

EL PASO ELECTRIC CO /TX/
Form DEF 14A
April 20, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

El Paso Electric Company

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which the transaction applies:

(2) Aggregate number of securities to which the transaction applies:

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

EL PASO ELECTRIC COMPANY

100 N. Stanton Street

El Paso, Texas 79901

(915) 543-5711

April 20, 2012

Dear Shareholder:

The Annual Meeting of Shareholders of El Paso Electric Company (the **Company**) will be held at the Stanton Tower Building, located at 100 N. Stanton Street, El Paso, Texas 79901, on May 31, 2012, at 10:00 a.m., Mountain Time.

The purpose of the Annual Meeting is to give shareholders an opportunity (i) to vote on the election of Class III Directors; (ii) to consider and act upon the recommendation of the Board of Directors (the **Board**) to ratify the selection of KPMG LLP as El Paso Electric Company's independent registered public accounting firm for the fiscal year ending December 31, 2012; and (iii) to approve, by a non-binding advisory vote, the Company's executive compensation, commonly referred to as a **say on pay** vote.

Information concerning these matters is set forth in the accompanying Notice of the Meeting and Proxy Statement. Your Board recommends that you vote **FOR** proposals one, two and three, as explained in the attached Proxy Statement.

Your vote is important. To ensure your representation, even if you cannot attend the Annual Meeting, please mark, sign, date, and return the enclosed proxy promptly.

Sincerely,

Thomas V. Shockley, III
Interim Chief Executive Officer

EL PASO ELECTRIC COMPANY

100 N. Stanton Street

El Paso, Texas 79901

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To the Shareholders of

El Paso Electric Company:

The Annual Meeting of Shareholders of El Paso Electric Company will be held at the Stanton Tower Building, located at 100 N. Stanton Street, El Paso, Texas 79901, on May 31, 2012, at 10:00 a.m., Mountain Time, for the following purposes:

- (1) To give shareholders an opportunity to vote on the election of Class III Directors;
- (2) To consider and act upon the recommendation of the Board to ratify the selection of KPMG LLP as El Paso Electric Company's independent registered public accounting firm for the fiscal year ending December 31, 2012;
- (3) To approve, by a non-binding advisory vote, the Company's executive compensation, commonly referred to as a say on pay vote; and
- (4) To transact such other business as may properly come before the meeting and any adjournment thereof.

The Board knows of no matter, other than those set forth in the paragraphs above (which are discussed at greater length in the accompanying Proxy Statement), that will be presented for consideration at the Annual Meeting.

The Board has fixed the close of business on April 2, 2012, as the record date for the determination of shareholders entitled to vote at the Annual Meeting.

The Board has made these materials available to you on the Internet or, at your direction, has delivered printed versions of these materials to you by mail, in connection with the Board's solicitation of proxies for use at the Annual Meeting. Shareholders are invited to attend the Annual Meeting and requested to vote on the proposals described in this Proxy Statement.

As owners of El Paso Electric Company, your vote is important. Whether or not you are able to attend the Annual Meeting in person, it is important that your shares be represented. Please vote as soon as possible. If you attend the meeting and decide to vote in person, you may revoke your proxy. Shareholders attending the meeting whose shares are registered in the name of a broker and who intend to vote in person should bring an affidavit of ownership from the broker so that beneficial ownership can be verified without delay on the meeting date.

On behalf of the Board, thank you for your participation in this important annual process.

By Order of the Board of Directors,

Guillermo Silva, Jr.
Corporate Secretary

April 20, 2012

YOUR VOTE IS IMPORTANT

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PLEASE MARK, DATE, SIGN AND

RETURN YOUR PROXY PROMPTLY. THANK YOU.

EL PASO ELECTRIC COMPANY

100 N. Stanton Street

El Paso, Texas 79901

PROXY STATEMENT

for

ANNUAL MEETING OF SHAREHOLDERS

To Be Held on May 31, 2012

GENERAL

The accompanying proxy is solicited on behalf of the Board for use at its 2012 Annual Meeting of Shareholders (the Annual Meeting) to be held on May 31, 2012, at 10:00 a.m., Mountain Time, at the Company's principal offices, and at any adjournment thereof. The Company's principal offices are located at the Stanton Tower Building, 100 N. Stanton Street, El Paso, Texas 79901.

