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Debt a factor in Kit Carson electric rate hike

By J.R. Logan

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The proposal to raise rates for Kit Carson Electric Cooperative customers appears to have as much to do with the co-op's ever-mounting debt as it does declining energy sales.

According to publicly available financial statements, the co-op's total debt increased 34 percent in four years— from just over $63 million in 2010 to almost $85 million at the end of last year. About $12 million of that is related to the co-op's fiber optic project. The remainder was directly tied to the electric utility.

The annual payments to cover that debt have shot up 42 percent over the same period — from $5.3 million in 2010 to $7.5 million last year.

In late October, the co-op's board of trustees approved a rate increase proposal that would raise the average household electric bill by $13 a month. The increase would bring in an estimated $3.5 million more a year.

Co-op CEO Luis Reyes said in an interview last week the primary driver behind the rate increase was decreasing energy sales and the closure of the Chevron mine in Questa, which was by far the utility's biggest customer.

And no doubt, those factors are cutting into the co-op's bottom line. But that's only part of the story.

Between 2010 and 2014, total energy sales (measured in kilowatt hours) fell 4 percent. And last year, the mine accounted for 9 percent of the co-op's load. (This year, the mine is on pace to consume about half the electricity it used in 2014, according to information from the co-op).

Yet in spite of slumping sales, gross revenues were actually trending upward, thanks in part to another rate hike that went into effect in 2010. The co-op generated $5.5 million more in revenues last year than in 2010.

But operations and maintenance costs only increased by $2.8 million over the same period. Employees have gotten regular raises (including a $40,000 raise for Reyes in 2013 that brought his annual income with benefits to more than $240,000) and the co-op is ramping up efforts like tree-trimming to reduce wildfire risk. Reyes said last week he was not considering layoffs or any additional cost-cutting measures.

Even so, operational costs didn't keep pace with growing revenue. So where did those extra margins go?

According to the numbers, a big chunk of it is going to pay off debts.

Last year, the co-op was on the hook for $2.2 million more in loan payments than it was in 2010.

How much the co-op owes its creditors is directly linked to the math used to justify a rate increase.

In its notice to customers, the co-op explained the $3.5 million in additional revenue was needed to hit two financial benchmarks, known in accounting jargon as “TIER” and “DSC.” Both measures are used by the co-op’s creditors to gauge Kit Carson’s ability to pay its debts based on its annual revenue.

If it doesn’t hit those marks, it would, at the very least, have a harder time borrowing money.

“It comes down to credit,” Reyes said Wednesday. “It’s important we have a good credit profile.”

The rate increase, Reyes explained, would “beef up” the debt ratio by bringing in more revenue to balance the increasing debt and ensure its credit profile remains strong. He said the “buffer” of additional income would become even more important if energy sales continue to slide.

The increase, Reyes pointed out, is not specifically to pay off existing debt. In fact, customers have already been paying extra for that for years, even if they didn’t know it.

Every household’s electric bill includes a little-known line called the “debt cost adjustment” that has ticked steadily upward as the co-op’s debt has ballooned.

The question of debt is one that was debated at great length when the co-op last asked for a rate increase in 2010.

Reyes’ critics attacked the co-op propane and Internet ventures as wasteful or risky enterprises borne by the average electric customer. Reyes countered that each entity kept separate books, and state regulators more or less came to the same conclusion after a months-long investigation back in 2010. The electric company loaned money to start the propane company, regulators found, but the propane company was paying it back.

In the subsequent five years, it appears electric ratepayers have helped buoy the Internet business. But it’s not clear how much.

The co-op’s $84.8 million in total reported debt at the end of 2014 includes $12.2 million in loans used to construct the fiber optic network. And even without the fiber optic project, the co-op was still in the hole about $10 million more than in 2010.

Reyes says the co-op’s lenders don’t include obligations to cover broadband loans when calculating the electric utility’s financial measures. But those bills still have to get paid. And it doesn’t appear the Internet company can do that on its own.

The co-op’s 2014 annual report, filed with state regulators, did not break out exactly how much of that was tied to the $12.2 million in broadband loans.

But the 2013 annual report did. At that time, broadband accounted for $9 million in debt. The co-op was billed $418,000 to cover just the broadband loans. It’s certainly higher today.

A 2014 income statement for Kit Carson Telecom obtained by

The Taos News shows the Internet subsidiary brought in just shy of $900,000 in gross revenue that year. The document does not show what, if any profit, the telecom company made.

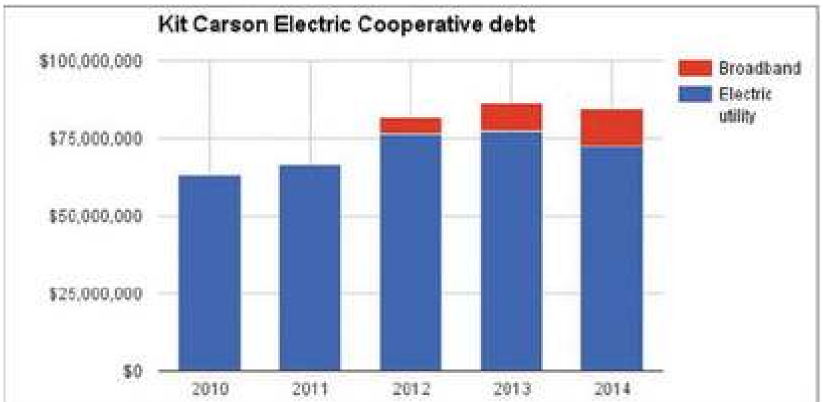
Reyes acknowledged in an interview Wednesday the telecom does not make enough money to pay employees, run the business, and pay back the broadband loans.

To help, Reyes said the co-op has supported the Internet business with “inter-company loans” (the telecom subsidiary is still technically a part of the electric utility) that will eventually be paid back. Reyes said Wednesday the co-op’s accountants could not immediately say exactly how much the electric utility had loaned the Internet company.

When regulators approved the last rate increase, they ordered the co-op to spinoff the telecom company and make it a completely separate entity. The logic was to protect electric customers from any financial trouble the Internet business might get into. But it was a short-lived order.

The loans for the broadband project came from the federal government, which used the electric utility's assets as collateral. When the feds found out the co-op had been ordered to separate the companies, they froze funding for the project.

Reyes and the co-op had to scramble to get state regulators to nix the spin-off requirement. They packed the meeting room and argued the broadband project was bringing jobs and important infrastructure to Northern New Mexico. Regulators caved, took out the spin-off mandate, and the project went forward.



Kit Carson Electric Cooperative incurred about $20 million in debt between 2010 and 2014, including more than $12 million tied to a massive broadband installation project. While customers are already paying a surcharge to cover existing debts, co-op officials say a proposed rate increase would give a buffer to ensure the co-op has a good credit profile, especially in light of declining energy sales.

Graphic by J.R. Logan
