

‘Diversification’ again at center of electric rate debate

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“Is your Internet project making my light bill higher?”

That’s the question on the minds of some Kit Carson Electric Cooperative customers as the co-op seeks a rate increase that would raise the average household’s monthly bill by 19 percent.

With opposition to the rate increase mounting, critics are again blaming the higher rates on the co-op’s many side ventures.

But co-op CEO Luis Reyes insists the side ventures have no influence on electric rates, and he says the co-op’s federally funded broadband initiative is an investment that is certain to pay off for the utility.

It’s unclear from looking at public financial figures exactly how much money electric customers of Kit Carson have contributed to prop up the co-op’s telecom business and other side ventures. But regulatory staff has previously suggested these “investments” are linked to the need for electric rate hikes.

When investigating the last increase in 2011, regulators found the electric utility had “invested” \$5.6 million in the propane company and \$2.1 million in the telecom company. The subsequent construction of the fiber-optic network means the structure of the cooperative — and its financial statements — have become even more complicated.

However, publicly available financial records do not break out how much the Internet and propane companies have borrowed from the utility.

And the co-op has not been forthcoming with its own numbers.

More than a month ago,

The Taos News first asked Reyes to provide figures showing the utility’s investment in the Internet company to date. No documents had been provided by press time. Reyes could not be reached for further comment on this story.

For years, the co-op and its rate design experts have insisted electric rates are based solely on the cost of providing electricity. But in written testimony from previous rate cases, staff for state regulators has called the claim into question.

John Reynolds, a utility economist for the Public Regulation Commission, said in written testimony from 2011 that Kit Carson had indeed shown the rate increase was based on the cost to provide electric service.

But Reynolds also pointed out that the co-op was asking for enough money to cover those costs, plus a little profit, which is also known as a margin.

Reynolds said co-ops generally hang on to these margins so they can pay for improvements to the electric grid with cash instead of taking on more debt.

Reynolds found Kit Carson was taking a slightly different approach.

Instead of saving all electric utility profits to be put back into the electric grid, Kit Carson had taken \$7.7 million out of that pot and put it into the Internet and propane companies.

Without access to financial information from the co-op, it's impossible to know what those amounts are today.

Public financial records are more clear when it comes to the co-op's total long-term debt. Excluding about \$12 million related to the broadband project, Kit Carson's debt went from \$63 million in 2010 to about \$76 million today.

The Rural Utilities Service — the federal agency that loans the co-op million of dollars — also confirmed to

The Taos News this week that it includes all debt, including that from the broadband loans, when assessing the co-op's financial performance.

In his testimony, Reynolds acknowledged that, over time, the co-op's side businesses might make a profit; the investments could pay dividends for electric customers and actually help keep electric bills down. But, for the moment, these companies were still trying to get on their feet and could not survive without support from the electric utility, Reynolds said.

In an interview last week, Reyes was confident that the broadband network would be successful, and the utility would see a return.

"It's not a fear that this is going to fail," Reyes said, adding that ownership of such an expansive network means the co-op owns an incredibly valuable asset.

But until the Internet company takes off and profits start rolling in, electric ratepayers still have millions tied up in those businesses.

On the electric side, increasing costs coupled with stagnant sales mean the utility's margins are weak, and it needs cash. Thus, a rate hike.

So, does that mean Kit Carson is fiber-optic rich, but cash poor?

"At this point, we are," Reyes said.

No doubt, if regulators choose to investigate the most recent rate hike proposal, diversification will come up again. In the past, so has the question of accountability.

Reyes has repeatedly said the co-op board and its members voted and expressly authorized the co-op to start other businesses.

He has also said financial information about these businesses is regularly presented at monthly board meetings.

In his 2011 testimony, Reynolds said electric customers "could not have been informed about the extent of their exposure" related to the utility's side ventures, and he pointed out there does not appear to be a cap to how much can be invested in outside ventures.

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