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August 30, 2019

SEC Members/Owners:

The City of Socorro would like to respond to items listed in the Socorro Electric Cooperative's (SEC) "Co-op Corner" August 2019 Edition. The City feels the SEC is using fearmongering to coerce Member/Owners to take a one-sided view of how the SEC is managed, sets its priorities and how actions taken by the City might affect members.

In the first paragraph of the "Co-op Corner" the SEC states they are guided by their principal, "Concern for Community". The City's proposed electric utility is being pursued exactly for this purpose. The City has tried to work with the SEC for over ten years to develop solutions to bring down electric rates for Member/Owners. Every time the City approached the SEC in this regard, the City was stonewalled. The response has always been that the SEC is locked into a long-term (50 year) contract with Tri-State Generation and Transmission (Tri-State) to purchase electricity and provide this service to Member/Owners. Any prudent person would understand a long-term contract such as this is a poor business decision. Not only for current Member/Owners, but for generations to come. Because the City has an overwhelming "Concern for Community", the City must take action to ensure the viability of our community and help our community prosper.

The second paragraph of the newsletter states the City will attempt to "siphon (sic) off" members, particularly New Mexico Tech. This is true. Tech is the largest user of SEC electricity and will benefit the most from lower electricity rates. The City knows, that as New Mexico Tech prospers, the City also prospers. What could New Mexico Tech do with money saved by a 33% drop in their electricity rates? More hiring for locals? More employees, professors, etc. living in Socorro, thereby expanding the local economy? This goes for others in Socorro benefitting from lower electricity rates. It is a major, first step in Economic Development.

The second paragraph goes on to state the SEC would lose revenues of \$450,000.00 which would have to be recovered from remaining users. This is the first example of fearmongering, however, it is not entirely true. Tech actually provides more revenue annually than \$450,000.00. They may be thinking of net income, not revenue. Unfortunately, this means the situation is actually worse for remaining users. But this example just shows how narrowly the SEC thinks operationally.

There are two ways to improve your bottom line. Increase revenues, or decrease costs. The SEC only considers raising revenue. This is evident by their recent rate increase request to the New Mexico Public Regulation Commission (PRC). The purposes stated by the SEC for the rate increase were to meet Board goals, which the board decides arbitrarily. They are not voted on by the members, but the Board Members are. Two of these arbitrary goals are to upgrade their plant/grid and to pay Member/Owner capital credits. One of the Board goals is to RAISE YOUR RATES TO PAY YOU BACK MONEY THEY ALREADY OWE YOU! That business model does not make sense to the City of Socorro.

About the capital credits. The SEC carries on its books over \$20,000,000.00 in these capital credits. This amount is not money sitting in an account somewhere gaining interest. It is fictional. Over the years the capital credits were earned, they were not invested, they were spent as part of the flawed SEC business model. The SEC knew, as per the SEC bylaws, the capital credits were/are a liability and one day would need to be paid. They did not plan for this and are now asking to raise your rates to pay you back **MONEY THEY OWE YOU!**

Paragraph three is the second example of fearmongering. The SEC newsletter informs Member/Owners that not only will the lost revenue require a rate increase, so will the expense to cover their operations and maintenance (O&M) costs. First, the SEC cannot summarily raise your rates. They must be approved by the PRC, so please do not feel completely helpless. The current rate increase requested by the SEC is under review by the PRC and a vote is expected on or by September 20th, 2019. Because of the City's "Concern for Community", the City and others intervened in the case to protect **ALL Member/Owners**. Second, the SEC, in their narrow thinking, forgets to mention that with fewer users, their O&M costs will go down. Again, all they are thinking about is revenue.

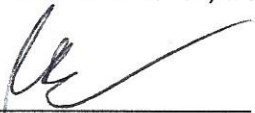
The fourth paragraph provides Member/Owners with some misinformation. It may be true Guzman Energy, with whom the City is in negotiations to provide wholesale power, provides the Kit Carson Electric Cooperative at a rate of approximately \$.0950/kWh. It may also be true SEC paid Tri-State \$.0768/kWh. What the SEC forgets to point out is the SEC adds charges to this base rate. They add on/charge you for debt service (and they want to borrow \$26,000,000.00 more for the mysterious "upgrades" mentioned previously). They add on/charge for a "power cost adjustment". They add on/charge taxes. When all is said and done, the average SEC rate approaches \$.1600 kWh to \$.1700/kWh. Something the SEC forgets to mention is Kit Carson's rate includes the debt they acquired when "buying out" their contract with Tri-State. This debt will be paid off by July 1, 2022 and their power costs will decrease by 40%!!! Kit Carson can then either lower their rates, or use the savings for expansion. What a business model!

In the City negotiations with Guzman, a fixed rate for a set term will be negotiated. This means City users will not need to live in fear of ever increasing electricity rates because a board set arbitrary goals. Also, the City will spend no City funds in building the utility. Part of the rate determination will be to include the cost of building the utility. Though initial interest rates on these costs may seem high, the City is already in discussions with entities to refinance the debt at lower rates. Again, the repayment of the debt will already be included in the rate, so there will be no need for a rate increase. As in the Kit Carson model, a reduced debt payment would increase the bottom line. This would allow for expansion or reduced rates. The City is not just considering revenue.

More fearmongering and short-sided thinking is provided in paragraph six. The SEC states there will be duplicity in lines serving the City which Member/Owners "would essentially be forced to pay twice...". Again, not true. The funding mechanism in place includes build-out. This build out is already included in the rate and the rate is approximately 66% of the SEC rate. Also, if City utility users are no longer SEC Member/Owners, how can the SEC charge for SEC lines?

Paragraph seven states, "The creation of a municipal electric will not bring choices to all who live and work in Socorro". Not immediately, but the City is not thinking short-term. Here we are merely discussing the first phase. As we prove our success with our business model, the City may expanded services to other users. Yes, there may be some pain for the second and third phase users, as the SEC has already admitted and threatened, but in the long-run, more people will benefit than those suffering from SEC policies, procedures and pricing. It is also ironic the SEC mentions "choices" as they have continually stated we have none with Tri-State. We are at the mercy of Tri-State, to whom the SEC is beholden.

Lastly, paragraph eight states, "As SEC serves a much greater geographical area that includes thousands more of our Members, we must consider them as well in our business decisions." This is very noble of the SEC and the City agrees. As a municipality, and elected officials, we must look out for our residents', businesses', schools' and the University's best interests and include those in our business decisions. That is why the City has worked so diligently and tirelessly to get to this point. To see movement, you must take the first step. We have to start somewhere. After all, we all share a "Concern for Community".

A handwritten signature in black ink, appearing to read 'Ravi Bhasker', written over a horizontal line.

Ravi Bhasker
Mayor
City of Socorro