EL PASO ELECTRIC CO /TX/
Form 10-K/A
November 22, 2004
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K/A

Amendment No. 1

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2003

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission file number 0-296

El Paso Electric Company

(Exact name of registrant as specified in its charter)

Texas	**74-0607870**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
Stanton Tower, 100 North Stanton, El Paso, Texas	**79901**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (915) 543-5711

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, No Par Value	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). YES x NO ¨

As of June 30, 2003, the aggregate market value of the voting stock held by non-affiliates of the registrant was $586,138,226 (based on the closing price as quoted on the New York Stock Exchange on that date).

As of March 5, 2004, there were 47,588,360 shares of the Company s no par value common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement for the 2004 annual meeting of its shareholders are incorporated by reference into Part III of this report.

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DEFINITIONS

The following abbreviations, acronyms or defined terms used in this report are defined below:

Abbreviations, Acronyms or Defined Terms	Terms
ANPP Participation Agreement	Arizona Nuclear Power Project Participation Agreement dated August 23, 1973, as amended
APS	Arizona Public Service Company
CFE	Comisión Federal de Electricidad de Mexico, the national electric utility of Mexico
Common Plant or Common Facilities	Facilities at or related to Palo Verde that are common to all three Palo Verde units
Company	El Paso Electric Company
DOE	United States Department of Energy
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Four Corners	Four Corners Generating Station
Freeze Period	Ten-year period beginning August 2, 1995, during which base rates for most Texas retail customers are expected to remain frozen pursuant to the Texas Rate Stipulation
IID	Imperial Irrigation District, an irrigation district in southern California
kV	Kilovolt(s)
kW	Kilowatt(s)
kWh	Kilowatt-hour(s)
Las Cruces	City of Las Cruces, New Mexico
MiraSol	MiraSol Energy Services, Inc., a wholly-owned subsidiary of the Company
MW	Megawatt(s)
MWh	Megawatt-hour(s)
New Mexico Commission	New Mexico Public Regulation Commission
New Mexico Restructuring Act	New Mexico Electric Utility Industry Restructuring Act of 1999
New Mexico Stipulation	Stipulation and Settlement Agreement in Case No. 03-00302-UT between the Company and all other parties to the Company s rate proceedings before the New Mexico Commission providing for a three-year freeze on base rates after an initial 1% reduction and other matters
NRC	Nuclear Regulatory Commission
Palo Verde	Palo Verde Nuclear Generating Station
Palo Verde Participants	Those utilities who share in power and energy entitlements, and bear certain allocated costs, with respect to Palo Verde pursuant to the ANPP Participation Agreement
PNM	Public Service Company of New Mexico
SFAS	Statement of Financial Accounting Standards
SPS	Southwestern Public Service Company
TEP	Tucson Electric Power Company
Texas Commission	Public Utility Commission of Texas
Texas Fuel Settlement	Settlement Agreement in Texas Docket No. 23530, between the Company, the City of El Paso and various parties whereby the Company increased its fuel factors, implemented a fuel surcharge and revised its Palo Verde Nuclear Generating Station performance standards calculation
Texas Rate Stipulation	Stipulation and Settlement Agreement in Texas Docket No. 12700, between the Company, the City of El Paso, the Texas Office of Public Utility Counsel and most other parties to the Company s rate proceedings before the Texas Commission providing for a ten-year rate freeze and other matters
Texas Restructuring Law	Texas Public Utility Regulatory Act Chapter 39, Restructuring of the Texas Electric Utility Industry
Texas Settlement Agreement	Settlement Agreement in Texas Docket No. 20450, between the Company, the City of El Paso and various parties providing for a reduction of the Company s jurisdictional base revenue and other matters
TNP	Texas-New Mexico Power Company

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EL PASO ELECTRIC COMPANY

FORM 10-K/A

INTRODUCTORY NOTE

This Amendment No. 1 to annual report on Form 10-K/A (Form 10-K/A) is being filed to amend the Company s annual report on Form 10-K for the year ended December 31, 2003, which was originally filed on March 15, 2004 (Original Form 10-K). Accordingly, pursuant to rule 12b-15 under the Securities Exchange Act of 1934, as amended, this Form 10-K/A contains the complete text of Items 6, 7, 8 and 9A of Part II and Item 15 of Part IV, as amended, as well as certain currently dated certifications. Unaffected items have not been repeated in the Amendment No. 1.