The cost of soliciting proxies will be borne by the Company. In addition to the use of the mail, proxies may be solicited by personal interview, telephone, fax or other electronic means by the Directors, officers, employees and agents of the Company. To assist in the solicitation, the Company has engaged Georgeson Inc. for a fee of \$6,500 plus out-of-pocket expenses. The Company will also reimburse brokers, banks and other persons for reasonable expenses in forwarding the Notice of the Meeting to beneficial owners and forwarding printed proxy materials by mail to beneficial owners who specifically request them.

This Proxy Statement and the accompanying form of proxy are first being made available on the Internet to shareholders of the Company on or about April 20, 2012.

SHARES OUTSTANDING, VOTING RIGHTS AND REVOCABILITY OF PROXIES

At the close of business on April 2, 2012, the record date for determination of the shareholders entitled to notice of and to vote at the Annual Meeting, the Company had outstanding 40,040,603 shares of its common stock (the Common Stock).

Each outstanding share of Common Stock is entitled to one vote. The holders of at least a majority of the issued and outstanding shares of Common Stock must be represented in person or by proxy at the Annual Meeting for a quorum to be present and business to be conducted. The vote of a plurality of the votes cast at the meeting is required for the election of each Class III Director. The affirmative vote of the holders of a majority of the shares of Common Stock entitled to vote on the proposal and represented in person or by proxy at the meeting is required to approve the selection of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2012.

The outcome of the advisory vote on the Company's executive compensation will not be binding on the Board. Therefore, there is no required vote on this resolution. The Board, in the exercise of its fiduciary duties, will consider the outcome of the advisory vote in determining how to proceed following such vote. The affirmative vote of the majority of the shares of Common Stock present in person or represented by proxy and entitled to vote on the proposal will be considered as the approval, by an advisory vote, of the compensation of our Named Executive Officers.

A shareholder having the right to vote may vote either in person or by proxy. A shareholder of record may vote in person at the Annual Meeting. A shareholder of record may vote by proxy over the Internet by following the instructions provided in the Notice of the Meeting, or if the shareholder requests printed copies of the proxy materials by mail, the shareholder may also vote by mail or by telephone.

A shareholder who signs and returns a proxy may revoke that proxy at any time before the Annual Meeting by filing with the Corporate Secretary of the Company an instrument in writing revoking the proxy, delivering a duly executed proxy bearing a later date, or attending the meeting and voting in person. The shares represented by a proxy given and not so revoked will be voted and, where the shareholder specifies a choice with respect to any matter to be acted upon and for which a ballot is

provided in the proxy form, the shares will be voted in accordance with the specification so made. If a proxy is returned, but no choice is specified, the shares will be voted FOR all of the Director nominees, and FOR each of proposals two and three. With respect to any other matters that will come before the Annual Meeting, the proxy will be voted in the discretion of the proxy holder. If no proxy is returned, the shares represented by such proxy will not be voted.

The Board is not aware of any matter that will be presented at the Annual Meeting other than as set forth in the accompanying Notice. If, however, any other matters are properly presented at the Annual Meeting, the proxy holder will have discretionary authority to vote the shares represented by properly executed proxies in accordance with the proxy holder's discretion and judgment as to the best interests of the Company.

Abstentions are included in the determination of the number of shares represented at the Annual Meeting for purposes of determining whether a quorum is present and are counted as a vote AGAINST when determining whether a proposal has been approved. Broker non-votes are not included in the determination of the number of shares represented at the Annual Meeting for purposes of determining whether a quorum is present and are not counted for purposes of determining whether a proposal has been approved.

The rules of the New York Stock Exchange (NYSE) determine whether proposals presented at shareholder meetings are routine or non-routine. If a proposal is routine, a broker or other entity holding shares for an owner in street name may vote for the proposal without receiving voting instructions from the owner under certain circumstances. If a proposal is non-routine, the broker or other entity may vote on the proposal only if the owner has provided voting instructions. A broker non-vote occurs when the broker or other entity is unable to vote on a proposal because the proposal is non-routine and the owner does not provide any voting instructions.

The NYSE rules provide that the election of directors in an uncontested election and the advisory vote on executive compensation are non-routine items. This means that brokers who do not receive voting instructions from their clients as to how to vote their shares for these proposals cannot exercise their discretionary authority to vote your shares for these proposals. Therefore, it is important that you instruct your broker as to how you wish to have your shares voted on these proposals, even if you wish to vote as recommended by the Board.

PROPOSAL 1 ELECTION OF CLASS III DIRECTORS

Article III, Section 2, of the Company's Bylaws divides the Board into three classes, as equally as possible, each of which is elected for a three-year term. The Board currently has 11 members, four in Class I and Class II and three in Class III.

