EL PASO ELECTRIC CO /TX/
Form DEF 14A
April 16, 2010

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 x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
x 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):

x 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

EI Paso, Texas 79901

(915) 543-5711

April 16, 2010

Dear Shareholder:

The Annual Meeting of Shareholders of El Paso Electric Company will be held at the Stanton Tower Building, located at 100 N. Stanton, El Paso, Texas 79901, on May 26, 2010, at 10:00 a.m., Mountain Daylight Time.

The purpose of the Annual Meeting is to give shareholders an opportunity (i) to vote on the election of Class I Directors; and (ii) to consider and act upon the recommendation of the Board of Directors to ratify the selection of KPMG LLP as the El Paso Electric Company s independent registered public accounting firm for the fiscal year ending December 31, 2010.

Information concerning these matters is set forth in the accompanying Notice of the meeting and Proxy Statement. Your Board of Directors recommends that you vote FOR the proposals 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 promptly the enclosed proxy.

Sincerely,

David W. Stevens

Chief Executive Officer

EL PASO ELECTRIC COMPANY

100 N. Stanton

El Paso, Texas 79901

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To the Shareholders of

EI Paso Electric Company:

The Annual Meeting of Shareholders of EI Paso Electric Company will be held at the Stanton Tower Building, located at 100 N. Stanton, EI Paso, Texas 79901, on Wednesday, May 26, 2010, at 10:00 a.m., Mountain Daylight Time, for the following purposes:

(1) To give shareholders an opportunity to vote on the election of Class I Directors;

(2) To consider and act upon the recommendation of the Board of Directors to ratify the selection of KPMG LLP as EI Paso Electric Company s independent registered public accounting firm for the fiscal year ending December 31, 2010; and

(3) To transact such other business as may properly come before the meeting and any adjournment thereof.

The Board of Directors 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 of Directors has fixed the close of business on March 29, 2010, as the record date for the determination of shareholders entitled to vote at the Annual Meeting.

The Board of Directors 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 EI 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 of Directors, thank you for your participation in this important annual process.

By Order of the Board of Directors,

Guillermo Silva, Jr.

Corporate Secretary

April 16, 2010

YOUR VOTE IS IMPORTANT

PLEASE MARK, DATE, SIGN AND

PROMPTLY RETURN YOUR PROXY. THANK YOU.

EL PASO ELECTRIC COMPANY

100 N. Stanton

El Paso, Texas 79901

PROXY STATEMENT

for

ANNUAL MEETING OF SHAREHOLDERS

To Be Held on May 26, 2010

GENERAL

The accompanying proxy is solicited on behalf of the Board of Directors of El Paso Electric Company (the Company) for use at its 2010 Annual Meeting of Shareholders (the Annual Meeting) to be held on May 26, 2010, at 10:00 a.m., Mountain Daylight 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, 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 Shareholder Communications, 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 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 16, 2010.

SHARES OUTSTANDING, VOTING RIGHTS AND REVOCABILITY OF PROXIES

At the close of business on March 29, 2010, the record date for determination of the shareholders entitled to notice of and to vote at the Annual Meeting, the Company had outstanding 43,772,481 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 I Director. The affirmative vote of the holders of a majority of the shares of Common Stock entitled to vote 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, 2010.

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, 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 (i) FOR the election of the four nominees described below as Class I Directors; and (ii) FOR the ratification of the selection of KPMG LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2010. 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 of Directors 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 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.

Beginning with the 2010 proxy season, the New York Stock Exchange has changed its rules to make the election of directors in an uncontested election a non-routine item. This means that brokers who do not receive voting instructions from their clients as to how to vote their shares for the election of directors cannot exercise discretion to vote for directors. Due to this rule change, at this year s annual meeting, the election of directors will be a non-routine item. 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 of Directors.

