

## PRC: KCEC rate hike request too high

Rebuttal being prepared, says co-op CEO

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Kit Carson Electric Cooperative is asking for too much in its request for a rate increase, according to New Mexico Public Regulation Commission (PRC) staff members.

Economists at the PRC filed written testimony this week arguing that decreasing the proposed increase by about half would still generate enough money to keep the coop's electric utility solvent. The statement contradicts filings from the co-op, which insist the full increase amount is justified to maintain a sound financial position.

The testimony does, however, match the co-op's mantra that the rate increase should only consider the cost of providing electricity to customers.

In late 2015, the co-op gave notice that it wanted to increase electric rates to generate an additional \$3.5 million each year. Enough co-op members protested the rate hike to prompt an investigation by the PRC, which regulates utilities in the state.

A formal hearing is not expected for months, but staff members working on behalf of regulators in the rate case filed written testimony this week arguing that the scale of the proposed increase was not reasonable.

Economist John Reynolds spent much of his testimony describing Kit Carson's unusual finances. The co-op is an electric utility, but also has a subsidiary propane business, as well as a separate telecom company that includes a massive broadband network. The network was largely paid for with a \$64 million federal grant/loan.

Reynolds explained that these various businesses make it difficult to identify what it costs to provide electricity to co-op customers. That cost is central to the rate increase, Reynolds argued, because state regulators only have jurisdiction over the co-op's electric division. To determine whether the proposed electric rate hike is fair, regulators need to know exactly what it costs to run the utility.

"Simply put, the [PRC's] focus should be on allowing the co-op to earn sufficient revenue to reasonably sustain only KCEC's electric utility service," Reynolds wrote. He said it would be "inappropriate" for regulators to approve a rate increase that goes beyond supporting electric operations only. In preparing its rate increase request, Kit Carson used financial figures from 2014. Steve Seeyle, a consultant hired by the co-op to explain the need for a rate increase, used a financial metric known as "Operating TIER" to gauge the health of the utility. The metric measures the cost of the electric utility's long-term debt compared to its annual revenues.

According to the Seeyle, Kit Carson had an Operating TIER of 1.24 in 2014, which he called "dangerously low."

But Reynolds disagreed.

He wrote that Seeyle's figure included non-electric expenses that could not be factored in. Reynolds calculated that the electric utility alone had an Operating TIER of 1.38 in 2014, which he concluded was "slightly below average" when compared to similar co-ops in the state.

The co-op's federal lenders require an Operating TIER of at least 1.10 for two out of every three years or risk default.

In seeking a rate hike to bring in enough money to hit an Operating TIER of 1.90, Reynolds said the co-op lacked "a compelling reason for imposing such a burden on KCEC's electric ratepayers."

Instead, PRC staff suggested regulators allow the co-op to increase annual revenues by \$1.6 million instead of the co-op's request of \$3.5 million. Such an increase would give the co-op an Operating TIER of 1.50, Reynolds said.

Vincent De Cesare, another PRC economist, explained in written testimony that he and other staff members pulled out \$244,000 in costs. "Staff's reasoning for the removal of these costs is that the expenditures are not just and reasonable expenses for the provision of electric service to KCEC's electric customers," De Cesare wrote, noting that any broadband expenses paid by the electric utility would be a "form of subsidy."

Attached to the testimony was a breakdown of what the PRC staff determined to be non-electric expenses from 2014. The breakdown included more than \$104,000 in legal fees, \$42,000 in advertising (including about \$26,400 to

*The Taos News* ) and \$93,500 in donations to community organizations, scholarships and events.

In an interview June 22, co-op CEO Luis Reyes said Kit Carson was preparing rebuttal testimony to be filed later. Reyes said the co-op felt PRC had made some calculation errors that the rebuttal would address.

Reyes did say he was satisfied with the assertion that the electric rate increase be tied solely to the cost of providing electric service. "That's what I've always thought is fair," he said.

Public hearings and oral arguments on the rate case are expected to take place in the coming months. The PRC will ultimately decide what the final rates will be.

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