The shares represented by the accompanying proxy will be voted to elect the three nominees below for Class III Directors recommended by the Board, unless authority to do so is withheld. Each nominee has agreed to the nomination and has agreed to serve if elected. Should any nominee become unavailable for election, the proxies will be voted for the election of such other person as the Board may recommend in place of such nominee.

Qualifications of Directors

The Board, acting through the Nominating and Corporate Governance Committee is responsible for recommending to the shareholders a group of nominees that, taken together, have the experience, qualifications, attributes and skills to function effectively as a board. Our Corporate Governance Guidelines require the Committee to periodically review the composition of the Board in light of the current challenges and needs of the Company and determine whether to add or remove individuals after considering issues of judgment, diversity, skills, background and experience.

Six of the eleven current Directors were originally appointed to the Board at the time of the Company's emergence from bankruptcy in 1996. The various creditor and public constituencies at the time sought individuals with financial, regulatory and managerial skills that both represented a break with the past and an ability to direct a fragile entity back to viability. This core group of Directors instituted

policies that returned the Company's debt to investment grade status within a short period, improved its posture with customers and regulators and led to a substantial increase in the price of the Common Stock in succeeding years. During that period, as Directors retired or as the needs of the Company evolved, the Board added other individuals with skills (such as knowledge of the local service areas and of legislative and regulatory affairs) that became more important as the Company stabilized and grew.

In addition to the characteristics common to all of our Directors, which include integrity, a strong professional reputation and record of achievement in senior executive capacities, the Committee has included on our Board persons with diverse backgrounds and skills reflecting the needs of the Company. In presenting this year's nominees, the Committee also considered the invaluable experience they have gained in dealing with the Company's unique challenges over many years, their ability to work as a collegial group during intense and stressful periods in the past and their willingness to spend the time necessary to perform their roles despite other professional commitments.

The Committee considers the following additional factors as important qualifications and skills of each member of the current Board:

Experience in a broad range of occupations and industries, which provides differing viewpoints and expertise relating to execution of the Company's business plan. These include consumer retail and marketing (Mr. Brown and Ms. Holland-Branch), telecommunications (Mr. Cicconi), regulated financial (Messrs. Harris, Heitz, Parks, Siegel, Wertheimer and Yamarone), regulated utility (Mr. Shockley), non-profit and technology (Ms. Allen) and legal (Messrs. Cicconi, Heitz, Siegel and Yamarone);

Experience in corporate restructuring and finance (Messrs. Brown, Harris, Parks, Siegel, Wertheimer and Yamarone), which has been important in restoring the Company's financial condition and will be critical as the Company accesses public and private sources of capital in the future;

Geographic presence in and knowledge of the communities and constituencies served by the Company in El Paso (Mr. Brown and Ms. Holland-Branch) and New Mexico (Ms. Allen); and

Significant substantive experience in areas applicable to service on the Board's committees, including corporate financial management and accounting (Messrs. Parks and Yamarone), governmental affairs (Messrs. Brown and Cicconi, and Ms. Holland-Branch) utility operations (Mr. Shockley), corporate governance (Messrs. Harris, Heitz and Wertheimer) and strategic planning (Ms. Allen and Messrs. Parks and Siegel).

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF MESSRS. HARRIS, WERTHEIMER AND YAMARONE, AS CLASS III DIRECTORS.

NOMINEES AND DIRECTORS OF THE COMPANY

Included below is information about the nominees for election as directors and the existing directors who will continue in office after the Annual Meeting. The Board has concluded that the skills, qualifications and experience of each of the director nominees and continuing directors supports such nominee or Director's continued membership on the Company's Board.

NOMINEES FOR CLASS III DIRECTORS (NEW TERM TO EXPIRE IN 2015)

James W. Harris

Founder and President, Seneca Financial Group, Inc.

Director since 1996

Mr. Harris, age 65, founded Seneca Financial Group Inc. in 1993 and currently serves as its President. Previously, Mr. Harris served as Managing Director at Lehman Brothers and Head of the Financial Restructuring Group. Before joining Lehman Brothers, he spent ten years at Citibank N.A.'s Institutional Recovery Group. From 2001 to 2003, he was an adjunct professor at Columbia University's Graduate School of Business in New York. Since 2006, Mr. Harris has been an adjunct professor at the Kenan-Flagler School of Business Administration at the University of North Carolina in Chapel Hill, North Carolina where he teaches a course on Managing Business Turnarounds. Mr. Harris has been a Director of the Company since 1996 and serves on our Compensation, Executive, and External Affairs Committees. He also serves as Chairman of our Nominating and Corporate Governance Committee. He served as a director of Peregrine Systems Inc. and was a member of its audit committee. Mr. Harris currently serves on the advisory board of the Dare County Center and co-chairs its board's long-term planning committee.

