

El Paso Electric Company

A Texas corporation

(the “**Company**”)

Policy on Compliance with FERC’s Interlocking Directorate Requirements

Adopted March 14, 2013

I. Introduction

This Policy was memorialized in writing and adopted by the Board of Directors (the “**Board**”) of the Company to:

- assist the Board in electing new members to the Board; and
- assist the Company and individual officers or directors in complying with the Federal Energy Regulatory Commission’s (“**FERC**” or “**Commission**”) interlocking directorate application and reporting requirements.

This Policy supplements, and does not supersede, our other policies that may be applicable to interlocking directorates, including our policies for determining director independence, our Corporate Governance Guidelines and our Code of Ethics.

II. Transactions Covered by this Policy

Transactions covered by this Policy include all situations in which the appointment of an officer or director creates an interlock, as explained further below. For purposes of this Policy, a director means any person on the Board of Directors, and an officer includes any person elected or appointed to perform the duties or functions ordinarily performed by a president, vice president, secretary, treasurer, general manager, comptroller, chief purchasing agent or partner, or to perform any other similar executive duties or functions.

III. Person Responsible For Applying This Policy

The Chief Compliance Officer of the Company

IV. Reporting and Review

Before May 1 of each year, the Chief Compliance Officer notifies the Chief Executive Officer of the Company if any person’s position as an officer or director of the Company creates an interlock. If the person’s position with the Company creates an

interlock, the Chief Compliance Officer advises the Chief Executive Officer if the interlock qualifies as an authorized interlock or an exception to the prohibition on interlocks and if, with respect to authorized interlocks, the person has made the informational filing required by the Commission's regulations regarding authorized interlocks.

If subsequent to the adoption of the Policy, the Company becomes subject to any reporting requirement with respect to interlocks created by an individual being an officer or director of the Company, the Chief Compliance Officer advises the Chief Executive Officer of the filing requirement and makes the necessary filings on behalf of the Company.

V. FERC's Interlocking Directorate Requirements

A. Prohibition Against Holding Certain Interlocking Positions

Section 305(b) of the Federal Power Act ("FPA") generally prohibits individuals, without the prior approval of the Commission, from concurrently holding positions as an officer or director of more than one public utility; of a public utility and an entity authorized by law to underwrite or participate in the marketing of public utility securities; or of a public utility and a company supplying electrical equipment to that utility.

1. Prohibition Against Interlocks at More than One Public Utility

The corporations within the purview of this prohibition include any public utility subject to the FPA, which means any person who owns or operates facilities for the transmission of electric energy in interstate commerce, or any person who owns or operates facilities for the sale at wholesale of electric energy in interstate commerce.

2. Prohibition Against Interlocks at a Public Utility and an Entity Authorized to Underwrite or Market Public Utility Securities

The corporations within the purview of this prohibition include any bank, trust company, banking association, or firm that is authorized by law to underwrite or participate in the marketing of public utility securities.

3. Prohibition Against Interlocks at a Public Utility and a Company Supplying Electrical Equipment

The corporations within the purview of this prohibition include any company that supplies electrical equipment to a public utility, whether the supplying company is a manufacturer, or dealer, or one supplying electrical equipment pursuant to a construction, service, agency, or other contract.

B. Exceptions to Prohibition on Interlocking Directorates

The FPA exempts interlocks between public utilities and securities underwriters and marketers if any one of the following conditions is met:

1. The person does not participate in any deliberations or decisions of the public utility regarding the selection of a bank, trust company, banking association, or firm to underwrite or participate in the marketing of securities of the public utility, if the person serves as an officer or director of a bank, trust company, banking association, or firm that is under consideration in the deliberation process;
2. The bank, trust company, banking association, or firm of which the person is an officer or director does not engage in the underwriting of, or participate in the marketing of, securities of the public utility of which the person holds the position of officer or director;
3. The public utility for which the person serves or proposes to serve as an officer or director selects underwriters by competitive procedures; or
4. The issuance of securities of the public utility for which the person serves or proposes to serve as an officer or director has been approved by all Federal and State regulatory agencies having jurisdiction over the issuance.

