We may not be able to recover all costs of new generation and transmission assets.

In 2013 and 2014, we received approval, both from the PUCT and the NMPRC, to construct four 88 MW simple-cycle aeroderivative combustion turbines at our Montana Power Station, a new plant site (MPS). During 2013, we completed the construction of Rio Grande Unit 9, an aeroderivative unit with a generating capacity of 87 MW, which reached commercial operation in May 2013. In 2015, we completed construction of MPS Units 1 and 2 which began commercial operation in March 2015. We have risk related to recovering all costs associated with the construction of Rio Grande Unit 9, MPS Units 1, 2, 3 and 4 and other new units and transmission assets.

In 2014, we issued $150 million in aggregate principal amount of 5.00% Senior Notes, due December 1, 2044. The net proceeds from the 5.00% Senior Notes along with borrowings under our Credit Facility were used to fund

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the construction of MPS and other capital additions. The costs of financing and constructing these assets are being reviewed in the current Texas and New Mexico rate cases. To the extent that the PUCT or the NMPRC determines that the costs of construction are not reasonable because of cost overruns, delays or other reasons, we may not be allowed to recover these costs from customers in base rates. As part of the proposed settlement terms that were approved by the City of El Paso and other parties to the 2015 Texas rate case, substantially all of the $1.3 billion in additions to electric plant in service from July 1, 2009 through March 31, 2015 would be deemed reasonable and necessary and therefore included in rate base. Once the settling parties have agreed formally to the terms and executed the final documentation, the settlement documents will be filed with the PUCT for review and approval. The 2015 New Mexico rate case is still pending before the NMPRC.

In addition, if future units, such as MPS Units 3 and 4 are not completed on time, we may be required to purchase power or operate less efficient generating units to meet customer requirements. Any replacement purchased power or fuel costs will be subject to regulatory review by the PUCT and the NMPRC. We face financial risks to the extent that recovery is not allowed for any replacement fuel costs resulting from delays in the completion of these new units or other new units.

Weakness in the economy and uncertainty in the financial markets could reduce our sales, hinder our capital programs and increase our funding obligations for pensions and decommissioning.

In recent years, the global credit and equity markets and the overall economy have been extremely volatile. These and future events could have a number of effects on our operations and capital programs. For example, tight credit and capital markets could make it difficult and more expensive to raise capital to fund our operations and capital programs. If we are unable to access the credit markets, we could be required to defer or eliminate important capital projects in the future. In addition, declines in the stock market performance may reduce the value of our financial assets and decommissioning trust investments. Such market results may also increase our funding obligations for our pension plans, other post-retirement benefit plans and nuclear decommissioning trusts. Changes in the corporate interest rates that we use as the discount rate to determine our pension and other post-retirement liabilities may have an impact on our funding obligations for such plans and trusts. Further, continued economic volatility may result in reduced customer demand, both in the retail and wholesale markets, and increases in customer delinquencies and write-offs. Uncertainty in the credit markets may negatively impact the ability of our customers to finance purchases of our services and could adversely affect the collectability of our receivables. Similarly, actions or inaction of Congress and of governmental agencies can impact our operations. For example, during 2013, sales to public authorities and small commercial and industrial customers were negatively impacted by the federal government sequestration and shutdown. The credit markets and overall economy may also adversely impact the financial health of our suppliers. If that were to occur, our access to and prices for inventory, supplies and capital equipment could be adversely affected. Our power trading counterparties could also be adversely impacted by the market and economic conditions, which could result in reduced wholesale power sales or increased counterparty credit risk. Declines in revenues, earnings and cash flow from these events, could impact our ability to fund construction expenditures and impact the level of dividend payments.

There are inherent risks in the ownership of nuclear facilities.