Stephen N. Wertheimer

Managing Director and Founding Partner, W Capital Partners

Director since 1996

Mr. Wertheimer, age 61, is a Managing Director and Founding Partner of W Capital Partners. He has over 30 years of experience in investment banking and principal investments. Prior to founding W Capital Partners, Mr. Wertheimer served as a Managing Director of CRT Capital Group, LLC. He was a Founder and Managing Member of Water Capital Management from 1991 to 1997. From 1988 to 1991, he served as a Managing Director and the Group Head of Investment Banking-Asia of PaineWebber Incorporated. Mr. Wertheimer was a Managing Director at First Chicago Corporation, where he specialized in tax-structured domestic and international principal investments. He was a Vice President with Bank of America's tax financing group making equity investments for the parent corporation. Mr. Wertheimer has extensive board experience having served on the boards of over thirty companies, both public and private. Mr. Wertheimer has been a Director of the Company since 1996 and serves as a member of the Executive and Nominating and Corporate Governance Committees and is Chairman of the Energy Resources and Environmental Oversight Committee. He is also a member of the board of directors of AOptix Technologies, Dynacast International, Inc. and World Kitchen, Inc. Mr. Wertheimer earned a Bachelor of Science degree in Finance from Indiana University and a Master's of Management from the Kellogg School, Northwestern University.

Charles A. Yamarone

Director, Houlihan Lokey

Director since 1996

Mr. Yamarone, age 53, has been a Director of Houlihan Lokey since November 2009, where he is a senior member of the Debt Capital Markets Group. Prior to that, Mr. Yamarone worked for over 18 years at Libra Securities (Libra) and its predecessors. At Libra, Mr. Yamarone served in a wide variety of roles and was involved in all areas of Libra's business as an institutional broker-dealer, including capital markets, corporate finance, sales and trading, research, legal, compliance, operations and administration. Mr. Yamarone has been a Director of the Company since 1996 and is Chairman of our Audit Committee and a member of our Compensation Committee. He was a director of Continental Airlines, Inc. from 1995 until its merger into United Continental Holdings, Inc. in October 2010 and was chairman of Continental's

human resources committee and a member of its corporate governance and social responsibility committee. Since October 2010, he has been a director of United Continental Holdings, Inc. and is chairman of its compensation committee and a member of its executive committee. Until January 2012, he was a director of New Millennium Homes, LLC, a privately-owned homebuilder, and served on its audit committee. He also previously served as a director of four other public companies.

CLASS II DIRECTORS (TERM EXPIRING IN 2014)

Catherine A. Allen

Chairman and Chief Executive Officer, The Santa Fe Group

Director since 2009

Ms. Allen, age 65, has, since 1996, been the Chairman, Chief Executive Officer and Founder of The Santa Fe Group, a strategic consulting company providing services to financial institutions and related infrastructure companies. Previously, Ms. Allen was a Vice President of Business Development and Alliances of Citicorp, where her responsibilities included developing and managing strategic alliances with technology and telecommunications companies for technology-based products and services. She is the President and Chairman of the Board of the Mark Twain Research Foundation. She was formerly CEO of BITS, a financial services consortium and non-profit industry association from 1997 to 2007. She serves on the board of Stewart Title Guaranty Company, Synovus Financial Corporation and the advisory board for Citibank Global Transaction Business. Ms. Allen joined our Board in May 2009 and serves on our Compensation, External Affairs and Energy Resources and Environmental Oversight Committees.

Kenneth R. Heitz

Partner, Irell & Manella, LLP, a law firm

Director since 1996

Mr. Heitz, age 64, has been a Partner of the law firm of Irell & Manella, LLP since 1991. Prior to joining Irell & Manella, Mr. Heitz served as Acting President and Chief Executive Officer of Columbia Savings and Loan Association from January 1990 to March 1990 and as its Executive Vice President and General Counsel from 1988 to 1990. In May 2011, he joined the board of Ares Capital Corporation, a business development company. Mr. Heitz has been a Director of the Company since 1996, and in May 2008, he was elected Chairman of our Board. He also serves on our External Affairs, Energy Resources and Environmental Oversight, Executive and Nominating & Corporate Governance Committees. In January 2012, Mr. Heitz was elected as Chairman of our Compensation Committee.

