

EL PASO ELECTRIC CO /TX/
Form 10-Q
August 07, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the quarterly period ended June 30, 2008

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 0-296

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)

79901
(Zip Code)

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(915) 543-5711

(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 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 July 31, 2008, there were 44,826,141 shares of the Company's no par value common stock outstanding.

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EL PASO ELECTRIC COMPANY AND SUBSIDIARY

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****EL PASO ELECTRIC COMPANY AND SUBSIDIARY****CONSOLIDATED BALANCE SHEETS****ASSETS**

(In thousands)	June 30, 2008 (Unaudited)	December 31, 2007
Utility plant:		
Electric plant in service	\$ 2,141,653	\$ 2,047,673
Less accumulated depreciation and amortization	(882,627)	(858,426)
Net plant in service	1,259,026	1,189,247
Construction work in progress	173,881	185,122
Nuclear fuel; includes fuel in process of \$44,126 and \$47,256, respectively	116,694	113,330
Less accumulated amortization	(28,955)	(37,114)
Net nuclear fuel	87,739	76,216
Net utility plant	1,520,646	1,450,585
Current assets:		
Cash and cash equivalents	94,025	4,976
Investment in debt securities		20,000
Accounts receivable, principally trade, net of allowance for doubtful accounts of \$2,668 and \$2,873, respectively	106,020	84,578
Accumulated deferred income taxes		14,486
Inventories, at cost	36,268	34,234
Undercollection of fuel revenues	66,331	29,156
Prepayments and other	14,362	14,175
Total current assets	317,006	201,605
Deferred charges and other assets:		
Decommissioning trust funds	127,543	130,654
Regulatory assets	46,359	42,667
Investment in debt securities	3,029	
Other	27,805	28,377
Total deferred charges and other assets	204,736	201,698
Total assets	\$ 2,042,388	\$ 1,853,888

See accompanying notes to consolidated financial statements.

Table of Contents**EL PASO ELECTRIC COMPANY AND SUBSIDIARY****CONSOLIDATED BALANCE SHEETS (Continued)****CAPITALIZATION AND LIABILITIES****(In thousands except for share data)**

	June 30, 2008 (Unaudited)	December 31, 2007
Capitalization:		
Common stock, stated value \$1 per share, 100,000,000 shares authorized, 64,575,103 and 64,400,522 shares issued, and 98,669 and 119,403 restricted shares, respectively	\$ 64,674	\$ 64,520
Capital in excess of stated value	294,053	292,614
Retained earnings	599,423	565,701
Accumulated other comprehensive income, net of tax	6,714	13,540
	964,864	936,375
Treasury stock, 19,848,900 and 19,370,266 shares, respectively at cost	(279,808)	(269,916)
Common stock equity	685,056	666,459
Long-term debt, net of current portion	739,629	590,894
Financing obligations, net of current portion	74,957	64,217
Total capitalization	1,499,642	1,321,570
Current liabilities:		
Current portion of long-term debt and financing obligations	20,139	18,798
Accounts payable, principally trade	76,464	58,013
Accumulated deferred income taxes	11,494	
Taxes accrued	18,500	20,500
Interest accrued	5,365	4,347
Other	22,678	24,359
Total current liabilities	154,640	126,017
Deferred credits and other liabilities:		
Accumulated deferred income taxes	171,870	183,349
Accrued postretirement benefit liability	69,141	67,385
Asset retirement obligation	74,692	79,709
Accrued pension liability	23,924	30,088
Regulatory liabilities	14,508	14,876
Other	33,971	30,894
Total deferred credits and other liabilities	388,106	406,301
Commitments and contingencies		
Total capitalization and liabilities	\$ 2,042,388	\$ 1,853,888

See accompanying notes to consolidated financial statements.

