

**El Paso Electric Company**  
A Texas corporation  
(the “**Company**”)

**Corporate Governance Guidelines**

Adopted November 13, 2003

As Amended September 15, 2005 and March 2, 2007

**1. Composition of the Board and Board Membership Criteria**

The Nominating and Corporate Governance Committee shall establish criteria for Board membership, which shall include the criteria set forth in these Corporate Governance Guidelines, and shall recommend individuals for membership on the Company’s Board of Directors. In making its recommendations, the Nominating and Corporate Governance Committee shall:

- review candidates’ qualifications for membership on the Board (including a determination as to the independence of the candidate) based on the criteria established by the Nominating and Corporate Governance Committee;
- in evaluating current directors for re-nomination to the Board, assess the performance of such director; and
- periodically review the composition of the Board in light of the current challenges and needs of the Board, and determine whether it may be appropriate to add or remove individuals after considering issues of judgment, diversity, age, skills, background and experience.

**2. Director Qualifications**

Independence

A majority of the Board shall be comprised of directors meeting the independence requirements of the New York Stock Exchange. The Board shall make an affirmative determination at least annually as to the independence of each director. While the Board shall take into account all relevant factors in determining independence, the Board has established categorical standards to assist in making independence determinations. Such standards are set forth in Annex A hereto.

One of the factors the Board will consider in determining independence is charitable contributions made by the Company to an entity for which a director or a member of his or her immediate family serves as a director, officer, employee or member of such entity’s fund-raising organization or committee. Proposed charitable contributions or pledges of charitable contributions, by the Company

within any given fiscal year in an aggregate amount of \$1,000 or more, to an entity for which a director or a member of his or her immediate family serves as a director, officer, employee or member of such entity's fund-raising organization or committee, shall be subject to prior review and approval by the Civic and Charitable Affairs Committee.

The Nominating and Corporate Governance Committee shall be provided on an annual basis with a report from the Civic and Charitable Affairs Committee of the charitable contributions or pledges made by the Company during the fiscal year in an amount of \$1,000 or more, to an entity for which a director or executive officer, or a member of his or her immediate family, serves as a director, officer, employee or member of such entity's fund-raising organization or committee.

### Term Limits

Although the Board has determined that term limits for its members are not advisable at this time, the Board shall periodically review the appropriateness of director term limits in connection with its procedures for the selection and nomination of directors to ensure the presence of diverse viewpoints and ideas on the Board.

### Retirement Age

The current retirement age for directors is 72. In general, no director who is or would be over the age of 72 at the expiration of his or her current term may be nominated to a new term, unless the Board waives the retirement age for a specific director as it deems appropriate. Any such waiver must be renewed prior to a director's re-nomination to the Board.

### Simultaneous Service on Other Public Company Boards

No director may serve on the boards of more than three other public companies while serving on the Company's Board.

It is the policy of the Board that every director must notify the Nominating and Corporate Governance Committee prior to accepting any invitation to serve on another corporate board or with a government advisory group. The Nominating and Corporate Governance Committee shall evaluate the continued appropriateness of Board membership under the new circumstances and make a recommendation to the Board as to any action to be taken with respect to continued Board membership.

### Changes in Primary Employment

It is the policy of the Board that every director must notify the Nominating and Corporate Governance Committee of his or her retirement, any change in employer and any other significant change in professional roles and responsibilities. The Nominating and Corporate Governance Committee shall evaluate the continued appropriateness of

Board membership under the new circumstances and make a recommendation to the Board as to any action to be taken with respect to continued Board membership.

### Conflicts of Interest

If an actual or potential conflict of interest develops because of a change in the business of the Company or a subsidiary, or in a director's circumstances (for example, significant and ongoing competition between the Company and a business with which the director is affiliated), the director, as well as any other director who becomes aware of such actual or potential conflict of interest, should report the matter immediately to the Nominating and Corporate Governance Committee for evaluation and appropriate resolution.

