

EL PASO ELECTRIC CO /TX/
Form 424B2
December 04, 2012

Filed Pursuant to Rule 424(b)(2)

Registration No. 333-178319

Title of Each Class of Securities to be Registered	Amount To Be Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee(1)(2)
3.30% Senior Notes due 2022	\$150,000,000	99.788%	\$149,682,000	\$20,417

(1) Calculated in accordance with Rule 457(r) under the Securities Act of 1933, as amended.

(2) This "Calculation of Registration Fee" table shall be deemed to update the "Calculation of Registration Fee" table in Registration Statement No. 333-178319.

PROSPECTUS SUPPLEMENT

(To prospectus dated December 5, 2011)

\$150,000,000

El Paso Electric Company

3.30% Senior Notes due 2022

We are offering \$150,000,000 aggregate principal amount of our 3.30% notes due 2022 (the “Senior Notes”).

We will pay interest on the Senior Notes each June 15 and December 15. The first interest payment will be made on June 15, 2013. The Senior Notes will bear interest at a rate of 3.30% per year and will mature on December 15, 2022. We may redeem some or all of the Senior Notes at any time and from time to time at the redemption prices 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 from time to time outstanding. 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 Discounts and Commissions	Proceeds to El Paso Electric Company (before expenses)
Per Senior Note.....	99.788%	0.650%	99.138%
Total.....	\$149,682,000	\$975,000	\$148,707,000

(1) Plus accrued interest from December 6, 2012, if settlement occurs after that date.

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 prospectus to which it relates is truthful or complete. Any representation to the contrary is a criminal offense.

We expect that the Senior Notes will be ready for delivery only through The Depository Trust Company and its participants, in book-entry form on or about December 6, 2012.

J.P. Morgan Mitsubishi UFJ Securities

The date of this prospectus supplement is December 3, 2012.

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You should rely only on the information incorporated by reference or provided in this prospectus supplement and the accompanying prospectus. 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 and the documents incorporated by reference herein or therein is accurate only as of their respective dates.

All references in this prospectus to “El Paso,” “the Company,” “we,” “us,” “the Registrant,” “our,” or similar words are to El P Electric Company.

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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 21 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and the Private Securities Litigation Reform Act of 1995. Forward-looking statements may include words like we “believe”, “anticipate”, “target”, “expect”, “pro forma”, “estimate”, “intend”, “will”, “is designed to”, “plan” and words of similar meaning. Forward-looking statements describe our future plans, objectives, expectations or goals. Such statements address future events and conditions concerning and include, but are not limited to, such things as:

- 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 involve known and unknown risks that may cause our actual results in future periods to differ materially from those expressed in any forward-looking statement. Factors that would cause or contribute to such differences include, but are not limited to, such things as:

- our ability to recover our costs and earn a reasonable rate of return on our invested capital through the rates that we charge,
- the ability of our operating partners to maintain plant operations and manage operation and maintenance costs at the Palo Verde and Four Corners plants, including costs of compliance with any potential new or expanded regulatory or environmental requirements,
- reductions in output at generation plants operated by us,
- unscheduled outages, including outages at Palo Verde,
- the size of our construction program and our ability to complete construction on budget and on a timely basis,
- 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,