During the quarter ended September 30, 2004, the Company determined that AMT credit carryforward assets pertaining to the pre-reorganization time period were overstated by $4.5 million and reorganization-related transmission and distribution assets were understated by $4.5 million. To correct this error, the Company has restated its consolidated balance sheets as of December 31, 2002 and 2003, the consolidated statements of operations for the years ended December 31, 2001, 2002 and 2003, the consolidated statements of comprehensive operations for the years ended December 31, 2001, 2002 and 2003, the consolidated statements of changes in common stock equity for the years ended December 31, 2001, 2002 and 2003, and the consolidated statements of cash flows for the years ended December 31, 2001, 2002 and 2003. The Company has also restated the notes to consolidated financial statements as necessary to reflect the adjustments. The adjustments to the consolidated balance sheet as of December 31, 2001, include the elimination of $4.5 million of AMT credit carryforward assets, the related increase of $4.5 million in reorganization-related transmission and distribution assets, an increase of $2.8 million in accumulated depreciation, an increase of $0.7 million in deferred tax liabilities, and a decrease of $3.5 million in retained earnings. The statements of operations and comprehensive operations were adjusted by an annual increase of $0.5 million in depreciation expense. Net income and comprehensive income were reduced by $0.3 million for the years ended December 31, 2001, 2002, and 2003 as a result of the aforementioned adjustments. Please read Note P to the accompanying consolidated financial statements for a discussion of the adjustments.

This amendment does not reflect events occurring after the filing of the Original Form 10-K, which was filed on March 15, 2004. Certain other items have been revised or added in response to comments from the Securities and Exchange Commission (SEC) in its letter to the Company dated May 28, 2004. The Company will file with the SEC amendments to its quarterly report on Form 10-Q for the quarters ended March 31, 2004 and June 30, 2004 to reflect changes therein required as a consequence of the adjustments described above.

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Item 6. Selected Financial Data

As of and for the following periods (in thousands except for share data):

	Years Ended December 31,				
	2003 (Restated)	2002 (Restated)	2001 (Restated)	2000 (Restated)	1999 (Restated)
Operating revenues	$ 664,362	$ 690,085	$ 769,705	$ 701,649	$ 570,469
Operating income	79,735	110,127	167,122	168,495	156,856
Income before cumulative effect of accounting change	20,322	28,674	63,365	58,099	40,180
Cumulative effect of accounting change, net of income tax expense	39,635				
Net income applicable to common stock	59,957	28,674	63,365	58,099	27,983
Basic earnings per common share:					
Income before cumulative effect of accounting change	0.42	0.58	1.25	1.07	0.47
Cumulative effect of accounting change, net of income tax expense	0.82				
Net income	1.24	0.58	1.25	1.07	0.47
Weighted average number of common shares outstanding	48,424,212	49,862,417	50,821,140	54,183,915	59,349,468
Diluted earnings per common share:					
Income before cumulative effect of accounting change	0.42	0.57	1.23	1.06	0.47
Cumulative effect of accounting change, net of income tax expense	0.81				
Net income	1.23	0.57	1.23	1.06	0.47
Weighted average number of common shares and dilutive potential common shares outstanding	48,814,761	50,380,468	51,722,351	55,001,625	59,731,649
Cash additions to utility property, plant and equipment	77,080	65,065	70,739	64,612	51,826
Total assets	1,596,614	1,648,229	1,646,158	1,662,304	1,667,115
Long-term debt and financing and capital lease obligations	608,722	614,375	619,365	740,223	811,607
Common stock equity	495,768	452,882	446,726	408,861	418,378