Our 15.8% ownership interest in Palo Verde, which is the largest nuclear electric generating facility in the United States, subjects us to a number of risks. A significant percentage of our generating capacity, off-system sales margins, assets and operating expenses is attributable to Palo Verde. Our interest in each of the three Palo Verde units totals approximately 633 MW of generating capacity. Palo Verde represents approximately 31% of our available net generating capacity and provided approximately 47% of our energy requirements for the twelve months ended December 31, 2015. Palo Verde comprises approximately 27% of our total net plant-in-service and Palo Verde expenses comprise a significant portion of operation and maintenance expenses. Arizona Public Service Company is the operating agent for Palo Verde, and we have limited ability under the Arizona Nuclear Power Project Participation Agreement dated August 23, 1973, as amended, to influence operations and costs at Palo Verde. Palo Verde operated at a capacity factor of 94.3% and 93.7% in the twelve months ended December 31, 2015 and 2014, respectively.

As Palo Verde is a nuclear electric generating facility, it is subject to environmental, health and financial risks, such as the ability to obtain adequate supplies of nuclear fuel; the ability to dispose of spent nuclear fuel; the ability to maintain adequate reserves for decommissioning; potential liabilities arising out of the operation of these facilities; the costs of securing the facilities against possible terrorist attacks; cyber attacks, or other causes; and unscheduled outages due to equipment and other problems. If a nuclear incident were to occur at Palo Verde, it could materially and adversely affect our results of operations and financial condition. A major incident at a nuclear facility anywhere in the world could cause regulatory bodies to limit or prohibit the operation or licensing of any domestic nuclear unit and to promulgate new regulations that could require significant capital expenditures and/or increase operating costs.

We may not be able to recover all of our fuel expenses from customers on a timely basis or at all.

In general, by law, we are entitled to recover our reasonable and necessary fuel and purchased power expenses from our customers in Texas and New Mexico. NMPRC Case No. 13-00380-UT provides for energy delivered to New Mexico customers from the deregulated Palo Verde Unit 3 to be recovered through fuel and purchased power costs based upon a previous purchased power contract. Fuel and purchased power expenses in New Mexico and Texas are subject to reconciliation by the PUCT and NMPRC. Prior to the completion of a reconciliation, we record fuel and purchased power costs such that fuel revenues equal recoverable fuel and purchased power expense including the repriced energy costs for Palo Verde Unit 3 in New Mexico. In the event that recovery of fuel and purchased power expenses is denied in any reconciliation proceeding, the amounts recorded for fuel and purchased power expenses could differ from the amounts we are allowed to collect from our customers, and we would incur a loss to the extent of the disallowance.

In New Mexico, our Fuel and Purchased Power Cost Adjustment Clause (FPPCAC) allows us to reflect current fuel and purchased power expenses in the FPPCAC and to adjust for under-recoveries and over-recoveries with a two-month lag. In Texas, fuel costs are recovered through a fixed fuel factor. In Texas, we can seek to revise our fixed fuel factor based upon our approved formula at least four months after our last revision except in the month of December. If we materially under-recover fuel costs, we may seek a surcharge to recover those costs at any time the balance exceeds a threshold material amount and is expected to continue to be materially under-recovered. During periods of significant increases in natural gas prices, we realize a lag in the ability to reflect increases in fuel costs in our fuel recovery mechanisms in Texas. As a result, cash flow is impacted due to the lag in payment of fuel costs and collection of fuel costs from customers. To the extent the fuel and purchased power recovery processes in Texas and New Mexico do not provide for the timely recovery of such costs, we could experience a material negative impact on our cash flow.

Equipment failures and other external factors can adversely affect our results.

