

## **Socorro Electric Co-op Overcharged Member-Owners Nearly \$1.8M**

Journal Staff

### **Co-op's board moving to provide refunds to customers for the five years of overcharges caused by an error that was made in 2005 when a rate adjustment went into effect**

Socorro Electric Cooperative overcharged its customers nearly \$1.8 million over the past five years.

Catt Cobb, a rate analyst and consultant for the co-op, made the discovery last week while working on a Cost of Service Study for the co-op, and informed Socorro Electric's board of trustees of the mistake at its regular meeting on Wednesday. She said the overcharges were due to an error made when a rate adjustment went into effect in May 2005.

Following Cobb's advice, and that of Larry McGraw, field representative with the USDA's Rural Utility Service, the plan now is to reimburse customers through patronage capital checks, and get it done as soon as possible.

"I met with Larry and the (Public Regulation Commission) about how to get the refund to members," Cobb told the board. "Our idea was to give it back in one check that will bring everything back to zero."

In order to do that, the co-op must first get permission from both the PRC and RUS to authorize the refund to its customers, who are also member-owners of the rural electric cooperative. At the end of a long discussion, the board took action to send letters to explain the situation and formally request the release of the funds.

McGraw said the amount overcharged was \$1.783 million.

If approved, the co-op intends to issue patronage capital checks quickly.

"We want to correct the mistake right away," said Richard Lopez, the co-op's interim general manager.

#### **How'd This Happen?**

Cobb said the mistake was an oversight made when rates were last adjusted. The last time Socorro Electric actually increased rates was sometime during the 1990s, she said.

"In 2005, you changed rates to roll in fuel and debt cost adjustment into the base rate," she said, adding that the adjustment was then left out of the formula for determining the cost of power. "The cost to purchase power base was changed only on the debt cost, but the interest expense wasn't changed on calculations for what goes to the customers."

Commercial customers make up about 65 percent of those overcharged, Cobb said, while residential customers make up the other 35 percent.

Cobb said because customers were being overcharged the past five years, a rate increase might have been required earlier.

If worse comes to worst, Cobb said the co-op could ask for emergency rate relief from the RUS.

While trustees were meeting in executive session, Cobb told El Defensor Chieftain the mix up was probably an honest mistake missed by “a lot of people.” She said it was too hard to say what the average refund to residential customers might be, but indicated one estimate of \$60 was too high.

Commercial customers, especially high volume entities such as the Very Large Array and New Mexico Tech, would receive much higher refunds. She said there is still some work to be done to determine the correct amount to be refunded and additional paperwork to be completed, but checks could be distributed before Christmas.

Cobb, who works for SGS Engineering of Albuquerque, was in Socorro last week to talk to commercial customers about planned rate increases likely to go into effect early next year.

Lopez said the meeting held on Sept. 16 was intended to give commercial customers a “heads up” about what to expect. He said nothing was said about the rate mistake at that time because he had just learned from Cobb that there might be a problem and they were still in the process of verifying information.

### **More Woes**

The revelation about the rate mix up is the latest in a string of financial problems that have cropped up for the co-op lately.

An in-depth audit conducted by BKD LLC, an independent accounting firm out of Springfield, Mo., that specializes in forensic audits, is due to begin in earnest next week. The firm was hired to investigate financial irregularities that led to the firing of two co-op managers last month.

In addition, an audit for fiscal year 2009-2010 by Bolinger, Segars, Moss and Gilbert of Lubbock, Texas, conducted in May turned up numerous material weaknesses.

It also came to light recently that Socorro Electric is in danger of defaulting on federal loans distributed through RUS that are used to pay for system improvements. McGraw said that the long-term loans repaid over 35 years go into default if the co-op fails to meet required profit margins two out of three years. He noted that Socorro Electric failed to meet its margins last year and was on track to miss them again this year.

McGraw said rate design is “philosophical,” and in his 19 years working with Socorro Electric there had never been a problem meeting the margins.

“You have done an excellent job making adequate rates,” he said, adding that conditions have changed such that the co-op is now in financial distress. “Right now you have to write a letter to Washington and ask to retire those capital credits in order to cover those loans.”