The selected financial data has been restated to reflect the correction of a pre-reorganization overstatement of AMT credit carryforward assets and a related understatement of reorganization-related transmission and distribution assets, and should be read in conjunction with Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and Item 8, Financial Statements and Supplementary Data.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Statements in this document, other than statements of historical information, are forward-looking statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements, as well as other oral and written forward-looking statements made by or on behalf of the Company from time to time, including statements contained in the Company s filings with the Securities and Exchange Commission and its reports to shareholders, involve known and unknown risks and other factors which may cause the Company s actual results in future periods to differ materially from those expressed in any forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to: (i) increased prices for fuel and purchased power and determinations by regulators that may adversely affect the Company s ability to recover incurred fuel costs in rates; (ii) fluctuations in wholesale margins due to uncertainty in the wholesale power market; (iii) unanticipated increased costs associated with scheduled and unscheduled outages; (iv) the cost of replacing steam generators for Palo Verde Units 1 and 3 and other costs at Palo Verde; (v) the costs of legal defense and possible judgments which may accrue as the result of litigation arising out of the FERC investigation or any other regulatory proceeding; (vi) deregulation of the electric utility industry; and (vii) other factors discussed below under the headings Summary of Critical Accounting Policies and Estimates, Overview and Liquidity and Capital Resources. The Company s filings are available from the Securities and Exchange Commission or may be obtained through the Company s website, www.epelectric.com. Any such forward-looking statement is qualified by reference to these risks and factors. The Company cautions that these risks and factors are not exclusive. The Company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the Company except as required by law.

Restatement

During the third quarter ended September 30, 2004, the Company determined that certain pre-reorganization AMT credit carryforward assets were overstated and corresponding reorganization-related transmission and distribution assets were understated. To correct this error and as more fully discussed in the Introductory Note to this Amendment No. 1, certain financial and other information contained herein has been restated to reflect the adjustments described in Note P to the accompanying consolidated financial statements. See Note P for a discussion of the adjustments.

Summary of Critical Accounting Policies and Estimates

Note A to the Consolidated Financial Statements contains a summary of the significant accounting policies utilized by the Company. The preparation of these statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes for the periods presented and actual results could differ in future periods from those estimates. Critical accounting estimates, which are both important to the portrayal of the Company s financial condition and results of operations and which require complex, subjective judgments, include the following:

- Collection of fuel expense
- Value of net utility plant in service

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Decommissioning costs

Future pension and other postretirement obligations

Reserves for tax dispute

Collection of Fuel Expense

In general, through regulation, the Company s fuel and purchased power expenses are passed through to its regulated customers. These costs are subject to reconciliation by the Texas and New Mexico Commissions. Prior to the completion of a reconciliation, the Company records fuel expenses as incurred. In the event that a disallowance occurs during a reconciliation proceeding, the amounts recorded for fuel and purchased power expenses could differ from the amounts allowed to be collected by the Company from its customers and the Company could incur a loss to the extent of the disallowance.

Value of Net Utility Plant in Service

In 1996, when it emerged from bankruptcy, the Company recast its financial statements by applying fresh-start reporting in accordance with Statement of Position 90-7 Financial Reporting by Entities in Reorganization Under the Bankruptcy Code. In this process, the Company attributed value to its integrated utility system, including its generation assets, after it had established the value of its pro forma capital structure based on management s estimates of future operating results. The Company valued its generation assets such that the depreciated value of its generation assets would be approximately equal to their estimated fair value at the end of the Freeze Period. This is important because at the beginning of retail competition in Texas, the Company will no longer be permitted to recover in rates any stranded costs , that is, the difference between the book value and the market value of its electric generation assets. If at any time the Company determines that estimated, undiscounted future net cash flows from the operations of the generation assets are not sufficient to recover their net book value, then it will be required to write down the value of these assets to their fair values. Any such writedown would be charged to earnings. The Company currently believes that its rates are sufficient to collect before 2005 substantially all costs that would otherwise be stranded under relevant laws in Texas and that future net cash flows after 2005 from the generating assets will be sufficient to recover their net book values.

Decommissioning Costs

Pursuant to the ANPP Participant Agreement and federal law, the Company must fund its share of the estimated costs to decommission Palo Verde Units 1, 2, and 3 and associated common areas. The Company records a liability for the fair value of its decommissioning obligation (ARO) in accordance with SFAS No. 143. The Company will adjust the liability to its present value periodically over time, and the capitalized costs will be depreciated over the useful life of the related asset. The determination of the liability includes various assumptions for forecasted cash flows and escalation and discount rates. The Company and other Palo Verde Participants rely upon decommissioning cost studies and make interest rate, rate of return and inflation projections to determine funding requirements and estimate liabilities related to decommissioning. Every third year, outside engineers perform a study to estimate decommissioning costs associated with Palo Verde Units 1, 2 and 3 and associated common areas. The

