

Q & A with SEC General Manager Joseph Herrera

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El Defensor Chieftain submitted questions to Socorro Electric Co-op General Manager Joseph Herrera about the issues facing the co-op heading into this Saturday's annual meeting.

Question: How does Socorro Electric Co-op set its rates?

Answer: Rates are set by the Board of Trustees and submitted to the NM PRC for approval. Rate setting involves a complex study called a "Cost of Service Study" (COSS).

The study takes in to account each class of members' rates, checking that they are fair and verifies that no cross subsidy occurs between rate classes. The COSS also takes in to account the number of write-offs the Co-op did of accounts of former or current members who did not pay their balances owed to Socorro Electric Cooperative. The COSS is to set the rates for each class of members residential, small commercial and large commercial to cover Socorro Electric Cooperative loan debts and day-to-day operation cost. When I arrived in January of 2011, Socorro Electric Cooperative had just completed COSS in late 2010 which resulted in the last rate increase in February of 2011. Socorro Electric Cooperative has not increase rates since 2011.

Q: Where does the money go when a member pays their utility bill?

A: Over half our revenue goes to pay our wholesale power bill to Tri State Generation and Transmission Association (a cooperative). We make payments to Rural Utilities Service on our loans, annual property taxes of \$500,000 to the six different counties, \$500,000 in patronage capital credit payment to the members, \$130,000 annually to the City in franchise fees. There is also property, fleet and employees' insurances, etc.... As a non-profit electric utility, our rates are designed to just cover the day-to-day operations cost of the Cooperative. In the case when we do have margins over the day-to-day operations cost, those excess margins are given back to the members in the form of capital credit allocations. In December of 2015 the Socorro Electric Cooperative did a general retirement and paid 1,989 patronage capital credits in excess of \$500,000 to those 1,989 members.

Q: How do the co-op's rates compare to other co-ops and public utilities around the state?

A: Co-op's and public utilities is an apple-to-oranges comparison just on the number consumers served. This is why rural electric cooperatives exist today. It's because there are no profits to be made with the low density in the rural areas. Public Service of New Mexico has requested a 15 percent rate increase for approval from NM PRC. This 15 percent electric rate increase is to pay for new plant which will get a return for the PNM investors. Our investors — are our members.

Q: How big is the area, and how many people does the co-op serve?

A: Just over 10,000 square miles, larger than the state of Massachusetts, with 3,284 miles of line, 44,000 power poles, 3.9 members per mile of line.

Q: How do you feel about the City of Socorro's attempt to establish its own electric utility, and what kind of impact do you feel it would have on the co-op and its members?

A: The electric utilities industry is a very capital intensive business, every debt has to be paid and rates have to be designed to cover those debts and cover the cost to run an electric utility. The impact to members will be felt double by the members living in the city.

Q: How do you feel about the franchise agreement with the city being renewed on a yearly basis?

A: The Franchise agreement expired in 2009. Socorro Electric Cooperative has continued to collect from our members living within the City limits a 2-percent franchise fee and pass it along to the City of Socorro monthly. So far, no proposed franchise agreement from the City of Socorro has been offered to the Socorro Electric Cooperative.

Q: Are there any plans to add Internet services through the fiber-optic lines?

A: Internet Services were discussed at the Strategic Planning Session in January 2016. With TDS Network, Western New Mexico Telephone, Plateau Communications and CenturyLink, just to name a few internet providers within Socorro Electric Cooperative service area, the Board of Trustees thought it was best to let those internet providers do what they do best. Just as Socorro Electric Cooperative does electric utilities best. The difficulty to provide internet service to a few subscribers would not make the enormous dollars capital investment pencil out. Even if Socorro Electric Cooperative would provide internet service to all its members including the members at the end of the 3,284 miles of line who are connected by our 44,000 power poles it would not pencil out. A business model plan would have to include the cost to commercialize any private easements that some of our 3,284 miles of line crosses. Those easements alone could be in the millions of dollars. Which would not make us competitive against the existing providers.

We have to keep our eye on the big picture details on how to provide affordable and safe reliable electricity to our members 365 days, 24/7.

A: What are some of the challenges facing the co-op?

Q: Socorro Electric Cooperative faces many challenges from the federal, state and local levels down to member engagement. On the Federal level, the EPA proposed clean power plan may have the effect of shutting coal plants down which Socorro Electric Cooperative owns as a member of Tri State Generation and Transmission Association. The EPA has a state-by-state plan calling for the closure of coal generation in effort to reduce carbon emissions. If the proposed EPA plan stays as it is proposed with the closure of the coal plant, this would accelerate the asset depreciation on these 40-year assets which impact rates dramatically. State level, the endangered species act will impact the cost to get power lines to the potential new members. You hit on the local challenges. I feel it's an opportunity to engage all members on the importance of Socorro Electric Cooperative role in their day-to-day life and in the communities we serve. Socorro Electric Cooperative foundation has given hundreds of high school seniors' scholarships to further achieve higher education, support of the counties 4-H and Spelling Bee Contest to name a few. Engagement of millennials is a key challenge that I and the Board of Trustees see as an opportunity. A challenge that everyone is seeing in the industry is an ageing work force with recent retirements and more on the horizon it difficult to replace the tribal knowledge this retirees are taking with them when they leave our family here at the Co-op.

A: How important is it for members to attend annual meetings, and keep up with issues facing the co-op?

Q: The best part of a rural cooperative like Socorro Electric is that every member gets their vote in the electricity that improves their quality of living in rural central New Mexico. This is the fundamental rule for rural cooperative governance. The members of Socorro Electric Cooperative have important decisions to vote on at the 71st Annual Members Meeting – the selection of Trustees and further clarifications to the bylaw amendments. It is crucial to have a registered quorum of members by the start of the 3 p.m. meeting. Otherwise the mail-in and polling ballots do not count, as per state statute of the rural electric cooperative ac