PROPOSAL 1 ELECTION OF CLASS I DIRECTORS

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

The shares represented by the accompanying proxy will be voted to elect four nominees for Class I Directors recommended by the Board of Directors, 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 of Directors may recommend in place of such nominee.

Qualifications of Directors

The Board of Directors, acting through the Nominating and Corporate Governance Committee (the Committee), is responsible for recommending to the stockholders 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 periodically to 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.

A majority of the 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. . With the retirement of Mr. Edwards (who is a former utility executive) effective May 26, 2010, the Board has identified a Board nominee, Mr. Shockley, with significant managerial and operational experience in the regulated utility industry to complement the skills of Mr. Stevens.

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 role despite other professional commitments.

The Committee considers the following additional factors as important characteristics 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 (Ms. Holland-Branch, Mr. Brown), telecommunications (Mr. Cicconi), regulated financial (Messrs. Parks, Heitz, Harris, Wertheimer, Siegel and Yamarone), regulated utility (Mr. Shockley), non-profit and technology (Ms. Allen) and legal (Messrs. Cicconi, Heitz and Siegel);

experience in corporate restructuring and finance (Messrs. Harris, Parks, Siegel, Wertheimer, Yamarone and Brown), 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 or knowledge of the communities and constituencies served by the Company in El Paso (Ms. Holland-Branch and Mr. Brown) 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. Yamarone and Parks), governmental affairs (Ms. Holland-Branch and Messrs. Brown and Cicconi), utility operations (Messrs. Shockley and Stevens), 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. BROWN, CICCONI AND SHOCKLEY, AND MS. HOLLAND-BRANCH, AS CLASS I 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 of Directors 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 of Directors.

NOMINEES FOR CLASS I DIRECTORS (NEW TERM TO EXPIRE IN 2013)

John Robert Brown

Owner and President, Brownco Capital, LLC

Director since 2003

Mr. Brown, age 65, 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 and serves on our Audit Committee and is Chairman of our External Affairs Committee. He currently serves on the Boards of Directors of Bank of the West, the El Paso Regional Economic Development Corporation, 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 57, 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. since December 1998. He served as a Partner of Akin, Gump, Strauss, Hauer & Feld, L.L.P. 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 Committee and is Chairman of our Compensation Committee.

Patricia Holland-Branch

Chief Executive Officer and Owner of Facilities Connection, Inc.

Director since 1997

Ms. Holland-Branch, age 65, is the Chief Executive Officer and Owner of Facilities Connection, Inc., a company she founded in 1986 that provides products and interior design services for commercial, industrial and governmental clients. She is also a 50% owner of MAPRODISA, S.A. de C.V. Ms. Holland-Branch has been a director of the Company since 1997 and serves on the External Affairs and Energy Resources and Environmental Oversight Committees. She currently serves on the Foundation Board of Directors of the El Paso Hispanic Chamber of Commerce and is a director of the Regional Economic Development Corporation in El Paso. She also served a six-year term for the El Paso Branch of the Federal Reserve Bank of Dallas and during two of these years she served as Chairman of the Board.

Thomas K. Shockley

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

The Board has nominated Thomas K. Shockley to fill the vacant position created by the retirement of Mr. Edwards. Mr. Shockley, age 65, 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.

CLASS II DIRECTORS (TERMS EXPIRING IN 2011)

Catherine A. Allen

Chairman and Chief Executive Officer, The Santa Fe Group

Director since 2009

Ms. Allen, age 63, 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 and the advisory board for Alantis 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 62, has been a Partner of the law firm of Irell & Manella, LLP most recently 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. Mr. Heitz has been a director of the Company since 1996, and in May 2008, he was appointed Chairman of our Board. He also serves on our External Affairs and Energy Resources and Environmental Oversight Committees.