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Company determines how it will fund its share of those estimated costs by making assumptions about future investment returns and future cost escalations. The funds are invested in professionally managed investment trust accounts. The Company is required to establish a minimum accumulation and a minimum funding level in its decommissioning trust accounts at the end of each annual reporting period in accordance with the ANPP Participation Agreement. If actual decommissioning costs exceed estimates, the Company would incur additional expenses related to decommissioning. Further, if the rates of return earned by the trusts fail to meet expectations, the Company will be required to increase its funding to the decommissioning trust accounts. Although the Company cannot predict the results of future studies, the Company believes that the liability it has recorded for its decommissioning costs will be adequate to provide for the Company s share of the costs, assuming that Palo Verde Units 1, 2 and 3 operate over their remaining lives (which includes an assessment of the probability of a license extension) and that the DOE assumes responsibility for permanent disposal of spent fuel at plant shut down. The Company believes that its current annual funding levels of the decommissioning trust will adequately provide for the cash requirements associated with decommissioning. Historically, regulated utilities such as the Company have been permitted to collect in rates the costs of nuclear decommissioning. Under deregulation legislation in Texas, the Company expects to continue to be able to collect from customers the costs of decommissioning.

Future Pension and Other Postretirement Obligations

The Company s obligations to retirees under various benefit plans are recorded as a liability on the consolidated balance sheets. This liability is calculated on the basis of significant assumptions regarding discount rate, expected return on plan assets, rate of compensation increase and health care cost inflation. These assumptions as well as a sensitivity analysis of the effect of hypothetical changes in certain assumptions are set forth in detail in Note K Employee Benefits to the Notes to Consolidated Financial Statements. Changes in these assumptions could have a material impact on both net income and on the amount of liabilities reflected on the consolidated balance sheets.

In developing the assumptions, management makes judgments based on the advice of financial and actuarial advisors and its review of third-party and market-based data. These sources include life expectancy tables, surveys of compensation and health care cost trends, and historical and expected return data on various categories of plan assets. The assumed discount rate applied to future plan obligations is based at each measuring date on prevailing market interest rates inherent in high quality (AA and better) corporate bonds that would provide future cash flow needed to pay the benefits as they become due, as well as on publicly available bond issues. The Company regularly reviews its assumptions and conducts a full reassessment at least once a year. The Company does not expect that any such change in assumptions will have a material effect on results for 2004.

Reserves for Tax Dispute

The IRS has disputed whether the Company was entitled to deduct certain payments made in 1996 related to Palo Verde and its treatment of a litigation settlement in 1997 related to a terminated merger agreement. The Company has reached a tentative agreement, subject to IRS final approval, to settle these and all other issues relative to its 1996 through 1998 federal income tax returns. The Company expects the IRS will make a final decision regarding the proposed settlement by mid 2004.

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Should the proposed settlement be rejected by the IRS, the Company cannot predict the eventual outcome of this matter. However, the Company has established, and periodically reviews and re-evaluates, an estimated contingent tax liability on its consolidated balance sheet to provide for the possibility of adverse outcomes in tax proceedings. Although the ultimate outcome cannot be predicted with certainty, and while the contingent tax reserve may not in fact be sufficient, the Company believes that the amount at December 31, 2003 is a reasonable estimate of any additional tax that may be due.

Overview

El Paso Electric Company is an investor owned electric utility that serves retail customers in west Texas and southern New Mexico and wholesale customers in Texas and periodically in the Republic of Mexico. The Company owns or has substantial ownership interests in six electrical generating facilities providing it with a total capacity of approximately 1,500 MW. The Company s energy sources consist of nuclear fuel, natural gas, coal, wind powered resources and purchased power. The Company owns or has significant ownership interests in four major 345 kV transmission lines and three 500 kV transmission lines utilized to transfer power from Palo Verde and Four Corners, and owns the transmission and distribution network within its retail service territory. The Company is subject to regulation by the Texas and New Mexico Commissions and, with respect to wholesale power sales, transmission of electric power and the issuance of securities, by the FERC.

The Company faces a number of risks and challenges that could negatively impact its operations and financial results. The most significant of these risks and challenges are the deregulation of the electric utility industry, the possibility of increased costs especially from Palo Verde and the Company s debt service obligations.

