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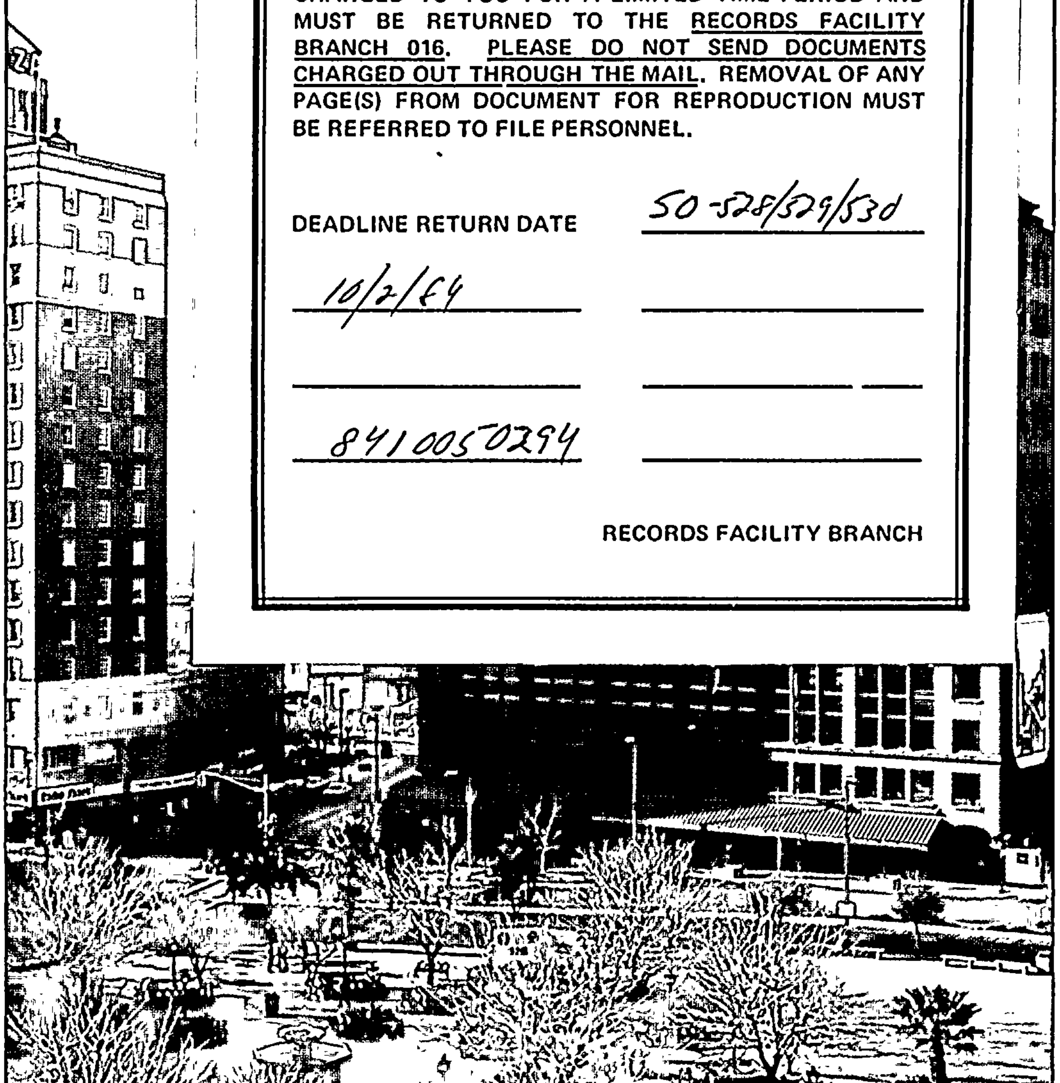
El Paso Electric Company

1983 Annual Report



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A Plan for Action

A Plan for Action

Philosophy

The El Paso-Las Cruces area is an excellent place to live and to work. The service area of The Electric Company has provided exceptional opportunities for the Company and for its employees. We believe that a value received is worth a value returned. In this regard we believe that the Company must respond to the needs of this community in all areas where economically practical.

Mission

El Paso Electric has a three-fold mission. The Company is dedicated to providing reliable electric service to customers at the most reasonable cost. The Company is obligated to protect and enhance the investment of its Shareholders, the investment which has created the jobs and the growth opportunity for the Company. The Company is also obligated to provide an enriching and satisfying place for its employees to work. We believe that the strategic goals and objectives which are presented in this Plan provide the necessary direction so that we may successfully accomplish our mission.

Areas of Focus

To carry out the Company's mission as an active organization in the community and one which is dedicated to the betterment of all concerned, we focus on the following general areas of concern:

- Customer Service
- Community Service
- Shareholder Relations
- Employee-Management Obligations
- Corporate Communications

Strategic Goals and Objectives

Each area of focus provides categories for which strategic goals are established as a part of the planning process for individual and departmental action. Proposed projects and activities are formulated to accomplish specific objectives in accord with and in support of one or more of these goals.

Strategic goals and objectives are developed and formalized in order to give general direction to management for the overall corporate planning tasks as well as more specific departmental planning activities. The goals and objectives should not limit the ingenuity and imagination of Company management, but rather should provide an overall agreed-upon course of action. It is recognized that the management of the Company must remain flexible and innovative in solving the day-to-day operating problems. However, these strategic goals exemplify our philosophy in fulfilling the overall corporate mission.

Customer Service

- Provide a quality of service to customers at least equal to the highest standards in the industry.
- Maintain reliability of service to customers at a level above 99 percent.
- On a continuing basis, study and implement improved methods and plant betterments for providing electricity to customers at the lowest possible cost.
- Insure that customers are educated on the safety aspects of using electricity.
- Retain all existing customers and seek new customers through system expansion where feasible and consistent with good economics.
- Remain independent in providing power supply and transmission service where possible and consistent with good economics for the customer and Shareholder.

Community Service

- Promote economic growth and increased development of the Company's total service area.
- Protect, enhance and develop the community's natural resources with particular attention to air, water and land resources.
- Provide job opportunities and an investment in the service area which promotes a higher standard of living for all citizens.
- Provide to the service area both economic and social support consistent with the level of responsibility expected of the No. 1 corporate citizen.
- Promote a high degree of positive involvement in the service area by all employees.
- Cooperate with and serve the educational institutions located in the service area in a manner consistent with other leaders in the industry.
- Maintain leadership positions within and provide appropriate assistance to community service organizations. Continue to support the United Way in a leadership manner.

Shareholder Relations

- Assure that all expenditures are made in such a way as to protect and enhance the Shareholders' investment.
- Provide a rate of return to the Shareholders which is competitive with other possible investments.
- Maintain the financial integrity of the Company in a manner consistent with AA-rated utility companies.
- Earn a rate of return which is above the national average and maintain bond coverages above three times in all financial periods.
- Continue to study the feasibility of new programs and projects which might be undertaken as measures to maintain and improve the financial integrity of the Company.
- Base all Company involvement in new programs or projects on solid economic principles.

Employee-Management Obligations

- Monitor and strive to improve the quality of management and supervision.
- Promote a high degree of professionalism throughout the entire Company.
- Develop, update and monitor both long- and short-term plans in a formalized manner.
- Insure the flexibility of corporate plans while establishing performance goals for all levels of employees.
- Undertake research and development consistent with strategic goals, corporate objectives and sound economics.
- Attract, develop and retain able and loyal employees.
- Provide equal employment opportunities and a high degree of training along with modern, professional tools.
- Strive to provide employees with compensation levels at or above industry norms.

Corporate Communications

- Make an assertive effort to provide informative communications on relevant Company and energy issues.
- Maintain positive communications with all those in contact with the Company to specifically include customers, regulators, members of governmental bodies, employees, community and industry leaders, financial community and regional utilities.
- Keep senior management apprised and educated on current topics of interest, and always maintain an issues management ability.
- Communicate the Company's good citizen achievements and future aspirations to support the community.
- Enhance the community image of the Company by being receptive to the needs of customers and the community.
- Show and communicate actions by the Company which show our concern for the customer.

ADOPTED BY THE BOARD OF DIRECTORS FEBRUARY 23, 1982

Contents

1983 Highlights

	At December 31, 1983		1982	
Operating Revenues (000)	$ 302,443		$ 271,048	
Operating Expenses (000)	$ 236,237		$ 220,432	
Net Income (000)	$ 87,261		$ 70,888	
Net Income Per Common Share	$ 2.48		$ 2.30	
Dividends Paid Per Common Share	$ 1.37		$ 1.31	
Book Value Per Common Share	$ 13.47		$ 12.32	
Common Shares Outstanding	32,499,417		31,282,382	
Number of Common Shareholders	54,060		50,474	
Number of Customers	197,800		190,428	
Number of Employees	1,078		1,109	
Peak Load	746,000	KW	744,000	KW
Net Generating Capacity	990,000	KW	977,000	KW
Average Annual Residential Use	5,839	KWH	5,869	KWH
Fuel and Purchased and Interchanged Power Expense (000)	$ 115,562		$ 126,680	
Total Energy Sales	3,751,771	MWH	3,651,163	MWH
Gross Utility Plant (000)	$ 1,345,315		$ 1,109,514	

Letter To Shareholders

Dear Shareholder:

"A Plan for Action" was chosen as the theme for the 1983 Annual Report because it represents so well your Company's operations during the year. This letter is a summary of accomplishments achieved under the Plan, which is illustrated on the inside front cover. Those who wish to learn more of the details will find them throughout the report.

The efforts of the men and women of our Company were rewarded by improved financial results in 1983. Net income per share of Common Stock increased 18¢ to $2.48; 1983 net income per share is approximately 8 percent higher than in 1982. The year's earnings were an indication of your Company's historical strong earnings pattern.

Quarterly dividends on Company Common Stock were increased by the Board of Directors from 33-1/2 to 35 cents per share during 1983, bringing the total indicated annual dividends to $1.40 per share.

Because of the difficult times being experienced by our nation and because of the unsure world situation, we believe that the electric utility industry must assume a leadership role. El Paso Electric is considered by many as a role model.

We take our responsibilities to our community very seriously. We have an obligation to provide the best, most reliable electric service to our customers. Equally important is our responsibility as a major corporate citizen.

In recognition of this important mission, El Paso Electric has committed its human and financial resources to building generation, transmission and distribution facilities which are necessary to meet the needs of our customers.

Additionally, under the Plan, we have held down and cut costs at every opportunity. Later in this report, a more detailed summary is provided; however, at least $36 million was saved during 1983. These savings were made in every facet of the Company's operations. The bulk savings, $22 million, were provided by judicious purchases of economy energy. This source of energy may not be available in the future; however, we intend to make the best use of these purchases for as long as they are available.

The strategic goal to diversify the Company's fuel mix remains high on our list of priorities. While the situation in the Middle East continues to deteriorate with the prospects of renewed oil and gas shortages, we are continuing our program to change from 80 percent gas and oil use to 80 percent coal and nuclear fuel by 1987. Only with such commitments as these will our nation regain control over its energy destiny.

At the Palo Verde Nuclear Generating Station, we are within sight of commercial operation. While being highlighted as one of the top three projects in the nation, we have experienced several delays due to technical problems. There may be additional problems encountered as all the components of Unit No. 1 are put through extensive testing. Even so, we are confident in the quality of construction, the attention to safety and the ability of the construction team to solve any problem which may arise. Palo Verde, which will provide pollution-free, reasonably-priced, reliable energy is a very important asset for four Western states.

We continue to work closely with our customers. We have made our services more accessible by opening branch offices and drive-up windows. Our Star Services program provides assistance to the disabled, the elderly and those in a temporary financial strain, without putting a burden on the rest of our customers. For those who need additional assistance, Project CARE fills the gap by providing cash relief, neighbor-helping-neighbor in time of need. Employees, Shareholders and customers all participated by contributing more than $81,000 to help 654 families during 1983.

Our commitment extends beyond our customers' individual needs as we maintain a leadership role in the community's revitalization effort through Renaissance 400 and Franklin Land & Resources, Inc., the Company's wholly owned Subsidiary.

Renaissance 400, chaired by your President, is committed to a better El Paso. This community group acts as the catalyst to bring about revitalization of our total city, to promote jobs, new business and industry, tourism and industrial development for the area. A vigorous service area means a strong Electric Company.

Franklin, on the other hand, is meeting its role as an important development and financial organization. It does so by accomplishing those projects which others are unable to undertake and provides an important "financial bridge" to make things really happen.

Throughout all the changes and pressures, our employees have shown great faith in the Company and the community through an unprecedented commitment of personal time and money. To show its appreciation for these efforts, the United Way of El Paso presented your Company with the prestigious 1983 Community Involvement Award. Additionally, during 1983, our employees took the oppor-

tunity to acquire Common Stock in the amount of more than $3.7 million, a strong vote of confidence.

During 1983, there were some changes which took place within our Board of Directors and our top management team. These changes include the election of three new Board Members: H. M. Daugherty, Jr., Chairman and Chief Executive Officer of the State National Bank; Tom C. Simpson, Mesilla Valley farmer; and Wilfred E. Binns, owner of Binns Construction and Realty in Las Cruces, New Mexico. The election of the new Directors filled the vacancies created by the death of Robert E. Boney and the retirement of George G. Matkin, and increased the Company's Board from nine to 10 members. Additionally, two of our Vice Presidents, Harry Zimmer, with 37 years, and James Jones, with 20 years of service, chose to retire. They were dedicated Officers and helped make El Paso Electric what it is today.

Finally, it must be said that the challenges we face are no longer the simple issues we confronted as El Paso Electric Railway Company. Times are difficult, the decisions are complex, but with a firm commitment to our Plan for Action and a belief that our course is true, we rededicate ourselves to carrying out our goals and objectives in the years ahead. We thank you—our Shareholder—for your support and dedication during the year.

Evern R. Wall

Evern R. Wall
President and Chairman of the Board

March 1, 1984

Commitment To Our Shareholders

We are committed to protecting and enhancing the Shareholders' investment.

El Paso Electric continues to fulfill its mission of protecting and enhancing the Shareholders' investment.

Revenues and Net Income

Total operating revenues for 1983 were $302,443,000 as compared with $271,048,000 in 1982. This represents an increase of $31,395,000, almost 12 percent above the comparable period in the prior year.

Net income for 1983 was $87,261,000 compared with $70,888,000 in 1982. Based on more than 31,765,000 weighted average number of Common Shares outstanding in 1983, net income per share of Common Stock increased 18 cents to $2.48. This net income per share is approximately 8 percent higher than in 1982, while weighted average outstanding shares increased by 14 percent.

Shareholder Information

Increasing by about 7 percent over 1982, the Company's Shareholders of record numbered more than 54,000 at the end of 1983.

The increase was achieved through both a Dividend Reinvestment Plan and a Customer Stock Purchase Plan. Under the Dividend Reinvestment Plan, Shareholders of record may purchase additional shares of Common Stock by reinvesting dividends and making optional cash payments of up to $3,000 per calendar quarter. At the end of 1983, more than 22,000 Shareholders were participating in the Plan. This was approximately 41 percent of the total Shareholders of record.

In January 1982, the Company implemented the Customer Stock Purchase Plan under which customers of record may purchase shares of Common Stock directly, and may have dividends on such shares reinvested in additional shares. At December 31, 1983, approximately 2,000 customers were participating in the Plan, and through that date, approximately 241,400 shares had been sold for approximately $3 million.

Dividends

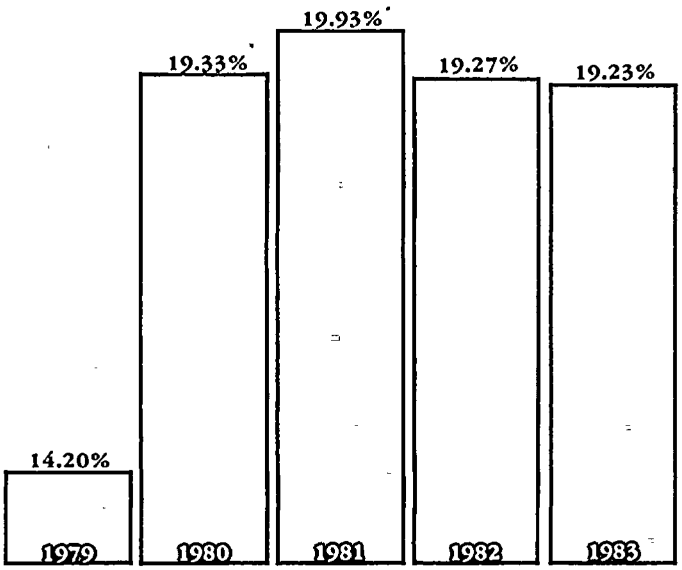
The Company paid quarterly cash dividends on its Common Stock in 1983 as it has without interruption since distribution of the Common Stock to the public 36 years ago. The annual dividend paid in 1983 was $1.37 per share. Beginning with the third quarter 1983 payment, the Board of Directors increased the quarterly dividend to 35 cents per share. The current indicated annual dividend rate is now $1.40 per share.