The generation and transmission of electricity require the use of expensive and complex equipment. While we have a maintenance program in place, generating plants are subject to unplanned outages because of equipment failure and severe weather conditions. The advanced age of several of our gas-fired generating units in or near El Paso increases the vulnerability of these units. In the event of unplanned outages, we must acquire power from other sources at unpredictable costs in order to supply our customers and comply with our contractual agreements. This additional purchased power cost would be subject to review and approval of the PUCT and the NMPRC in reconciliation proceedings. As noted above, in the event that recovery for fuel and purchased power expenses could differ from the amounts we are allowed to collect from our customers, we would incur a loss to the extent of the disallowance. This could materially increase our costs and prevent us from selling excess power at wholesale. In addition, actions of other utilities may adversely affect our ability to use transmission lines to deliver or import power, thus subjecting us to unexpected expenses or to the cost and uncertainty of public policy initiatives. We may also incur additional capital and operating costs in connection with the physical security and cyber security of transmission lines and generation facilities. Damage to certain transmission and generation facilities due to vandalism or other deliberate acts, or damage due to severe weather could lead to outages or other adverse effects. We are particularly vulnerable to this because a significant portion of our available energy (at Palo Verde and Four Corners) is located hundreds of miles from El Paso and Las Cruces and must be delivered to our customers over long distance transmission lines. In addition, Palo Verde s availability is an important factor in realizing off-system sales margins. These factors, as well as interest rates, economic conditions, fuel prices and price volatility, could have a material adverse effect on our earnings, cash flow and financial position.

Competition and deregulation could result in a loss of customers and increased costs.

As a result of changes in federal law, our wholesale and large retail customers have access to, in varying degrees, alternative sources of power, including co-generation of electric power. Deregulation legislation is in effect in Texas, requiring us to separate our transmission and distribution functions, which would remain regulated, from our power generation and energy services businesses, which would operate in a competitive market, in the future.

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In 2004, the PUCT approved a rule delaying retail competition in our Texas service territory. This rule was codified in the Public Utility Regulatory Act (PURA) in June 2011. The PURA identifies various milestones that we must reach before retail competition can begin. The first milestone calls for the development, approval by the FERC, and commencement of independent operation of a regional transmission organization in the area that includes our service territory. This and other milestones are not likely to be achieved for a number of years, if at all. There is substantial uncertainty about both the regulatory framework and market conditions that would exist if and when retail competition is implemented in our Texas service territory, and we may incur substantial preparatory, restructuring and other costs that may not ultimately be recoverable. There can be no assurance that deregulation would not adversely affect our future operations, cash flow and financial condition.

Future costs of compliance with environmental laws and regulations could adversely affect our operations and financial results.

We are subject to extensive federal, state and local environmental laws and regulations relating to discharges into the air, air quality, discharges of effluents into water, water quality, the use of water, the handling, disposal and clean-up of hazardous and non-hazardous substances and wastes, natural resources, and health and safety. Compliance with these legal requirements, which change frequently and often become more restrictive, could require us to commit significant capital and operating resources toward permitting, emission fees, environmental monitoring, installation and operation of pollution control equipment and purchases of air emission allowances and/or offsets. These laws and regulations could also result in limitations in operating hours and/or changes in construction schedules for future generating units.

Cost of compliance with environmental laws and regulations or fines or penalties resulting from non-compliance, if not recovered in our rates, could adversely affect our operations and financial results, especially if emission and/or discharge limits are tightened, more extensive permitting requirements are imposed, additional substances become regulated and the number and types of assets we operate increase. We cannot estimate our compliance costs or any possible fines or penalties with certainty, or the degree to which such costs might be recovered in our rates, due to our inability to predict the requirements and timing of implementation of environmental laws or regulations. For example, the Environmental Protection Agency (EPA) has issued in the recent past various proposed regulations regarding air emissions, such as the revision of the primary and secondary ground-level ozone National Ambient Air Quality Standards. If these regulations become finalized and survive legal challenges, the cost to us to comply could adversely affect our operations and our financial results.

Climate change and related legislation and regulatory initiatives could affect demand for electricity or availability of resources, and could result in increased compliance costs.