The electric utility industry in general and the Company in particular are facing significant challenges and increased competition as a result of changes in federal provisions relating to third-party transmission services and independent power production, as well as changes in state laws and regulatory provisions relating to wholesale and retail service. In 1999, both Texas and New Mexico passed industry deregulation legislation requiring the Company to separate its transmission and distribution functions, which would remain regulated, from its power generation and energy services businesses, which would operate in a competitive market in the future. New Mexico repealed the New Mexico Restructuring Act in April 2003, and the Company s operations in New Mexico will remain fully regulated. In Texas, the Company s service territory has not yet been deregulated, but the Company is preparing for retail competition. If the Company does not enter retail competition for generating services at the end of the Freeze Period, the Company s generating services will continue to be regulated by the Texas Commission. There is substantial uncertainty about both the regulatory framework and market conditions that will exist if and when retail competition is implemented in the Company s service territory and the Company may incur substantial preparatory, restructuring and other costs that may not ultimately be recoverable. There can be no assurance that deregulation will not adversely affect the future operations, cash flows and financial condition of the Company.

The changing regulatory environment and the potential for unregulated power production have created a substantial risk that the Company will lose important customers. The Company s wholesale and large retail customers already have, in varying degrees, alternate sources of economical power,

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including co-generation of electric power. In fact, the Company has lost certain large retail customers to self-generation and/or co-generation and has seen reductions in wholesale sales due to new sources of generation. If the Company loses a significant portion of its retail customer base, the Company may not be able to replace such revenues through either the addition of new customers, an increase in rates to remaining customers, or sales in the economy market.

Another risk to the Company is potential increased costs, including the risk of additional or unanticipated costs at Palo Verde resulting from (i) increases in operation and maintenance expenses; (ii) the replacement of steam generators in Palo Verde Units 1 and 3; (iii) an extended outage of any of the Palo Verde units; (iv) increases in estimates of decommissioning costs; (v) the storage of radioactive waste, including spent nuclear fuel; (vi) insolvency of other Palo Verde Participants; and (vii) compliance with the various requirements and regulations governing commercial nuclear generating stations. At the same time, the Company s retail base rates in Texas are effectively capped through a rate freeze ending in August 2005. As a result, the Company cannot raise its base rates in Texas in the event of increases in non-fuel costs or loss of revenue. Additionally, upon initiation of competition, there may be competitive pressure on the Company s power generation rates which could reduce its profitability. The Company cannot assure that its revenues will be sufficient to recover any increased costs, including any increased costs in connection with Palo Verde or other operations, whether as a result of inflation, changes in tax laws or regulatory requirements, or other causes.

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Liquidity and Capital Resources

The Company s principal liquidity requirements in the near-term are expected to consist of interest payments on the Company s indebtedness, operating and capital expenditures related to the Company s generating facilities and transmission and distribution systems, income and other taxes, and reorganization costs related to deregulation in Texas, if and when deregulation occurs. The Company expects that cash flows from operations will be sufficient for such purposes.

The Company s contractual obligations as of December 31, 2003 are as follows (in thousands):

	Payments due by period				
	Total	2004	2005 and 2006	2007 and 2008	2009 and Later
Long-Term Debt (including interest):					
First mortgage bonds	$ 574,082	$ 36,233	$ 243,459(1)	$ 39,326	$ 255,064(2)
Pollution control bonds	212,555	12,266	200,289(3)		
Promissory note	157	122	35		
Financing Obligations (including interest):					
Nuclear fuel (4)	42,824	22,592	20,232		
Purchase Obligations:					
Capacity power contract	16,818	8,409	8,409		
Fuel contracts:					
Coal	88,350	7,068	14,136	14,136	53,010
Gas (5)	80,040	20,010	40,020	20,010	
Nuclear fuel (6)	16,652	12,427	4,225		
Retirement Plans and Other					
Postretirement Benefits (7)	4,350	4,350			
Operating lease (8)	3,400	1,000	2,000	400	
Total	$ 1,039,228	$ 124,477	$ 532,805	$ 73,872	$ 308,074