Michael K. Parks

Managing Director, TCW Group and Managing Director Crescent Capital Group, LP

Director since 1996

Mr. Parks, age 52, serves as Managing Director of Crescent Capital Group, LP and for limited purposes as a Managing Director of Trust Company of the West (TCW). Prior to joining Crescent and TCW, Mr. Parks held various executive level positions at Aurora National Life Assurance Company from 1993 to 2000, including Chief Executive Officer, President and Chief Investment Officer from 1996 to October 2000. From 1981 to 1992, he held various positions at Salomon Brothers Inc. He has been a Director of the Company since 1996 and was appointed Vice Chairman of the Board in November 2005. He also serves on our Audit, Executive, and Nominating and Corporate Governance Committees. He has been a Director of E*Trade Financial Corp. (formerly, E*Trade Group Inc.) since April 2003 and serves on its audit committee and finance risk oversight committee.

Eric B. Siegel

Retired Limited Partner, Apollo Advisors, LP and

Consultant and Special Advisor to the Chairman, Milwaukee Brewers Baseball Club

Director since 1996

Mr. Siegel, age 54, is a retired Limited Partner of Apollo Advisors, LP (Apollo) and has been an independent business consultant since 1995. Mr. Siegel serves as a consultant to and on the advisory board of the Milwaukee Brewers Baseball Club. He previously served as a Principal and was a Limited Partner of Apollo Advisors, LP (a predecessor to Apollo Management, LP) and Lion Advisors, LP. Prior to joining Apollo, Mr. Siegel was a partner of Irell & Manella LLP, a law firm practicing corporate law. He has been a director of the Company since 1996 and serves on our Audit and Nominating and Corporate Governance Committees. He also serves as Chairman of our Executive Committee. He serves as the lead independent director of Ares Capital Corporation, where he has been a board member and member of the Audit Committee since 2004. Mr. Siegel has previously served as a director of a number of public and private companies, including Kerzner International Limited (Kerzner) where he was a director and chairman of its Audit and Compensation Committees from April 1994 to 2006. He rejoined the Kerzner Board in 2008.

CLASS I DIRECTORS (TERM EXPIRING IN 2013)

John Robert Brown

Owner and President, Brownco Capital, LLC

Director since 2003

Mr. Brown, age 67, has been the owner and president of Brownco Capital, LLC, a private investment company, since November 2007. From May 1992 to March 2008, Mr. Brown was the President and Chairman of the Board of Desert Eagle Distributing of El Paso, Inc., a distributor of Anheuser-Busch products in west Texas and eastern New Mexico. Mr. Brown has been a Director of the Company since June 2003, serves on our Audit Committee, and is Chairman of our External Affairs Committee. He currently serves on the board of directors of Bank of the West, Medical Center of the Americas Foundation, the University of Texas at El Paso Development Board and the Texas Tech University Foundation Board.

James W. Cicconi

Senior Executive Vice President for External and Legislative Affairs, AT&T, Inc.

Director since 1997

Mr. Cicconi, age 59, has been Senior Executive Vice President of External and Legislative Affairs for AT&T Services Inc. since November 2005. Prior to that, Mr. Cicconi served as Executive Vice President for Law and Government Affairs and General Counsel of AT&T Corp. from December 1998. He served as a partner of Akin, Gump, Strauss, Hauer & Feld, LLP from 1991 to 1998. While practicing law at Akin Gump, Mr. Cicconi specialized in administrative and regulatory law, as well as federal legislation, representing a range of corporate clients. He was also involved in a number of significant transactions, including public sales, restructurings and acquisitions. Mr. Cicconi served as Deputy Chief of Staff to President George W. Bush and also served as the Senior Issues Advisor to President Bush's 1988 and 1992 election campaigns. Mr. Cicconi has been a Director of the Company since 1997 and serves on our Audit and External Affairs Committees.

Patricia Z. Holland-Branch

Chief Executive Officer and Owner, Facilities Connection, Inc.