Financings

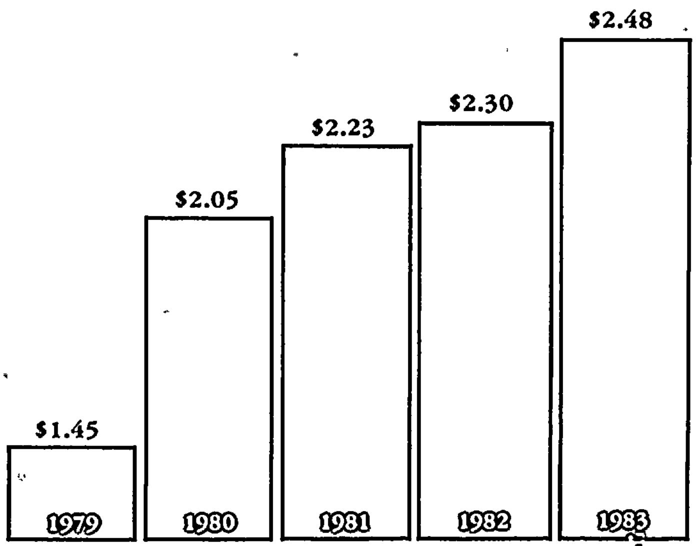
Construction requirements during the year were $200 million and the Company's need for borrowed funds continued.

In June 1983, the Company sold $25 million of Preferred Stock with a dividend rate of $10.125 per share. Later in the same month, $75 million in floating-rate, five-year term notes was issued and secured with Second Mortgage Bonds.

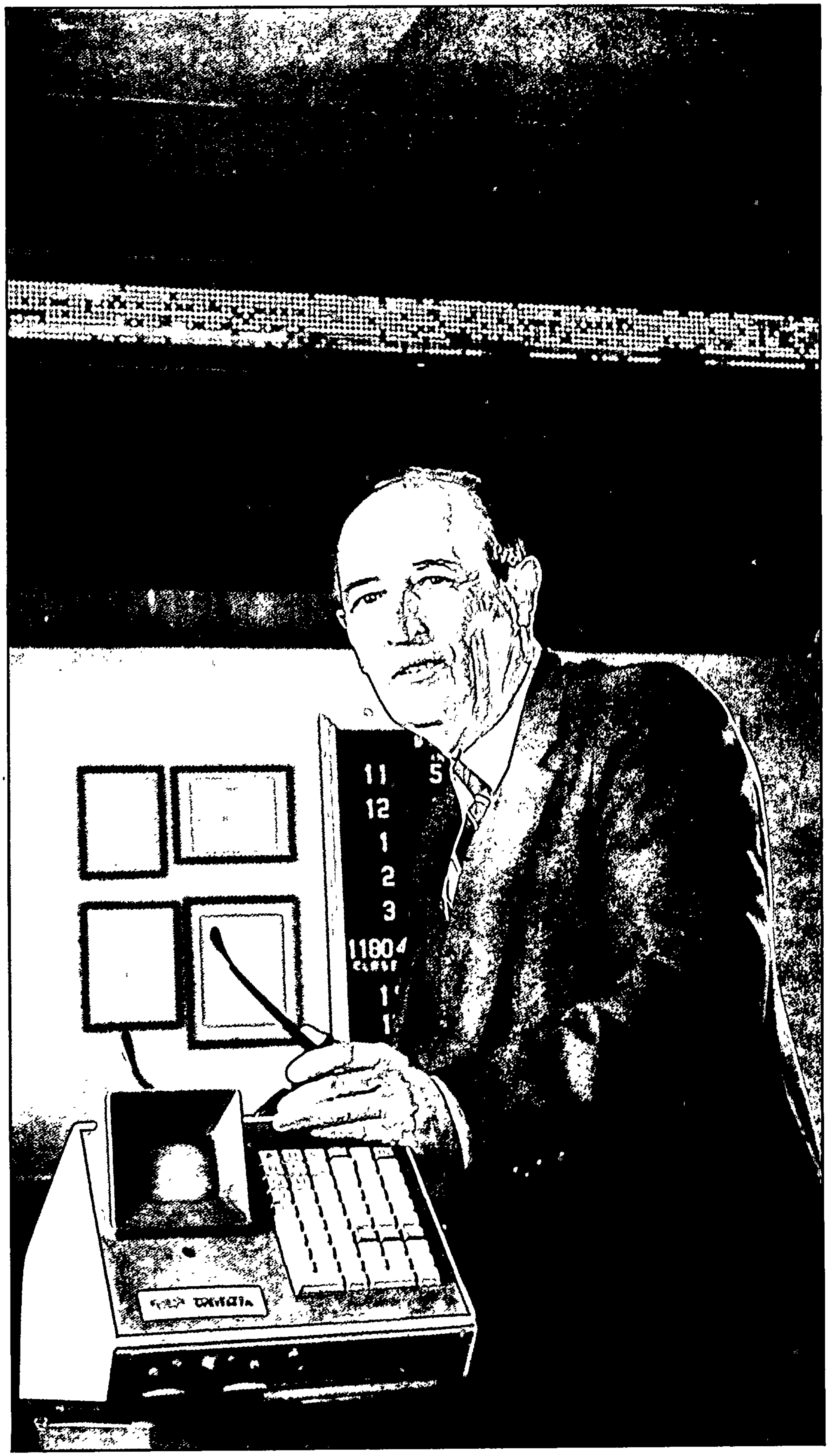
More than $133 million of pollution control financing was completed during the last quarter. Almost $100 million came from tax exempt bonds issued by pollution control authorities at a low 6 percent interest rate subject to annual adjustment. The remaining funds were obtained



Return on Average Common Equity



Earnings Per Share of Common Stock
(Based on Weighted Average Shares Outstanding)



Billye E. Bostic
Executive Vice President—
Financial Division

through pollution control bonds issued at a cost well below the prime lending rate, but subject to a favorable Internal Revenue Service ruling requested on the exempt tax status of the bonds.

Most of the pollution control money will be used for facilities at the Palo Verde Station, except for $35,805,000 which will be used in 1984 to redeem higher cost bonds previously issued to construct pollution control facilities at the Four Corners Power Station.

Cash Management

The Company's program to place lock boxes in various locations around the country continues to be successful. These boxes enable the Company's customers with out-of-town headquarters to make their payments to banks located in their cities. Thus, the Company receives the benefit of these funds much earlier than if payments were made by mail. The major cash management program, of course, involves the large volume of payments processed each day by the Company. Funds that are on hand at the close of business each day are invested overnight and on weekends. This effort provides interest income and earned the Company approximately $400,000 during 1983.

Cost Containment Program

As further evidence of the Company's determination to control its costs, 1983 marked a concerted effort in implementing a major cost containment program. These efforts resulted in savings of over $36 million and are highlighted below:

• *Capital Structure Modifications*
In 1983 the Company continued to meet a major long-term goal of lowering the cost of capital through various measures. Wherever possible, El Paso Electric refinanced long-term debt at lower rates and utilized short-term financing where it was most efficient. Total estimated savings through modifications of the capital structure were about $1.2 million.

• *Off-System Purchases*
The Company's System Controllers make hourly contacts with a number of other utilities, "shopping" for lower cost electricity as compared with the Company's generating costs. During 1983, economy purchases made through this effort saved our customers a total of $22 million.

• *Generation Cost Containment*
With the completion of new transmission lines, and the prospects of nuclear fuel generation on the horizon, the Company has acquired a much better negotiating position with its fuel suppliers. Recently, negotiations with natural gas suppliers resulted in substantial savings in the price of fuel. In addition, the Company's fuel oil inventory was reduced, the heat rate for generation was improved and a power plant water conservation program was instituted, all resulting in an approximate $6.4 million savings.

• *Administrative and General Cost Reductions*
The Company operated in 1983 with a hiring freeze on additional employees and implemented an early retirement "window." Also, a "bonus" Employee Suggestion Program was implemented. These efforts saved the Company almost $2.6 million.

• *Regulatory Affairs*
The Company's efforts to negotiate rate increases were beneficial to both the Company and the customers in New Mexico during 1983. The negotiated settlement, in September 1983, of the Company's New Mexico rate case, resulted in an estimated savings of $700,000.

Rates

The Company's money-saving program has been very important in containing costs and reducing the amount of additional revenues requested through rate increases. Even with this effort, the expense of providing electricity continues to escalate rapidly, and has resulted in the necessity to file periodically for higher rates.

During 1983, an $8.7 million rate increase was approved by the New Mexico Public Service Commission for the New Mexico retail service area.

The Texas Public Utility Commission approved a $35.5 million rate increase for the Company's Texas service area effective January 1983.

In February 1984, the Company filed with the Federal Energy Regulatory Commission for an increase in its wholesale rates. Additionally, during 1984, the Company expects to file a rate case with the Texas Commission and is presently evaluating the prospects of filing for a rate increase in its New Mexico service area.

Left
William J. Johnson
Controller

Right
Theta S. Fields
Secretary

Commitment To Our Customers

Providing a quality of service to customers at least equal to the highest standards in the industry is a Corporate goal.

El Paso Electric provides reliable service to more than 158,000 customers in Texas and more than 40,000 in New Mexico.

El Paso is known as the Buckle on the Sunbelt and is one of the fastest growing cities in the country. The other major city served by the Company is Las Cruces, New Mexico, a dynamic and progressive city known for its research into alternative energies and a rich history dating back to the Conquistadores. Light manufacturing makes up the majority of the industrial activity throughout the El Paso/ Las Cruces area.

El Paso Electric's service area extends along the Rio Grande Valley, 110 miles northwest of El Paso to the Caballo Dam, New Mexico and approximately 120 miles southeast to Van Horn, Texas.

The economy of our Southwest area is diversified and multifaceted.

The area served is home to numerous commercial activities such as copper smelting, cotton farming, apparel manufacturing and tourism. In recent years, electronics manufacturing and several high technology industries have located in the area.

Capacity

The Company has a net generating capacity of 990 megawatts, consisting of 333 megawatts at its Rio Grande Power Station in New Mexico, 477 megawatts at its Newman Power Station in Texas, 69 megawatts at its Copper Power Station and an entitlement of 111 megawatts from its undivided 7 percent interest in two generating units at the Four Corners Project in northwestern New Mexico.

Construction

The Company also has a 15.8 percent undivided interest in each of the three 1,270 megawatt nuclear generating units under construction at the Palo Verde Nuclear Generating Station near Phoenix, Arizona.

A major undertaking, which will provide the Company with electric supply stability and versatility, is the construction of a 345,000 volt transmission line between AMRAD Substation located on the White Sands Missile Range and Artesia, New Mexico. The project, which began in April 1983, involves 125 miles of transmission line linking El Paso Electric to Southwestern Public Service Company. The next step of the project, which will be completed in early 1984, is to construct a line from the AMRAD Substation to the El Paso service area.

Sales

During 1983, the El Paso/Las Cruces area continued to be one of the fastest growing areas in the country. The total number of residential customers increased to 174,300, or almost 3 percent over 1982, while the small commercial and industrial customers increased by 570, or 3.3 percent over the previous year. While the load demand increased to 746 megawatts for only 0.3 percent over 1982, the energy sales increased over 3 percent. Reserve margins experienced over the peak day, September 2, 1983, indicated 24 percent capacity left available for emergency use.

Customer Service

In our efforts to provide better, more convenient service to our customers, we have opened full-service branch offices throughout the service area. Outlying offices have made bill paying more convenient for our customers and provided the Company with increased control in the collection of delinquent accounts.

The number of customers receiving assistance from the Company's Star Services program increased by 46 percent during 1983. The program specifically aids persons on fixed incomes, senior citizens and those in a temporary financial bind with their bills. Star Service specialists are knowledgeable and skilled in determining which of several payment plans best suits the individual's need.

The Company has implemented an additional program entitled Project CARE which helps the elderly, handicapped or individuals experiencing financial crisis in meeting their electric bills. Contributions are provided by employees, customers and Shareholders, all having helped a total of 654 families throughout the service area. Distribution of Project CARE funds was administered without any administrative costs through various existing social service organizations.

The Consumer Advisory Council (CAC) was formed at El Paso Electric in 1981. Initially, the group concentrated on services available from the Company to senior citizens. In 1982, it was decided to expand the Council to investigate ways the Company could assist all customers. In 1983, the CAC began a year-long orientation program which took them to Palo Verde and the Four Corners generating facilities. The Council continues to offer valuable insight and criticism to the Company which has helped improve customer programs, such as Star Services and Project CARE. Plans for 1984 include a review of the Company's rate structure and its communications programs with the public.

Left
William W. Royer
Treasurer &
General Counsel

Right
Ignacio R. Troncoso
Vice President—
Engineering, Transmission
& Distribution

Commitment To Our Employees

El Paso Electric is dedicated to providing an enriching and satisfying place for its employees to work.

At the end of the year, the Company operated with a total of 1,078 employees, a reduction of 31 from the 1982 end of year level. The Company's Affirmative Action Plan was reviewed and revised in 1983, and an audit of the Company's program was conducted by the Office of Federal Contract and Compliance. The review found the Company to be in compliance with federal guidelines regarding equal opportunity.

The policy to not hire additional employees during 1983 did not dampen employment opportunities. The percentage of minorities increased from 54 percent in 1982 to 55 percent in 1983, and the number of females in the work force was up from 30 percent in 1982 to 31 percent in 1983.

El Paso Electric employees are provided a number of opportunities to broaden their work and career knowledge by participation in various training and educational programs. Classes on a variety of subjects were offered for employees at the Company's facilities by El Paso Community College, and other employees took advantage of the "work hours variance" policy to attend local universities.

Training for employees involved in the "crafts" is administrated through a joint Union-Company Training Committee. On-the-job training is extremely important and includes the efforts of all the 324 employees who are members of the Local Union No. 960 of the International Brotherhood of Electrical Workers (IBEW). A two-year labor agreement between the Company and IBEW was finalized February 29, 1984, and became effective March 1, 1984. IBEW employees represent 30 percent of the Company's workforce.

Employee Suggestion Program

Employees enthusiastically participated in the Company's overall cost containment efforts by taking part in a "bonus" Employee Suggestion Program—"Electric Ideas."

