

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 |
|---|--------------------------------------|----------------------|
| ASSETS | | |
| (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 |
|---|--------------------------------------|----------------------|
| CAPITALIZATION AND LIABILITIES | | |
| (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 | | |