Michael K. Parks

Managing Director, TCW Group

Director since 1996

Mr. Parks, age 50, serves as Managing Director of the Special Situations Group of TCW Group, Inc. Mr. Parks also serves as Managing Director of Leveraged Finance Group of Trust Company of the West. Prior to joining TCW, Mr. Parks held various executive level positions at Aurora National Life Assurance Company, a privately owned life insurance 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. He also serves as a director of Aurora National Life Assurance Company.

Eric B. Siegel

Retired Limited Partner of Apollo Advisors, L.P. and

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

Director since 1996

Mr. Siegel, age 52, is a retired Limited Partner of Apollo Advisors, L.P. and has been an independent business consultant since 1995. Mr. Siegel serves as Consultant to and on the Advisory Board of the Milwaukee Brewers Baseball Club. He has also served as a Principal and Partner of Apollo Advisors, L.P. (a predecessor to Apollo Management L.P.) and Lion Advisors, L.P. 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 has been a Director of Ares Capital Corporation since 2004 and is chairman of its Nominating Committee and a member of its Audit Committee. Mr. Siegel has previously served as a director of a number of public and private companies, including Kerzner International Limited where he was a director from April 1994 to 2006, and chairman of its Audit and Compensation Committees. He rejoined the Kerzner Board in 2008.

CLASS III DIRECTORS (TERMS EXPIRING IN 2012)

James W. Harris

Founder and President, Seneca Financial Group, Inc.

Director since 1996

Mr. Harris, age 63, founded Seneca Financial Group Inc. in 1993 and 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 10 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 that board s long-term planning committee.

David W. Stevens

Chief Executive Officer, El Paso Electric Company

Director since 2008

Mr. Stevens, age 50, is our CEO. Prior to joining the Company in 2008, Mr. Stevens served as Founder and Principal of Professional Consulting Services, LLC from December 2007 to November 2008. Prior to that, he served as President and CEO of Cascade National Gas Corporation from April 2005 to July 2007. He served as President and Chief Operating Officer of Panhandle Energy from July 2003 to April 2005 and as President and Chief Operating Officer of Southern Union Company s former subsidiary, Energy Worx, Inc., from January 2003 to June 2003. Previously, Mr. Stevens served in other operating and senior management positions with Southern Union Gas and its subsidiaries. Throughout his career, he has served in many business and community organizations, including the Southern Gas Association, the Intrastate Natural Gas Association, Rotary International and the American Lung Association. Mr. Stevens has served on the boards of PointServe Inc. and Cascade Natural Gas Corporation.

Stephen N. Wertheimer

Managing Director and Founding Partner, W Capital Partners

Director since 1996

Mr. Wertheimer, age 59, is a Managing Director and Founding Partner of W Capital Partners and 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 (CRT Capital). Prior to joining CRT Capital, he was a Founder and Managing Member of Water Capital Management from 1991 to 1997. Mr. Wertheimer has extensive board experience having served on the board 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 Committee. He is also currently a member of the Boards of Directors of AOptix Technologies, Kabira Technologies and World Kitchen, Inc.

Charles A. Yamarone

Director, Houlihan Lokey

Director since 1996

Mr. Yamarone, age 51, 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 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 the Audit Committee and a member of the Compensation Committee. He has also been a director of Continental Airlines, Inc. since 1995 and is chairman of its Human Resources Committee and a member of its Corporate Governance and Social Responsibility Committee. He is also a director of New Millennium Homes, LLC, a privately-owned homebuilder, and serves on its Audit Committee. He has previously served as a director of four other public companies.

CORPORATE GOVERNANCE

Board Structure

Although not required by our bylaws, since 1996, the offices of Chairman and Chief Executive Officer of the Company have been held by different individuals. The chairman of our Board, Mr. Heitz, is an independent director. Our Chief Executive Officer, Mr. Stevens, is the only member of management on the Board. We believe that this leadership structure enhances the accountability of the Chief Executive Officer 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 of Directors in making determinations of director independence in accordance with the rules of the NYSE. The Board of Directors 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 under SEC Rule 10A-3(b)(1)(ii)), 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 and $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 and $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 and $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 and $1 million.

