

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

**Audit Committee Charter**  
**Amended July 29, 2011**

**Purpose**

The Audit Committee (the “Committee”) is created by the Board of Directors of the Company to assist the Board in its oversight of:

- the integrity of the financial statements of the Company;
- the qualifications, independence and performance of the Company’s independent auditors;
- the performance of the Company’s internal audit function;
- compliance by the Company with legal and regulatory requirements; and
- 
- Preparation of the audit committee report that Securities and Exchange Commission (SEC) rules require be included in the Company’s annual proxy statement.

**Membership**

The Committee shall consist of at least three members, comprised solely of independent directors meeting the independence and experience requirements of the New York Stock Exchange. The Nominating and Corporate Governance Committee shall recommend nominees for appointment to the Committee annually and as vacancies or newly created positions occur. Committee members shall be appointed by the Board of Directors and may be removed by the Board of Directors at any time. The Nominating and Corporate Governance Committee shall recommend to the Board of Directors, and the Board of Directors shall designate, the Chairman of the Audit Committee.

**Authority and Responsibilities**

In addition to any other responsibilities which may be assigned from time to time by the Board of Directors, the Committee is responsible for the following matters.

### *Independent Auditors*

- The Committee has the sole authority to appoint, compensate, retain, oversee and terminate the independent auditors of the Company (subject, if applicable, to shareholder ratification), including sole authority to approve all audit engagement fees and terms and permissible non-audit services to be provided by the independent auditors. The independent auditor must report directly to the Committee. The Committee shall pre-approve the audit services and non-audit services to be provided by the Company's independent auditors pursuant to pre-approval policies and procedures established by the audit committee. The Committee may consult with management in the decision making process, but may not delegate this authority to management. The Committee may delegate its authority to pre-approve services to one or more Committee members, provided that such designees present any such approvals to the full Committee at the next Committee meeting.
- The Committee shall review and approve the scope and staffing of the independent auditors' annual audit plan(s).
- The Committee shall evaluate the independent auditors' qualifications, performance and independence, and shall present its conclusions with respect to the independent auditors to the full Board of Directors on at least an annual basis. As part of such evaluation, at least annually, the Committee shall:
  - obtain and review a report or reports from the Company's independent auditors:
    - describing the independent auditors' internal quality-control procedures;
    - describing any material issues raised by (i) the most recent internal quality-control review or peer review of the auditing firm, or (ii) any inquiry or investigation by governmental or professional authorities, within the preceding five years, regarding one or more independent audits carried out by the auditing firm; and any steps taken to deal with any such issues;
    - describing all relationships between the independent auditors and the Company; consistent with Independence Standards Board Standard No. 1 and including any relationships or services provided to individual directors or members of management;
    - assuring that Section 10A of the Securities Exchange Act of 1934 has not been implicated; and
  - review and evaluate the senior members of the independent auditor

team(s), particularly the partners on the audit engagement teams;

- consider whether the audit engagement team partners should be rotated more frequently than is required by law, so as to assure continuing auditor independence;
  - consider whether the independent auditors should be rotated, so as to assure continuing auditor independence; and
  - obtain the opinion of management and the internal auditors of the independent auditors' performance.
- The Audit Committee shall establish policies for the Company's hiring of current or former employees of the independent auditors.

#### *Internal Auditors*

- At least annually, the Committee shall evaluate the performance, responsibilities, budget and staffing of the Company's internal audit function and review the internal audit plan. Such evaluation shall include a review of the responsibilities, budget and staffing of the Company's internal audit function with the independent auditors.
- At least annually, the Committee shall evaluate the performance of the senior officer or officers responsible for the internal audit function of the Company, and make recommendations to the Board of Directors and management regarding the responsibilities, retention or termination of such officer or officers.
- The Committee shall periodically review financial and accounting personnel succession planning within the Company.

#### *Financial Statements; Disclosure and Other Risk Management and Compliance Matters*

- The Committee, along with management, shall oversee the Company's Disclosure Committee and shall have the responsibilities set forth for the Committee in the charter of the Disclosure Committee.
- The Committee shall review with management, the internal auditors and the independent auditors, in separate meetings if the Committee deems it appropriate:
  - the annual audited financial statements, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations", prior to the filing of the Company's Form 10-K;

- the quarterly financial statements, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations", prior to the filing of the Company's Form 10-Q;
  - any analyses or other written communications prepared by management, the internal auditors and/or the independent auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements;
  - the critical accounting policies and practices of the Company;
  - related-party transactions and off-balance sheet transactions and structures;
  - any major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles;
  - the Company's practices with respect to the use of non-GAAP financial information in its public disclosures; and
  - regulatory and accounting initiatives or actions applicable to the Company (including any SEC investigations or proceedings).
- The Committee shall review, in conjunction with management, the Company's policies generally with respect to the Company's earnings press releases and with respect to financial information and earnings guidance provided to analysts and rating agencies, including in each case the type and presentation of information to be disclosed.
  - The Committee may review any of the Company's financial information and earnings guidance provided to analysts and ratings agencies and any of the Company's other financial disclosure, such as earnings press releases.
  - The Committee shall, in conjunction with the CEO and CFO of the Company, review the Company's internal controls and disclosure controls and procedures, including whether there are any significant deficiencies in the design or operation of such controls and procedures, material weaknesses in such controls and procedures, any corrective actions taken with regard to such deficiencies and weaknesses and any fraud involving management or other employees with a significant role in such controls and procedures.
  - The Committee shall review and discuss with the independent auditors any audit problems or difficulties and management's response thereto, including

those matters required to be discussed with the Committee by the auditors pursuant to the Statement on Auditing Standards No. 61, as amended, such as:

- any restrictions on the scope of the independent auditors' activities or access to requested information;
  - any accounting adjustments that were noted or proposed by the auditors but were "passed" (as immaterial or otherwise);
  - any communications between the audit team and the audit firm's national office regarding auditing or accounting issues presented by the engagement;
  - any management or internal control letter issued, or proposed to be issued, by the auditors; and
  - any significant disagreements between the Company's management and the independent auditors.
- The Committee shall have sole authority over the resolution of any disagreements between management and the independent auditor regarding the Company's financial reporting.
  - The Committee shall discuss the Company's policies and guidelines with respect to risk assessment and risk management, including discussing with management the Company's major financial risk exposures and the steps that have been taken to monitor and control such exposures.
  - The Committee shall establish procedures for:
    - the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and
    - the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
  - The Committee shall review any significant complaints regarding accounting, internal accounting controls or auditing matters received pursuant to such procedures.
  - The Committee shall prepare the audit committee report that SEC rules require to be included in the Company's annual proxy statement.

*Qualified Legal Compliance Committee(QLCC)*

- The Committee shall serve as the Company’s QLCC whose purpose shall be to review any report made directly, or otherwise made known, to the Committee by an attorney representing the Company or its subsidiaries of a material violation of U.S. federal or state securities law, a material breach of fiduciary duty arising under U.S. federal or state law or a similar material violation of any U.S. federal or state law (a “material violation”), all in accordance with the provisions of 17 CFR Part 205, as amended from time to time (“Part 205”).
- The Committee has the authority and the responsibility for the following matters:
  - The Committee shall adopt written procedures for the confidential receipt, retention and consideration of any report of evidence of a material violation under Part 205 (a “report”).
  - Upon receipt of a report, the Committee shall:
    - inform the Company’s chief legal officer/general counsel (“CLO”) and chief executive officer unless such notification would be deemed by the Committee to be inappropriate; and
    - determine whether an investigation is necessary regarding any report of evidence of a material violation by the Company, its officers, directors, employees or agents.
  - If the Committee determines an investigation is necessary or appropriate, the Committee shall initiate an investigation, which may be conducted either by the CLO or by outside attorneys, or both.
  - At the conclusion of any such investigation, the Committee shall, unless it determines that no material violation has occurred, is ongoing or is about to occur and informs the Company as to such determination:
    - recommend that the Company implement an appropriate response to the evidence of a material violation, which appropriate response may include:
      - the adoption of appropriate remedial measures, including appropriate steps or sanctions to stop any material violations that are ongoing, to prevent any material violation that has yet to occur, and to remedy or otherwise appropriately address any material violation that has already occurred and to minimize the likelihood of its recurrence; or

- retaining or directing an attorney to review the reported evidence of a material violation and either (i) implement any remedial recommendations made by such attorney after a reasonable investigation and evaluation of the reported evidence or (ii) consistent with advice from such attorney, assert a colorable defense on behalf of the Company or its officers, directors, employees or agents, in any investigation or judicial or administrative proceeding relating to the reported evidence of a material violation; and
  - inform the CLO, the CEO and the Board of Directors of the results of any such investigation initiated by the Committee and the appropriate remedial measures to be adopted.
- The Committee may take all other appropriate action, including the authority to notify the SEC, if the Company fails in any material respect to implement an appropriate response that the Committee has recommended the Company to take.

*Reporting to the Board of Directors*

- The Committee shall report to the Board of Directors periodically. This report shall include a review of any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the qualifications, independence and performance of the Company's independent auditors, the performance of the internal audit function, any funding requirements for the outside auditors, Audit Committee and any advisors retained by the Committee to assist it in its responsibilities and any other matters that the Committee deems appropriate or is requested to be included by the Board of Directors.
- At least annually, the Committee, in conjunction with the Nominating and Corporate Governance Committee, shall evaluate its own performance and report to the Board of Directors on such evaluation. This evaluation shall include an assessment of the adequacy of this charter.

**Procedures**

The Committee shall meet as often as it determines is appropriate to carry out its responsibilities under this charter, but not less frequently than quarterly. The Chairman of the Audit Committee, in consultation with the other committee members, shall determine the frequency and length of the committee meetings and shall set meeting agendas consistent with this charter.

The Committee shall meet separately, periodically, with management, with internal auditors or other personnel responsible for the internal audit function and with the independent auditors.

The Committee is authorized (without seeking Board of Directors' approval) to retain special legal, accounting or other advisors and may request any officer or employee of the Company or the Company's outside counsel or independent auditors to meet with any members of, or advisors to, the Audit Committee.

The Committee may delegate its authority to subcommittees or the Chairman of the Committee when it deems appropriate and in the best interests of the Company.

### **Limitations Inherent in the Audit Committee's Role**

It is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with GAAP. This is the responsibility of management and the independent auditors. Furthermore, while the Committee is responsible for reviewing the Company's policies and practices with respect to risk assessment and management, it is the responsibility of the CEO and senior management to determine the appropriate level of the Company's exposure to risk.