

EL PASO ELECTRIC CO /TX/
Form 10-Q
August 03, 2018

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 June 30, 2018

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

79901
(Zip Code)

(Registrant's telephone number, including area 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 has submitted electronically, every Interactive Data File required to be submitted 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 such files). YES NO

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 July 31, 2018, there were 40,691,320 shares of the Company's no par value common stock outstanding.

DEFINITIONS

The following abbreviations, acronyms or defined terms used in this report are defined below:

Abbreviations, Acronyms or Defined Terms Terms

A&G	Administrative and general
ABFUDC	Allowance for Borrowed Funds Used During Construction
AEFUDC	Allowance for Equity Funds Used During Construction
AFUDC	Allowance for Funds Used During Construction
ANPP Participation Agreement	Arizona Nuclear Power Project Participation Agreement dated August 23, 1973, as amended
AOCI	Accumulated Other Comprehensive Income
APS	Arizona Public Service Company
ARO	Asset Retirement Obligations
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
CAA	Clean Air Act
CCN	Certificate of Convenience and Necessity
Company	El Paso Electric Company
CWIP	Construction Work In Progress
DOE	U.S. Department of Energy
El Paso	City of El Paso, Texas
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Four Corners	Four Corners Generating Station
FPPCAC	New Mexico Fuel and Purchased Power Cost Adjustment Clause
GAAP	U.S. Generally Accepted Accounting Principles
HAFB	Holloman Air Force Base
IRS	U.S. Internal Revenue Service
kW	Kilowatt(s)
kWh	Kilowatt-hour(s)
Las Cruces	City of Las Cruces, New Mexico
MPS	The Company's Montana Power Station
MW	Megawatt(s)
MWh	Megawatt-hour(s)
NAV	Net Asset Value
Newman	The Company's Newman Power Station
NDT	The Company's Palo Verde nuclear decommissioning trust funds
NMPRC	New Mexico Public Regulation Commission
NMPRC Final Order	NMPRC Final Order in Case No. 15-00127-UT
NOL carryforwards	Net Operating Loss carryforwards
OATT	Open Access Transmission Tariff
O&M	Operations and maintenance
Palo Verde	Palo Verde Generating Station
PUCT	Public Utility Commission of Texas
RCF	The Company's Revolving Credit Facility
RGEC	Rio Grande Electric Cooperative

Abbreviations, Acronyms or Defined Terms Terms

RGRT	Rio Grande Resources Trust II
Rio Grande	The Company's Rio Grande Power Station
SAB 118	SEC Staff Accounting Bulletin No. 118
SEC	U.S. Securities and Exchange Commission
TCJA	The Federal Tax Cuts and Jobs Act of 2017
Texas Fuel Rule	Texas fuel cost recovery rule
U.S.	United States
2016 PUCT Final Order	PUCT Final Order in Docket No. 44941
2017 Form 10-K	Annual Report of El Paso Electric Company on Form 10-K for the fiscal year ended December 31, 2017
2017 PUCT Final Order	PUCT Final Order in Docket No. 46831

(ii)

EL PASO ELECTRIC COMPANY
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

EL PASO ELECTRIC COMPANY
BALANCE SHEETS

	June 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
(In thousands)		
Utility plant:		
Electric plant in service	\$4,062,509	\$ 3,982,095
Less accumulated depreciation and amortization	(1,352,503)	(1,320,175)
Net plant in service	2,710,006	2,661,920
Construction work in progress	169,536	146,059
Nuclear fuel; includes fuel in process of \$60,240 and \$59,689, respectively	195,453	194,933
Less accumulated amortization	(73,258)	(74,475)
Net nuclear fuel	122,195	120,458
Net utility plant	3,001,737	2,928,437
Current assets:		
Cash and cash equivalents	11,923	6,990
Accounts receivable, principally trade, net of allowance for doubtful accounts of \$1,653 and \$2,300, respectively	107,084	88,585
Inventories, at cost	49,432	50,910
Under-collection of fuel revenues, regulatory asset	965	—
Prepayments and other	15,901	10,307
Total current assets	185,305	156,792
Deferred charges and other assets:		
Decommissioning trust funds	287,126	286,866
Regulatory assets	89,335	96,036
Other	16,622	16,232
Total deferred charges and other assets	393,083	399,134
Total assets	\$3,580,125	\$ 3,484,363

See accompanying notes to financial statements.

