

## **Co-op, PRC staff reach settlement terms in rate case**

### **Final decision must come from regulators**

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New Mexico Public Regulation Commission (PRC) staff members have reached a tentative settlement with Kit Carson Electric Cooperative that could resolve a monthslong dispute over a proposed rate increase.

The settlement would increase total co-op revenues by an estimated 6.5 percent, compared to the 9 percent increase the co-op has requested.

The co-op first gave notice of the proposed rate increase late last year. Opponents of the increase protested, and the PRC ordered an investigation into whether the increase was justified.

Hearings on the case are scheduled to begin Aug. 15. But those hearings would likely be vacated if the settlement is approved by the PRC.

A summary of the settlement prepared by staff for the PRC and obtained by

*The Taos News* shows the settlement would reduce the total increase, but would have almost the same impact on residential customers as Kit Carson's original proposal.

Most notably, the settlement would allow Kit Carson to raise the flat monthly fee paid by all residential customers from \$14.50 to \$20.50. In return, the summary says the co-op would not seek a residential rate increase for two years – unless it's required to by its federal lenders.

The settlement would also allow Kit Carson to charge a flat fee for electricity instead of penalizing customers who use more electricity by charging them more per kilowatt-hour.

The co-op recently signed a 10-year contract with a new wholesale power supplier, but it has not yet disclosed publicly what the cost of power is under that deal.

Co-op CEO Luis Reyes did not respond to an email seeking comment on the settlement by press time. Reyes has long complained that some opponents of rate hikes cause unnecessary delay and cost to the utility of hundreds of thousands of dollars in unnecessary legal fees.

### **How we got here**

The co-op gave notice late last year that it intended to raise electric rates to generate an additional \$3.5 million a year.

A consultant hired by the coop to justify the rate increase called the co-op's financial performance in 2014 "dismal." He said Kit Carson's "times interest earned ratio" (more commonly known as TIER) was "dangerously low."

But an analysis by PRC staff came to a different conclusion. Written testimony from staff argued the electric utility was hitting its financial targets in 2014 — the year upon which the rate increase was based. The co-op must use numbers from a preceding “test year” to justify a rate hike.

Staff economist John Reynolds said in written testimony the co-op’s 2014 TIER was “slightly below average” when compared to similar co-ops.

Reynolds argued that at least part of the costs the co-op was trying to recuperate through the rate increase came from Kit Carson’s diversified activities — its propane and telecom companies. Reynolds said it would be “inappropriate” for the coop to raise electric rates to pay for these side businesses.

Among the other points in the settlement summary is a provision that the co-op “continue to exercise diligence in stripping out non-electric revenues and expenses in the next rate case.”

Testimony from staff said the co-op should get a rate increase that was less than half the size of its original request, or enough to bring in another \$1.6 million annually. The settlement would allow the co-op to generate an estimated \$2.5 million more annually.



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**Katharine Egli**

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