Table of Contents**EL PASO ELECTRIC COMPANY AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(In thousands except for share data)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Operating revenues	\$ 284,405	\$ 219,291	\$ 524,645	\$ 407,708
Energy expenses:				
Fuel	86,804	66,783	147,735	114,247
Purchased and interchanged power	61,218	35,339	116,576	61,998
	148,022	102,122	264,311	176,245
Operating revenues net of energy expenses	136,383	117,169	260,334	231,463
Other operating expenses:				
Other operations	49,905	49,538	96,739	93,179
Maintenance	20,574	17,039	38,070	28,666
Depreciation and amortization	18,774	17,083	37,391	34,134
Taxes other than income taxes	12,321	12,058	24,099	24,124
	101,574	95,718	196,299	180,103
Operating income	34,809	21,451	64,035	51,360
Other income (deductions):				
Allowance for equity funds used during construction	1,852	1,129	3,658	2,188
Investment and interest income, net	1,406	1,856	2,035	3,873
Miscellaneous non-operating income	145	225	351	407
Miscellaneous non-operating deductions	(249)	(777)	(2,226)	(2,325)
	3,154	2,433	3,818	4,143
Interest charges (credits):				
Interest on long-term debt and financing obligations	10,577	9,088	20,682	18,034
Other interest	345	193	557	348
Capitalized interest	(833)	(677)	(2,128)	(1,328)
Allowance for borrowed funds used during construction	(888)	(586)	(1,750)	(1,134)
	9,201	8,018	17,361	15,920
Income before income taxes	28,762	15,866	50,492	39,583
Income tax expense	9,528	6,267	16,770	14,865
Net income	\$ 19,234	\$ 9,599	\$ 33,722	\$ 24,718
Basic earnings per share	\$ 0.43	\$ 0.21	\$ 0.75	\$ 0.54

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Diluted earnings per share	\$ 0.43	\$ 0.21	\$ 0.75	\$ 0.53
Weighted average number of shares outstanding	44,686,103	45,698,262	44,823,527	45,816,757
Weighted average number of shares and dilutive potential shares outstanding	44,867,147	46,050,212	45,065,438	46,211,298

See accompanying notes to consolidated financial statements.

Table of Contents**EL PASO ELECTRIC COMPANY AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(In thousands except for share data)**

	Twelve Months Ended June 30,	
	2008	2007
Operating revenues	\$ 994,364	\$ 829,938
Energy expenses:		
Fuel	284,277	229,233
Purchased and interchanged power	181,411	113,363
	465,688	342,596
Operating revenues net of energy expenses	528,676	487,342
Other operating expenses:		
Other operations	199,461	194,971
Maintenance	66,378	51,726
Depreciation and amortization	72,654	68,502
Taxes other than income taxes	49,187	49,760
	387,680	364,959
Operating income	140,996	122,383
Other income (deductions):		
Allowance for equity funds used during construction	7,178	2,679
Investment and interest income, net	7,767	8,196
Miscellaneous non-operating income	1,375	1,131
Miscellaneous non-operating deductions	(4,287)	(3,867)
	12,033	8,139
Interest charges (credits):		
Interest on long-term debt and financing obligations	39,492	36,132
Other interest	1,013	1,395
Capitalized interest	(4,035)	(3,346)
Allowance for borrowed funds used during construction	(3,570)	(1,380)
	32,900	32,801
Income before income taxes and extraordinary item	120,129	97,721
Income tax expense	36,372	36,169
Income before extraordinary item	83,757	61,552
Extraordinary gain on re-application of SFAS No. 71, net of tax		6,063

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Net income	\$	83,757	\$	67,615
Basic earnings per share:				
Income before extraordinary item	\$	1.86	\$	1.32
Extraordinary gain on re-application of SFAS No. 71, net of tax				0.13
Net income	\$	1.86	\$	1.45
Diluted earnings per share:				
Income before extraordinary item	\$	1.85	\$	1.31
Extraordinary gain on re-application of SFAS No. 71, net of tax				0.13
Net income	\$	1.85	\$	1.44
Weighted average number of shares outstanding		45,070,647		46,478,096
Weighted average number of shares and dilutive potential shares outstanding		45,358,951		46,946,478

See accompanying notes to consolidated financial statements.