Director since 1997

Ms. Holland-Branch, age 68, is the Chief Executive Officer and 100% shareholder of Facilities Connection, Inc., headquartered in El Paso, Texas. Her company provides its national and international customers with professional services, contract furniture and I.T. solutions, including interior design, project management, logistics, and installation. Ms. Holland-Branch has been a Director of the Company since 1997 and serves on our External Affairs and Energy Resources and Environmental Oversight Committees. She currently serves on the executive committee for El Paso Del Norte Group and is a former director for El Paso Hispanic Chamber of Commerce Foundation, Regional Economic Development Corporation, and El Paso Branch of the Federal Reserve Bank of Dallas as well as a past chairman of the board for the Greater El Paso Chamber of Commerce.

Thomas V. Shockley, III

Interim Chief Executive Officer, El Paso Electric Company

Retired Vice Chairman and Chief Operating Officer, American Electric Power Company, Inc.

Director since 2010

Mr. Shockley, age 67, retired in 2004 after a lengthy career in the regulated utility industry. From 2000 to 2004, he served as the Vice Chairman and Chief Operating Officer of American Electric Power Company, Inc. (AEP), one of the largest electric utilities in the United States. From 1997 to 2000, Mr. Shockley was President and Chief Operating Officer of Central and South West Corporation, which combined with American Electric Power of Columbus, Ohio in 2000 to form AEP. In his career, Mr. Shockley served in various other executive and management positions in the utility and energy industries. He previously served on the boards of directors of the Foundation Coal Company and Cellnet. He also currently serves on the board of Chase Energy Development. Mr. Shockley has been a Director of the Company since 2010 and serves on our External Affairs, Energy Resources and Environmental Oversight and Executive Committees. In January 2012, upon Mr. Shockley's appointment as Interim Chief Executive Officer, he resigned from our Compensation Committee.

CORPORATE GOVERNANCE

Board Structure

Although not required by our Bylaws, since 1996, the offices of Chairman and Chief Executive Officer (CEO) of the Company have been held by different individuals. The Chairman of our Board, Mr. Heitz, is an independent Director. Our Interim CEO, Mr. Shockley, is the only member of management on the Board. We believe that this leadership structure enhances the accountability of the CEO to the Board and strengthens the Board's independence from management.

Corporate Governance Guidelines

The Board has adopted Corporate Governance Guidelines (the Guidelines) that, along with the charters of the Board Committees, provide the framework for the governance of the Company. The Board's Nominating and Corporate Governance Committee is responsible for overseeing and reviewing the Guidelines at least annually and recommending any proposed changes to the Board for approval. The Guidelines are available on the Company's website at www.epelectric.com. The website and its contents are not part of this Proxy Statement.

Standards of Board Independence

The Guidelines, among other things, set forth categorical standards to assist the Board in making determinations of Director independence in accordance with the rules of the NYSE. The Board makes a determination regarding the independence of each Director annually based on all relevant facts and circumstances. Although any Director who meets the following criteria and the independence criteria of the NYSE is presumed to be independent (except for purposes of serving as a member of the Audit Committee, which requires that the Director meet additional requirements, the Board may make an affirmative determination to the contrary based on its review of other factors. Under the Guidelines, the following persons will not be considered to be independent:

- (i) A Director who serves as an executive officer or employee of, or beneficially owns more than a 10% equity interest in, any corporation, partnership or other business entity that during the most recently completed fiscal year made payments to the Company or received payments from the Company for goods and services if such payments were more than the greater of 2% of such other entity's gross consolidated revenues for such fiscal year or \$1 million.
- (ii) A Director who serves as an executive officer or employee of, or beneficially owns more than a 10% equity interest in, any bank, corporation, partnership or other business entity to which the Company was indebted at the end of its most recently completed fiscal year in an amount more than the greater of 2% of such other entity's total consolidated assets at the end of such fiscal year or \$1 million.
- (iii) A Director who is a member or employee of a law firm that has provided services to the Company during the most recently completed fiscal year if the total billings for such services were more than the greater of 2% of the law firm's gross revenues for such fiscal year or \$1 million.
- (iv) A Director who is a partner, executive officer or employee of any investment banking firm that has performed services for the Company (other than as a participating underwriter in a syndicate) during the most recently completed fiscal year if the total compensation received for such services was more than the greater of 2% of the investment banking firm's consolidated gross revenues for such fiscal year or \$1 million.

After a review of all relevant factors and applying these categorical standards and the independence criteria of the NYSE, the Board has determined that:

Ms. Allen and Messrs. Brown, Cicconi, Harris, Heitz, Parks, Siegel, Wertheimer and Yamarone are independent;

Mr. Shockley, who is currently serving as the Company's interim CEO, is not independent; and

Ms. Holland-Branch is not independent at the current time under the NYSE's three-year lookback rule because of transactions in 2010 between the Company and a vendor whose President is Ms. Holland-Branch's son.