We emit GHGs (including carbon dioxide) through the operation of our power plants. Federal legislation had been introduced in both houses of Congress to regulate GHG emissions and numerous states have adopted programs to stabilize or reduce GHG emissions. Additionally, the EPA is proceeding with regulation of GHG under the U.S. Clean Air Act (CAA). Under EPA regulations finalized in May 2010, formerly known as the Tailoring Rule, the EPA can impose GHG best achievable control technology requirements for sources, including power plants already required to implement prevention of significant deterioration under the CAA for certain other pollutants. In addition, in October 2015, the EPA published a final rule establishing new source performance standards limiting CO2 emissions from new, modified and reconstructed electric generating units. In October 2015, the EPA also published a rule establishing guidelines for states to regulate CO2 emissions from existing power plants, as well as a proposed federal plan to address CO2 emissions from affected units in those states that do not submit an approvable compliance plan. The standards for existing plants are known as the Clean Power Plan (CPP), under which rule interim emissions performance rates must be achieved beginning in 2022 and final emissions performance rates by 2030. Legal challenges to the CPP have been filed by groups of states and industry members. On February 9, 2016, the U.S.

Supreme Court issued a decision to stay the rule until legal issues are resolved. Further, the U.S. signed on to 21st Conference of Parties Paris Agreement signed on December 12, 2015, and indications are that the U.S. plans on relying heavily on the CPP to meet its early commitments. The potential impact of this Agreement and GHG rules (if and when finalized) on us is unknown at this time, but they could result in significant costs, limitations on operating hours, and/or changes in construction schedules for future generating units.

It is not possible to predict how any pending, proposed or future GHG legislation by Congress, the states or multi-state regions or any GHG regulations adopted by the EPA or state environmental agencies will impact our business. However, any legislation or regulation of GHG emissions or any future related litigation could result in increased compliance costs or additional operating restrictions or increased or reduced demand for our services, could require us to purchase rights to emit GHG, and could have a material adverse effect on our business, financial condition, reputation or results of operations.

Adverse regulatory decisions or changes in applicable regulations could have a material adverse effect on our business or result in significant additional costs.

Our business is subject to extensive federal, state and local laws and regulations. FERC regulates our wholesale operations, provision of transmission services and compliance with federally mandated reliability standards. Additional regulatory authorities have jurisdiction over some of our operations and construction projects including the EPA, the United States Department of Energy, the PUCT, the NMPRC and various local regulatory districts (including the cities of El Paso and Las Cruces).

We must periodically apply for licenses and permits from these various regulatory authorities and abide by their respective orders. Should we be unsuccessful in obtaining necessary licenses or permits or should these regulatory authorities initiate any investigations or enforcement actions or impose penalties or disallowances on us, our business could be adversely affected. Existing regulations may be revised or reinterpreted and new laws and regulations may be adopted or become applicable to us or our facilities in a manner that may have a detrimental effect on our business or result in significant additional costs because of our obligation to comply with those requirements.

Security breaches, criminal activity, terrorist attacks and other disruptions to our infrastructure could interfere with our operations, could expose us or our customers or employees to a risk of loss, and could expose us to liability, regulatory penalties, reputational damage and other harm to our business.

We rely upon our infrastructure to manage or support a variety of business processes and activities, including the generation, transmission and distribution of electricity, supply chain functions, and the invoicing and collection of payments from our customers. We also use information technology systems for internal accounting purposes and to comply with financial reporting, legal and tax requirements. Our information technology networks and infrastructure may be vulnerable to damage, disruptions or shutdowns due to attacks by hackers, breaches due to employee error or malfeasance, system failures, computer viruses, natural disasters, a physical attack on our facilities, or other catastrophic events. The occurrence of any of these events could impact the reliability of our generation, transmission and distribution systems and energy marketing and trading functions; could expose us or our customers or employees to a risk of loss or misuse of confidential information; and could result in legal claims or proceedings, liability or regulatory penalties against us, damage our reputation or otherwise harm our business. In addition, we may be required to incur significant costs to prevent or respond to damage caused by these disruptions or security breaches in the future.