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- ongoing municipal, state and federal activities,
 - economic and capital market conditions,
 - changes in accounting requirements and other accounting matters,
 - changing weather trends and the impact of severe weather conditions,
- rates, cost recovery mechanisms and other regulatory matters including the ability to recover fuel costs on a timely basis,
- changes in environmental laws and regulations and the enforcement or interpretation thereof, including those related to air, water or greenhouse gas emissions or other environmental matters,
 - cuts in military spending that reduce demand for our services from military customers;
 - political, legislative, judicial and regulatory developments,
 - the impact of lawsuits filed against us,
 - the impact of changes in interest rates,
- 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 recent U.S. health-care reform legislation,
- the impact of changing cost escalation and other assumptions on our nuclear decommissioning liability for Palo Verde,
 - Texas, New Mexico and electric industry utility service reliability standards,
 - homeland security considerations, including those associated with the U.S./Mexico border region,
 - 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 IRS or state taxing authorities, 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 our Annual Report on Form 10-K for the year ended December 31, 2011 (incorporated by reference herein) under the heading “Management’s Discussion and Analysis — Summary of Critical Accounting Policies and Estimates” and “— Liquidity and Capital Resources,” and in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 (incorporated by reference herein) under the heading “Management’s Discussion and Analysis — Liquidity and Capital Resources.” You should read this prospectus supplement, the prospectus, and the reports incorporated by reference herein and therein in their entirety. 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 the prospectus supplement, accompanying prospectus and the documents incorporated by reference in their entirety.

The Company

El Paso Electric Company is 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 six electrical generating facilities, providing us with a net dependable generating capability of 1,785 MW. For the year ended December 31, 2011, our energy sources consisted of approximately 45% nuclear fuel, 30% natural gas, 6% coal, 19% purchased power and less than 1% generated by wind turbines.

We serve approximately 380,000 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 11%, respectively, of our retail revenues for the year ended December 31, 2011). 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, oil refining, two large universities, steel production and copper refining facilities.

We were incorporated in Texas in 1901. As of January 31, 2012, we had approximately 1,000 employees, 41% 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 3.30% Senior Notes due 2022.
Maturity.....	December 15, 2022.
Interest Payment Dates.....	June 15 and December 15 of each year, commencing on June 15, 2013.
Interest Rate.....	3.30% per year.
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 issue date, initial interest accrual date and the issue price. Any such additional debt securities will be consolidated with and form a single series with the Senior Notes offered hereby.

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:
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- 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 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 — Defaults and Remedies” in the accompanying prospectus.
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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

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	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 September 15, 2022 (the date that is three months prior to the maturity date of the Senior Notes), 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 September 15, 2022, 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. 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, including all other debt securities issued under the indenture relating to the Senior Notes, from time to time outstanding. As of September 30, 2012, 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.....	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.....	The net proceeds of this offering are intended to be used for general corporate purposes, which may include funding capital expenditures, and for repayment of short-term borrowings under our Credit Facility (as defined herein). See “Use of Proceeds” in this prospectus supplement.
Conflicts of Interest.....	Because one or more of the underwriters may receive 5% of the net proceeds from the sale of the Senior Notes, a “conflict of interest” may be deemed to exist under FINRA Rule 5121. Therefore, the offering will be made in compliance with such rule. See “Underwriting – Conflicts of Interest” in this prospectus supplement for more information.
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.
Listing.....	The Senior Notes will not be listed on any national securities exchange.

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Risk Factors

Like other companies in our industry, our consolidated financial results will be impacted by weather, the economy of our service territory, fuel prices, the performance of our customers and the decisions of regulatory agencies. Our common stock price and creditworthiness will be affected by national and international 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 consolidated financial condition and results of operations. This is not intended to be an exhaustive discussion of all such risks, and the statements below must be read together with factors discussed elsewhere in this document and in 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. On December 10, 2009, the NMPRC issued a final order in Case No. 09-00171-UT relating to our rates for New Mexico customers, which order was implemented on January 1, 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. 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 current and future Texas rate cases or our future rate cases in New Mexico 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. 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.

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

The construction of our next generating plant addition, Rio Grande Unit 9, will add an aeroderivative unit with a generating capacity of 87 MW. It should reach commercial operation by May 2013. We have risk related to recovering all costs associated with the completion of the construction of Rio Grande Unit 9 and other new units.

In 2012, we refinanced and extended our revolving credit facility, which could help fund the construction of this and other new units. The costs of financing and constructing these units will be reviewed in future rate cases in both Texas and New Mexico. To the extent that the PUCT or 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.