If a director has a personal interest in a matter before the Board, the director, as well as any other director who becomes aware of the personal interest, shall disclose the interest to the full Board. The interested director shall recuse himself or herself from participation in the discussion, and shall not vote on the matter.

### Director Equity Ownership

The Board believes that directors should hold meaningful equity ownership positions in the Company. Each director is expected (but not required) to be a beneficial owner of shares of the Company's common stock or common stock equivalents with a market value equivalent to at least three years' annual cash retainer fees by the end of his or her second year of service on the Board.

## **3. Director Responsibilities**

The Board acts as the ultimate policy-making and governing body of the Company and advises and oversees management, who are responsible for the day-to-day operations and management of the Company. In fulfilling these roles, each director must act in what he or she reasonably believes to be in the best interests of the Company and must exercise his or her business judgment.

### Participation at and Preparation for Board Meetings

The Company expects directors to be active and engaged in discharging their duties and to keep themselves informed about the business and operations of the Company. Directors are expected to attend all Board meetings and the meetings of the committees on which they serve and to prepare themselves for these meetings.

In order for the Board to exercise fully its oversight functions, management shall provide the Board with access to information regarding the Company and the markets in which the Company operates. This information may come from a variety of sources, including management reports, security analysts' reports, information regarding peer performance, interaction with senior management at Board meetings and visits to

Company facilities. Any written materials which would assist directors in preparing for a Board or committee meeting shall be distributed to the directors in advance of the meeting, to the extent possible, and directors are expected to review such materials prior to the meeting.

### Company Performance and Corporate Strategy

The Board shall review the Company's financial performance on a regular basis at Board meetings and through periodic updates, with a particular focus on peer and competitive comparisons. These reviews shall include the views of management.

The Board shall annually review and approve the Company's operating budget for the following year. The Board shall also review on a regular basis the Company's strategic, competitive and financial performance, on both an absolute basis and in relation to the performance, practices and policies of its peers and competitors.

#### **4. Board Agenda**

The Chairman of the Board, in conjunction with the CEO, shall determine the frequency and length of Board meetings and shall set the agenda for each Board meeting. Board members are encouraged to suggest the inclusion of additional items on an agenda, and any director may request that an item be placed on an agenda.

#### **5. Meetings of Non-Management Directors**

The Company's non-management directors shall regularly schedule executive sessions in which management does not participate. The Chairman of the Board (or Lead Director, if any) shall preside at each executive session. If there is a Lead Director, the Company's annual proxy statement will identify the Lead Director and the method for interested parties to communicate directly and confidentially with the Company's non-management directors.

#### **7. Board Size**

Although the Board considers its present size to be appropriate, it may consider expanding its size to accommodate an outstanding candidate or candidates or reducing its size if the Board determines that a smaller Board would be appropriate. The Nominating and Corporate Governance Committee shall periodically review the size of the Board and recommend any proposed changes to the Board.

#### **8. Chairman of the Board and CEO**

The Board believes it is appropriate practice to separate the roles of Chairman of the Board and CEO and has separated the positions. However, the Board retains the discretion to combine these roles at a future date.

If the Board elects to combine the roles of the Chairman of the Board and CEO, the non-management members of the Board shall simultaneously designate an independent director to act as the Lead Director. The Nominating and Corporate Governance Committee shall oversee the process of selecting the Lead Director.

The Lead Director shall assume responsibility for coordinating the activities of the non-management directors. The Lead Director shall assume additional responsibilities, including the following:

- Advising the Chairman as to appropriate scheduling for Board meetings;
- Advising the Chairman with respect to the quality, quantity and timeliness of information provided from Company management to the Board;
- Advising the Chairman with respect to the agendas of Board and committee meetings;
- Developing agendas for and presiding over executive sessions of the Board's non-management directors; and
- Assisting the Board and the Nominating and Corporate Governance Committee in monitoring and implementing these Corporate Governance Guidelines.