C. Automatic Authorization

1. *Affiliated Entities*

FERC automatically authorizes an officer or director of a public utility to hold the following interlocking positions:

- a. Officer or director of one or more other public utilities if the same holding company owns, directly or indirectly, that percentage of each utility's stock (of whatever class or classes) which is required by each utility's by-laws to elect directors;
- b. Officer or director of two public utilities, if one utility is owned, wholly or in part, by the other and, as its primary business, owns or operates transmission or generating facilities to provide transmission service or electric power for sale to its owners; and
- c. Officer or director of more than one public utility, if the officer or director is already authorized to hold different

positions as officer or director of those utilities where the interlock involves affiliated public utilities.

2. *Informational Report*

As a condition for automatic authorization, the Commission's regulations at 18 C.F.R. § 45.9 require a person who will hold such interlocking positions to file, prior to assuming the duties of the position, an informational report stating:

- (1) the person's full name and business address;
- (2) the names of all public utilities with which the person holds or will hold the positions of officer or director and a description of those positions;
- (3) the names of any entity, other than the public utilities referenced in item (2), above, of which the person is an officer or director and a description of those positions;
- (4) an explanation of the corporate relationship between or among the public utilities listed in item (2), above, which qualifies the person for automatic authorization; and
- (5) a statement or an affirmation that the person has not yet performed or assumed the duties or responsibilities of the position, which necessitated the filing of the report.

D. Approval Process

Any person seeking to hold an interlocking position requiring Commission approval must apply for Commission authorization; or if qualified, comply with the Commission's requirements with respect to automatic authorization. Applications must be filed and authorization must be granted prior to holding any interlocking positions within the purview of section 305(b) of the FPA. Absent Commission action within 60 days of filing a completed application to hold interlocking positions, an application will be deemed granted. A full description of Application requirements is contained in the Commission's regulations at 18 C.F.R. § 45.8. Generally, applications should contain the following information:

- (1) identification of person;
- (2) list of positions for which authorization is sought;
- (3) data as to positions with each public utility mentioned in (2) above;
- (4) data as to positions with each bank, trust company, banking association or firm, mentioned in (2) above, that is

authorized by law to underwrite or participate in the marketing of securities of a public utility;

- (5) data as to positions with each company, mentioned in (2) above, supplying electrical equipment to a public utility in which the person holds a position;
- (6) data as to positions with public utility holding companies;
- (7) positions with all other corporations; and
- (8) data as to the public utility holding company system.

VI. FERC Form 561 Reporting

Form 561 is an annual report of information detailing electric public utility officer and board of director positions that officers and directors held within and outside their affiliated public utility at any point during the preceding year. The reports are due annually on or before April 30th.

A person must file FERC Form 561 and advise the Company of its filing the Form 561 if that person held an interlocking position between a public utility and certain covered entities including:

- (1) Any investment bank, bank holding company, foreign bank or subsidiary thereof doing business in the United States, insurance company, or any other organization primarily engaged in the business of providing financial services or credit, a mutual savings bank, or a savings and loan association;
- (2) Any entity authorized to underwrite or participate in the marketing of securities of a public utility;
- (3) Any entity which produces or supplies electrical equipment or coal, natural gas, oil, nuclear fuel, or other fuel, for the use of any public utility;
- (4) Any entity listed on FERC Form 566, which reports the 20 largest purchasers of electricity from the public utility for each of the past three years.;
- (5) Any entity referred to in section 305(b) of the FPA; and
- (6) Any entity which is controlled by any entity referred to above.

In the event of the person's resignation, withdrawal, or failure of reelection or appointment to any of the positions for which FERC granted authorization, or in the event of any other substantial change in the officer's and or director's appointment, the person is required to give FERC notice setting forth the position, corporation, and date of termination, or describing any other substantial change. Such notice is due within 30 days after any such change occurs.