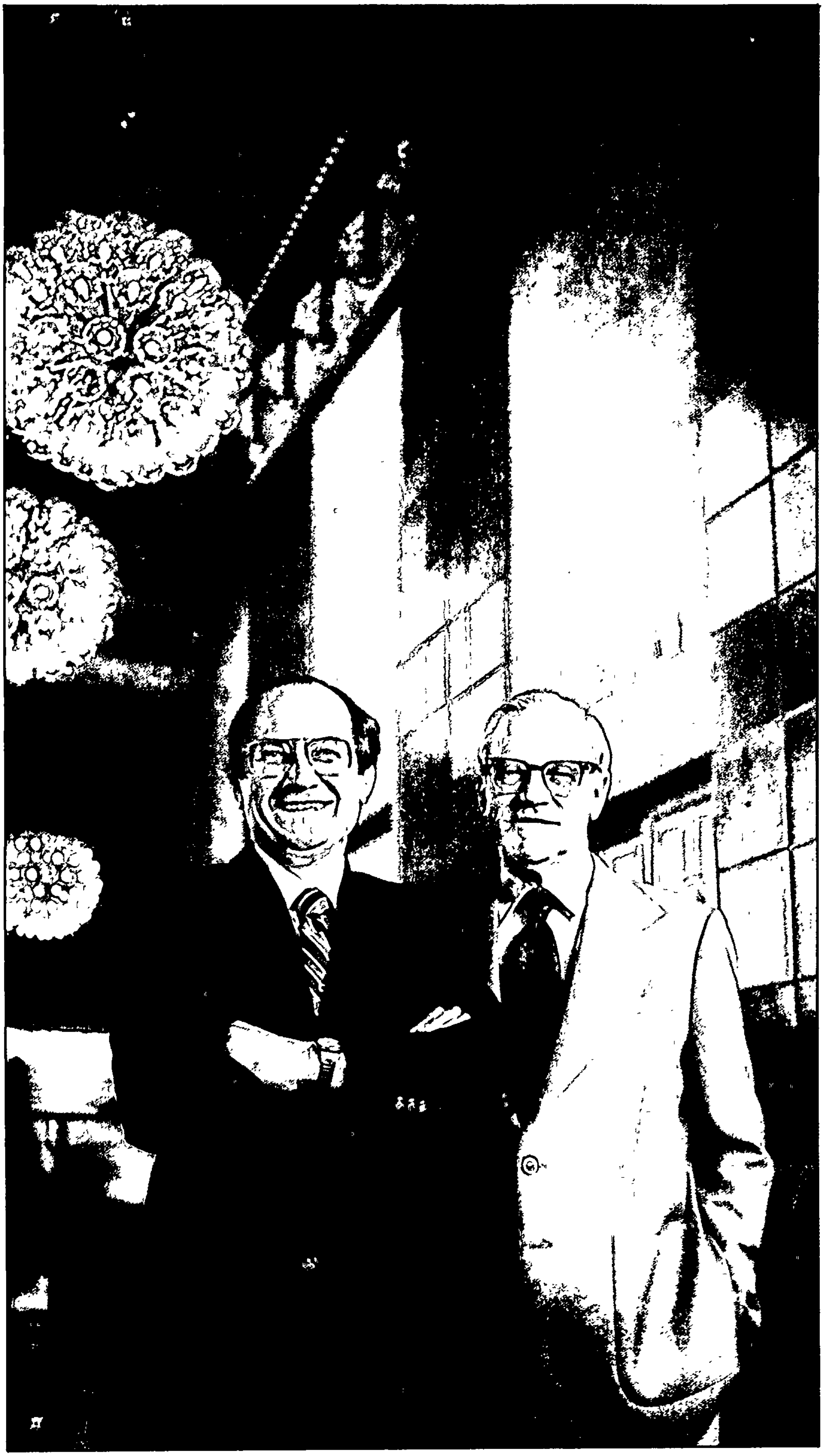
Employees examined procedures and methods related to their jobs as well as operations in other areas of the Company and submitted suggestions for improvements in specific areas. The majority of ideas offered measurable cost savings to the Company. Ideas submitted were reviewed by a committee who evaluated their worth. Employees whose ideas were implemented received an award depending on the range of savings realized by the suggestion.

Early Retirement

A total of 29 employees over 55 years of age and vested accepted the incentive to retire early under a special two-month "window."

In conjunction with the "window," a special early retirement seminar was offered to the retiring employees and their spouses to help prepare them for a new life style.

El Paso Electric's retired employees continue to help the Company meet its objectives by being an active and vital group in the community.



Left
Charles Mais
Vice President—
Administrative Division

Right
Ralph G. Crocker
Assistant to the President

Community Services

The Company's employees are dedicated to carrying out the Company's goal to cooperate with and serve the educational institutions located in the service area. In 1983, the Community Services employees contacted more than 58,000 persons through the various energy education programs. Programs were presented in the schools and to community groups with the Company's Speakers Bureau reaching almost 3,000 members of the community.

Mesilla Valley Division

The Company's Mesilla Valley Division is headquartered in Las Cruces, New Mexico, where growth has continued at a steady pace. Along with a residential growth rate of 3.7 percent, three new large customers were added to the Division's service area. They were the Air Force space communication installation near the NASA facility at Organ, New Mexico, the medium security prison west of Las Cruces, and the Cruces del Norte Shopping Center.

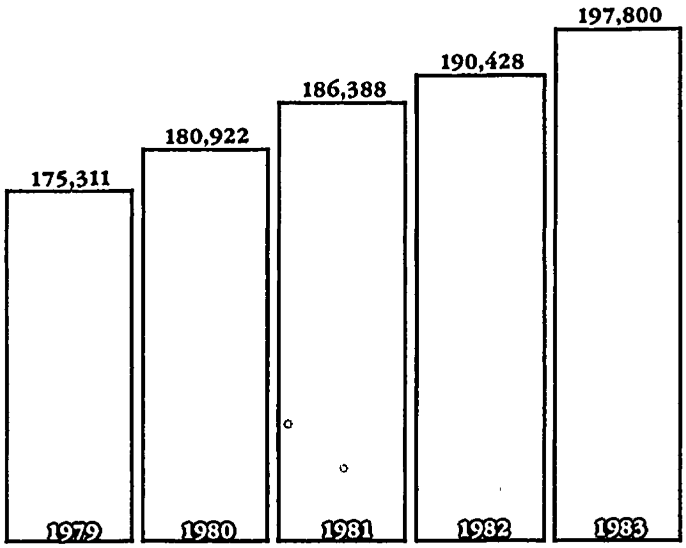
The addition of these customers brings industrial diversity to the service area and increases the Company's ability to supply more economical energy over a wider rate base. Also, by year-end, a new 10-year contract, to supply the electrical power needs of the military's White Sands Missile Range in New Mexico, was successfully negotiated. Similarly, a new 10-year contract to provide electrical service to Holloman Air Force Base is expected to be finalized early in 1984. At the end of the year, the Mesilla Valley Division changed management when Lawrence M. Downum, Jr. was elected by the Company's Board of Directors as Vice President of the Division, replacing James Jones who retired. Downum has been with the Company for 23 years and at the time of his promotion was Assistant Vice President in the Mesilla Valley Division.

Customer Opinion Survey

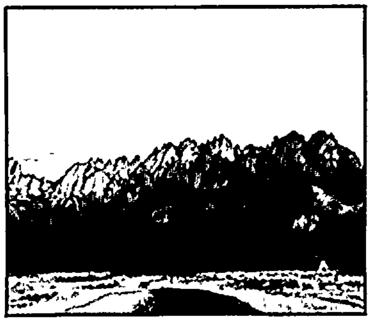
During October 1983, El Paso Electric sponsored an opinion survey among residential customers in the service area to assess the job the Company is doing in providing electricity. The survey was designed to gather information about customers' attitudes and opinions. The results will help guide the Company in planning its communications and public relations activities to meet its customer's present needs as well as those likely to emerge in the future.

The survey of 816 customers in El Paso and Las Cruces found an improvement in customer perceptions of the job El Paso Electric employees are doing. Though customers believe their rates are high, they are generally realistic and realize the cost is due to many economic factors.

The Company believes the improvement in customer attitudes, from a survey conducted in 1979, is due to the hard work and dedication to providing the best possible service to the customers by all employees. Each employee in the course of dealing with both customers and friends, reflects the dedicated corporate image of El Paso Electric.



Number of Customers (All Classes)



Left
Lawrence M. Downum
Vice President—
Mesilla Valley Division

Right
Evern R. Wall
President &
Chairman of the Board

Look To The Future

El Paso Electric's long term goal is to provide the most reliable service to its customers at the most reasonable cost.

While the Company does not compete with any other electric utility in the service area, competition among utilities across the country is increasing. Utilities seek to attract large industries to their service area in order to spread capital costs over a larger base. Such efforts benefit all customers by helping to lower the unit price and stabilizing the cost of electricity.

El Paso Electric is also engaged in a number of efforts to increase the use of electricity in an efficient manner. These include working with the Chambers of Commerce, Industrial Development Corporations and cities to promote a planned growth in the area. Also under consideration are a variety of alternatives for developing an innovative pricing structure which would improve the overall load factor. These include implementing time-of-day rates, off-peak rates and special nighttime rates. Additionally, the Company's Subsidiary, Franklin, has positioned itself to help new industry with financial assistance when needed. This assistance includes such efforts as a purchase and leaseback arrangement for buildings and new equipment, and when appropriate, providing equity funds.

Off-System Purchases and Sales

The Company has continued to make off-system purchases when the price of buying electricity is less than the cost of generating locally.

During the past 10 years, a strong transmission system has been constructed to inter-tie El Paso Electric with other utilities across the western United States. These transmission ties have allowed the Company to buy or sell economy energy in the "spot" market. A decision to purchase energy from off-system hydroelectric, coal and nuclear plants may be made daily by the Company's System Controllers.

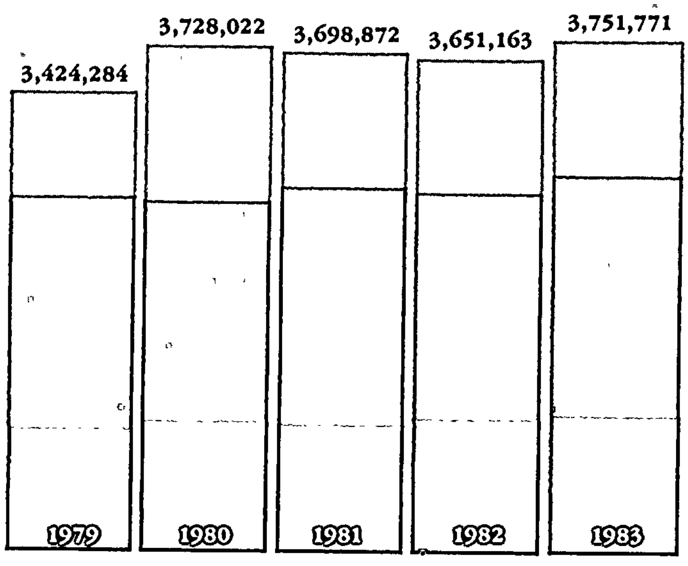
The results of the off-system purchase program during 1983 indicated much success. More than $22 million was saved, alleviating part of the effects of inflation in the price of electricity for our customers.

Palo Verde

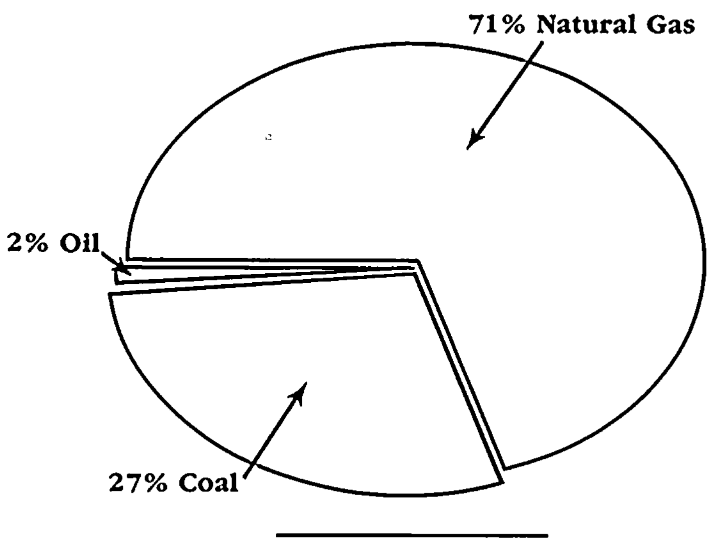
Construction activities at the Palo Verde Station continued to progress during 1983, and by year end, Units Nos. 1, 2 and 3 were approximately 99.5 percent, 98.7 percent and 83.2 percent complete, respectively.

Problems were encountered during testing of the operating systems at Unit No. 1 in July 1983, resulting in a six-month delay for each Unit's scheduled fuel loading and commercial operation date. As a result of this delay and other factors, the estimated total costs of the Company's 15.8 percent interest in the Station were increased from approximately $1.2 billion to $1.4 billion.

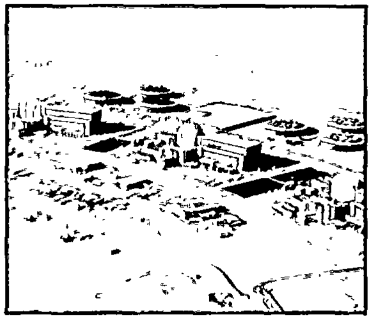
Steps are being taken to resolve the problems at Unit No. 1, and, as of this writing, corrective action has been decided and modifications are in progress to the safety injection system pumps which could not be completed as quickly as



Megawatt Hour Sales of Electricity



Fuel Mix for 1983



Palo Verde
Nuclear Generating Station

Left
Donald G. Isbell
Vice President—Energy Resources & Planning

Right
Rolland E. York
Senior Vice President—Power Supply

originally anticipated. In order to complete the modifications to the pumps and resolve certain procedural matters related to the Nuclear Regulatory Commission's (NRC) September 1983 inspection of the Palo Verde facilities, fuel loading at Unit No. 1 has been further delayed beyond its scheduled fuel loading date of May 1984. The length of the delay and its ultimate effect on the scheduled commercial operating of the Palo Verde Units, as well as on total project costs, cannot presently be determined. A better assessment of the extent of project delays is expected in mid March 1984, and the Company will thereafter address possible impacts on estimated project costs. Further delays and increased costs may be experienced during the testing, preoperational and start-up phases of the construction project.

While the NRC's reports on Palo Verde to date have been generally favorable, inspectors, in September 1983, in connection with a periodic inspection of the facilities, identified several areas in which correction or improvement is required and, in two instances, proposed minor fines. The problem areas identified are not regarded as material deficiencies, and appropriate action is being taken to respond to the NRC's concerns. Although material future difficulties in connection with NRC inspections and licensing are not anticipated, there can be no assurances that this will be the case.

The above discussed problems at Palo Verde are well on their way to resolution, and the Company is confident, based upon the quality of construction at Palo Verde, that satisfactory solutions will be found for any future problems should they occur.

Community Leadership

As a viable corporate entity operating within the community, El Paso Electric and its more than 1,000 employees actively participate in the life of the community in a variety of ways. Personal commitments to service organizations outside the Company are encouraged and volunteer efforts sponsored by the Company include Boys' Club, Junior Achievement, Chamber of Commerce, Explorers' Post, Girl Scouts, Boy Scouts, LULAC and many service organizations.

The responsibility for the welfare of the community is felt deeply by the employees, and it was manifested this year when El Paso Electric was recognized by the United Way of El Paso with its prestigious Community Involvement Award. Great and small, in a hundred different ways, Electric Company employees are active participants in the community in which they live and work.

It is in this spirit of corporate involvement that El Paso Electric's wholly owned Subsidiary Franklin Land & Resources, Inc., has helped the Company remain a leader in the community.

Franklin has used its principal strengths, sound financial management and planning, to provide a substantial capital investment in the Company's service area.

The first major undertaking was the acquisition and refurbishing of the historic Mills Building, now serving as the Company's corporate headquarters. More recent acquisitions included such historic landmarks as the Cortez and Paso del Norte Hotels. Both are in the midst of refurbishing as part of a major community-wide renovation program. The Cortez, to become an office building, is expected to open in late 1984, and the Paso del Norte Hotel is expected to open in the summer of 1985.

