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Co-op loses $882K as energy sales sink

By J.R. Logan

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Kit Carson Electric Cooperative lost $882,000 last year — and the utility was $100 million in debt at the end of 2015 — according to an annual report filed with state regulators late last month.

The report shows the utility's operations and maintenance costs holding steady. But declining energy sales appear to have taken a bite out of operating revenue, while other expenses — including rising debt obligations and startup funds directed at the co-op's broadband project — have increased.

The result: The co-op ended the year in the red for the first time since at least 2009.

The murky performance comes as the co-op is fighting to get a rate increase past regulators. The co-op gave notice of a proposed increase last October, but the New Mexico Public Regulation Commission halted the rate hike after some co-op members protested. Regulators have now ordered an investigation into whether the proposed rates are justified.

A decision on the new rates isn't expected until later this summer.

According to the 2015 report, the co-op saw its energy sales slip by about 6 percent compared to 2014. Over the same period, its total revenues dropped by 2.5 percent, to about $38 million last year.

Part of the reason for those declining sales is the closure of the Questa molybdenum mine, which was by far the co-op's biggest customer. The mine was unexpectedly shuttered in June 2014.

According to written testimony provided in the ongoing rate case by co-op CEO Luis Reyes, the mine consumed just 12.1 million kilowatt hours of electricity in 2015, compared to 38 million kilowatt hours in 2010.

According to recent annual reports, the co-op's operations and maintenance costs have stayed relatively stable, hovering around $31 million for the last four years. But judging from the numbers, the decline in energy sales and corresponding revenue is what's eating away at the bottom line.

William Steven Seeyle, an expert consultant hired by the coop to justify the current rate increase, painted a dismal picture of the co-op's financial position in written testimony submitted to regulators earlier this year.

"Without an immediate increase in revenues, the financial stress on the cooperative will only be exacerbated, and its ability to provide safe and reliable service could be impacted," Seelye testified.

For the last two years, the coop has failed to hit mandatory financial benchmarks set by its lenders. This “technical default” could give the government the authority to take over Kit Carson’s operations, but such takeovers are unusual.

Critics of the co-op point to ballooning debt and stagnant revenue as evidence of a utility that is over-leveraged.

In the 2015 report, the co-op said it had $99.6 million in debt at the end of the year. About $17.6 million of that appears to be tied to the broadband project.

The nearly $100 million in debt is up from $84.8 million reported at the end of 2014.

In all, the co-op was on the hook for $7.8 million in debt service payments in 2015 — about $300,000 more than the previous year. About $4.5 million of that went to interest.

Countering claims that the co-op has been too eager to take on debt, Reyes said in written testimony that all projects paid for with financing must first get the approval of lenders, meaning none of that money was spent “frivolously or whimsically.”

Reyes has said in previous interviews that the electric utility has relied on loans to pay for necessary infrastructure improvements. By borrowing rather than paying cash, the co-op has been able to keep rates low for customers. He also noted that adding equipment increases the co-op’s depreciation costs, which are also impacting its margins.

Seelye explained in his testimony that the co-op’s total assets increased from $116 million to $154 million between 2014 and 2016.

As part of his testimony, he was asked if Kit Carson has too much debt.

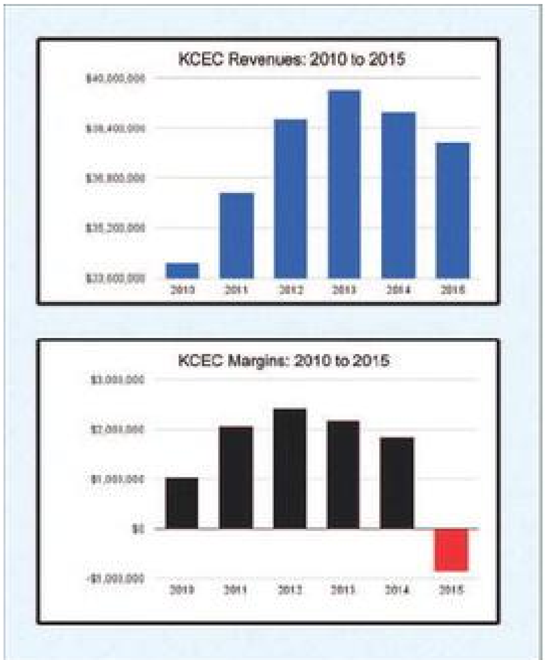
“No,” he replied. “KCEC has too little margins and equity.”

Reyes has also been adamant that the co-op’s side ventures — a subsidiary propane business, telecom business and the broadband network — are not driving the need for a rate increase.

According to the 2015 report, the electric utility alone lost more than $500,000 last year.

But the report also shows $1.6 million in costs for “non-operating margins.” Reyes has said those costs in recent years have been mostly attributable to broadband costs paid for up front by the electric utility.

The co-op was awarded a $45 million grant/$19 million loan in 2010 to install fiber optic service to every home and business in its service territory. However, the project cost has exceeded that award. Reyes said in January the electric side of the co-op has about $1.5 million invested in the broadband network.



The top graph shows that the co-op’s annual revenue has declined since 2013, largely because of decreasing sales of electricity. The bottom graph shows how that drop in revenue has impacted the co-op’s bottom line. The co-op is currently asking regulators for a rate increase to shore up its budget.

Graphic by J.R. Logan/Data from Kit Carson Electric Co-op annual reports

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