Additionally, we cannot predict the impact that any future information technology or terrorist attack may have on the energy industry in general. The effects of such attacks against us or others in the energy industry could increase the cost of regulatory compliance, increase the cost of insurance coverage or result in a decline in the U.S. economy which could negatively affect our results of operations and financial condition. Ongoing and future governmental efforts to regulate cybersecurity in the energy industry could lead to increased regulatory compliance costs.

The effects of technological advancement, energy conservation measures and distributed generation could adversely affect our operations and financial results.

New technologies may emerge that could be superior to, or may not be compatible with, some of our existing technologies, and may require us to make significant expenditures to remain competitive. Our future success will depend, in part, on our ability to anticipate and adapt to technological changes in a cost-effective manner and to offer, on a timely basis, services that meet customer demands and evolving industry standards.

Additionally, the electric utility industry is undergoing other technological advances such as the expanded cost effective utilization of energy efficiency measures and distributed generation including solar rooftop projects. Customers increased use of energy efficiency measures and distributed generation could result in lower demand. Reduced demand due to energy efficiency measures and the use of distributed generation, to the extent not substantially offset through ratemaking mechanisms, could have a material adverse impact on our financial condition, results of operations and cash flows.

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Risks Related to the Offering

Increased leverage may harm our financial condition and results of operations.

We may incur additional indebtedness in the future and the Senior Notes do not restrict future incurrence of indebtedness. Any increase in our level of indebtedness will have several important effects on our future operations, including, without limitation:

- we will have additional cash requirements in order to support the payment of interest on our outstanding indebtedness;
- increases in our outstanding indebtedness and leverage will increase our vulnerability to adverse changes in general economic and industry conditions, as well as to competitive pressure; and
- depending on the levels of its outstanding debt, our ability to obtain additional financing for working capital, capital expenditures, general corporate and other purposes may be limited.

Our ability to make payments of principal and interest on our indebtedness depends upon our future performance, which will be subject to general economic conditions, industry cycles and regulatory, financial, business and other factors affecting our operations, many of which are beyond our control. If we are unable to generate sufficient cash flow from operations in the future to service our debt, we may be required, among other things:

- to seek additional financing in the debt or equity markets;
- to refinance or restructure all or a portion of our indebtedness, including the Senior Notes;
- to sell selected assets;
- to reduce or delay planned capital expenditures; or
- to reduce or delay planned operating and investment expenditures.

These measures may not be sufficient to enable us to service our debt. In addition, any such financing, refinancing or sale of assets might not be available on economically favorable terms.

Ratings of the Senior Notes may change and affect the market price and marketability of the Senior Notes.

Our long-term debt has been rated by Moody s Investors Service, Inc. and Standard & Poor s Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. Such ratings are limited in scope and do not address all material risks relating to an investment in the Senior Notes, but rather reflect only the view of each rating agency at the time the rating is issued. An explanation of the significance of such rating may be obtained from such rating agency. There is no assurance that such credit ratings will be issued or remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in each rating agency s judgment, circumstances so warrant. Holders of Senior Notes will have no recourse against us or any other parties in the event of a change in or suspension or withdrawal of such ratings.

Our credit rating may in the future be lower than our current or historical ratings. Changes in credit ratings affect the interest rates we pay on borrowings under our Credit Facility, the interest rates charged on financings, as well as the amounts of indebtedness, types of financing structures and debt markets that may be available to us. Any lowering, suspension or withdrawal of such ratings may have an adverse effect on our operating results, our ability to obtain additional financing on acceptable terms and the market price or marketability of the Senior Notes.

The Senior Notes are effectively subordinated to any secured obligations we may have or issue in the future.

Although the Senior Notes are unsubordinated obligations, they are effectively subordinated to any secured obligations we may have or may incur in the future, to the extent of the assets that serve as security for those obligations. As of December 31, 2015, we had no secured debt outstanding under our Mortgage (as defined herein).