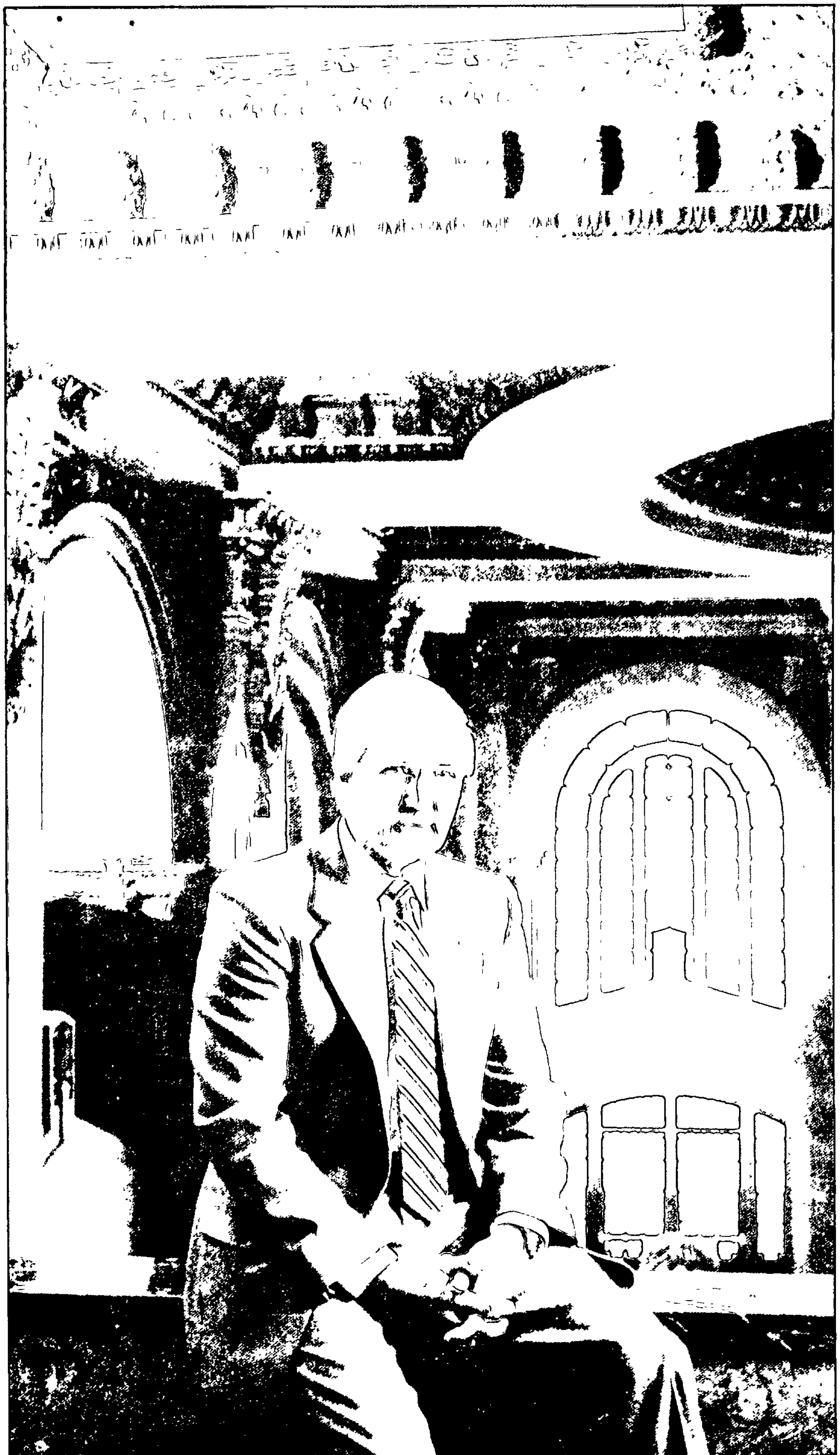
When completed, these projects will provide new hotel and office space, employment, increased tax revenue for the city and increased electric revenue for the Company.

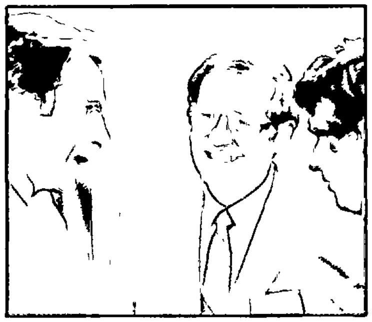
Because of Franklin's overall efforts in financial management involving tax shelters and investment tax credits, more than $3.8 million in revenue went to the benefit of El Paso Electric during 1983.

The trend toward self-help through the use of private sector initiatives and public-private partnerships is one of the most exciting movements that has taken place in our community. Last year our City experienced significant changes through the private sector initiative, El Paso Renaissance 400.

Renaissance 400, headed by the Company's President Evern R. Wall, is the catalyst for the private sector to achieve community-wide objectives traditionally associated with government. Renaissance celebrated its first full year of service while the City witnessed strong progress and a number of important accomplishments. These included adoption of the Clean Community Systems for a Cleaner City, a study and recommendations for a stronger police department, downtown transit and parking improvement efforts and a plan for an Arts and Culture Block.

Through the Company's involvement in this effort, the communities have begun important revitalization undertakings.





Robert E. Brown
President—Franklin Land & Resources

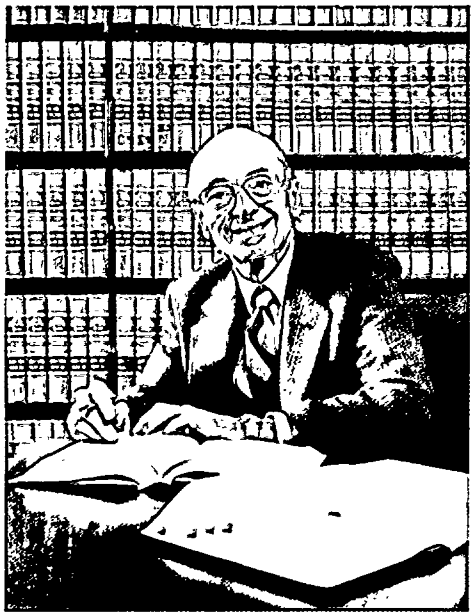
Directors of the Company

Evern R. Wall,*
President and Chairman of the Board (9).

Paul Harvey,*
Honorary Chairman of the Board of the Company, Investments (43).

Josefina A. Salas-Porras,
Interim Director of Radford School (private college preparatory school) (5).

Tad R. Smith,
Attorney, Kemp, Smith, Duncan & Hammond; Counsel for the Company (23).



Wilfred E. Binns,
Contractor and Owner of Binns Construction & Realty, Las Cruces, N.M. (1).

Robert H. Cutler,*
Chairman of the Board of Cutler Corporation; Vice Chairman, Illinois-California Express, Inc. (14).

Tom C. Simpson,
Mesilla Valley Farmer (1).

Leonard A. Goodman, Jr.,
Chartered Life Underwriter/
General Agent, John Hancock
Companies (5).

H. M. Daugherty, Jr.,
Chairman of the Board and
Chief Executive Officer of
the State National Bank (1).

Ben L. Ivey,
Farming (14).

Officers of the Company

Evern R. Wall,
President and Chairman of
the Board (26).

Billye E. Bostic,
Executive Vice President (36).

Rolland E. York,
Senior Vice President (33).

Lawrence M. Downum, Jr.,
Vice President (23).

Donald G. Isbell,
Vice President (19).

Charles Mais,
Vice President (29).

Ignacio R. Troncoso,
Vice President (14).

Ralph G. Crocker,
Assistant to the President (44).

William J. Johnson,
Controller (6).

Theta S. Fields,
Secretary (33).

William W. Royer,
Treasurer and
General Counsel (3).

Robert N. Hackett,
Assistant Vice President (13).

Robert L. Corbin,
Assistant Treasurer &
Assistant Secretary (35).

Richard E. Farlow
Assistant Treasurer (35).

Cecelia R. Shea,
Assistant Secretary (26).

Years of service ( ).

*Members of the Executive Committee.

1983 Financial Information

El Paso Electric Company and Subsidiary

Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity

Liquidity is a measure of a business' ability to provide cash from capital resources for normal operations and for expansion of its facilities necessary to provide its product at a reasonable cost. Capital resources include internal cash generation, short-term and long-term obligations, preferred and common stock and other financial arrangements. During a major construction program a utility's ability to secure capital resources from external financings, such as selling common stock, preferred stock and long-term obligations, may be the best measure of its liquidity. The following schedule summarizes how the Company met the challenge of generating sufficient funds for the years 1983, 1982 and 1981:

	1983	1982	1981
Net funds provided from financing	**$187,311**	$199,400	$139,797
Funds provided from operations—reinvested	**42,598**	26,834	35,010
Net other funds used .	**(30,684)**	(43,530)	(4,596)
Expenditures for utility plant and other plant	**$199,225**	$182,704	$170,211

The expenditures for utility plant and other plant include the borrowed portion of the allowance for funds used during construction (AFUDC) in the amounts of approximately $32,400,000, $33,000,000 and $22,400,000 for 1983, 1982 and 1981, respectively. AFUDC does not currently generate cash.

Based upon estimated costs prepared as of February 7, 1984 (before the effects of the delays in completion of Palo Verde, announced after February 7, 1984, could be determined) the Company estimated construction expenditures from January 1, 1984 through 1987 of approximately $497,300,000, which does not include AFUDC (net of related deferred tax) in the amount of $192,700,000. Of this amount approximately $312,900,000 which does not include AFUDC (net of related deferred tax) in the amount of $177,100,000, will be invested in construction of the Palo Verde Station and related transmission lines and switchyard facilities. Additionally, approximately $184,400,000, which does not include AFUDC (net of related deferred tax) in the amount of $15,600,000, will be invested in other projects currently under construction and planned for future years. The Company's wholly-owned subsidiary, Franklin Land & Resources, Inc. (the "Subsidiary"), has estimated construction expenditures for 1984 and 1985 of approximately $42,500,000. These estimates are reviewed and adjusted from time to time as necessary to reflect changed conditions.

Capital Resources

To provide funds for construction expenditures as well as funding mandatory preferred stock redemptions and long-term debt maturities, the Company will require substantial amounts of external financing during the period from 1984 through 1987. Such external financings may include a combination of first mortgage bonds, preferred stock, common stock (through the Company's dividend reinvestment and customer and employee stock purchase plans), pollution control bonds and other secured and unsecured debt. With respect to pollution control financing, the Company, providing certain conditions relating to the seeking of a favorable ruling from the Internal Revenue Service are satisfied, intends to borrow in 1984 the proceeds of an issue of pollution control bonds. A portion of such proceeds is expected to be applied to the refunding at maturity (later in 1984) of $34,000,000 in aggregate principal amount of pollution control bonds previously issued in December 1983. Up to $22,000,000 in additional pollution control funds are expected to be borrowed in early March 1984 on a short-term basis with the intention of obtaining tax-exempt refunding in 1984 if the ruling referred to above is forthcoming and certain other matters relating to proposed tax legislation are appropriately resolved. The Company also expects to make during 1984 private issuances of up to $175,000,000 in other long-term debt, including up to $50,000,000 in first mortgage bonds, and up to $50,000,000 in preferred stock. No underwritten public offering of common stock is expected in 1984. The timing and amount of external financing depends upon market conditions, rate increases and other factors, and the Company's 1984 financing plans are subject to adjustment to respond to such factors. The Company also uses short-term borrowings as a part of normal daily operations and to meet interim cash needs for construction projects, pending periodic reductions or repayment through long-term financing.

1983 Financial Information

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

At December 31, 1983, the Company and the Subsidiary had a total of approximately $157,100,000 of available lines of credit, of which approximately $25,200,000 had been used. The Subsidiary in August 1983 entered into construction loan agreements which provide in the aggregate for principal advances up to approximately $41,500,000 for the renovation of one hotel building and restoration and conversion to an office building of another hotel building owned by the Subsidiary in El Paso, Texas. On December 31, 1983, the aggregate amount advanced on the loans was approximately $9,100,000. It is currently estimated that the aggregate costs of these two projects will be approximately $52,000,000 and that the office building conversion will be completed in September 1984 and that the hotel renovation project will be completed in July 1985.

Further, at December 31, 1983, approximately $30,500,000 on deposit with a trustee was available to the Company for the construction of pollution control facilities.

At December 31, 1983, an additional $223,100,000 in first mortgage bonds and $174,300,000 in preferred stock could have been issued under the most restrictive provisions of the Company's First Mortgage Indenture and its Restated Articles of Incorporation.

Results of Operations

The primary reasons for increases (decreases) in results of operations for the year ended December 31, 1983 over the year ended December 31, 1982, and the year ended December 31, 1982 over the year ended December 31, 1981 are as follows (in thousands):

Operating Revenues	1983 over 1982	1982 over 1981
Base:		
Rates and/or change in sales mix:		
Texas	**$32,143**	$ 2,238
New Mexico	**5,470**	2,258
FERC	**(544)**	1,487
Volume	**4,575**	(239)
	41,644	5,744
Fuel:		
Recovery of fuel and purchased and interchanged power cost and other	**(10,249)**	14,339
Total	**$31,395**	$20,083

Base revenues increased due to an increase in base rates for Texas (effective January 1983) and New Mexico (effective with September 1982 customer bills). FERC base revenue decreased due to expiration of firm capacity contract in December 1982 and change in sales mix.

For 1983 over 1982, fuel revenues decreased as a result of a decrease in volume of fuel used, partially offset by increased purchases of electricity from other utilities. For 1982 over 1981, fuel revenues increased due to increased fuel costs and purchases of electricity from other utilities partially offset by a decrease in the volume of fuel used.

Fuel and Purchased and Interchanged Power Expense	1983 over 1982	1982 over 1981
Fuel:		
Volume and average cost of fuel	**$(17,468)**	$ (8,850)
Other	**(947)**	—
	(18,415)	(8,850)
Purchased and interchanged power:		
Volume	**14,139**	18,807
Cost	**(6,842)**	6,024
	7,297	24,831
Total	**$(11,118)**	$15,981

Fuel expense decreased and purchased and interchanged power expense increased as a result of increased purchases of lower cost electricity from other utilities.

The Company's primary fuel source for generation of electricity has been natural gas (71% in 1983, 80% in 1982 and 86% in 1981). Natural gas will likely continue to be the Company's primary fuel source until the Palo Verde Station starts commercial operation.

Other Operations Expense	1983 over 1982	1982 over 1981
Employee pensions and benefits	**$5,853**	$ 802
Other	**2,902**	3,796
Total	**$8,755**	$4,598

Employee pensions and benefits increased in 1983 compared to 1982 because of an increase in costs of employee benefits and implementation of an early retirement plan. In 1982 funding of the pension plan was increased over 1981.

For 1983 over 1982, other operations expense increased as a result of increased payroll and regulatory commission expense. For 1982 compared to 1981, other operations expense increased due to increased payroll, rent and customer records and collections expense.

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Results of Operations (Continued)

Federal Income Tax Expenses—Operating

	1983 over 1982	1982 over 1981
Federal income taxes current	$ 7,795	$ (235)
Federal income taxes deferred	(7,097)	6,405
Charge equivalent to investment tax credit, net of amortization	13,379	(11,439)
Total	$14,077	$ (5,269)

Federal income taxes current and charge equivalent to investment tax credit increased in 1983 compared to 1982 and decreased in 1982 compared to 1981 as a result of changes in taxable income.

The reasons for the decreased provision for deferred Federal income taxes in 1983 compared to 1982 are increased deferred revenues and costs of employee benefits and early retirement plan. The provision for deferred taxes related to the borrowed portion of AFUDC increased in 1982 compared to 1981.

Allowance for Funds Used During Construction

	1983 over 1982	1982 over 1981
Cumulative expenditures	$25,356	$23,511
Change due to CWIP included in rate base	(19,963)	—
Total	$ 5,393	$23,511

During 1983 and 1982 AFUDC increased due to continued increases in cumulative construction expenditures principally associated with the Palo Verde Station. The increase in 1983 was less than 1982 as a result of an increase in CWIP included in rate base for the Company's Texas jurisdictional rates from approximately $113 million in 1982 to approximately $270 million effective January 1983.

AFUDC, net of deferred Federal income taxes on the borrowed portion of AFUDC, amounted to 75%, 84% and 70% of net income applicable to common stock and net income per share during the years ended December 31, 1983, 1982 and 1981, respectively. See Note A of Notes to Consolidated Financial Statements for further details and a discussion of the non-cash nature of AFUDC.

Interest and Net Investment Income

	1983 over 1982	1982 over 1981
Interest income	$ (2,509)	$1,286
Net investment income	2,167	501
Total	$ (342)	$1,787

For 1983 over 1982, interest income decreased as a result of compliance with a Federal Energy Regulatory Commission accounting release which required interest income earned on proceeds of pollution control bonds held in trust after May 1, 1983 to be accounted for as a reduction of construction work in progress. Interest income earned from such trust funds was included in income during the period from June 1981 through April 30, 1983.

Net investment income increased due to increased income from dividends, net of expenses, for 1983 over 1982 and increased income from dividends and tax leases, net of expenses, for 1982 over 1981.

	1983 over 1982	1982 over 1981
Interest on Long-Term Obligations	$12,506	$9,365

Issuance of additional first mortgage bonds and long-term floating rate notes resulted in an increase in interest expense on long-term obligations.

	1983 over 1982	1982 over 1981
Other Interest Expense	$ (7,117)	$1,744

Other interest expense decreased due to decreases in the average short-term debt rate (from 14.1% to 9.3%) and average short-term debt outstanding for 1983 over 1982. Other interest expense increased in 1982 compared to 1981 due to an increase in average short-term debt outstanding offset by a decrease in the average short-term debt rate (from 16.9% to 14.1%).

Supplemental Information Concerning the Effects of Inflation

Information required with respect to the effects of inflation is included on pages 41 through 43 of this report.

