
EL PASO ELECTRIC COMPANY

CODE OF ETHICS

November 26, 2003



DEAR FELLOW EMPLOYEES:

As highlighted by certain highly-publicized corporate scandals in recent times, it is imperative that we have a strong commitment to conducting our Company's business in a lawful and ethical manner. The legal and ethical standing and the good name of any business organization can be seriously damaged by the actions of one or a few of us.

To help us maintain the highest legal and ethical standards, this booklet outlines the Company's core principles of ethical and legal business practice. This Code of Ethics is listed with a short explanation after each point of conduct.

On the last page of this booklet there are hotline numbers you may use to report, anonymously, if you so wish, any activity that may violate the Code of Ethics.

I urge each of you to read this booklet, practice its directives in your everyday business activity and retain it for future reference.

As a team, moving in the same direction motivated by the standards reflected in this booklet, we can not only achieve our goals, but also exceed them in our quest for safety, integrity and excellence in our business practices.

Thank you,

Gary R. Hedrick

TABLE OF CONTENTS

<u>ITEM</u>	<u>PAGE</u>
I. EL PASO ELECTRIC COMPANY CODE OF ETHICS.....	1
II. DEFINITIONS	2
A. Conflict of Interest	2
B. Immediate Family	3
C. Material Financial Interest	3
III. GENERAL POLICY	3
A. Compliance with Federal, State and Local Laws	3
B. Company Records and Communications.....	3
C. Conflicts of Interest	4
D. Outside Business Contacts	7
E. Government Inquiries and Investigations	7
F. Community and Professional Organizations	8
G. Loans and Gifts of Company Goods	8
H. Responsibility for Safeguarding Assets	8
I. Trading on Insider Information	9
J. Confidential and Proprietary Information	9
K. Corporate Opportunities	10
L. Fair Dealing	11
M. Dishonest Activities	12
N. Discrimination.....	12
O. Responsibility for Compliance	13
P. Consequences of Violations of Corporate Policies	13

Q. Reporting of Any Illegal
or Unethical Behavior13

R. Exceptions.....15

IV. WHERE TO GO FOR ADDITIONAL
INFORMATION AND HELP16

I. EL PASO ELECTRIC COMPANY CODE OF ETHICS

El Paso Electric Company must maintain public trust and confidence in all aspects of its operations. To achieve this goal, we must conduct the Company's business within the highest standards of integrity and fair dealing.

The Company's Code of Ethics establishes guidelines for conduct in some of the general areas that pose ethical concerns. The Company's Code of Ethics is intended to reflect the Company values. The Company also has policies that address specific issues and actions in more detail. We must comply with those policies as well as this Code of Ethics. It is impossible to envision every conceivable situation in which employees will be confronted with an ethical dilemma. The Code of Ethics is intended to cause us to stop before taking action in a particular situation and evaluate the ethical concerns involved.

You may find it helpful to ask the following questions before taking action in specific situations:

- Is the action legal?
- Does the action conform to the Company's values?
- Is it in line with other applicable Company policies?
- Would you like the action to become general industry or public practice?
- Does the action endanger anyone's life, health, safety, or financial stability?
- Would you be embarrassed if all of the details of the action were known to your superiors, peers, subordinates, family or friends?
- What would you think of your superiors, peers, subordinates, family or friends who acted in a similar fashion?

- Could the action in any way appear to be inappropriate?
- How would your conduct be viewed by the public if reported in the news media?
- Are you compromising your personal ethics in any way?
- Does the action make you feel uncomfortable?

The Company requires that each employee, officer and director make a personal commitment to the highest ethical standards and the exercise of proper judgment in all aspects of Company business. This Code of Ethics establishes guidelines for the conduct of business at and on behalf of the Company and should be employed together with common sense and good judgment.

Situations not covered by this Code of Ethics or about which you are not certain, should be discussed with your supervisor or with the Compliance Officer. Other Company policies may provide additional guidance in these matters. The Company's Internal Code of Conduct may apply and take priority over this Code of Ethics. The Internal Code of Conduct is a separate booklet and applies to the interactions between the regulated and the competitive subsidiaries and affiliates of the Company.