In determining the independence of each non-employee director, the Board considered any transactions, relationships and arrangements in which a director may be deemed to have an interest. For 2009, the Board considered the purchase of goods from Facilities Connection, which is owned by Ms. Holland-Branch and services provided by AT&T, where Mr. Cicconi serves as Senior Executive Vice President for External and Legislative Affairs. The Board has determined that these services were provided to us on terms typical for firms not affiliated with any directors and that the total billings for such services were not material either to us, or to Facilities Connection or to AT&T, and do not exceed the limits set forth in the categorical standards set forth above. The Board also considered the payment of $1,148,000 in 2009 for IT services to a company whose president is the son of Ms. Holland-Branch. The Board determined that these services were provided to us on terms typical of firms not affiliated with any directors. The amounts paid to the company exceeded 2% of its consolidated gross revenues.

Applying these categorical standards and the independence criteria of the NYSE, the Board of Directors has determined that all of its directors meet the independence requirements of the NYSE except for (i) David W. Stevens who serves as Chief Executive Officer of the Company and (ii) Ms. Holland-Branch.

In addition, the Board of Directors 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 in excess of the greater of $1 million or 2% of the charitable organization s consolidated gross revenues within the preceding three years to any charitable organization for which a director of the Company serves as an executive officer.

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 reviews 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 also implemented an enterprise risk management program. The Company s Vice President Treasurer and Chief Risk Officer, who functionally reports directly to the Audit Committee (the Chief Risk Officer), is responsible for identifying, evaluating and implementing risk management controls and methodologies to address identified risks. Pursuant to its charter, the Audit Committee oversees the operation of this enterprise risk management program, and the Chief Risk Officer and his 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 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 Palo Verde) 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 of Directors has adopted a Code of Ethics that applies to all directors, officers and employees of the Company, including the Chief Executive Officer, the President, the Senior Vice President and Chief Operating Officer, 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 Company s Chief Executive Officer, the President, the Senior Vice President and Chief Operating Officer, 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 EI Paso Electric Company, 100 N. Stanton, EI 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, EI Paso, Texas 79960.

NYSE Corporate Governance Listing Standards

The Company s Chief Executive Officer must certify to the New York Stock Exchange (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 certification following the 2009 annual meeting was submitted to the NYSE timely, without qualification.

DIRECTORS MEETINGS, COMPENSATION, AND COMMITTEES

Meetings

The Board of Directors held nine (9) meetings during 2009. All directors attended at least 75% of the total number of meetings of the Board of Directors and the committees on which they served. The Board of Directors held seven (7) executive sessions during 2009. The Chairman of the Board of Directors presides at the executive sessions.

The Company does not have a formal policy regarding director attendance at annual meetings. All members of the Board of Directors attended last year s annual meeting with the exception of Mr. Harris. All members are expected to attend this year s Annual Meeting.

2009 Director Compensation

The table set forth below provides information regarding compensation paid to the non-employee directors of the Company.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	All Other Compensation ($)	Total ($)
	(a)	(b)(e)		
Allen, Catherine A.	$ 18,625	$ 60,724	$	$ 79,349
Brown, J. Robert	75,000	48,475		123,475
Cicconi, James W.	77,500	48,475		125,975
Edwards Jr., George W.	51,750	48,475	250,000[(c)]	350,225
Harris, James W.	62,000	48,475		110,475
Hedrick, Gary R.			240,550[(d)]	240,550
Heitz, Kenneth R.		270,489		270,489
Holland-Branch, Patricia Z.		101,470		101,470
Parks, Michael K.	170,750	48,475		219,225
Siegel, Eric B.	82,500	48,475		130,975
Wertheimer, Stephen N.	63,250	48,475		111,725
Yamarone, Charles A.	84,000	48,475		132,475

(a) This column reports the amount of cash compensation earned in 2009 for Board and committee service, based on the compensation policy described below except for Mr. Hedrick. Annually, directors can elect to receive retainers and meeting fees in cash, restricted stock or non-qualified stock options. Mr. Heitz and Ms. Holland-Branch elected to receive this compensation in restricted stock in 2009. Ms. Allen elected to receive this compensation in cash and restricted stock.