## **9. Board Committees**

The Board shall have at all times an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. Only independent directors meeting the independence requirements of the New York Stock Exchange and the Sarbanes-Oxley Act of 2002 and any related rules promulgated by the Securities and Exchange Commission may serve on these three committees. Committee members shall be appointed by the Board based upon the recommendation of the Nominating and Corporate Governance Committee, except for the Nominating and Corporate Governance Committee, which is directly appointed by the independent members of the Board. The Board may, from time to time, establish or maintain additional committees as it deems appropriate and in the best interests of the Company.

In making its recommendations for committee appointments, the Nominating and Corporate Governance Committee shall:

- review candidates' qualifications for membership on a given committee (including a determination as to the independence of the candidate) based on the criteria established by the Nominating and Corporate Governance Committee;

- evaluate current directors for re-appointment to a given committee, assess the performance of such director and of such committee; and
- periodically review the composition of each committee in light of the current challenges and needs of the committee, and determine whether it may be appropriate to add or remove individuals after considering issues of judgment, diversity, age, skills, background and experience.

While the rotation of committee members at certain set intervals should be considered as part of the nomination process, rotation is not required because the Board believes there are significant benefits attributable to continuity and experience gained in service on a particular committee over time.

Each of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee shall operate pursuant to its own written charter. These charters shall, among other things, set forth the purpose, goals and responsibilities of the particular committee, the procedures for committee member appointment and removal, and committee structure and operations, as well as reporting to the Board. The charters shall also provide for an annual evaluation of each committee's performance.

#### **10. Board Member Access to Management and Independent Advisors**

Board members shall have access to the management and employees of the Company and to its outside counsel and auditors. Any meetings or contacts that a director wishes to initiate may be arranged through the CEO or the Secretary or directly by the director in appropriate circumstances.

Executive officers and other members of senior management are expected to be present at Board meetings at the invitation of the Board. The Board encourages senior management to make presentations and to invite to Board meetings managers and other employees who can provide additional insight into the items being discussed. The Board also encourages senior management to include in Board meetings individuals that the senior management believes may become prospective leaders of the Company.

The Board and each of its committees is authorized to direct the hiring of independent legal, financial or other advisors as they may consider necessary, without obtaining the approval of management.

#### **11. Director Compensation**

The Nominating and Corporate Governance Committee shall review and approve compensation (including stock option grants and other equity-based compensation) for the Company's directors. In so reviewing and approving director compensation, the Nominating and Corporate Governance Committee shall, among other things:

- identify corporate goals and objectives relevant to director compensation;
- evaluate the performance of the Board in light of such goals and objectives and set director compensation based on such evaluation and such other factors as the Nominating and Corporate Governance Committee deems appropriate and in the best interests of the Company (including the cost to the Company of such compensation);
- determine any long-term incentive component of director compensation based on the awards given to directors in past years, the Company's performance, shareholder return and the value of similar incentive awards relative to such targets at comparable companies and such other factors as the Nominating and Corporate Governance Committee deems appropriate and in the best interests of the Company (including the cost to the Company of such compensation); and
- evaluate the possibility that directors' independence may be compromised for Board or committee purposes if director compensation exceeds customary levels, if the Company makes substantial charitable contributions to an organization with which a director is affiliated or if the company enters into consulting contracts with (or provides other indirect forms of compensation to) a director or an organization with which a director is affiliated (which consulting contracts or other indirect forms of compensation are expressly prohibited for Audit Committee members).

The Nominating and Corporate Governance Committee may approve additional compensation for directors whom it deems have performed services as a director for the Company that is clearly above and beyond the responsibilities of Board or committee membership established in or pursuant to these Corporate Governance Guidelines. All such work must be performed at the request of the Board or a committee of the Board made to the Nominating and Corporate Governance Committee. Compensation for such work is to be on an hourly or per diem basis at rates, as determined by the Nominating and Corporate Governance Committee, that do not exceed those prevailing at the time for comparable transactions with non-affiliated persons. Total additional compensation for any director shall not exceed the NYSE limit for independent directors for any twelve month period within the last three years.