The Senior Notes will be subject to covenants limiting our ability to create certain liens. The limitation on liens covenants contain exceptions that will allow us, under specified circumstances, to incur secured debt which will be effectively senior in right of payment to the Senior Notes. See Description of the Senior Notes—Limitation on Liens in this prospectus supplement.

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An active trading market for the Senior Notes may not develop.

There is currently no public market for the Senior Notes, and we have not listed, and we do not intend to list, the Senior Notes on any national securities exchange or to seek their quotation on any automated dealer quotation system. The underwriters have advised us that they currently intend to make a market in the Senior Notes, but they are not obligated to do so. At their sole discretion, the underwriters may discontinue any market making in the Senior Notes at any time without notice. In addition, the liquidity of any trading market in these Senior Notes, and the market price quoted for the Senior Notes, may be adversely affected by changes in the overall market for the Senior Notes, prevailing interest rates and changes in our financial condition, results of operations or prospects. A liquid trading market in the Senior Notes may not develop, which could decrease the amounts you would otherwise receive upon a sale or disposition of the Senior Notes.

We may choose to redeem the Senior Notes prior to maturity.

We may redeem the Senior Notes at any time in whole, or from time to time in part, at the applicable redemption price described under Description of the Senior Notes—Optional Redemption in this prospectus supplement. If prevailing interest rates are lower at the time of redemption, holders of the Senior Notes may not be able to reinvest the redemption proceeds in a comparable security at an interest rate as high as the interest rate of the Senior Notes being redeemed. Our redemption right may also adversely affect holders ability to sell their Senior Notes.

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USE OF PROCEEDS

We expect the net proceeds from the sale of the Senior Notes offered hereby will be approximately $155.2 million after the deduction of the underwriting discount and our expenses (and not including the amount of accrued interest paid by the purchasers of the Senior Notes offered hereby). We intend to use the net proceeds from the sale of the Senior Notes offered hereby for general corporate purposes, which may include funding capital expenditures, and to repay outstanding short-term borrowings for working capital and general corporate purposes under our Second Amended and Restated Credit Agreement dated as of January 14, 2014 (the Credit Agreement). Under the terms of the Credit Agreement, the Company has available a $300 million revolving credit facility (the Credit Facility) maturing January 14, 2019. As of December 31, 2015, we had $108.0 million of indebtedness outstanding under our Credit Facility, which was drawn for working capital or general corporate purposes. During the quarter ended December 31, 2015, the weighted-average borrowing rate of our short-term debt for working capital and general corporate purposes was 1.4%.

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RATIOS OF EARNINGS TO FIXED CHARGES

The table below sets forth our ratios of earnings to fixed charges for each of the periods indicated.

Years ended December 31,				
2015	**2014**	**2013**	**2012**	**2011**
2.4	2.7	2.9	3.1	3.5

For purposes of calculating these ratios, earnings consist of earnings from continuing operations and fixed charges less AFUDC (allowance for funds used during construction) and capitalized interest. Earnings from continuing operations consist of income from continuing operations before income taxes, extraordinary item and cumulative effects of accounting changes. Fixed charges consist of all interest on indebtedness, amortization of debt discount and expense and the estimated portion of rental expense that represents an interest factor.

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CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of December 31, 2015 on an actual basis and on an as-adjusted basis to give effect to the issuance of the Senior Notes offered by this prospectus supplement, after deducting the underwriters discount and our estimated offering expenses, and the application of the net proceeds from the sale of the Senior Notes offered hereby as described in Use of Proceeds in this prospectus supplement. This table should be read in conjunction with the audited financial statements, including the accompanying notes and Management s Discussion and Analysis of Financial Condition and Results of Operations, both of which can be found in our 2015 Form 10-K, incorporated by reference in this prospectus supplement and the accompanying prospectus.