Moreover, in the event of a change or changes in the information set forth in an application, by the person's election or appointment to another position or other positions, the application shall be supplemented with all data with respect to the new position or positions. After the person has been authorized to hold a particular position, further application in connection with each successive term is generally not required so long as the person continues in uninterrupted tenure of that position. Further authorization will be required, however, if the term of office or the holding of any position for which authorization has been given is interrupted and the person is subsequently reelected or reappointed.

VII. At-A-Glance Summary of When to Notify EPE of Officer and Director Positions

Notify EPE **BEFORE** Assuming an Officer Position or Board of Directors Position with Another Entity:

- If the other entity is a public utility
- If the other entity supplies electrical equipment to a public utility
- If the other entity underwrites or markets securities of public utilities, or is authorized to do so (such entities typically include investment banks, financial services companies, etc.)

Notify EPE **IMMEDIATELY AFTER** Any Change in an Officer Position or Board of Directors Position that FERC Previously Approved. Examples include, but are not limited to:

- Resignation
- Failure of Re-election
- Change in Title or in Positions Held

Notify EPE **ANNUALLY** of any and all Officer Positions and Board of Directors Positions held during the calendar year with:

- Any investment bank, bank holding company, foreign bank or subsidiary thereof doing business in the United States, insurance company, or any other organization primarily engaged in the business of providing financial services or credit, a mutual savings bank, or a savings and loan association;

- Any entity authorized to underwrite or participate in the marketing of securities of a public utility;
- Any entity which produces or supplies electrical equipment or coal, natural gas, oil, nuclear fuel, or other fuel, for the use of any public utility;
- Any entity listed on EPE's FERC Form 566, which reports the 20 largest purchasers of electricity from EPE for each of the past three years (*EPE will make available to its board members a current list of its 20 largest purchasers to aid in this identification*);
- Any entity referred to in section 305(b) of the FPA (which is a reference to the three categories of entities for which *advance* FERC approval is necessary: (1) a public utility, (2) an entity supplying electrical equipment to a public utility, and (3) an entity authorized to underwrite or market utility securities); and
- Any entity which is controlled by any entity referred to above.

VIII. Company Education and Compliance with Interlocking Directorate Requirements.

A. New Officers and Directors

Before an individual becomes an officer or director of the Company, the Chief Compliance Officer provides the individual a copy of this Policy and asks the individual to provide a list of the officer and director positions the individual holds and if the individual believes that the position with the Company will create an interlock. If the person advises the Company that the position with the Company will create an interlock, the person shall advise the Company if the interlock qualifies as an authorized interlock or an exception to the prohibition on interlocks and if, with respect to authorized interlocks, the person has made the informational filing required by 18 C.F.R. § 45.9. The Chief Compliance Officer offers to assist each officer and director in making the filings with the Commission that the officer or director is required to make.

B. Officers and Directors of the Company

It is the Company's continuing practice and policy to request each board member to provide *advance* notice before he or she assumes a new director's position on the board of any company, organization or other entity, so that the Company may offer assistance to the board member in determining whether any advance approval by the Commission is required *before* the member assumes that director's position.

For any EPE board member that also sits on the board of a company authorized to underwrite or market securities of public utilities, it is the Company's continuing practice and policy to either (i) have such board member abstain from participating in the selection of underwriters and/or marketers of the Company's securities, or (ii) consider

those underwriters and/or marketers ineligible to underwrite or market the Company's securities.

In addition, on an annual basis (usually on or before April 1 of each year), the Chief Compliance Officer sends each director and officer of the Company a copy of this Policy and asks each officer and director to identify any changes during the prior year in the positions he or she held as an officer or director and if the position as an officer or director of the Company creates an interlock. If the position with the Company creates an interlock, the person is requested to advise the Chief Compliance Officer if the interlock qualifies as an authorized interlock or an exception to the prohibition on interlocks and if, with respect to authorized interlocks, the person has made the informational filing required by 18 C.F.R. § 45.9. The Chief Compliance Officer assists each officer and director in making the filings with the Commission that the officer or director is required to make.