## **12. Director Orientation and Continuing Education**

All new members of the Board and new members of committees are encouraged to participate in the Company's orientation program for directors. Other directors may also attend the orientation program.

All directors will be offered the opportunity, and are encouraged, to participate in continuing education programs in order to stay current and knowledgeable about the business of the Company.

Such orientation and continuing education shall be directed and reviewed by the Nominating and Corporate Governance Committee of the Board.

### **13. Management Evaluation and Management Succession**

The Compensation Committee shall evaluate the compensation of the senior management of the Company and shall present its findings to the full Board. The Board shall review the Compensation Committee's report in order to ensure that management's compensation is satisfactory in light of performance and that management is providing the best leadership for the Company in the short and long-term.

The non-management directors shall be responsible for succession planning, including succession planning in the case of the incapacitation, retirement or removal of the CEO. The CEO shall provide an annual report to the non-management directors recommending and evaluating potential successors, along with a review of any development plans recommended for such individuals. The CEO shall also provide to the Board, on an ongoing basis, his or her recommendation as to a successor in the event of an unexpected emergency.

### **14. Annual Performance Evaluation**

The Board, led by the Nominating and Corporate Governance Committee, shall establish and conduct an annual self-evaluation to determine whether it and its committees are functioning effectively. The Nominating and Corporate Governance Committee shall oversee the evaluation with each director completing a questionnaire developed by the Nominating and Corporate Governance Committee with respect to various criteria. The collective evaluations shall be compiled in advance of the review session and shall be presented by the Chairman of the Nominating and Corporate Governance Committee to the full Board for discussion. This process shall also include annual self-assessments by each Board committee, relying on a review process similar to that used by the Board, with performance criteria for each committee established on the basis of its charter.

### **15. Evaluation of Individual Director Performance**

It is the policy of the Board to have the Nominating and Corporate Governance Committee assess, on the basis of established criteria, the performance of each individual director standing for re-election at the next shareholders' meeting. The established criteria address each director's core competencies, independence and level of commitment.

The Nominating and Corporate Governance Committee considers not only an individual's qualities, performance and professional responsibilities, but also the then composition of the Board and the challenges and needs of the Board at that time. The

Nominating and Corporate Governance Committee also considers the impact of any change in the principal occupation of existing directors. Upon completion of the individual director evaluation process, the Committee reports to the full Board its conclusions and recommendations for nominations to the Board.

It is the policy of the Board that the Nominating and Corporate Governance Committee should review and consider the performance of any individual director if a situation were to arise that interfered with the proper performance of his or her duties as a member of the Board.

## Annex A

As specified in the Corporate Governance Guidelines, a majority of the Board shall be comprised of directors meeting the independence requirements of the New York Stock Exchange (NYSE). The Board will make a determination regarding the independence of each director annually based on all relevant facts and circumstances. In addition, in accordance with the rules of the NYSE, the Board has also adopted the following categorical standards to assist it in making a determination of independence. Although any director who meets the following criteria shall be presumed to be independent (except for purposes of serving as a member of the Audit Committee), the Nominating and Corporate Governance Committee may make an affirmative determination to the contrary based on its review of other factors:

1. 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 less than the greater of 2% of such other entity's gross consolidated revenues for such fiscal year and \$1 million.
2. 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 less than the greater of 2% of such other entity's total consolidated assets at the end of such fiscal year and \$1 million.
3. 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 less than the greater of 2% of the law firm's gross revenues for such fiscal year and \$1 million.
4. 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 less than the greater of 2% of the investment banking firm's consolidated gross revenues for such fiscal year and \$1 million.