In addition, if this or any other new unit is 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 purchased power or fuel costs resulting from delays in the completion of a unit.

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Continuing 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 through a state of turmoil. These and future events could have a number of effects on our operations and our 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, recent stock market performance has provided returns that are below historical averages for our financial assets. 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, the continued volatile economy may result in reduced customer demand, both in the retail and wholesale markets, and increases in customer delinquencies and write-offs. The credit markets and overall economy may also adversely impact the financial health of our suppliers. If credit markets were to tighten, 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. This is not intended to be an exhaustive list of possible effects, and we may be adversely impacted in other ways.

Our costs could increase or we could experience reduced revenues if there are problems at the Palo Verde Nuclear Generating Station.

A significant percentage of our generating capacity, off-system sales margins, assets and operating expenses is attributable to our Palo Verde Nuclear Generating Station ("Palo Verde"). Our 15.8% interest in each of the three Palo Verde units totals approximately 633 MW of generating capacity. Palo Verde represents approximately 35% of our available net generating capacity and provided approximately 45% of our energy requirements for the twelve months ended December 31, 2011. Palo Verde comprises approximately 32% 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 90.7% and 90.4% in the twelve months ended December 31, 2011 and 2010, respectively.

Our ability to increase retail base rates in Texas and New Mexico is limited. We cannot assure that revenues will be sufficient to recover any increased costs, including any increased costs in connection with Palo Verde or other operations, whether as a result of inflation, changes in tax laws, regulatory requirements, or other causes.

We may not be able to recover all of our fuel expenses from our customers.

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. 09-00171-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 the pricing methodology used in a previous purchased power contract with Credit Suisse Energy, LLC. Fuel and purchased power expenses in New Mexico and Texas are subject to reconciliation by the PUCT and the 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. As part of our settlement in our previous rate filing at the PUCT (Docket No. 40094), we agreed to withdraw our request to reconcile \$356.5 million of fuel expense for the period July 1, 2009 through September 30, 2011. We will file a fuel reconciliation request covering the period beginning July 1, 2009 and ending no later than June 30,

2013 by December 31, 2013 or as part of our next rate case, if earlier. In the event that recovery of fuel and purchased power expenses is denied in a 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 Purchase Power Cost Adjustment Clause allows us to reflect current fuel and purchased power expenses 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

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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 by 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. At December 31, 2011 and 2010, we had a net under-collection balance of \$7.0 million and a net over-collection balance of \$19.0 million, respectively.

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 addition, we are seeking to extend the lives of these plants. In the event of unplanned outages, we must acquire power from others 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 differ from the amounts we are allowed to collect from our customers, we would incur a loss to the extent of the disallowance. This can materially increase our costs and prevent us from selling excess power at wholesale, thus reducing our profits. 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 are particularly vulnerable to this because a significant portion of our available energy (at Palo Verde and Four Corners Generating Station) 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, are largely beyond our control, but they may have a material adverse effect on our consolidated 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 already have, 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. 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. 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 they are achieved 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 consolidated financial results.

We are subject to extensive federal, state and local environmental statutes, rules 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 air quality control equipment and purchases of air emission allowances and/or offsets.

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Costs 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/or consolidated 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 increases. 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 rules or regulations. For example, the EPA has issued in the recent past various final and proposed regulations regarding air emissions from our operations as well as the rest of the utility sector, including the Cross-State Air Pollution Rule (“CSAPR”) and the Mercury and Air Toxics Standards (the “Utility MACT”). If these and other regulations survive legal, judicial and Congressional challenges, the cost to us to comply could adversely affect our operations and consolidated 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 greenhouse gases (“GHGs”) through the operation of our power plants. Federal legislation has been introduced in both houses of Congress to regulate the emission of GHGs, and numerous states have adopted programs to stabilize or reduce GHG emissions. Additionally, the EPA is proceeding with GHG regulation under the U.S. Clean Air Act. Under EPA regulations finalized in May 2010, the EPA began regulating GHG emissions from certain stationary sources, such as power plants, in January 2011. In March 2012, the EPA issued proposed rules to regulate GHG from new power plants. Further, regional or state regulation may precede federal GHG legislation. For example, in the State of New Mexico, where we operate one facility and have an interest in another facility, the New Mexico Environmental Improvement Board approved two separate rulemakings in 2010 to limit GHG emissions. While both have since been repealed in 2012, future similar regulation is possible.