1983 Financial Information

Market for the Registrant's Common Equity and Related Stockholder Matters

The Company's common stock is traded in the over-the-counter market. The bid quotations, as reported by the National Association of Securities Dealers Automated Quotations System ("NASDAQ") and published by The Wall Street Journal, for the periods during 1982 indicated below, were as follows:

	Bid Quotation	
	High	Low
1982		
First Quarter	11-1/8	10
Second Quarter (through May 31)	11-5/8	10-1/2

The above quotations are interdealer prices, do not include retail mark-up, mark-down, or commission and may not necessarily represent actual transactions.

Effective June 1, 1982, the Company's common stock was included in the NASDAQ National Market System. The high and low sale prices for the Company's common stock as reported by the NASDAQ National Market System and published by The Wall Street Journal, for the periods during 1982 and 1983 indicated below, were as follows:

	Sale Price	
	High	Low
1982		
Second Quarter (beginning June 1)	11	10-1/2
Third Quarter	12-1/8	10-3/8
Fourth Quarter	12-5/8	11-1/8
1983		
First Quarter	14-1/8	12
Second Quarter	15-3/8	12-3/4
Third Quarter	14-3/8	13-1/4
Fourth Quarter	15-3/4	13-1/8

The quarterly dividends per share paid by the Company on its common stock during the years 1982 and 1983 were as follows:

	Dividends
1982	
First Quarter	$0.32
Second Quarter	0.32
Third Quarter	0.335
Fourth Quarter	0.335
1983	
First Quarter	0.335
Second Quarter	0.335
Third Quarter	0.35
Fourth Quarter	0.35

At February 29, 1984, there were approximately 54,060 holders of record of the Company's common stock.

The Company's Restated Articles of Incorporation and the First Mortgage Indenture and certain of the supplemental indentures relating to the various series of First Mortgage Bonds contain restrictions as to the payment of dividends on the common stock of the Company and as to the purchase or retirement of capital stock of the Company. At December 31, 1983, the amount available for dividends on the common stock under the most restrictive of those provisions was approximately $99,500,000.

The Company has paid quarterly dividends on its common stock without interruption since distribution of the common stock to the public in 1947 (36 years).

At its meeting in January 1984, the Board of Directors declared a cash dividend of $0.35 per share, payable March 15, 1984, to common shareholders of record at the close of business on February 27, 1984. The current indicated annual dividend rate is $1.40 per share. The Company intends to continue to pay quarterly dividends on its common stock, but future dividends will depend upon earnings, cash flow, the financial condition of the Company and other factors.

1983 Financial Information

El Paso Electric Company and Subsidiary

Consolidated Balance Sheets

ASSETS

	December 31, 1983	December 31, 1982
	(In thousands)	
Utility plant:		
Electric plant in service	$ 367,847	$ 354,036
Less accumulated depreciation and amortization	114,887	102,985
Net plant in service	252,960	251,051
Construction work in progress	969,541	747,551
Held for future use	7,927	7,927
Net utility plant	1,230,428	1,006,529
Nonutility property, at cost net of accumulated depreciation of $569,000 and $428,000, respectively	13,360	9,214
Investments	43,996	45,219
Current assets:		
Cash and temporary investments	42,903	9,482
Accounts receivable, principally trade (less allowance for doubtful accounts of $548,000 and $450,000, respectively)	31,737	25,051
Federal income taxes refundable	2,698	2,694
Inventories:		
Materials and supplies	4,997	5,152
Fuel	9,159	12,161
Prepayments	3,610	3,082
Other	3,327	1,525
Total current assets	98,431	59,147
Deferred charges and other assets	7,068	12,517
Total assets	$1,393,283	$1,132,626

See accompanying notes to consolidated financial statements.

1983 Financial Information

El Paso Electric Company and Subsidiary

Consolidated Balance Sheets

CAPITALIZATION AND LIABILITIES

	December 31, 1983	December 31, 1982
	(In thousands)	
Capitalization:		
Common stock, no par value, 40,000,000 shares authorized.		
Issued and outstanding 32,499,417 and 31,282,382 shares, respectively	$ 296,650	$ 279,276
Retained earnings	141,244	106,141
Common stock equity	437,894	385,417
Preferred stock, cumulative, no par value, 2,000,000 shares authorized:		
Redemption required, issued and outstanding 884,000 and 638,000 shares, respectively	88,400	63,800
Redemption not required, issued and outstanding 190,000 shares	18,873	18,873
Long-term obligations	503,163	400,149
Total capitalization	1,048,330	868,239
Current liabilities:		
Current portion of long-term obligations	31,724	7,712
Pollution control bonds	32,011	—
Notes payable banks	8,509	8,236
Notes payable other	25,195	20,257
Commercial paper	47,350	66,140
Fuel purchase commitment	9,075	12,082
Accounts payable, principally trade	10,114	12,444
Taxes accrued	13,039	8,558
Interest accrued	10,374	11,008
Other	11,234	4,724
Total current liabilities	198,625	151,161
Deferred credits and other liabilities:		
Accumulated deferred Federal income taxes	84,268	65,848
Accumulated deferred investment tax credit	57,985	43,545
Other	4,075	3,833
Total deferred credits and other liabilities	146,328	113,226
Commitments and contingencies		
Total capitalization and liabilities	**$1,393,283**	**$1,132,626**

See accompanying notes to consolidated financial statements.

1983 Financial Information

El Paso Electric Company and Subsidiary

Consolidated Statements of Income

For the years ended December 31, 1983, 1982 and 1981

	1983	1982	1981
		(In thousands)	
Operating revenues	$302,443	$ 271,048	$ 250,965
Operating expenses:			
Operations:			
Fuel	80,883	99,298	108,148
Purchased and interchanged power	34,679	27,382	2,551
Other	42,466	33,711	29,113
Maintenance	11,736	10,323	10,087
Depreciation and amortization	11,740	10,906	10,508
Taxes:			
Federal income, current	11,251	3,456	3,691
Federal income, deferred	12,313	19,410	13,005
Charge equivalent to investment tax credit, net of amortization	14,445	1,066	12,505
Other	16,724	14,880	11,072
	236,237	220,432	200,680
Operating income	66,206	50,616	50,285
Other income (deductions):			
Allowance for equity funds used during construction	41,660	35,748	22,813
Interest and net investment income	4,028	4,370	2,583
Other, net of expenses	(267)	132	(176)
Federal income taxes applicable to other income	593	(641)	(1,065)
	46,014	39,609	24,155
Income before interest charges	112,220	90,225	74,440
Interest charges (credits):			
Interest on long-term obligations	49,272	36,766	27,401
Other interest	8,845	15,962	14,218
Other interest capitalized	(723)	(437)	(1,498)
Allowance for borrowed funds used during construction	(32,435)	(32,954)	(22,378)
	24,959	19,337	17,743
Net income	87,261	70,888	56,697
Preferred stock dividend requirements	8,501	7,075	7,118
Net income applicable to common stock	$ 78,760	$ 63,813	$ 49,579
Net income per share of common stock, (based on weighted average number of shares outstanding during the period)	$2.48	$2.30	$2.23
Dividends declared per share of common stock	$1.37	$1.31	$1.25
Weighted average number of common shares outstanding	31,765,021	27,762,457	22,250,664

See accompanying notes to consolidated financial statements.

1983 Financial Information

El Paso Electric Company and Subsidiary

Consolidated Statements of Retained Earnings

For the years ended December 31, 1983, 1982 and 1981

	1983	1982	1981
		(In thousands)	
Retained earnings at beginning of year	$106,141	$ 79,602	$ 59,383
Add:			
Net income	87,261	70,888	56,697
	193,402	150,490	116,080
Deduct:			
Cash dividends:			
Preferred stock	8,501	7,075	7,118
Common stock	43,516	36,890	28,448
Capital stock expense	141	384	912
	52,158	44,349	36,478
Retained earnings at end of year	$141,244	$106,141	$ 79,602

See accompanying notes to consolidated financial statements.

1983 Financial Information

El Paso Electric Company and Subsidiary

Consolidated Statements of Sources of Funds
Invested in Utility Plant and Other Plant

For the years ended December 31, 1983, 1982 and 1981

	1983	1982	1981
		(In thousands)	
Funds provided from operations:			
Net income	**$ 87,261**	$ 70,888	$ 56,697
Principal items not requiring current funds:			
Depreciation and amortization	**11,740**	10,906	10,508
Deferred Federal income taxes, net	**22,143**	23,121	12,979
Investment tax credit, net	**14,440**	1,062	12,492
Allowance for equity funds used during construction	**(41,660)**	(35,748)	(22,813)
Other	**691**	570	713
Funds provided from operations	**94,615**	70,799	70,576
Less dividends	**52,017**	43,965	35,566
Funds provided from operations—reinvested	**42,598**	26,834	35,010
Funds provided from financing:			
Sales of securities:			
Common stock	**17,374**	69,128	47,845
Preferred stock	**25,000**	—	—
First mortgage bonds	**—**	60,000	40,000
Secured promissory notes	**84,094**	75,000	—
Pollution control obligations, net of amounts on deposit with trustee	**57,515**	8,108	4,943
Unsecured promissory notes	**—**	13,685	2,434
Other long-term obligations	**1,241**	1,259	1,967
Transfer of long-term obligations to short-term obligations	**(31,724)**	(7,712)	(1,736)
Redemption of long-term obligations	**(8,233)**	(304)	—
Redemption of preferred stock	**(400)**	(400)	(400)
Net increase (decrease) in short-term obligations*	**42,444**	(19,364)	44,744
Net funds provided from financing	**187,311**	199,400	139,797
Other funds provided (used):			
Subsidiary investments	**(4,376)**	(40,567)	(8,480)
Net (increase) decrease in working capital other than short-term obligations, principally cash and temporary investments	**(34,264)**	7,034	(2,494)
Earnest money deposits (refund)	**—**	(3,500)	3,500
Sale of nuclear fuel and other property	**—**	—	5,660
Net change in deferred accounts	**5,608**	(6,453)	(3,216)
Other, net	**2,348**	(44)	434
Net other funds used	**(30,684)**	(43,530)	(4,596)
Expenditures for utility plant and other plant	**199,225**	182,704	170,211
Allowance for equity funds used during construction	**41,660**	35,748	22,813
Funds invested in utility plant and other plant	**$240,885**	$218,452	$193,024

*Short-term obligations are represented by the current portion of long-term obligations, pollution control bonds, notes payable banks, notes payable other and commercial paper.

See accompanying notes to consolidated financial statements.

A. Summary of Significant Accounting Policies

General

The Company maintains its accounts in accordance with the Uniform System of Accounts prescribed for electric utilities by the Federal Energy Regulatory Commission (FERC).

Reclassification

Certain immaterial amounts in the consolidated financial statements for 1982 and 1981 have been reclassified to be consistent with classifications in 1983.

Principles of Consolidation

The consolidated financial statements include El Paso Electric Company and its wholly-owned subsidiary, Franklin Land & Resources, Inc. (the "Subsidiary"). All intercompany balances and significant intercompany transactions have been eliminated in consolidation.

Utility Plant

Utility plant is stated at original cost. The Company provides for depreciation on a straight-line basis at annual rates which will amortize the undepreciated cost of depreciable property over estimated remaining service lives.

The Company charges the cost of repairs and minor replacements to the appropriate operating expense and capitalizes the cost of renewals and betterments. The cost of depreciable utility plant retired or sold and the cost of removal, less salvage, are charged to accumulated depreciation.

Allowance for Funds Used During Construction (AFUDC)

The applicable regulatory uniform system of accounts provides for the capitalizing of AFUDC which is defined as an amount which includes the net cost during a period of construction of borrowed funds used for construction purposes plus a reasonable rate on other funds when so used. While AFUDC results in an increase in utility plant under construction for rate making purposes with a corresponding credit to income, it is not current cash income. AFUDC, net of certain tax effects, is recovered over the service life of utility plant in the form of increased revenues as a result of higher depreciation expense.

The amount of AFUDC is determined by applying an accrual rate to the balance of certain utility plant construction. In this connection, the FERC has promulgated procedures for the computation (a prescribed formula) of the accrual rate. The Company also compounds AFUDC on major construction projects semiannually.

Investments

Marketable securities included in investments are stated at cost which approximates market. Other investments are stated at cost.

Inventories

Inventories are valued at the lower of average cost or market.

Operating Revenues

Operating revenues are recognized based on cycle billings rendered to customers monthly. The Company does not accrue operating revenues with respect to energy consumed but not billed at the end of a fiscal period.

Unamortized Debt Expense and Premium or Discount on Debt

Unamortized amounts apply to outstanding issues and are being amortized ratably over the lives of such issues.

Federal Income Taxes and Investment Tax Credits

Accelerated methods of computing depreciation of utility plant are used for Federal income tax reporting purposes which differ from the methods used for financial reporting purposes. Differences in the tax and financial methods of accounting for fuel revenues, other capitalized costs and tax leases also exist. In accordance with regulatory authority requirements, provision has been made in the financial statements for Federal income taxes deferred to future years as a result of these items. In addition, deferred Federal income taxes are provided on the borrowed portion of AFUDC.

Investment tax credit utilized is deferred and amortized to income over the estimated useful lives of the related properties after such properties are placed in service.

B. Jointly Owned Utility Plant

The Company has a 7% undivided interest in Units 4 and 5 of the Four Corners Project (coal-fired generating station) located in northwestern New Mexico and a 15.8% undivided interest in Units 1, 2 and 3 of the Palo Verde Station which is under construction near Phoenix, Arizona. The Company also has an interest in transmission facilities under construction which are related to the Station.

The Company is a two-thirds owner of an interconnection project, known as the "Eastern Interconnection Project", consisting of a 125-mile 345 KV transmission line and a direct current terminal.

Participants in the joint projects are responsible for obtaining their respective financing. The extent of the Company's interests in these facilities (Palo Verde, Four Corners, and Eastern Interconnection projects), excluding nuclear fuel, is as follows:

	Electric Plant in Service	Accumulated Depreciation	Construction Work in Progress
	(In thousands)		
December 31, 1983			
Palo Verde Project . . .	$ —	$ —	$914,067
Four Corners Project .	32,067	(5,700)	15,384
Eastern Interconnection Project	—	—	35,367
December 31, 1982			
Palo Verde Project . . .	—	—	734,344
Four Corners Project .	31,889	(4,594)	6,538
Eastern Interconnection Project	—	—	2,204

The Company's direct expenses associated with the in-service portion of the Four Corners Project are included in the applicable operating expense categories of the Consolidated Statements of Income.

C. Depreciation and Amortization of Utility Plant

Total utility plant depreciation was $11,506,000 in 1983, $10,591,000 in 1982 and $10,201,000 in 1981, of which $354,000, $273,000 and $281,000, respectively, was applicable to transportation equipment and has been charged to other accounts. Additionally, amortization of electric plant under capital lease amounted to $588,000 for each of the three years.

The average annual depreciation rate used for utility plant by the Company during 1983, 1982 and 1981 was 3.28%.

D. Common Stock

Employee Stock Purchase Plan

Under a shareholder-approved employee stock purchase plan, employees are granted twice each year options to purchase through payroll deductions common stock of the Company. The option price for each purchase period is the greatest of 90% of the last sale price of such common stock as reported on the NASDAQ National Market System on the date of grant of the option, 85% of the average of the high and low sale prices as so reported on the date of grant of the option or the par value of such common stock. Each eligible employee who continues to be a participant in the plan on the last day of the purchase period is deemed to have exercised his option on such date provided the option price at that time is not greater than the average of the high and low sale prices of the common stock on such date, and is deemed to have purchased from the Company such numbers of shares of common stock as his accumulated payroll deductions on such date will pay for at such option price. If the option price on the date of purchase exceeds the average of the high and low sale prices of the common stock on such date, then all options granted under the plan lapse and, in lieu of issuing common stock at the option price, the Company purchases in the over-the-counter market for the account of each participant such number of shares of common stock as the participant's accumulated payroll deductions will pay for, the Company paying any brokerage commissions on such purchases. During 1983, 1982 and 1981, 14,178, 16,020 and 14,305 shares of common stock, respectively, were purchased under the plan at an aggregate amount of $165,000, $152,000 and $124,000, respectively. The cumulative aggregate corresponding fair market values as of the option dates were $183,000, $169,000 and $138,000, respectively. At December 31, 1983, 9,987 shares were

reserved for future purchases under the plan, and in February 1984 the Board reserved an additional 200,000 shares for issuance under the plan. Proceeds from issuances are credited to common stock, and no charges are reflected in income with respect to the plan. Common equivalent shares related to the plan are not significant.

