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My Turn

'KCEC's proposed rate increases are simply necessary'

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Several trends define the big picture in the utility industry. Energy efficiency means that customers get the same value from less energy.

LEDs for example fulfill our need for light with less than a quarter of the amount of energy used by incandescent bulbs. Home appliances use less energy with each generation of technology.

From the standpoint of the utility this translates into declining revenues. If the loss in revenue from sales of electricity is not matched by a reduction in expenses from operating the grid or purchasing wholesale energy from generation sources, the inevitable result is increasing retail prices. In our case, the wholesale price of electricity from Tri-State Generation and Transmission Association (Tri-State) has been steadily rising. KCEC has shielded us from this effect through its protests, but that period is now over. We are left with a very simple situation – revenues from sales are falling, and the costs of buying and delivering electricity are increasing.

Other factors affect prices – for example, improved operational efficiency from better infrastructure like smart meters, or increasing demand resulting from population growth. Improved efficiency from better infrastructure requires an up-front investment, and for Taos and North Central New Mexico, population is stagnant.

Declining sales with increasing expenses is a familiar situation for businesses. One answer is to simply cover the gap with increasing prices. When your product is electricity and you have a virtual monopoly, that is an attractive solution. That is not the course that KCEC has chosen to follow, however.

Most importantly, the board and management have succeeded in winning an attractive buyout of the contract with Tri-State.

The contract has 25 remaining years, and it promises more of the same: steadily rising generation and transmission costs.

We now have the opportunity of seeking competitive wholesale prices. The promise is that the combined expenses for buying electricity and paying off the debt from the buyout will be less than the wholesale price for electricity offered by Tri-State. It also provides the opportunity to expand local generation of renewable energy well beyond the limits imposed by Tri-State. This package – better wholesale prices and more renewable energy potential – is really a matter for rejoicing. Unfortunately, it has been obscured by the brouhaha over KCEC's request for a rate increase. Another way KCEC has dealt with the problem of declining margins is diversification. The propane and internet units are examples of this. When margins are falling, revenues going down and expenses holding level or going up, one attractive alternative is to use your strengths to offer new products, essentially opening new businesses. This is one of the approaches recommended by consultants to the utility industry and it has real promise. There are the expenses involved in business startups, and the bumpy road of learning through mistakes, but both the propane and Internet businesses offer value to the community. Following the creation of Kit Carson Energy the cost of propane fell dramatically. Of course, there are profits that can be used to pay off startup expenses and go toward the bottom line of the co-op.

The Fiber Optic Project is also an example of diversification but differs significantly from propane. In this case the federal government provided $45 million to cover the major costs as part of the American Recovery and Reinvestment Act, a very successful move by the Obama Administration to invest in infrastructure following the Great Recession of 2008. KCEC was required to invest $19 million from a low-interest loan program.

The Fiber Optic Project put millions of dollars into our local economy at one of its most troubled points. Local housing construction had ground to a virtual standstill. Local population actually declined as workers moved to find jobs. This really was a profound service to our community sometimes overlooked by the more affluent among us.

The fiber optic project has achieved most of its major milestones but failed in one, unfortunately the one used by most of us to judge its impact. Most of us have not been hooked up, and that must be corrected. Frankly, it will require more debt to complete the project, but those familiar with big projects recognize that cost overruns are normal.

For these reasons we believe that KCEC’s proposed rate increases are simply necessary, and that the community should support the co-op’s efforts to buy out the Tri-State contract and complete the Fiber Optic Project.

Bob Bresnahan and John Gusdorf are the founding members of Renewable Taos.