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

Security breaches, criminal activity, terrorist attacks and other disruptions to our information technology infrastructure could directly or indirectly 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 information technology networks and systems to process, transmit and store electronic information, and 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 to record, process and summarize financial information and results of operations for internal reporting purposes and to comply with financial reporting, legal and tax requirements. Our technology networks and systems collect and store sensitive data including system operating information, propriety business information belonging to us and third parties, and personal information belonging to our customers and employees.

Our information technology networks and infrastructure may be vulnerable to damage, disruptions or shutdowns due to attacks by hackers or breaches due to employee error or malfeasance, or other disruptions during software or

hardware upgrades, telecommunication failures or natural disasters 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 information; and could result in legal claims or proceedings, liability or regulatory penalties against us, damage our reputation or otherwise harm our business. We cannot accurately assess the probability that a security breach may occur, despite the measures that we take to prevent such a breach, and we are unable to quantify the potential impact of such an event. We can provide no assurance that we will identify and remedy all security or system vulnerabilities or that unauthorized access or error will be identified and remedied.

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Additionally, we cannot predict the impact that any future information technology or terrorist attack may have on the energy industry in general. Our facilities could be direct targets or indirect casualties of such attacks. The effects of such attacks could include disruption to our generation, transmission and distribution systems or to the electrical grid in general, and could increase the cost of insurance coverage or result in a decline in the U.S. economy.

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.

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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 September 30, 2012, 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.

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

There is currently no public market for the Senior Notes, and we do not plan to list the Senior Notes on any national securities exchange. In addition, the liquidity of any trading market in the Senior Notes, and the market price quoted for the Senior Notes, may be adversely affected by changes in the overall market for these 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, in whole or in part, at any time and from time to time, at the make-whole redemption prices 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

The net proceeds from the sale of the Senior Notes will be approximately \$148.2 million after the deduction of the underwriting discount and our expenses. We intend to use the net proceeds from the sale of the Senior Notes for general corporate purposes, which may include funding capital expenditures, and to repay outstanding short-term borrowings for working capital purposes under our Amended and Restated Credit Agreement dated as of November 15, 2011 among El Paso Electric Company, The Bank of New York Trust Company, National Association, as trustee of the Rio Grande Resources Trust II, the lenders party thereto and JPMorgan Chase Bank, National Association as Administrative Agent and Issuing Bank, as further amended by the parties pursuant to that certain Incremental Facility Assumption Agreement dated as of March 29, 2012 (the “Credit Facility”). Borrowings under the Credit Facility were incurred for general corporate purposes and to fund capital expenditures. As of September 30, 2012, we had \$61.5 million of indebtedness outstanding under our Credit Facility, \$32.0 million of which was drawn for working capital purposes. During the quarter ended September 30, 2012, the weighted-average borrowing rate of our short-term debt for working capital purposes was 1.69%. Short-term borrowings under the Credit Facility have maturities ranging up to one month.

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

Nine months ended	Years ended December 31,				
September 30, 2012	2011	2010	2009	2008	2007
3.8x	3.5x	3.3x	2.6x	3.0x	3.5x

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 consolidated capitalization as of September 30, 2012 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 estimated offering expenses, and the application of the net proceeds from the sale of the Senior Notes as described in "Use of Proceeds" in this prospectus supplement. This table should be read in conjunction with the unaudited consolidated 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 Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, incorporated by reference in this prospectus supplement and the accompanying prospectus.

As of
September
30, 2012