(b) This column represents the aggregate grant date fair value of awards granted in 2009 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 F of Notes to the Consolidated Financial Statements in the Company s 2009 Form 10-K.

(c) Mr. Edwards will retire from the Board effective May 26, 2010 after 18 years of service to the Company. The Company made a $250,000 contribution to create the George W. Edwards, Jr./El Paso Electric Distinguished Professorship in Engineering at The University of Texas at El Paso. This permanent endowment is to be used for the benefit of the College of Engineering to further research and graduate programs in the areas of renewable energy.

(d) Mr. Hedrick retired from the Board of Directors effective May 7, 2009 and received consulting fees aggregating $229,372, and reimbursement for the cost of medical insurance coverage of $11,178 in 2009.

(e) The per share grant date fair value for each grant of restricted stock awards (which cannot be sold for one year) is set forth in the table below. In addition, Mr. Heitz held 2,948 unexercised options at fiscal year end.

Name	Fair Value at Grant Date Stock Awards (per share)	Stock Awards (#)
Allen, Catherine A.	$ 13.85	3,500
Allen, Catherine A.	13.96	385
Allen, Catherine A.	17.67	389
Brown, J. Robert	13.85	3,500
Cicconi, James W.	13.85	3,500
Edwards Jr., George W.	13.85	3,500
Harris, James W.	13.85	3,500
Heitz, Kenneth R.	18.09	898
Heitz, Kenneth R.	13.85	14,332
Heitz, Kenneth R.	14.09	1,331
Heitz, Kenneth R.	13.96	1,236
Heitz, Kenneth R.	17.67	1,117
Holland-Branch, Patricia Z.	18.09	760
Holland-Branch, Patricia Z.	13.85	3,500
Holland-Branch, Patricia Z.	14.09	834
Holland-Branch, Patricia Z.	13.96	1,057
Holland-Branch, Patricia Z.	17.67	721
Parks, Michael K.	13.85	3,500
Siegel, Eric B.	13.85	3,500
Wertheimer, Stephen N.	13.85	3,500
Yamarone, Charles A.	13.85	3,500

During 2009, compensation for non-employee directors, except for Mr. Hedrick, consisted of the following:

(1) Each non-employee director received an annual retainer of $35,000. On November 17, 2009, the Nominating and Corporate Governance Committee approved an increase of $5,000 to the annual retainer.

(2) The chair of the Audit Committee received an additional annual retainer of $10,000, and the chair of each of the other committees of the Board received an additional annual retainer of $5,000.

(3) Each non-employee director received a meeting fee of $1,000 per meeting for each Board and committee meeting attended (other than Audit Committee meetings).

(4) Each Audit Committee member received a meeting fee of $1,500 per meeting for each Audit Committee meeting attended.

(5) The Chairman of the Board received an additional award of $150,000 which was paid in stock. The Vice Chairman of the Board received an additional cash award of $125,000.

(6) Restricted stock awarded to directors cannot be sold for one year after grant. Each non-employee director received an award of 3,500 shares of restricted stock.

Directors are also reimbursed for travel expenses incurred in connection with their duties as directors. Non-employee directors are not eligible to participate in the executive incentive program, savings programs or any of the retirement programs for the Company s employees. Other than as described in this section, there are no separate benefit plans for directors.

Pursuant to an agreement entered into in May 2007, Mr. Hedrick received consulting fees from the Company of $229,372 in 2009. Such fees were in lieu of director s fees. The agreement also provided for the reimbursement of the cost of medical insurance coverage in 2009.