Dividend Reinvestment and Stock Purchase Plan

The Company has a dividend reinvestment and stock purchase plan which provides holders of record of its common stock the option to invest cash dividends and/or optional cash payments (up to $3,000 per calendar quarter) in additional shares of Company common stock. During 1983, 1982 and 1981, shareholders purchased from the Company 861,173, 793,302 and 405,360 shares, respectively, for $12,206,000, $9,135,000 and $4,210,000, respectively. The purchase price is the last sale price of the stock on the purchase date as reported by the NASDAQ National Market System. At December 31, 1983, 230,224 shares were reserved for future purchases under the plan.

Employee Stock Ownership Plan and Trust

The Company has an employee stock ownership plan, under which, in accordance with Federal income tax provisions effective through the Company's tax year ended December 31, 1982, for each tax year common stock with a fair market value (as defined) equal to the sum of a specified amount of the Company's investment tax credit (based on investment in property) and employee cash participation was contributed to the plan. Under the provisions of the Economic Recovery Tax Act of 1981, the investment tax credit based on investment in property terminated with respect to qualifying investments made after December 31, 1982. Beginning January 1, 1983, the investment tax credit is based solely upon payroll costs, and the Company's plan was amended effective January 1, 1983 to eliminate the employee cash participation in the plan. In October 1983, 1982 and 1981, the Company and participating employees contributed to the plan, with respect to the 1982, 1981 and 1980 tax years, respectively, 249,760, 213,550 and 205,334 shares of stock, respectively, with a market value of $3,664,000, $2,578,000 and $2,191,000, respectively. At December 31, 1983, 251,024 shares were reserved for future contributions by the Company to the plan.

Customer Stock Purchase Plan

The Company has a customer stock purchase plan under which shares of Company common stock are purchased from the Company by its Texas and New Mexico customers who enroll in the plan. The purchase price per share is the last sale price of the stock on the investment date as reported by the NASDAQ National Market System. Customers may purchase shares by making cash payments in amounts of not less than $25 per payment nor more than $3,000 total investment per calendar quarter. Dividends paid on all shares purchased by a participant will be automatically reinvested in additional shares, except for those participants who request in writing the stock certificates and cash dividends. During 1983 and 1982, 91,924 and 149,444 shares of common stock, respectively, were purchased by customers of the Company in the amounts of $1,339,000 and $1,638,000, respectively. At December 31, 1983, 258,632 shares were reserved for future purchases under the plan.

Individual Retirement Plan and Custodial Account

In October, 1982, the Board of Directors of the Company adopted the Individual Retirement Plan and Custodial Account and reserved 500,000 shares of common stock for issuance and sale to the plan from time to time in accordance with its terms and provisions. The Company is currently awaiting approval from certain governmental agencies before implementing the plan.

Changes in Common Stock

Changes in common stock are as follows:

	Common Stock	
	Shares	Amount
		(In thousands)
Balance, December 31, 1980	20,485,067	$162,303
Sales of Common Stock:		
1981	4,624,999	47,845
1982	6,172,316	69,128
1983	1,217,035	17,374
Balance, December 31, 1983	32,499,417	$296,650

E. Preferred Stock

Preferred Stock—Redemption Required

Following is a summary of outstanding preferred stock—redemption required:

	December 31, 1983 Shares	1983 Amount (In thousands)	1982 Shares	1982 Amount (In thousands)	Optional Redemption Price Per Share at December 31, 1983
$10.75 Dividend	84,000	$ 8,400	88,000	$ 8,800	$108.000
$ 8.44 Dividend	150,000	15,000	150,000	15,000	106.330
$ 8.95 Dividend	150,000	15,000	150,000	15,000	108.950
$ 9.00 Dividend	100,000	10,000	100,000	10,000	—
$ 8.80 Dividend	50,000	5,000	50,000	5,000	—
$ 9.50 Dividend	100,000	10,000	100,000	10,000	—
$10.125 Dividend	250,000	25,000	—	—	110.125
	884,000	$88,400	638,000	$63,800	

The $10.75 preferred shares are entitled to the benefits of an annual sinking fund whereby on January 1 of each year the Company will redeem 4,000 shares at the sinking fund redemption price of $100 per share plus accrued dividends. The $10.75 preferred shares are redeemable at the option of the Company; however, no optional redemption of the shares may be made prior to January 1, 1985, as a part of or in anticipation of, any refunding involving the issue of indebtedness or preferred stock having an effective interest or dividend cost of less than 10.75% per annum.

The $8.44 preferred shares are entitled to the benefits of an annual sinking fund whereby on October 1 of each year, beginning in 1984, the Company will redeem 4% (and may, at its option, redeem an additional 4%) of the aggregate maximum number of shares outstanding at the sinking fund redemption price of $100 per share plus accrued dividends. The $8.44 preferred shares are redeemable at the option of the Company; however, except as set forth above, no optional redemption of the shares may be made prior to October 1, 1988, as a part of or in anticipation of, any refunding involving the issue of indebtedness or preferred stock having an effective interest or dividend cost of less than 8.44% per annum.

The $8.95 preferred shares are entitled to the benefits of an annual sinking fund whereby on October 1 of each year, beginning in 1985, the Company will redeem 5% (and may, at its option, redeem an additional 5%) of the aggregate maximum number of shares outstanding at the sinking fund redemption price of $100 per share plus accrued dividends. The $8.95 preferred shares are redeemable at the option of the Company; however, no optional redemption of the shares may be made prior to October 1, 1984, as a part of or in anticipation of, any refunding involving the issue of indebtedness or preferred stock having an effective interest or dividend cost of less than 8.95% per annum.

The $9.50 preferred shares are entitled to the benefits of an annual sinking fund whereby on July 1 of each year, beginning in 1986, the Company will offer to purchase on the next succeeding October 1, out of funds legally available for the purchase or redemption of $9.50 preferred shares, not less than 20,000 shares (or the number of such shares then outstanding if less than 20,000) at a purchase price of $100 per share plus accrued dividends. The Company is required to redeem on October 1, 1990 all shares then outstanding at a redemption price equal to $100 per share plus an amount equal to accrued and unpaid dividends to and including the date of redemption.

The $9.50 preferred shares are redeemable at the option of the Company; however, no optional redemption of the shares may be made prior to October 1, 1987.

The $10.125 preferred shares are entitled to the benefits of an annual sinking fund whereby on July 1 of each year, beginning in 1989, the Company will redeem 20% (and may, at its option, redeem an additional 20%) of the aggregate maximum number of shares outstanding at the sinking fund redemption price of $100 per share plus accrued dividends. The $10.125 preferred shares are redeemable at the option of the Company; however, no optional redemption of the shares may be made prior to July 1, 1988, as a part of or in anticipation of, any refunding involving the issue of indebtedness or preferred stock having an effective interest cost (calculated after giving effect, on a pro forma basis, to the Federal income tax benefits to the Company, calculated on a basis of a Federal income tax rate equal to 80 percent of the highest marginal rate of tax paid by the Company as reflected in the Federal income tax return for the latest taxable year filed by the Company) or effective dividend cost of less than 10.125% per annum.

Sinking fund requirements for each of the above series are cumulative and, in the event they are not satisfied at any redemption date, the Company is restricted from paying any dividends on its common stock (other than dividends in common stock or other class of stock ranking junior to the preferred stock as to dividends or assets).

The $9.00 preferred shares have no provision for a sinking fund, are not redeemable at the option of the Company, and must be redeemed in full on October 1, 1986 at $100 per share plus accrued dividends. In the event the Company fails to provide sufficient funds for redemption, the Company is restricted from paying any dividends on its common stock (other than dividends in common stock or other class of stock ranking junior to the preferred stock as to dividends and assets).

The $8.80 preferred shares have no provision for a sinking fund and are not redeemable at the option of the Company until October 1, 1987. On October 1 of each year, beginning in 1990, the Company will offer to purchase on the next succeeding February 1, out of funds legally available for the purchase or redemption of the $8.80 preferred shares, any or all outstanding shares of $8.80 preferred shares at a purchase price of $100 per share plus accrued dividends. In the event the Company fails to provide sufficient funds for redemption, the Company is restricted from paying any dividends on its common stock (other than dividends in common stock or other stock ranking junior to the preferred stock as to dividends and assets).

The aggregate amounts of the above preferred stock required to be retired for each of the next five years are as follows:

	(In thousands)
1984	$ 1,000
1985	1,750
1986	13,750
1987	3,750
1988	3,750

Sales and redemption of preferred stock—redemption required were as follows:

	Shares	Amount
		(In thousands)
Balance, December 31, 1980	646,000	$64,600
Redemption of Preferred Stock, $10.75 Dividend	(4,000)	(400)
Balance, December 31, 1981	642,000	64,200
Redemption of Preferred Stock, $10.75 Dividend	(4,000)	(400)
Balance, December 31, 1982	638,000	63,800
Redemption of Preferred Stock, $10.75 Dividend	(4,000)	(400)
Issuance of Preferred Stock, $10.125 Dividend	250,000	25,000
Balance, December 31, 1983	884,000	$88,400

1983 Financial Information

Notes to Consolidated Financial Statements (Continued)

Preferred Stock—Redemption not Required

Following is a summary of preferred stock which is not redeemable except at the option of the Company:

	Shares	Amount December 31, 1983	Optional Redemption Price Per Share at December 31, 1983
		(In thousands)	
$4.50 Dividend ...	15,000	$ 1,534	$109.00
$4.12 Dividend ...	15,000	1,506	103.98
$4.72 Dividend ...	20,000	2,001	104.00
$4.56 Dividend ...	40,000	4,000	100.00
$8.24 Dividend ...	100,000	9,832	105.46
	190,000	$18,873	

There have been no changes in preferred stock—redemption not required during the three years ended December 31, 1983.

All preferred stock issues (redemption required and redemption not required) are entitled, in preference to common stock, to $100 per share plus accrued dividends, upon involuntary liquidation. All issues except the $9.00, $8.80 and $9.50 preferred stock issues, are entitled to an amount per share equal to the applicable optional redemption price plus accrued dividends, upon voluntary liquidation. The $9.00, $8.80 and $9.50 preferred stock issues are entitled to a fixed price ($106.75, $107.92 and $108.55 per share at December 31, 1983, respectively) plus accrued dividends, upon voluntary liquidation.

F. Long-Term Obligations

Outstanding long-term obligations are as follows:

	Redemption Price at December 31, 1983 (1)	December 31, 1983	December 31, 1982
		(In thousands)	
First Mortgage Bonds (2):			
3-1/8% Series, due 1984 ...	$100.00	$ 4,950	$ 4,950
4-1/4% Series, due 1988 ...	100.95	6,100	6,100
16.35% Series, due 1991 ...	—	40,000	40,000
4-5/8% Series, due 1992 ...	101.62	10,385	10,385
6-3/4% Series, due 1998 ...	103.26	24,800	24,800
7-3/4% Series, due 2001 ...	105.23	15,838	15,838
9% Series, due 2004 ...	105.87	20,000	20,000
9.95% Series, due 2004 ...	109.95	25,000	25,000
10-1/2% Series, due 2005 ...	108.27	15,000	15,000
8-1/2% Series, due 2007 ...	106.94	25,000	25,000
16.20% Series, due 2012 ...	115.64	60,000	60,000
Balance Forward ...		$247,073	$247,073

(Continued)

Notes to Consolidated Financial Statements (Continued)

	December 31, 1983	December 31, 1982
	(In thousands)	
Balance Forward	$247,073	$247,073
Pollution Control Bonds (3):		
Secured by Second Mortgage Bonds (2):		
9% Bonds, due 1984, net of $12,535,000 and $22,389,000, respectively, on deposit with trustee (4)	22,905	13,051
Variable rate bonds, due 2014, net of $16,024,000 on deposit with trustee (5)	47,476	—
Unsecured:		
Variable rate refunding bonds due 2013, net of $35,620,000 on deposit with trustee (4)	185	—
Floating Rate Notes secured by Second Mortgage Bonds (2) (6):		
Due 1987	75,000	75,000
Due 1988	75,000	—
Promissory Notes:		
Secured (7)	9,094	—
Unsecured (8):		
Due 1983	—	6,170
Due 1984	25,226	32,740
Due 1985	18,258	18,258
Due 1986 through 1989	1,446	1,446
Obligation under capital lease (including $1,438,000 currently due in 1984) (9)	12,630	13,546
Mortgage notes payable, interest 8.8125% and 9% per annum payable in installments through 1998 (including $110,000 currently due in 1984)	2,538	2,642
	536,831	409,926
Current maturities of long-term obligations	(31,724)	(7,712)
Unamortized premium and discount	(1,944)	(2,065)
	$503,163	$400,149

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(1) The premiums reflected in the redemption prices continue at reduced amounts in future years, finally resulting in each case in redemption at par in the final year prior to maturity.

(2) Substantially all of the Company's utility plant is subject to a lien under the Indenture of Mortgage collateralizing the Company's first mortgage bonds and a lien under the Indenture of Mortgage collateralizing the Company's second mortgage bonds.

The First Mortgage Indenture securing its first mortgage bonds provides for sinking and improvement funds. For all but three series, the Company is required to make annual payments to the trustee equivalent to 1% ($1,230,000 at December 31, 1983 and 1982) of the greatest aggregate principal amount of such series outstanding prior to a specified date. The Company has generally satisfied the 1% requirements for such series by relinquishing the right to

use a net amount of additional property for the issuance of bonds or by purchasing bonds in the open market and expects to continue this practice. With respect to the 16.20% series, commencing in August 1987, the Company will be required to make annual cash payments to the trustee equivalent to 1% of the greatest aggregate principal amount of such series outstanding at any time prior to a specified date; the cash payments must be applied to redeem bonds of the 16.20% series at 100% of the principal amount thereof. With respect to the 9.95% series, commencing April 1985, the Company will be required to make annual cash payments to the trustee equivalent to 4-1/4% of the greatest aggregate principal amount of such series outstanding at any one time prior to a specified date; the cash payments must be applied to redeem bonds of the 9.95% series at 100% of the principal amount thereof. No sinking fund is required for the 16.35% series.

In accordance with certain provisions of the First Mortgage Indenture, payments of cash dividends on common stock are restricted to an amount equal to retained earnings accumulated after December 31, 1966, plus $4,100,000. Retained earnings in the amount of approximately $99,500,000 are unrestricted as to the payment of cash dividends at December 31, 1983.

The second mortgage bonds have been issued to secure the 9% pollution control bonds due 1984, the variable rate pollution control bonds due 2014 and the two floating rate notes due 1987 and 1988.

(3) The funds on deposit with a trustee at December 31, 1983, represent a portion of the proceeds from pollution control revenue bonds issued in June 1981 and December 1983, which proceeds are to be disbursed as needed to pay the costs of acquiring, constructing, reconstructing, improving, maintaining or furnishing the pollution control facilities financed or to refund bonds previously issued and currently outstanding.

(4) The 9% pollution control bonds will be paid at maturity in 1984 from the proceeds of the variable rate refunding bonds due 2013 and certain income earned on the investment of such proceeds. Accordingly, the 9% Bonds have been accounted for as a long-term obligation. The variable rate refunding bonds are supported by a long-term irrevocable letter of credit issued by a bank. Such bonds bear interest at such rate, determined annually, as will cause the bonds to have a market value which approximates, as nearly as possible, their par value. Such bonds may be required to be repurchased at the holder's option and are subject to mandatory redemption upon the occurrence of certain events and are redeemable at the option of the Company under certain circumstances.

(5) These bonds are supported by a long-term irrevocable letter of credit issued by a bank. The bonds bear interest at such rate, determined annually, as will cause the bonds to have a market value which approximates, as nearly as possible, their par value. The bonds may be required to be repurchased at the holder's option and are subject to mandatory redemption upon the occurrence of certain events and are redeemable at the option of the Company under certain circumstances.

(6) At the option of the Company, the interest rate on the notes due 1987 and 1988 (10.5625% and 10.8125% at December 31, 1983, respectively) may be determined using the prime rate, a Certificate of Deposit (CD) rate or the London Interbank Offering Rate (LIBOR) rate. These notes may be prepaid at the option of the Company without premium.