Table of Contents**EL PASO ELECTRIC COMPANY AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF COMPREHENSIVE OPERATIONS****(Unaudited)****(In thousands)**

	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	2008	2007	2008	2007	2008	2007
Net income	\$ 19,234	\$ 9,599	\$ 33,722	\$ 24,718	\$ 83,757	\$ 67,615
Other comprehensive income (loss):						
Unrecognized pension and postretirement benefit costs:						
Net gain arising during period					40,625	
Reclassification adjustments included in net income for amortization of:						
Prior service cost	(677)	(688)	(1,377)	(1,376)	(2,755)	(1,376)
Net (gain) loss	(100)	948	(75)	1,708	1,602	1,708
Minimum pension liability adjustment						16,923
Net unrealized gains (losses) on marketable securities:						
Net holding gains (losses) arising during period	(1,209)	4,542	(8,023)	3,556	(5,744)	11,545
Reclassification adjustments for net (gains) losses included in net income	481	(18)	675	(177)	(831)	(123)
Net losses on cash flow hedges:						
Reclassification adjustment for interest expense included in net income	73	69	146	137	287	269
Total other comprehensive income (loss) before income taxes	(1,432)	4,853	(8,654)	3,848	33,184	28,946
Income tax benefit (expense) related to items of other comprehensive income (loss):						
Unrecognized pension and postretirement benefit costs	168	(97)	412	(107)	(17,518)	(107)
Minimum pension liability adjustment						(6,348)
Net unrealized gains (losses) on marketable securities	145	(905)	1,469	(676)	1,315	(2,284)
Losses on cash flow hedges	(26)	(25)	(53)	(51)	(106)	(101)
Total income tax benefit (expense)	287	(1,027)	1,828	(834)	(16,309)	(8,840)
Other comprehensive income (loss), net of tax	(1,145)	3,826	(6,826)	3,014	16,875	20,106
Comprehensive income	\$ 18,089	\$ 13,425	\$ 26,896	\$ 27,732	\$ 100,632	\$ 87,721

See accompanying notes to consolidated financial statements.

Table of Contents**EL PASO ELECTRIC COMPANY AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(In thousands)**

	Six Months Ended June 30,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 33,722	\$ 24,718
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of electric plant in service	37,391	34,134
Amortization of nuclear fuel	9,379	9,788
Allowance for equity funds used during construction	(3,658)	(2,188)
Deferred income taxes, net	15,160	2,003
Other amortization and accretion	6,992	5,572
Gain on sale of assets	(11)	
Unrealized loss on investment in debt securities	971	
Other operating activities	1,834	(58)
Change in:		
Accounts receivable	(21,442)	2,069
Inventories	(1,878)	(2,385)
Net (undercollection) overcollection of fuel revenues	(38,635)	4,481
Prepayments and other	3,763	(4,732)
Accounts payable	15,949	13,076
Taxes accrued	(6,001)	856
Interest accrued	1,018	84
Other current liabilities	(221)	670
Deferred charges and credits	(5,511)	28
Net cash provided by operating activities	48,822	88,116
Cash flows from investing activities:		
Cash additions to utility property, plant and equipment	(94,725)	(55,244)
Cash additions to nuclear fuel	(18,958)	(17,145)
Proceeds from sale of assets	144	130
Capitalized interest:		
Utility property, plant and equipment	(5,408)	(3,322)
Nuclear fuel	(2,128)	(1,328)
Allowance for equity funds used during construction	3,658	2,188
Decommissioning trust funds:		
Purchases, including funding of \$3.6 and \$3.5 million, respectively	(22,375)	(42,706)
Sales and maturities	16,813	37,677
Proceeds from sale of investment in debt securities	16,000	
Other investing activities	(2,938)	477
Net cash used for investing activities	(109,917)	(79,273)
Cash flows from financing activities:		
Proceeds from exercise of stock options	1,004	3,980
Repurchases of common stock	(9,892)	(14,070)

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Financing obligations:

Proceeds	64,843	18,626
Payments	(52,762)	(9,791)
Proceeds from issuance of long-term senior notes	148,719	
Excess tax benefits from long-term incentive plans	373	2,220
Other financing activities	(2,141)	(630)

Net cash provided by financing activities