EL PASO ELECTRIC COMPANY
BALANCE SHEETS (Continued)

	June 30, 2018 (Unaudited)	December 31, 2017
CAPITALIZATION AND LIABILITIES		
(In thousands except for share data)		
Capitalization:		
Common stock, stated value \$1 per share, 100,000,000 shares authorized, 65,670,746 and 65,694,829 shares issued, and 157,942 and 133,859 restricted shares, respectively	\$65,829	\$ 65,829
Capital in excess of stated value	326,042	326,117
Retained earnings	1,198,767	1,159,667
Accumulated other comprehensive income (loss), net of tax	(33,746)	11,058
	1,556,892	1,562,671
Treasury stock, 25,135,367 and 25,244,350 shares, respectively, at cost	(418,690)	(420,506)
Common stock equity	1,138,202	1,142,165
Long-term debt, net of current portion	1,385,154	1,195,988
Total capitalization	2,523,356	2,338,153
Current liabilities:		
Short-term borrowings under the revolving credit facility	80,445	173,533
Accounts payable, principally trade	51,959	59,270
Taxes accrued	29,148	35,660
Interest accrued	12,749	12,470
Over-collection of fuel revenues, regulatory liability	8,174	6,225
Other	39,341	29,067
Total current liabilities	221,816	316,225
Deferred credits and other liabilities:		
Accumulated deferred income taxes	305,832	305,023
Accrued pension liability	79,334	83,838
Accrued post-retirement benefit liability	27,497	26,417
Asset retirement obligation	97,059	93,029
Regulatory liabilities	298,243	296,685
Other	26,988	24,993
Total deferred credits and other liabilities	834,953	829,985
Commitments and contingencies		
Total capitalization and liabilities	\$3,580,125	\$ 3,484,363
See accompanying notes to financial statements.		

EL PASO ELECTRIC COMPANY
 STATEMENTS OF OPERATIONS
 (Unaudited)
 (In thousands except for share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Operating revenues	\$236,796	\$251,843	\$412,509	\$423,178
Operating expenses:				
Fuel and purchased power	53,463	65,894	105,651	116,173
Operations and maintenance	88,855	82,273	169,015	161,460
Depreciation and amortization	23,958	22,495	47,772	44,429
Taxes other than income taxes	17,381	17,265	32,888	32,995
	183,657	187,927	355,326	355,057
Operating income	53,139	63,916	57,183	68,121
Other income (deductions):				
Allowance for equity funds used during construction	718	726	1,638	1,541
Investment and interest income, net	11,072	12,056	16,227	21,319
Miscellaneous non-operating income	3,072	2,897	6,208	5,792
Miscellaneous non-operating deductions	(2,769)	(2,669)	(5,512)	(5,497)
	12,093	13,010	18,561	23,155
Interest charges (credits):				
Interest on long-term debt and revolving credit facility	18,194	18,407	36,182	36,774
Other interest	5,115	4,728	9,769	9,073
Capitalized interest	(1,365)	(1,344)	(2,579)	(2,638)
Allowance for borrowed funds used during construction	(772)	(711)	(1,670)	(1,502)
	21,172	21,080	41,702	41,707
Income before income taxes	44,060	55,846	34,042	49,569
Income tax expense	10,765	19,780	7,713	17,492
Net income	\$33,295	\$36,066	\$26,329	\$32,077
Basic earnings per share	\$0.82	\$0.89	\$0.65	\$0.79
Diluted earnings per share	\$0.82	\$0.89	\$0.65	\$0.79
Dividends declared per share of common stock	\$0.360	\$0.335	\$0.695	\$0.645
Weighted average number of shares outstanding	40,517,713	40,409,030	40,504,526	40,398,192
Weighted average number of shares and dilutive potential shares outstanding	40,647,799	40,525,585	40,618,045	40,499,344

See accompanying notes to financial statements.