	As of December 31, 2015	
	Actual	As Adjusted
	(In Thousands)	
Cash and Cash Equivalents[(1)]	$ 8,149	$ 55,345
Current maturities of long-term debt	$ —	$ —
Short-Term Borrowings under the Credit Facility	141,738	33,738
Long-Term Debt (excluding 5.000% Senior Notes due 2044 offered hereby)[(1)]	1,134,284	1,134,284
5.000% Senior Notes due 2044 offered hereby[(1)]	—	157,052
Total Debt	$ 1,276,022	$ 1,325,074
Total Common Stock Equity	1,016,538	1,016,538
Total Capitalization	$ 2,292,560	$ 2,341,612

(1) Effective January 1, 2016, Financial Accounting Standards Board Accounting Standards Update 2015-03 requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability. In addition, the adoption of the new standard requires retrospective application. Accordingly, Long-Term Debt (excluding 5.000% Senior Notes due 2044 offered hereby) will be reported as $1,122,660 (in thousands) in the balance sheet as of December 31, 2015. Furthermore, the 5.000% Senior Notes due 2044 offered hereby will be reported as $155,239,000 upon issuance of the Senior Notes to reflect issuance costs estimated to be $1,812,500 ($1,312,500 for underwriters’ discount and $500,000 for estimated offering expenses).

Under the terms of our Credit Facility, we have the ability to borrow up to $300 million and the ability to increase the Credit Facility by $100 million (up to a total of $400 million) upon the satisfaction of certain conditions. As of December 31, 2015, we had $108.0 million of indebtedness outstanding under our Credit Facility for working capital or general corporate purposes.

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DESCRIPTION OF THE SENIOR NOTES

The following description of the particular terms of the Senior Notes supplements and, to the extent inconsistent, replaces, the description in the accompanying prospectus of the general terms and provisions of the debt securities under Description of Debt Securities to which description reference is hereby made. Capitalized terms defined in the accompanying prospectus and not defined herein are used herein as therein defined.

General

The following is a summary of the terms of the Senior Notes. The Senior Notes offered hereby will be issued under an indenture dated as of May 1, 2005 between us and The Bank of New York Mellon Trust Company, N.A. (formerly known as The Bank of New York Trust Company, N.A.), as successor to JPMorgan Chase Bank, National Association, as trustee (the Trustee). The indenture, as amended by the supplemental indenture and as may be further supplemented from time to time, is referred to herein as the Indenture. The Senior Notes were established under the Indenture pursuant to a securities resolution.

On December 1, 2014, we issued $150.0 million in aggregate principal amount of Senior Notes under the Indenture. The $150.0 million of Senior Notes offered hereby will have identical terms, except for the date of issuance, the initial interest accrual date, the first interest payment date and the issue price, and will constitute part of the same series as the existing Senior Notes. Unless the context indicates otherwise, references in this description to the Senior Notes include both the existing Senior Notes and the Senior Notes offered hereby. Upon the issuance of the Senior Notes offered hereby, the aggregate principal amount of outstanding Senior Notes will be $300.0 million.

This description is not complete and is subject to, and is qualified in its entirety by reference to, the provisions of the Senior Notes, the securities resolution and the Indenture.

Maturity, Interest, Form and Denomination

We issued $150.0 million in aggregate principal amount of existing Senior Notes in December 2014, and we will issue Senior Notes in an additional amount equal to $150.0 million in aggregate principal amount in this offering. The Senior Notes will mature on December 1, 2044 unless redeemed prior to that date, and will bear interest at the rate of 5.000% per year.

Interest on the Senior Notes offered hereby will accrue from December 1, 2015 and will be payable semi-annually in arrears on December 1 and June 1 of each year commencing on June 1, 2016 for the Senior Notes offered hereby to holders of record of the Senior Notes at the close of business on the preceding November 15 and May 15, respectively. If an interest payment date falls on a day that is not a business day, interest will be payable on the next succeeding business day with the same force and effect as if made on such interest payment date and without additional interest. Interest on the Senior Notes will be calculated on