II. DEFINITIONS

A. Conflict of Interest

A conflict of interest exists whenever a person's private interest interferes in any way, or even appears to interfere, with the interest of the Company, including its subsidiaries and affiliates. Conflicts include any activity, interest or association that might compromise, or even appear to compromise, the independent exercise of a person's judgment in the best interest of the Company, its subsidiaries, affiliates, shareholders, customers and the public.

B. Immediate Family

A person's immediate family includes that person's spouse, parents, siblings, children, parents-in-law, as well as any other individual living with that person.

C. Material Financial Interest

In general, a financial interest is material if it might compromise, or even appear to compromise, the independent exercise of a person's judgment in the best interest of the Company, its subsidiaries, affiliates, shareholders, customers and the public.

III. GENERAL POLICY

A. Compliance with Federal, State and Local Laws

Employees, officers and members of the Board of Directors ("directors") shall comply with all applicable governmental laws and regulations. The Company's activities are subject to a variety of federal, state and local laws and regulations. No employee, officer or director of the Company shall commit an illegal or unethical act in the conduct of business for the Company, or instruct others to do so, for any reason. This policy goes beyond mere compliance with the letter of the law. Employees, officers and directors also must comply with the spirit of the law.

If you believe that any practice raises questions as to compliance with this Code of Ethics or applicable law, rule or regulation or if you otherwise have questions regarding any law, rule or regulation, please contact the Compliance Officer identified in Section IV below, the Office of the General Counsel or the Nominating and Corporate Governance Committee of the Board of Directors.

B. Company Records and Communications

Employees, officers and directors are responsible for the reports and records they prepare, information they provide others, and the information they provide for computer systems. All Company accounts, financial reports, research reports, marketing information, sales

reports, tax returns, expense accounts, time sheets, claims and any other Company documents, including those submitted to governmental agencies, must be accurate. All entries on the Company's books and records must represent, and not conceal, the true nature of each transaction. The intentional falsification of records, hard or electronic copy, is always unethical and generally illegal. Employees, officers and directors must never withhold or fail to communicate information that should be brought to the attention of any level of management. Memoranda, letters, computer correspondence and notes should reflect these same high standards. Competitive bids and bid evaluations are also subject to this criteria.

All information transmitted, both within and outside the Company, must be honest and well-founded; misrepresentations and shading of information create a misleading business picture which is neither acceptable nor tolerable. Company reports and documents filed with or submitted to the Securities and Exchange Commission and other public communications shall include full, fair, accurate, timely and understandable disclosure. The Company has established a Disclosure Committee consisting of senior management to assist in monitoring disclosures of a financial nature.

C. Conflicts of Interest

All employees, officers and directors must avoid any activity, investment, interest, or association that compromises (or even appears to compromise) the independent exercise of judgment and the performance of work in the best interest of the Company, its subsidiaries, affiliates, shareholders, customers and the public. (See, Conflict of Interest definition at Page 2.)

Although it would not be possible to describe every situation in which a conflict of interest may arise, the following are examples of situations which may constitute a conflict of interest:

1. Working, in any capacity, for a competitor, customer, contractor or supplier while employed by the Company. Any outside employment or business activities must not conflict with, or even appear to conflict with, the employee's ability to properly perform work for the Company. Employees cannot gain employment with other employers for

financial compensation by holding themselves out to be representatives of the Company or by representing to other potential employers that a particular expertise, knowledge or influence due to employment with the Company may be used to the advantage of other employers. In addition, an employee should not wear clothing which displays the Company logo while working for any other employer or while working for financial gain outside of the Company. Employees shall not use their Company identification badge for any purpose other than to identify themselves as Company employees doing Company work or Company business. Employees should not engage in any outside employment which has a negative impact on their availability to the Company for work or their ability to perform assigned duties during their normal work hours.