McGraw said the co-op needed to make up about a \$2 million deficit to do so. One way to do so was to increase rates to customers.

“Based on the number of customers you’re billing, a \$1 (per month) increase is about \$160,000 per year, and that’s money that goes right to the margin,” he said. “An increase of \$5 per month won’t terribly harm any consumer, in my opinion ... It’s not a drastic increase.”

McGraw said there was still a chance the co-op could rally to make the margins and avoid defaulting on the loans.

"You've already approved the rate study, so you're on the right track," he said.

Cobb pointed out that Socorro Electric's \$9 per month system charge is low by comparison with other co-ops in the state, which charge between \$15 and \$25.

On a positive note, trustee Leroy Anaya, Socorro Electric's representative to Tri-State Generation and Transmission Association, which provides electricity to co-ops in the Southwest, said Tri-State would not be raising its rates in 2011. It's the third consecutive year Tri-State has kept rates steady.

### **Tightening Belts**

As he'd said at a special meeting of the board of trustees earlier this month, McGraw reiterated that the co-op needs to take a hard look at reducing expenses and increasing revenues in order to meet its margins and make loan payments.

Earlier this year, RUS awarded Socorro Electric a \$24 million loan to be paid off in 35 years. He said then the loans are used to pay for expansion and upgrades to an aging system that has been in operation since the 1940s.

Lopez outlined some of the steps the co-op is taking to reduce costs. He said loans are being refinanced to reduce payments, only essential equipment is being purchased and some shortcuts were being taken with maintenance.

While about \$6 million is tied up in line improvements between Springerville, Ariz., and Quemado and the building of a substation in the area, Lopez said some planned projects could be delayed.

As for increasing revenues, Lopez said the co-op was taking a more aggressive approach in collecting delinquent funds.

Responding to a question by trustee Milton Ulibarri, Lopez said customers are currently being cut off after 90 days, and that could change to 60 days. He noted that state law prohibits electric companies from shutting off service during winter months.

Lopez also reported that the co-op was working on closing out all employee "Redbook" accounts. The Redbook was used to keep track of loans taken by co-op employees, former employees and trustees, and in some cases their relatives. Trustees voted last month to do away with the Redbook amid allegations that it was being abused.

### **Sharing the Burden**

Trustee Donald Wolberg said that since members would have to help bail out the co-op from its financial troubles, the board needs to do its part.

"I urge the board to think about sacrifice," he said. "We shouldn't be spending any money at all and to restrict travel to only what's necessary and all money not be accepted for meeting ... The board has a responsibility to share in the burden with the members until this crisis ends."

Wolberg, who along with Luis Aguilar and Prescilla Mauldin were voted into their positions last year during a movement to reform the co-op and take only reimbursement and not compensation for their service on the board, made a motion that the other trustees adopt the same policy.

After Mauldin seconded the motion, co-op President Paul Bustamante, who doesn't accept insurance benefits, said a large portion of expenses incurred by the board are in the form of insurance coverage. He also noted that even though member-owners voted to reduce the number of board meetings from two per month to one, the board has had multiple meetings the past few months to deal with all the issues it's facing.

Co-op attorney Dennis Francish said the board couldn't pass the resolution as Wolberg stated it. He said the board couldn't impose restrictions upon itself that conflicted with the bylaws.

Francish said surrendering compensation would have to be "voluntary" for each trustee and Wolberg agreed to amend his motion to include the word.

The motion passed, 8-1, with trustee Charlie Wagner voting against it.

Wagner had wanted to know how much of the \$10,000 limit each trustee has on expenses was left for each member of the board, but those figures were not available.

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### **Suggested Reading:**

- [Socorro Man New Member of Miners' Hospital Board](#)
  - [Socorro Electric Cooperative Investigates 'Financial Irregularities'](#)
  - [UPDATED: Trustee Alleges Cover-Up of Financial Irregularities at Socorro Electric Co-op](#)
  - [8:55am — El Paso Electric Chief Steps Down](#)
  - [UPDATED: Socorro Electric Cooperative Managers Borrowed From Employee Pension Plans](#)
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