(7) Consists of advances on two construction loans of $5,000,000 and $36,450,000 to the Subsidiary which provide in the aggregate for principal advances up to $41,450,000 for the renovation, restoration and conversion of two buildings owned by the Subsidiary. The loans are for the period of construction plus 60 days but in any event mature in 1986 and 1988, respectively.

Interest on the loans, at floating rate (11% at December 31, 1983), is payable quarterly, and the loans are secured by the properties and other assets to which they relate, the Subsidiary's pledge of $15,000,000 of its preferred stock portfolio, a negative pledge by the Subsidiary with respect to its remaining preferred stock portfolio and certain other collateral.

(8) The unsecured floating rate notes due in 1984 through 1989 have interest rates ranging from 14% to 17% per annum and floating rate (10.15% and 10.17% at December 31, 1983, and 9.75% to 11% at December 31, 1982) and may be prepaid at the option of the Company without premium.

(9) In 1980 the Company leased a turbine and certain other related equipment from the trust-lessor for a twenty-year period with renewal options for up to seven more years. Semi-annual lease payments, including interest, which began in January 1982, are $719,000 through January 1991, and $861,000 thereafter to July 2000. The effective annual interest rate implicit in this lease is calculated to be 9.6%. The total cost of the equipment to the trust-lessor of $11,800,000 plus $830,000 interest accrued is reflected in long-term obligations at December 31, 1983. A gain to the Company related to the sale of the turbine to the trust in the amount of $2,343,000 is being amortized to income over the term of the lease.

Scheduled maturities of long-term obligations at December 31, 1983 are as follows (in thousands):

1984	$ 32,954
1985	22,055
1986	6,481
1987	79,747
1988	92,548
Thereafter	303,046

G. Short-Term Obligations

At December 31, 1983, the short-term obligations of the Company and the Subsidiary totaled approximately $113,065,000. Such obligations consisted of pollution control bonds, notes payable banks, notes payable other and commercial paper. The Company and the Subsidiary also maintain informal lines of credit which totaled approximately $120,900,000 and $36,200,000, respectively, at December 31, 1983. Certain of these arrangements provide for maintenance of compensating balances of various negotiated amounts. At December 31, 1983, there were no advances outstanding under the Company's lines of credit, and approximately $25,200,000 had been advanced under the Subsidiary's line of credit. None of the Subsidiary's debt is guaranteed by the Company.

On December 29, 1983, the Company borrowed from a governmental authority the proceeds of $34,000,000 of short-term pollution control bonds issued to two banks. Such indebtedness matures December 27, 1984 and, contingent upon receipt of an Internal Revenue Service ruling on the qualifications for tax-exempt financing of the facilities financed, bears interest at 71% of one of the bank's prime rate. In the event that certain conditions relating to the obtaining of a favorable ruling are not satisfied, interest will become payable at 110% of the prime rate prior to July 31, 1984 and at 120% of such rate thereafter to maturity. At December 31, 1983, approximately $1,989,000 of this borrowing was on deposit with the pollution control bond trustee, such proceeds to be disbursed as needed to pay the costs of acquiring, constructing, reconstructing, improving, maintaining and furnishing the facilities financed.

The amount of short-term obligations which the Company may incur is regulated by the FERC. The FERC has authorized the Company to incur, through December 31, 1984, short-term obligations in an amount not to exceed $200,000,000 outstanding at any one time. The Subsidiary is not a regulated company.

H. Federal Income Taxes

The provisions (credits) for deferred Federal income taxes, which arise from timing differences between financial and tax reporting, are as follows:

	Years Ended December 31,		
	1983	1982	1981
		(In thousands)	
Tax effect of:			
Operating income:			
Depreciation differences	$ 1,791	$ 1,793	$ 1,550
Deferred fuel revenues	(3,629)	441	270
Allowance for borrowed funds used during construction	14,920	15,158	10,294
Taxes capitalized	2,694	2,283	1,771
Employee pension and benefit plan costs	(2,520)	—	—
Other	(943)	(265)	(880)
Other income:			
Tax leases	5,619	3,828	—
Other	584	490	48
	$18,516	$23,728	$13,053

At December 31, 1983 the unamortized cost of tax leases totaled approximately $11,000,000. Deferred Federal income taxes have been provided for the difference in accounting methods.

Federal income tax provisions are less than the amounts computed by applying the statutory rate of 46% to book income before Federal income taxes. Details are as follows:

	Years Ended December 31,		
	1983	1982	1981
		(In thousands)	
Tax computed at statutory rate	$57,351	$ 43,911	$40,003
Decreases due to:			
Allowance for equity funds used during construction	(19,164)	(16,444)	(10,494)
Other	(771)	(2,894)	757
Total Federal income tax expense	$37,416	$24,573	$30,266
Effective Federal income tax rate	30.0%	25.7%	34.8%

Total Federal income tax expense is as follows:

	Years Ended December 31,		
	1983	1982	1981
		(In thousands)	
Current income taxes—operating	$11,251	$ 3,456	$ 3,691
Current income taxes—other income	(6,792)	(3,673)	1,030
Total current	4,459	(217)	4,721
Deferred income taxes—operating	12,313	19,410	13,005
Deferred income taxes (credit)—other income	6,203	4,318	48
Deferred investment tax credit—operating	14,944	1,540	12,939
Deferred investment tax credit—other income	(4)	(4)	(13)
Amortization of deferred investment tax credit—operating	(499)	(474)	(434)
	$37,416	$24,573	$30,266

At December 31, 1983, the Company and the Subsidiary had available for Federal income tax purposes an investment tax credit carryforward aggregating approximately $42,700,000 which expires during the period 1996 through 1998.

I. Commitments and Contingencies

(1) *Palo Verde*

The Company has approximately a 15.8% interest in three units of the Palo Verde Station and related transmission lines and switchyard presently under construction. Transmission lines represent approximately 5% of the estimated aggregate costs of these projects. The estimated aggregate costs of these projects (before the effects of the delays in completion of Palo Verde, announced after February 7, 1984, could be determined) to be incurred by the Company subsequent to December 31, 1983 are approximately $312,900,000, which does not include AFUDC (net of related deferred tax) in the amount of $177,100,000.

(2) *Other Construction Commitments*

Other construction commitments for the Company and the Subsidiary subsequent to December 31, 1983 total approximately $55,400,000, which does not include AFUDC (net of related deferred tax) in the amount of $5,400,000.

(3) *Nuclear Fuel*

The Company has a nuclear fuel purchase commitment with an independent trust. The trust purchases nuclear fuel and incurs costs related to a uranium venture under various Company assigned agreements. The Company has the option of either purchasing the fuel from the trust or leasing the heat generated by the fuel at prices established to reimburse the trust for all the costs incurred in connection with acquisition of the fuel (which aggregated approximately $70,300,000 at December 31, 1983). The Company intends to elect the lease option when nuclear fuel is loaded into the reactor. Quarterly lease payments at the established prices will begin when Palo Verde Station Unit 1 is placed into commercial operation.

J. Allowance for Funds Used During Construction and Other Interest Capitalized

The Company used a weighted average accrual rate of 12.9%, 13.3% and 13.8% for AFUDC in 1983, 1982 and 1981, respectively. Certain amounts of CWIP have been allowed in the Company's rate base or made the basis of extraordinary cash rate relief, and the appropriate amounts have been excluded from the CWIP balance used as a base for calculating AFUDC. The Company was allowed to increase the amount of CWIP in rate base for its Texas jurisdiction from approximately $113.6 million to approximately $270.5 million effective with energy consumed on and after January 18, 1983. The Company has been granted by its New Mexico jurisdiction extraordinary cash rate relief related to inclusion of CWIP in rate base of approximately $13.7 million.

Additionally, during the years ended December 31, 1983, 1982 and 1981 interest in the amount of $723,000, $437,000 and $1,498,000, respectively, relative to funds borrowed by the Subsidiary was capitalized. The interest amount has been included in the Consolidated Statements of Income as "Other Interest" with a corresponding amount included in "Other Interest Capitalized."

K. Pension Plan

The Retirement Income Plan (the plan) covers employees who have completed one year of service with the Company. The plan is a noncontributory defined benefit plan. Upon retirement or death of a vested plan participant, assets of the plan are used to purchase an annuity contract with an insurance company. Therefore, net assets available for plan benefits and the actuarial present value of accumulated plan benefits represent amounts attributable to active and disabled employees only.

Contributions from the Company are based on the amounts required to be funded under provisions of the plan as actuarially calculated. The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits presented below was 8% compounded annually.

Net assets available for plan benefits and the actuarial present value of accumulated plan benefits as of the most recent actuarial determination date (July 1, 1983) are presented below:

	July 1, 1983	July 1, 1982
	(In thousands)	
Net assets available for plan benefits	$18,255	$16,013
Actuarial present value of accumulated plan benefits:		
Vested benefits:		
Participants currently receiving payments	$ 4,213	$ 3,581
Other participants	12,980	7,900
	17,193	11,481
Nonvested benefits	971	520
Total actuarial present value of accumulated plan benefits	$18,164	$12,001

The pension cost in 1983, 1982 and 1981 was $1,502,000, $1,373,000 and $708,000, respectively, which includes amortization of past service cost over a thirty-year period beginning in 1972.

L. Rate Matters

In January 1983, the Texas Commission granted the Company a $35,500,000 increase in annual jurisdictional revenues. The Commission's order allows the inclusion in rate base of 61% (approximately $270,500,000) of CWIP related to the Palo Verde Station and related transmission facilities at March 31, 1982.

In September 1983, the New Mexico Commission approved the Company's 1983 New Mexico rate case. The Commission's order provides for a two-stage increase in New Mexico retail jurisdictional rates, the first stage increase of approximately $2,800,000 having become effective January 1984. The second stage increase of an additional $5,900,000 is to become effective with commercial operation of Palo Verde Unit 1.

In February 1984, the Company filed for an increase of approximately $1,000,000 in annual FERC jurisdictional rates, to be effective April 1, 1984.

The Company expects to file during 1984 for a rate increase in its Texas jurisdictional rates and is presently evaluating the prospects of filing for such an increase in its New Mexico rates. In connection with the settlement of its 1983 New Mexico rate case, the Company agreed that it would not file for another general rate increase in New Mexico prior to July 1, 1984.

M. Selected Quarterly Financial Data (Unaudited)

	Operating Revenues (1)	Operating Expenses (1)	Operating Income	Net Income	Net Income Applicable to Common Stock	Net Income Per Share of Common Stock
	(In thousands of dollars except for per share data)					
1983						
1st quarter	$69,033	$54,035	$14,998	$19,870	$18,112	$.58
2nd quarter	75,076	57,889	17,187	21,361	19,399	.61
3rd quarter	88,281	68,594	19,687	25,590	23,200	.73
4th quarter	70,053	55,719	14,334	20,440	18,049	.56
1982						
1st quarter	59,980	49,668	10,312	13,973	12,204	.48
2nd quarter	66,038	54,120	11,918	15,405	13,637	.54
3rd quarter	80,491	63,927	16,564	22,658	20,889	.71
4th quarter	64,539	52,717	11,822	18,852	17,083	.55

(1) See Note A (Reclassification) to Notes to Consolidated Financial Statements.

1983 Financial Information

El Paso Electric Company and Subsidiary

Supplemental Information Concerning the Effects of Inflation (Unaudited)

The following supplementary information is supplied in accordance with the requirements of FASB Statement No. 33, Financial Reporting and Changing Prices, for the purpose of providing certain information about the effects of changing prices. It should be viewed as an estimate of the approximate effect of inflation, rather than as a precise measure.

Constant dollar amounts represent historical costs stated in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for All Urban Consumers. Current cost amounts reflect the changes in specific prices from the date the plant was acquired to the present, and differ from constant dollar amounts to the extent that specific prices have increased more or less rapidly than prices in general.

The current cost of utility plant and nonutility property, net of accumulated depreciation and amortization, represents the estimated cost of replacing existing plant assets and was determined by indexing the surviving plant by the Handy-Whitman Index of Public Utility Construction Costs.

The current year's provision for depreciation and amortization on the constant dollar and current cost amounts of plant was determined by applying effective depreciation and amortization rates to the indexed plant amounts.

Fuel inventories and the cost of fuel used in generation have not been restated from their historical cost in nominal dollars. Regulation limits the recovery of fuel costs through the operation of adjustment clauses or adjustments in basic rate schedules to actual costs. For this reason fuel inventories are effectively monetary assets.

As prescribed in FASB Statement 33, income taxes were not adjusted.

Under the rate making prescribed by the regulatory commissions to which the Company is subject, only the historical cost of plant is recoverable in revenues as depreciation. Therefore, the excess of the cost of plant stated in terms of constant dollars or current cost over the historical cost of plant is not presently recoverable in rates as depreciation and is reflected as a reduction to net recoverable cost. While the rate making process gives no recognition to the current cost of replacing plant assets, based on past practices, the Company believes it will be allowed to earn on the increased cost of its net investment when replacement of facilities actually occurs.

To properly reflect the economics of rate regulation in the Supplemental Consolidated Statement of Income from Operations Adjusted for Changing Prices, the reduction of plant to net recoverable amount should be offset by the gain from the decline in purchasing power of net amounts owed on a constant dollar basis. Meanwhile, on a current cost basis the excess of increase in general price level over increase in specific prices at net recoverable amount should be offset by the gain from decline in purchasing power of net amounts owed. During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The purchasing power gain on net monetary items owed is equal to the net gain found in restating in constant dollars the opening and closing balances of, and transactions in, monetary assets and liabilities. The gain from the decline in purchasing power of net amounts owed is primarily attributable to the substantial amount of debt which has been used to finance plant assets. Since the depreciation on plant is limited to the recovery of historical costs, the Company does not have the opportunity to realize a holding gain on debt and is limited to recovery only of the embedded cost of debt capital.

Restated net assets (which is equal to common stock equity and preferred stock) is measurable by adjusting the amount reported for net assets in the balance sheets for the difference between the historical cost and the restated constant dollar amounts or lower recoverable amounts of property less reserves. Because of the lower recoverable amounts provision, the determination of net assets for a utility company is based on the historical cost of year end, after conversion to constant dollars, with no aging of property required. FASB Statement 33 did not define what should be included in net assets, leaving the calculation open to experimentation. The Company calculates net assets by restating net utility plant, net nonutility property and monetary items on a constant dollar and current cost basis.

Supplemental Information Concerning the Effects of Inflation (Unaudited) (Continued)

Inferences which, in the case of some industries may be drawn from information in the nature of that presented below as to the adequacy of future cash flows in relation to future plant replacement requirements are believed by the Company to be less valid in the case of public utilities which, like itself, should be able to establish rates to cover increased costs of new plant. However, the information may provide some indication of the expanded capital structure that will be required for making plant replacements and additions with inflated dollars.

Consolidated Statement of Income from Operations Adjusted for Changing Prices for the Year Ended December 31, 1983

	Conventional Historical Cost	Constant Dollar Average 1983 Dollars		Current Cost Average 1983 Dollars
		(In thousands)		
Operating revenues	$302,443	$302,443		$302,443
Fuel, purchased and interchanged power	115,562	115,562		115,562
Other operating and maintenance expenses	70,926	70,926		70,926
Depreciation and amortization	11,740	25,453		28,024
Federal income taxes	38,009	38,009		38,009
Interest expense	24,959	24,959		24,959
Other income	(46,014)	(46,014)		(46,014)
	215,182	228,895		231,466
Net income	$ 87,261	$ 73,548	(2)	$ 70,977
Increase in specific prices (current cost) of plant held during the year (1)				$ 64,492
Reduction of plant to net recoverable amount		$ (27,874)	(2)	(28,473)
Effect of increase in general price level				(61,328)
Excess of increase in general price level over increase in specific prices at net recoverable amount				(25,309)
Gain from decline in purchasing power of net amounts owed		22,978		22,978
Net		$ (4,896)		$ (2,331)

(1) At December 31, 1983, current cost of plant net of accumulated depreciation was $1,794,946,000, while historical cost or net amount recoverable through depreciation was $1,243,788,000.
(2) Inclusion of the reduction to net recoverable amount in net income on a constant dollar basis would reduce net income to $45,674.