2. Accepting gifts of more than modest value or receiving personal discounts or other benefits as a result of your position in the Company from a competitor, customer, contractor or supplier. Except for items of nominal value, employees and members of their immediate family may not directly or indirectly request or receive cash, bonuses, fees, commissions, gifts, gratuities, private or personal discounts from suppliers, or contractors, entertainment or any other form of similar consideration from any person, corporation, partnership or other entity with which the Company does business or is likely to do business. Strict adherence to this policy is essential to maintain unquestioned integrity in Company business relationships.

If a gift or gratuity of more than nominal value is offered or received, the gift or gratuity should be refused or returned with a polite explanation of the Company's policy, and the employee should notify his supervisor or manager. Regardless of value, an employee should decline any item offered with the intent to improperly influence the employee in the performance of the employee's duties for the Company.

This policy does not preclude employees from providing or accepting meals and refreshments that are business-related, are reasonable, and properly reported in accordance with Company procedures. Acceptance of such meals is contrary to the policy when the employee has, or should have, any reason to believe that the offer was made with the intent to improperly influence the employee in the performance of the employee's duties for the Company.

Entertainment through special events, such as football games, golf outings, social dinner meetings and other basically social events, is not condoned as a prerequisite for doing business with the Company. Elaborate entertainment, such as overnight or weekend trips, should be avoided.

3. Competing with the Company for the purchase or sale of property, services or other interests. Employees and members of their immediate family shall not knowingly have any material financial interest in any property that the Company is acquiring or is likely to acquire.

This policy applies to all direct and indirect interests. Exceptions to this policy may be granted only after complying with the disclosure and exception procedures set out in Section T.

4. Having an interest in a transaction involving the Company, a customer or supplier (not including routine investments in publicly traded companies). Employees and members of their immediate family shall not knowingly have any material financial interest in any: (a) transaction to which the Company is a party; (b) corporations, partnerships or other entities with which the Company does business or is likely to do business (providing electric service to customers does not constitute doing business for purposes of this section); or (c) corporations, partnerships, or other entities that compete with the Company.

This policy applies to all direct and indirect interests. Exceptions to this policy may be granted only after complying with the disclosure and exception procedures set out in Section T.

5. Receiving a loan or guarantee of an obligation as a result of your position with the Company.
6. Directing business to a supplier or contractor owned or managed by, or which employs, a relative or friend.

Situations involving a conflict of interest may not always be obvious or easy to resolve. You should report actions that may involve a conflict of interest to the Compliance Officer or the Office of the General Counsel.

In order to avoid conflicts of interests, each of the senior executive officers and directors must disclose to the Office of the General Counsel any material transaction or relationship that reasonably could be expected to give rise to such a conflict, and the Office of the General Counsel shall notify the Nominating and Corporate Governance Committee of any such disclosure. Conflicts of interests involving the Office of the General Counsel shall be disclosed to the Nominating and Corporate Governance Committee.

D. Outside Business Contacts

In the course of performing assigned duties, employees, officers and directors frequently have business contacts outside the Company with customers, suppliers, competitors, governmental agencies, and the news media. Employees, officers and directors should only perform services, provide information, and answer questions that fall within the realm of their responsibilities.

Inquiries from the news media should be directed to the Public Relations Department. Inquiries from shareholders and other investors in the Company, as well as analysts, should be directed to the Investor Relations Department. Other inquiries regarding stock ownership or record keeping should be directed to the Office of the Secretary.

E. Government Inquiries and Investigations

It is the policy of the Company to cooperate fully with any appropriate governmental agency conducting an investigation. A condition of such cooperation, however, is that the Company be represented adequately in the investigation by its own legal counsel. Accordingly, any time anyone in the Company obtains any knowledge that would lead to a belief that a government investigation or inquiry is underway or imminent, this information should be communicated immediately to the Office of the General Counsel. This applies any time any government investigator wants to ask questions about individual activities, whether the questions are asked on or off Company property. In addition, should anyone receive a

government inquiry through a written subpoena or written request for information, such request should immediately be submitted to the Office of the General Counsel before any action is taken or promised.