In determining the independence of Mr. Cicconi, the Board took into account various bilateral payments, which are not material in amount, between the Company and AT&T relating to telephone-and-electric-pole rental fees and telecommunications services pursuant to tariffs.

In addition, the Board has determined that all members of the Audit Committee meet the independence requirements set forth in Rule 10A-3(b)(1)(ii) under the Securities Exchange Act of 1934, as amended (the "Act").

The Company has not made any charitable contributions to any charitable organization for which a Director of the Company serves as an executive officer in excess of the greater of \$1 million or 2% of the charitable organization's consolidated gross revenues within the preceding three years.

Board's Role in Risk Oversight

It is the responsibility of senior management to identify, assess, and manage our exposure to risk inherent in the operation of the Company and the implementation of our strategic plan. The Board, however, plays an important role in overseeing management's performance of these functions. In connection with its review of the operations of the Company's business, the Board addresses the primary risks associated with various business decisions and operations. In addition, the Board reviews the risks associated with the Company's strategic plan periodically throughout the year as part of its consideration of the strategic direction of the Company.

Each of the Board's Committees also oversees the management of Company risks that fall within the Committee's areas of responsibility. In performing this function, each Committee has full access to management, as well as the ability to engage advisors.

The Company has an enterprise risk management program that was established in 2010. The Company's Senior Vice President, General Counsel and Chief Compliance Officer, who reports directly to the Audit Committee, is responsible for identifying, evaluating and enabling the development, implementation and monitoring of risk mitigation strategies.

Pursuant to its Charter, the Audit Committee oversees the operation of this enterprise risk management program, and the Senior Vice President, General Counsel and Chief Compliance Officer and her team make periodic reports to the Audit Committee about the identified risks and the management controls and methodologies in place to manage those risks. In connection with its risk management role, the Audit Committee periodically meets privately with representatives from the Company's internal auditors and its independent registered public accounting firm. The Audit Committee provides reports to the Board that include these activities.

As part of its oversight of the Company's executive compensation program, the Compensation Committee considers the impact of the Company's executive compensation program, and the incentives created by the compensation awards that it administers, on the Company's risk profile. In addition, the Company reviews all of its compensation policies and procedures, including the incentives that they create and factors that may reduce the likelihood of excessive risk taking, to determine whether they present a significant risk to the Company. Based on this review, the Company has concluded that its compensation policies and procedures are not reasonably likely to have a material adverse effect on the Company.

The Nominating and Corporate Governance Committee assists the Board in overseeing risks associated with board organization, membership and structure, succession planning for our Directors and executive officers, and corporate governance.

The Energy Resources and Environmental Oversight Committee assists the Board in overseeing risks associated with the Company's electric generating fleet, including plants in which we are the sole owner and those (such as the Palo Verde Nuclear Generating Station) operated by others; issues facing the Company from legislative and regulatory initiatives regarding climate change, emissions, renewables and alternative energy; and environmental issues, including compliance with applicable environmental laws and regulations.

The External Affairs Committee assists the Board in overseeing risks associated with legislative and regulatory matters and related legal compliance matters.

Business Conduct Policies

The Board has adopted a Code of Ethics that applies to all Directors, officers and employees of the Company, including the CEO, the Senior Vice President and Chief Financial Officer, and the Vice President and Controller. A current copy of the Code of Ethics may be found on the Company's Internet website at www.epelectric.com. Any amendments to, or waivers from, any provision of the Code of Ethics applicable to the CEO, the Senior Vice President and Chief Financial Officer, the Vice President and Controller or persons performing similar functions will be disclosed by posting such information on the Company's Internet website at www.epelectric.com within five business days.

Current copies of the charters of the Audit, Compensation, and Nominating and Corporate Governance Committees (the Committee Charters) may also be found on the Company's Internet website at www.epelectric.com.

Printed copies of the Guidelines, the Committee Charters and the Code of Ethics are available to any shareholder upon request. Requests for printed copies should be addressed to El Paso Electric Company, 100 N. Stanton Street, El Paso, Texas 79901, Attention: Office of the Secretary.

Shareholders and interested parties may correspond directly with non-management Directors by writing to James W. Harris, Chairman, Nominating and Corporate Governance Committee, P.O. Box 982, El Paso, Texas 79960.