(1) In early 2004, the Company repurchased $4.0 million of its first mortgage bonds which were scheduled to mature in 2006.
(2) In early 2004, the Company repurchased $2.0 million of its first mortgage bonds which become callable in 2006.
(3) The pollution control bonds are scheduled for remarketing in 2005.
(4) Interest on nuclear fuel is based on actual interest rates at the end of 2003.
(5) This amount is based on the minimum volumes per the contract at the current market price at the end of 2003.
(6) Some of the nuclear fuel contracts are based on a fixed price adjusted for an index. The index used is the current index at the end of 2003.
(7) Includes the Company s minimum contractual funding requirements for the non-qualified retirement income plan and the other postretirement benefits for 2004. The Company has no minimum contractual funding requirement related to its retirement income plan for 2004. However, the Company may decide to fund at a higher level than the minimum contractual funding amounts and expects to contribute $7.6 million and $3.4 million to its retirement plans and postretirement benefit plan in 2004, as disclosed in Part II, Item 8, Notes to Financial Statements, Note K, Employee Benefits. Minimum contractual funding requirements for 2005 and beyond are not included due to the uncertainty of interest rates and the related return on assets.
(8) The Company has one significant operating lease for administrative offices which expires in May 2007.

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Pollution control bonds of $193.1 million are subject to remarketing in 2005, and first mortgage bonds of $182.2 million are scheduled to mature in 2006. The Company expects that these obligations and the $100 million revolving credit facility, which matures in January 2005 (against which approximately $42.2 million had been drawn for nuclear fuel purchases as of December 31, 2003) will be refinanced through the capital and credit markets. Additionally, the Company has $207.2 million of first mortgage bonds which become callable in 2006. The Company s ability to access capital and credit markets may be adversely affected by uncertainties related to operating in a competitive energy market, tight credit markets and debt rating agency actions.

Long-term capital requirements of the Company will consist primarily of construction of electric utility plant and the payment of interest on and retirement and refinancing of debt. Utility construction expenditures will consist primarily of expanding and updating the transmission and distribution systems, possible addition of new generation, and the cost of capital improvements and replacements at Palo Verde and other generating facilities, including the replacement steam generators in Palo Verde Units 1 and 3. See Part I, Item 1, Business Construction Program.

During 2003, 2002 and 2001, the Company generated $0.7 million and utilized $96.6 million and $128.0 million, respectively, of regular federal tax loss carryforwards. The Company anticipates that existing regular federal tax loss carryforwards will be fully utilized by mid-2004, should the IRS settlement for the tax years 1996 through 1998 be approved by the IRS, and that the Company s cash flow requirements for income taxes in 2004 will increase compared to the requirement for 2003.

The Company anticipates its cash flow requirements associated with its retirement plans and other postretirement benefit plans and its cash flow requirements related to contributions to the decommissioning trust funds will decrease as compared to the related cash flow requirements in 2003. The Company contributed an additional $4.7 million to the decommissioning trust funds in January 2003 and an additional $3.2 million to one of its retirement plans in September 2003 in order to meet its funding requirements as of December 31, 2002. The Company is continually evaluating its funding requirements related to its retirement plans, other postretirement benefit plans, and decommissioning trust funds.

As of December 31, 2003, the Company had approximately $34.4 million in cash and cash equivalents, a decrease of $40.7 million from the balance of $75.1 million on December 31, 2002. This decrease was primarily the result of the retirement in February 2003 of the Company s Series C First Mortgage Bonds. Any amounts not borrowed under the Company s $100 million revolving credit facility for nuclear fuel purchases may be used by the Company for working capital needs. As of December 31, 2003, approximately $42.2 million had been drawn for nuclear fuel purchases. No amounts are currently outstanding on this facility for working capital needs.

The Company has significant debt service obligations. Since inception of its deleveraging program in 1996, the Company has repurchased or retired with internally generated cash $556.5 million of first mortgage bonds, including the repayment of approximately $36.1 million of Series C First Mortgage Bonds at their maturity and the repurchase of approximately $3.3 million of first mortgage bonds during the first quarter of 2003. First Mortgage Bonds totaling $6.0 million were repurchased in

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early 2004. Common stock equity as a percentage of capitalization, including current portion of long-term debt and financing obligations, was 44% as of December 31, 2003.

The degree to which the Company is leveraged could have important consequences for the Company s liquidity, including (i) limiting the Company s ability to obtain additional financing for working capital, capital expenditures, acquisitions, general corporate or other purposes in the future, and (ii) placing the Company at a competitive disadvantage by limiting its financial flexibility to respond to the demands of the competitive market and making it more vulnerable to advers