F. Community and Professional Organizations

The Company has a long-standing commitment to good corporate citizenship. The Company supports and encourages involvement in community activities and professional organizations. It expects its employees, officers and directors to pursue these interests in a responsible manner and in a manner that will reflect favorably upon the employee, officer or director and the Company.

Before accepting any position with a community or professional organization, employees, officers and directors should evaluate carefully whether the position could cause, or even appear to cause, a conflict of interest.

G. Loans and Gifts of Company Goods

No employee, without prior approval by the appropriate supervisor, manager, or officer, may offer Company property, loans, contributions or unpaid services to a member of the public, or to any employee or agent of another company or governmental entity. Bribes, kickbacks or illegal political contributions are expressly forbidden. The Company shall not extend or maintain credit, arrange for the extension of credit, or renew credit in the form of a personal loan to or for any director or officer of the Company.

H. Responsibility for Safeguarding Assets

All employees, officers and directors shall protect Company assets and comply with appropriate internal controls to safeguard Company assets against damage or loss from unauthorized use or disposition. Employees, officers, directors and contractors doing business with the Company must follow all Company policies, practices and procedures, particularly those involving accuracy of records and safeguarding of Company property. Use of any Company asset for personal gain, including use of equipment, material, supplies, contractors, or personnel, is prohibited.

I. Trading on Insider Information

Federal laws expressly prohibit employees from using "insider" or "material non-public" information when trading in Company securities. Information is considered "material" if there is a substantial likelihood that a reasonable investor would consider it important in arriving at a decision to buy, sell or hold stock of the Company. Examples of information that might be deemed material include: preliminary income reports, earnings estimates, significant expansion or curtailment of operations, sale or purchase of substantial assets, major litigation, or other items that could have a significant effect on the Company.

Using non-public information to trade in securities, or providing a family member, friend or any other person with a "tip," is illegal. All non-public information should be considered inside information and should never be used for personal gain. You are required to familiarize yourself and comply with the Company's policy against insider trading, copies of which are distributed to all employees, officers and directors and are available from the Office of the Secretary. You should contact the Office of the Secretary with any questions about your ability to buy or sell securities.

J. Confidential and Proprietary Information

All employees, officers and directors must protect proprietary information, both technical and commercial, that is confidential, privileged or valuable to the Company. Confidential and Proprietary Information includes all non-public information that might be useful to competitors or that could be harmful to the Company or its customers or vendors if disclosed. Intellectual property such as trade secrets, patents, trademarks and copyrights, as well as business, research and new product plans, objectives and strategies, records, databases, salary and benefits data, employee medical information, customer, employee and suppliers lists and any unpublished financial or pricing information must also be protected. These same protections apply to information supplied to the Company by customers and vendors.

The use or disclosure of this information is for Company purposes only and not for personal benefit or for the benefit of others. To preserve confidentiality, disclosure and discussion of

proprietary or competitive information should be limited to those employees who have a need to know the information.

Information concerning employees, customers or shareholders constitutes Confidential and Proprietary Information that should not be disclosed to others, within or outside the Company, except as authorized by an appropriate Company officer or Company counsel for a legitimate Company need or if required by government agencies or courts.

Every employee, officer and director shall respect copyright and intellectual property laws and shall observe the terms and conditions of any license agreements to which the Company has agreed. In most cases, this means that the Company does not have a right to copy copyrighted or other protected materials, including computer software that is licensed. Copyright and intellectual property laws and Company policy also prohibit individuals from using or reproducing, for personal purposes, programs or materials they use at work.

Unauthorized use or distribution of proprietary information violates Company policy and could be illegal. Such use or distribution could result in negative consequences for both the Company and the individuals involved, including potential legal and disciplinary actions. We respect the property rights of other companies and their proprietary information and require our employees, officers and directors to observe such rights.

The obligation to protect and hold confident all Confidential and Proprietary Information shall survive termination of employment or service. Upon termination of employment or service, all Confidential and Proprietary Information shall be returned to the Company.