NYSE Corporate Governance Listing Standards

The Company's CEO must certify to the NYSE each year that he is not aware of any violation by the Company of NYSE corporate governance listing standards, qualifying the certification to the extent necessary. Such certification must be made within thirty days of the date of the Company's annual shareholders' meeting. The 2011 CEO certification was submitted to the NYSE timely and without qualification.

DIRECTORS' MEETINGS, COMPENSATION, AND COMMITTEES

Meetings

The Board held seven meetings during 2011. All Directors attended at least 75% of the total number of meetings of the Board and the Committees on which they served, except for Ms. Allen, who was not able to attend two Board meetings and one Energy Resources and Environmental Oversight Committee meeting. The Board held five executive sessions during 2011. The Chairman of the Board presides at the executive sessions.

The Company does not have a formal policy regarding Director attendance at Annual Meetings. All members of the Board attended the 2011 Annual Meeting with the exception of Mr. Cicconi.

2011 Director Compensation

The table set forth below provides information regarding compensation paid to the non-employee Directors of the Company. Mr. Stevens did not receive separate compensation for his services as a Director.

Name	Fees Earned or	Stock	All Other	Total
	Paid in Cash	Awards	Compensation	
	(\$)	(\$)	(\$)	(\$)
	(a)	(b)(c)	(d)	
Allen, Catherine A.	\$ 30,500	\$ 136,971	\$ 3,071	\$ 170,542
Brown, John Robert	80,500	105,980	2,310	188,790
Cicconi, James W.	78,000	105,980	2,310	186,290
Harris, James W.	66,000	105,980	2,310	174,290
Heitz, Kenneth R.	195,000	136,965	3,555	335,520
Holland-Branch, Patricia Z.		161,001	3,643	164,644
Parks, Michael K.	199,000	105,980	2,310	307,290
Shockley, Thomas V., III	62,000	105,980	2,310	170,290
Siegel, Eric B.	78,500	105,980	2,310	186,790
Wertheimer, Stephen N.	15,250	135,474	2,616	153,340
Yamarone, Charles A.	85,500	105,980	2,310	193,790

- (a) This column reports the amount of cash compensation earned in 2011 for Board and Committee service, based on the compensation policy described below. Annually, Directors can elect to receive retainers and meeting fees in cash or restricted stock or a combination. Ms. Holland-Branch elected to receive this compensation in restricted stock in 2011. Ms. Allen, Mr. Heitz and Mr. Wertheimer elected to receive this compensation in a combination of cash and restricted stock. The remaining Directors elected to receive this compensation in cash.
- (b) This column represents the aggregate grant date fair value of awards granted in 2011 computed in accordance with FASB ASC Topic 718. Fair value for restricted stock is calculated using the closing price of our stock on the date of grant. For additional information on valuation assumptions, see Note G of Notes to the Consolidated Financial Statements in the Company's 2011 Annual Report on Form 10-K.
- (c) The per share grant date fair value for each grant of restricted stock awards during 2011 (which cannot be sold for one year) is set forth in the table below together with dividends paid on such awards. In addition, Mr. Heitz held 2,246 unexercised options at fiscal year end. There were no other stock awards held by the non-employee Directors at fiscal year end.
- (d) The Company has been paying quarterly dividends of \$0.22 per share on its Common Stock since June 30, 2011. Unvested restricted shares qualify as participating securities and individuals awarded these shares received their respective cash dividends.

Name	Fair Value at Grant Date Stock Awards (per share)	Stock Awards (#)	Dividends Paid on Stock Awards
Allen, Catherine A.	\$ 27.53	254	\$ 168
Allen, Catherine A.	30.40	247	163
Allen, Catherine A.	30.28	3,500	2,310
Allen, Catherine A.	32.30	279	123
Allen, Catherine A.	32.09	233	51
Brown, John Robert	30.28	3,500	2,310
Cicconi, James W.	30.28	3,500	2,310
Harris, James W.	30.28	3,500	2,310
Heitz, Kenneth R.	27.53	527	348
Heitz, Kenneth R.	30.40	542	358
Heitz, Kenneth R.	30.28	3,500	2,310
Holland-Branch, Patricia Z.	27.53	436	288
Holland-Branch, Patricia Z.	30.40	461	304
Holland-Branch, Patricia Z.	30.28	3,500	2,310
Holland-Branch, Patricia Z.	32.30	433	191
Holland-Branch, Patricia Z.	32.09	468	103
Parks, Michael K.			