



THE TAOS NEWS

Best U.S. Weekly Paper- NNA 2007, 2008, 2010
Inland Press Nation's Best Weekly Newspaper 2009

Analyst: Co-op needs rate hike to remedy 'underperformance'

By J.R. Logan

The Taos News, 12/10/2015

"Financial distress."

That's how analyst Steve Seelye described Kit Carson Electric Cooperative's current fiscal condition as part of a formal proposal to raise electric rates that was submitted to regulators this week. Seelye was hired by the co-op to justify the need for a rate increase.

The 119-page filing includes Seelye's description of an "acute and immediate need" for a rate hike. Seelye said the co-op is plagued by "underlying financial underperformance," and it is struggling to meet several accounting benchmarks used by lenders to judge the financial stability of their borrowers.

Specific examples show Kit Carson operating well below nationwide industry standards.

In one case, Seelye said a ratio known in accounting jargon as "operating TIER" was "dangerously low" in 2014. That ratio is used to gauge whether a utility's operations bring in enough revenue to pay its long-term debt.

Another metric, "equity percentage" — a measure of how much of the existing electric system was paid for with borrowed money instead of being owned outright by the utility — is "unacceptably low," according to Seelye.

A separate analysis by *The Taos News* shows that, by similar measures, Kit Carson is among the poorest-performing co-ops in the state.

When accounting only for the electric utility's assets and liabilities, *The Taos News* found Kit Carson had the worst TIER and thirdworst equity percentage of the 17 New Mexico co-ops who filed complete financial information with regulators last year.

In this week's filing, Seelye listed several specific factors that are driving Kit Carson's rate increase, and he said one of the "principal drivers" is the need to pay for capital improvements the co-op has already made.

Since 2011, the co-op has spent millions of dollars on system improvements and equipment replacement, which the utility says were needed to ensure reliable electric service. The total value of the utility's functioning electric infrastructure increased by almost \$10 million over that time, and there was another \$5 million worth of additional infrastructure still under construction at the end of last year.

By borrowing to pay for these projects instead of paying for them in cash, the co-op has been able to keep electric rates low. Information provided in the co-op's filing shows the flat \$14.50 monthly fee paid by residential customers now is second-lowest in the state. The \$20.50 it's asking for would put it right in the middle of the pack.

New equipment means higher depreciation and amortization costs. For accounting purposes, these costs are tallied as an expense. Publicly available financial numbers show the co-op's depreciation costs at \$3.8 million for 2014 — up \$366,000 compared to 2011.

Also, Seelye said operations and maintenance costs have been on the rise. He pointed to increased expenses for tree trimming (meant to reduce the risk of wildfire caused by overhead power lines), rising property taxes and right-of-way fees on tribal land.

Seelye did not specifically say how much, in dollars, those factors were adding to the co-op's expenses.

Co-op CEO Luis Reyes said in an interview the co-op is spending \$190,000 more for tree trimming than in the past, \$166,000 in new property taxes and \$123,000 for tribal right-of-way.

The Taos News requested documentation to confirm those numbers, but it was not received by press time.

Overall, the co-op's financial records show operations and maintenance costs, including everything from employee salaries to system upkeep, were up almost \$1 million from 2011 to 2014.

To get the co-op on more sound financial footing, Seelye said the co-op needs to raise the flat monthly fee it charges consumers.

This "system charge" for residential customers is now \$14.50 a month. Seelye said his firm believes the co-op's woeful financial position could justify raising that fee to \$26.67, but for the sake of "gradualism" (i.e., avoiding a sudden spike in rates), it's proposing a fee of \$20.50.

In an interview Tuesday (Dec. 8), co-op CEO Reyes reiterated that proposed rate hike is "as frugal as it can be." He said the decision to borrow money to cover construction and maintenance costs was because of a sensitivity to low-income consumers, as well as a recognition that rate increases are politically unpopular.

Reyes also contends that, despite Seelye's sobering characterization of the electric utility's performance, the entire cooperative (including its propane and telecom ventures) is "in a good position." Over the last three years, the co-op used a federal grant/loan to build a massive fiber-optic network that spans its entire service area. Reyes said the network does include about \$12 million in debt, but it also includes \$44 million in assets that were paid for entirely by the federal government.