K. Corporate Opportunities

Employees, officers and directors are prohibited from taking advantage of business opportunities that arise through the use of corporate property, information or position for personal gain. No employee, officer or director may use corporate property, information or position for personal gain, and no employee, officer or director may compete with the Company. Competing with the Company may involve engaging in the same line of business as the Company, or any situation where the employee, officer or director takes

away from the Company opportunities for sales or purchases of products, services or interests.

L. Fair Dealing

Each employee, officer and director of the Company should endeavor to deal fairly with customers, suppliers, contractors, competitors, the public and one another at all times and in accordance with ethical business practices. No one should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair dealing practice. No payment in any form shall be made directly or indirectly to or for anyone for the purpose of obtaining or retaining business or obtaining any other favorable action. The Company and the employee, officer or director involved may be subject to disciplinary action as well as potential civil or criminal liability for violation of this policy.

Occasional business gifts to and entertainment of non-government employees in connection with business discussions or the development of business relationships are generally deemed appropriate in the conduct of Company business. However, these gifts should be given infrequently and their value should be modest. Gifts or entertainment in any form that would likely result in a feeling or expectation of personal obligation should not be extended or accepted.

Practices that are acceptable in commercial business environments may be against the law or the policies governing federal, state or local government employees. Therefore, no gifts or business entertainment of any kind may be given to any government employee or official without the prior approval of the Office of the General Counsel.

The Foreign Corrupt Practices Act ("FCPA") prohibits giving anything of value directly or indirectly to any "foreign official" for the purpose of obtaining or retaining business. When in doubt as to whether a contemplated payment or gift may violate the FCPA, contact the Office of the General Counsel before taking any action.

M. Dishonest Activities

Irregularities in handling money, documents, transactions, and equipment may occur in any business environment. Any such problem should be reported to the appropriate supervisor or manager so it may be investigated.

Suspected dishonest or fraudulent activities involving money, documents, transactions or equipment may include (but are not limited to):

1. Alteration or intentional misstatement of Company reports and records.
2. Forgery, alteration or misrepresentation of authorizations.
3. Misappropriation of funds, securities, supplies or any other Company asset.
4. Irregularity in the handling or reporting of money transactions.
5. Unauthorized purchases or use of services, supplies, furniture, fixtures and equipment.
6. Alteration or intentional misstatement in reporting items such as employee expenses, vacations, leave time, sick time and overtime.

N. Discrimination

Employees shall not discriminate against anyone on the basis of sex, race, religion, national origin, sexual orientation, age, physical or mental disability, military or family leave status.

The Company believes equal opportunity employment is legally required, and it is the right thing to do. Each employee has a different and unique background, and the diversity of these backgrounds provides the Company with a special strength to overcome difficulties encountered on its way to success. By accepting and valuing diversity, the Company can achieve its goals in an inclusive work environment that allows each employee to contribute and thrive.

O. Responsibility for Compliance

Every employee is responsible for compliance with the standards outlined in this Code of Ethics. Management assumes a special obligation for its own awareness and the effective communication of these standards to employees. Management may supplement these standards, as necessary, to address specific requirements of the various functions in their areas of responsibility. Managers and supervisors should maintain an open-door policy regarding this Code of Ethics. Frequent discussion of ethical issues, both informally and formally, is a sign of good corporate standards.

An employee should discuss issues and concerns with higher levels of management, including the employee's supervisor or manager, officers, the Office of the General Counsel, or the Compliance Officer. These discussions may concern activities of the employees or other employees and may involve apparent conflicts between actions the employee has been directed to take and these standards.

P. Consequences of Violations of Corporate Policies

All employees are responsible for ensuring that their conduct and the conduct of anyone reporting to them complies fully with policies governing the Company's business dealings, including this Code of Ethics and the Internal Code of Conduct. Compliance, both personal and by subordinates, will be a factor in annual performance reviews. Violations of Company policies can result in disciplinary actions, up to and including the termination of employment with the Company.