1983 Financial Information

Supplemental Information Concerning the Effects of Inflation (Unaudited) (Continued)

Five Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices (Note)

	Years ended December 31,				
	1983	1982	1981	1980	1979
	(In thousands except for per share amounts)				
Operating revenues:					
Historical cost	$302,443	$271,048	$250,965	$211,004	$157,377
Constant dollars	302,443	279,767	274,919	255,120	216,013
Net income:					
Historical cost	$ 87,261	$ 70,888	$ 56,697	$ 41,177	$ 23,190
Constant dollars	73,548	59,852	48,995	38,555	21,716
Current cost	70,977	58,303	48,227	36,876	18,541
Net income per share of common stock:					
Historical cost	$ 2.48	$ 2.30	$ 2.23	$ 2.05	$ 1.45
Constant dollars	2.05	1.90	1.85	1.83	1.24
Current cost	1.97	1.84	1.82	1.73	.99
Net assets at year-end at net recoverable amounts:					
Historical cost	$545,167	$468,090	$372,823	$305,159	$220,299
Constant dollars	536,006	477,695	395,206	352,398	285,939
Current cost	536,006	477,695	395,206	352,398	285,939
Excess of increase in general price level over increase in specific prices at net recoverable amount, current cost	$ 25,309	$ 19,360	$ 48,846	$ 64,855	$ 58,893
Other information:					
Gain from decline in purchasing power of net amounts owed, constant dollars	$ 22,978	$ 18,524	$ 35,390	$ 41,770	$ 41,172
Cash dividends declared per share of common stock:					
Historical cost	$ 1.37	$ 1.31	$ 1.25	$ 1.13	$ 1.07
Constant dollars	1.37	1.35	1.37	1.37	1.47
Market price per share of common stock at year-end:					
Historical cost	$ 13.38	$ 12.25	$ 10.88	$ 9.50	$ 9.38
Constant dollars	13.16	12.50	11.54	10.96	12.17
Average consumer price index	298.4	289.1	272.4	246.8	217.4

Note: Constant dollars and current cost amounts are stated in average 1983 dollars.

1983 Financial Information

El Paso Electric Company and Subsidiary

Selected Financial Data

For the years ended December 31
(In thousands except for per share amounts)

	1983	1982	1981
Operating revenues	$ 302,443	$ 271,048	$ 250,965
Fuel	80,883	99,298	108,148
Operation and maintenance	88,881	71,416	41,751
Depreciation and amortization	11,740	10,906	10,508
Taxes	54,733	38,812	40,273
Other income	(46,014)	(39,609)	(24,155)
	190,223	180,823	176,525
Income before interest charges	112,220	90,225	74,440
Total interest charges	24,959	19,337	17,743
Income before cumulative effect on prior years of change in accounting method	87,261	70,888	56,697
Cumulative effect to January 1, 1974, of change in accounting for fuel costs, net of related income taxes ($912,000)			
Net income	$ 87,261	$ 70,888	$ 56,697
Net income per share of common stock, based on weighted average number of shares outstanding during each year:			
Income applicable to common stock before cumulative effect of change in accounting method	$ 2.48	$ 2.30	$ 2.23
Cumulative effect to January 1, 1974, of change in accounting for fuel costs			
Net income applicable to common stock	$ 2.48	$ 2.30	$ 2.23
Dividends per share paid on common stock	$ 1.37	$ 1.31	$ 1.25
Gross utility plant	$1,345,315	$ 1,109,514	$ 898,333
Total assets	$1,393,283	$ 1,132,626	$ 887,648
Long-term obligations and preferred stock redemption required	$ 591,563	$ 463,949	$ 314,192
Retained earnings	$ 141,244	$ 106,141	$ 79,602

	1980	1979	1978	1977	1976	1975	1974
	$ 211,004	$ 157,377	$ 130,213	$ 114,233	$ 113,393	$ 91,349	$ 67,113
	95,952	79,334	67,104	61,336	55,359	44,602	28,955
	31,944	24,156	21,171	16,685	17,954	14,516	11,463
	9,090	8,245	7,361	6,498	6,233	5,506	4,345
	35,801	21,573	14,128	12,377	15,727	11,197	9,809
	(14,011)	(7,742)	(3,688)	(1,689)	(838)	(1,423)	(770)
	158,776	125,566	106,076	95,207	94,435	74,398	53,802
	52,228	31,811	24,137	19,026	18,958	16,951	13,311
	11,051	8,621	8,113	7,604	7,442	6,853	5,280
	41,177	23,190	16,024	11,422	11,516	10,098	8,031
							988
	$ 41,177	$ 23,190	$ 16,024	$ 11,422	$ 11,516	$ 10,098	$ 9,019
	$ 2.05	$ 1.45	$ 1.30	$ 1.11	$ 1.29	$ 1.30	$ 1.19
							.15
	$ 2.05	$ 1.45	$ 1.30	$ 1.11	$ 1.29	$ 1.30	$ 1.34
	$ 1.13	$ 1.07	$ 1.02	$ .99	$ .95	$ .91	$ .88
	$ 715,190	$ 560,932	$ 437,468	$ 338,598	$ 274,502	$ 250,375	$ 227,196
	$ 690,992	$ 537,118	$ 415,975	$ 326,910	$ 258,407	$ 240,659	$ 206,490
	$ 266,863	$ 221,721	$ 150,152	$ 128,171	$ 102,290	$ 103,104	$ 85,906
	$ 59,383	$ 45,097	$ 40,753	$ 38,560	$ 37,695	$ 35,667	$ 33,150

1983 Financial Information

El Paso Electric Company and Subsidiary

Selected Operating and Statistical Data

	1983	1982	1981
Population served at retail, estimated	656,000	624,000	610,000
Number of customers:			
Residential	177,810	171,121	167,625
Commercial and industrial—small	17,840	17,208	16,724
Commercial and industrial—large	41	44	43
Other	2,109	2,055	1,996
Total	197,800	190,428	186,388
Annual native system peak load, net kilowatts	746,000	744,000	736,000
Output, net generated and purchased, thousand kilowatt-hours:			
Steam	2,524,276	2,948,554	3,790,666
Other	8,445	16,753	25,704
Purchased and interchanged	1,507,166	978,994	138,104
Total (a)	4,039,887	3,944,301	3,954,474
Sales of electricity, thousands of dollars (b):			
Residential	$ 99,112	$ 87,621	$ 79,206
Commercial and industrial—small	96,041	85,406	76,766
Commercial and industrial—large	43,805	38,545	38,713
Other	62,388	58,532	55,258
Total	$ 301,346	$ 270,104	$ 249,943
Sales, thousand kilowatt-hours:			
Residential	1,017,565	994,109	966,487
Commercial and industrial—small	1,101,862	1,075,879	1,033,859
Commercial and industrial—large	677,118	634,008	702,323
Other	955,226	947,167	996,203
Total (a)	3,751,771	3,651,163	3,698,872
Average annual use per residential customer, KWH	5,839	5,869	5,849
Average annual revenue per residential customer	$ 568.76	$ 517.30	$ 479.34
Average revenue per KWH sold, cents (b):			
Residential	9.74¢	8.81¢	8.20¢
Commercial and industrial—small	8.72	7.94	7.43
Commercial and industrial—large	6.47	6.08	5.51
Average revenue per KWH; total sales	8.03	7.40	6.76
Electric line, pole miles:			
Over 15,000 volts	2,361	2,213	2,157
Less than 15,000 volts (c)	2,893	2,873	2,865
Total	5,254	5,086	5,022
Total employees	1,078	1,109	1,025

(a) Differences between total output and total sales represent Company use and line losses.
(b) Deferred fuel has been reclassified from a component of fuel expense to a component of revenues.
(c) Includes minor amounts of line on poles owned by telephone utility.

1980	1979	1978	1977	1976	1975	1974
600,000	554,000	544,000	532,000	520,000	505,000	495,000
162,770	157,601	150,739	143,645	135,344	130,010	126,760
16,169	15,791	15,381	14,518	14,203	13,294	13,163
42	44	47	46	39	32	29
1,941	1,875	1,842	1,715	1,748	1,663	1,545
180,922	175,311	168,009	159,924	151,334	144,999	141,497
718,000	688,000	690,000	657,000	677,000	640,000	638,000
3,928,860	3,771,043	3,673,685	3,475,753	3,501,416	3,433,698	3,369,606
47,969	—	—	—	—	—	—
9,794	(119,166)	(84,609)	(3,574)	51,013	15,837	(13,709)
3,986,623	3,651,877	3,589,076	3,472,179	3,552,429	3,449,535	3,355,897
$ 63,822	$ 52,129	$ 42,229	$ 35,232	$ 31,970	$ 26,966	$ 21,419
58,821	46,064	37,868	34,098	34,280	28,874	20,445
28,239	26,023	21,388	18,075	16,049	11,842	8,309
59,145	32,068	27,821	25,803	30,195	22,852	16,605
$ 210,027	$ 156,284	$ 129,306	$ 113,208	$ 112,494	$ 90,534	$ 66,778
972,070	937,858	907,956	874,140	816,169	782,285	765,636
985,123	949,514	913,038	902,699	929,556	909,967	853,960
621,877	682,163	650,542	617,955	582,125	513,637	508,482
1,148,952	854,749	849,113	847,930	1,030,812	1,006,311	980,175
3,728,022	3,424,284	3,320,649	3,242,724	3,358,662	3,212,200	3,108,253
6,065	6,072	6,153	6,261	6,193	6,097	6,116
$ 398.17	$ 337.51	$ 286.19	$ 252.35	$ 242.58	$ 210.15	$ 171.05
6.57¢	5.56¢	4.65¢	4.03¢	3.92¢	3.45¢	2.80¢
5.97	4.85	4.15	3.78	3.69	3.17	2.39
4.54	3.81	3.29	2.92	2.76	2.31	1.63
5.63	4.56	3.89	3.49	3.35	2.82	2.15
2,131	2,070	1,999	1,811	1,759	1,706	1,647
2,841	2,794	2,759	2,755	2,727	2,691	2,673
4,972	4,864	4,758	4,566	4,486	4,397	4,320
986	965	908	838	816	778	726

1983 Financial Information

Report of Independent Certified Public Accountants

PEAT
MARWICK

The Shareholders and Board of Directors
El Paso Electric Company:

We have examined the consolidated balance sheet of El Paso Electric Company and Subsidiary as of December 31, 1983, and the related consolidated statements of income, retained earnings and sources of funds invested in utility plant and other plant for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The consolidated balance sheet of El Paso Electric Company and Subsidiary as of December 31, 1982, and the related consolidated statements of income, retained earnings and sources of funds invested in utility plant and other plant for each of the years in the two year period ended December 31, 1982 were examined by other auditors, whose report dated February 11, 1983, expressed an unqualified opinion on those statements.

In our opinion, the 1983 consolidated financial statements referred to above present fairly the consolidated financial position of El Paso Electric Company and Subsidiary as of December 31, 1983, and the results of their operations and the sources of funds invested in utility plant and other plant for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the previous year.

Peat, Marwick, Mitchell & Co.

El Paso, Texas
February 10, 1984

Corporate Information

Figures appearing in this report are presented as general information and not in connection with any sale or offer to sell or solicitation of any offer to buy any securities nor are they intended as a representation by the Company of the value of its securities.

Annual Meeting of Shareholders

All Shareholders are invited to attend the Annual Meeting of Shareholders on Monday, May 21, 1984, at 10 a.m. El Paso time, in the Oleander Room of the Rodeway Inn, 6201 Gateway West in El Paso, Texas.

Proxies for the meeting will be solicited by the Board of Directors in a communication to be mailed in early April. This Annual Report is not a part of such proxy solicitation and is not intended to be used as such.

Dividend Reinvestment

The Company's Dividend Reinvestment and Stock Purchase Plan is a convenient method of investing dividends and optional cash payments in new shares of Company Common Stock without payment of commissions and fees. An enrollment card may be obtained by writing the Company Secretary.

Common Stock Shareholders

The Common Stock of the Company is held in every state and the District of Columbia, some U.S. territories and many foreign countries. The number of Shareholders continued to increase in 1983 from 50,474 at December 31, 1982 to 54,060 at December 31, 1983. Our records indicate that about 79 percent of the Company's Shareholders own less than 500 shares each.

Toll-Free Telephone

The Company maintains a toll-free telephone system for the convenience of Shareholders who may have questions or inquiries concerning their accounts. If you are calling from within Texas the number is 800-592-1634. Elsewhere in the U.S. the number is 800-351-1621.

Transfer Agents

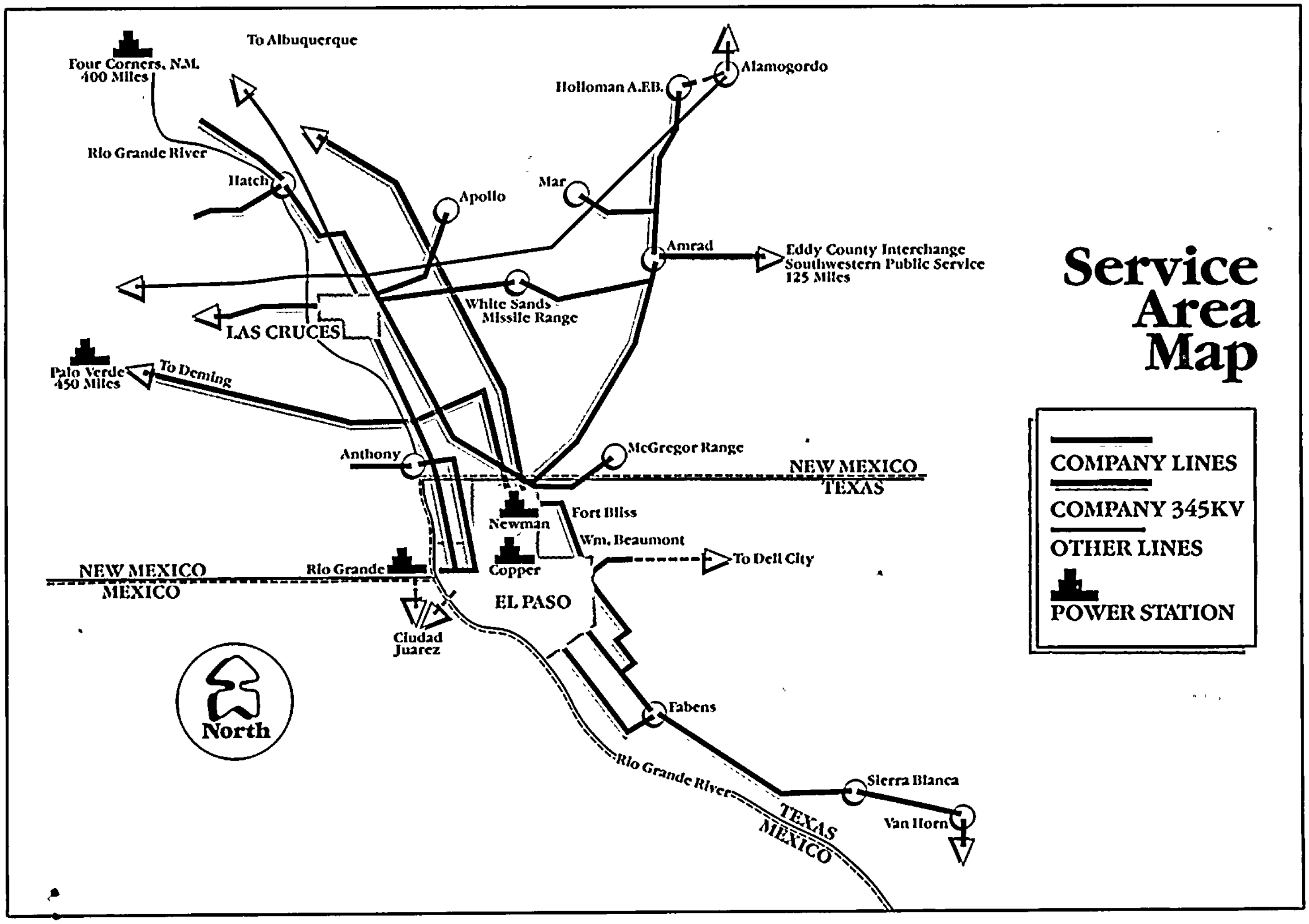
National Westminster Bank (formerly known as National Bank of North America), 80 Pine Street, New York, New York 10005 (Common and Preferred Stock).

The State National Bank, Post Office Box 1072, El Paso, Texas 79958 (Common Stock only).

A copy of the Company's most recent 10-K Report, filed with the Securities and Exchange Commission including the financial statements and financial statement schedules set forth therein, will be made available to Shareholders without charge upon written request to:

Theta S. Fields, Secretary
El Paso Electric Company
Post Office Box 982
El Paso, Texas 79960

Service Area Map



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