Q. Reporting of Any Illegal or Unethical Behavior

Situations which may involve a violation of ethics, laws or this Code of Ethics may not always be clear and may require difficult judgment. Employees should report any concerns or questions about violations of laws, rules, regulations or this Code of Ethics to the employee's supervisor, manager or officer, to the Office of the General Counsel, or to the Compliance Officer identified in Section IV below. Interested parties may also communicate

directly with the Board of Directors' Nominating and Corporate Governance Committee using the contact information in Section IV below.

Any concerns about violations of laws, rules, regulations or this Code of Ethics by any officer or director should be reported promptly to the Office of the General Counsel, and the Office of the General Counsel shall notify the Nominating and Corporate Governance Committee of any violation. Conflicts of interests involving the Office of the General Counsel should be reported directly to the Nominating and Corporate Governance Committee. Reporting of such violations may also be done anonymously by calling the telephone hotlines or in writing to the Office of the General Counsel, the Compliance Officer or the Nominating and Corporate Governance Committee. An anonymous report should provide enough information about the incident or situation to allow the Company to investigate properly. If concerns or complaints require confidentiality, including keeping an identity anonymous, we will endeavor to protect this confidentiality, subject to applicable law, regulation or legal proceedings.

The Company encourages all employees, officers and directors to report any suspected violations promptly and intends to thoroughly investigate any good faith reports of violations. The Company will not tolerate any kind of retaliation for reports or complaints regarding misconduct that were made in good faith. Open communication of issues and concerns by all employees without fear of retribution or retaliation is vital to the successful implementation of this Code of Ethics. You are required to cooperate in internal investigations of misconduct and unethical behavior.

The Company recognizes the need for this Code of Ethics to be applied equally to everyone it covers. The Office of the General Counsel of the Company will have primary authority and responsibility for the enforcement of this Code of Ethics, subject to the supervision of the Nominating and Corporate Governance Committee, or, in the case of accounting, internal accounting controls or auditing matters, the Audit Committee, of the Board of Directors, and the Company will devote the necessary resources to enable the Office of the General Counsel to establish such procedures as may be reasonably necessary to create a culture of accountability and facilitate compliance with the Code. Questions concerning this Code of Ethics should be directed to the Office of the General Counsel.

R. Exceptions

Any waivers of the provisions in this Code of Ethics for any officers or directors may only be granted by the Board of Directors or the Nominating and Corporate Governance Committee and will be promptly disclosed to the Company's shareholders as required by federal law. Any waivers of this Code of Ethics for other employees may only be granted by the Office of the General Counsel. Amendments to this Code must be approved by the Board of Directors and amendments of the provisions in this Code of Ethics applicable to the CEO and the senior financial officers will also be promptly disclosed to the Company's shareholders.

IV. WHERE TO GO FOR ADDITIONAL INFORMATION AND HELP

In a complex world, the right course of business conduct is not always clear. The best way to protect yourself and the Company if you have any doubts about what is proper business conduct is to ask before you act. If you have questions about whether what you are about to do is ethical or legal, discussing the matter with your supervisor or manager is a good place to start. If you have additional questions or need more information, the Company has a business conduct program designed to assist its employees in achieving the highest standards of business ethics and lawful conduct in everything they do. These programs include:

- The Company Code of Ethics which applies to all employees of the Company and is outlined in the text of this booklet.
- The Company Internal Code of Conduct is a separate booklet and applies to the interactions between the regulated and competitive sides of the Company.
- The Compliance Officer of the Company who is responsible for developing and improving the ethics program and addressing complaints.
- Telephone hotlines which allow employees of the Company to report, anonymously if they wish and without fear of reprisal, actions they believe do not comply with the Company Code of Ethics or any business policy developed by the Company.

You also can report confidentially to the Compliance Officer and the Office of the General Counsel, all of whom constitute the Corporate Compliance Committee. The Nominating and Corporate Governance Committee is responsible for oversight of this Code of Ethics.

Compliance Officer

John D. Rhea
Phone 915-543-2007

General Counsel

Raul A. Carrillo, Jr.
Phone: 915-543-5838

Nominating and Corporate Governance Committee

James W. Harris, Chairman
Phone: 915-543-5755

Hotline Numbers

Texas: 915-543-5755
New Mexico: 505-523-3555