

# City releases electric utility feasibility study

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After more than two years of curiosity and speculation, the City of Socorro released its electric feasibility study to the public this month.

Originally on June 18, 2015 the council passed resolution No. 15-06-15B that commissioned a study exploring the possibility of establishing its own electric utility separate from the Socorro Electric Cooperative. That resolution was intended to “assist in the development of a community and industrial park that is economically competitive with areas throughout New Mexico and which will be able to offer a price structure and stability found in other communities in regard to electric services...”

According to the original resolution the study was expected to cost the City \$30,000, but according to City Councilor Michael Olguin Jr. the eventual cost was \$44,190.91.

Also according to the study it appears that the City can feasibly establish its own electric municipality, although that possible municipality would only affect Socorro's industrial park area for now.

Forsgren Associates INC, out of Albuquerque was commissioned by the City to conduct the study and according to the document released by the council it focused on four main aspects: one, to provide electricity at competitive rates as compared to the current Socorro Electric Cooperative's rates, two to improve the quality and delivery of electric service, three to enhance customer service to the system users and four, to improve business opportunities in the city.

“This firm, (Forsgren Associates, INC.) has conservatively estimated that the cost for electric power to serve commercial customers in the Industrial Park would approximate \$.10.5 per kilowatt hour. This approximation includes costs associated with either the construction of acquisition of an overhead electric distribution system, startup and operation costs and coverage for financing and debt service,” according to the study. That number represents the cost of overhead lines.

If the City opted to construct underground lines that number would climb slightly to \$.10.9/kWh.

At its last estimate according to [www.electricitylocal.com](http://www.electricitylocal.com), which receives its information from the National Renewable Energy Laboratory, the current commercial rate the SEC offers is \$.12/kWh, which is close to 35 percent higher than the national average.

The cost between establishing overhead lines compared to underground lines is a an issue the City will have to address.

According to the study financing overhead lines would require a tax exempt bond par amount of \$5,543,635 which includes debt service revenue of \$390,981 and an insurance cost of \$83,153. A tax exempt bond par amount is a rate of return. Municipal bonds pay a fixed amount of interest each year. Also called the coupon rate, this interest is a percentage of the par value of the bond. Par value is the amount the bond issuer pays when the bond matures, or comes due, in order to repay the borrowed money.

For overhead lines on a 20-year term the blended interest rate would be 3.526 percent, which requires a debt service coverage requirement of 1.35 percent.

For an underground system the tax exempt bond par amount would increase to \$7,447,356 with a debt service reserve of \$525,246 at the same interest rate, although that blended rate includes a \$.50 bump in rates.

In short establishing underground lines would cost more initially, but nearly the same as overhead lines in the long run according to annual costs on a 20-year bond.

According to the study wholesale energy costs at the industrial park, whether overground or underground would feasibly need to reach \$2,409,696 with total ops and debt coverage accounting for \$1,580,252 of that number.

“The Annual Coverage Requirement is the amount needed to fund the total operational and power purchase cost of the new utility system plus the reserves necessary to pay for the debt services acquired with the financing of the new utility,” the study states. According to a table in the feasibility study the current yearly average cost of the businesses currently operating at the industrial park is \$1,477,868.20. That number includes Good Samaritan Village, Quality Mix Concrete, Socorro Consolidated Schools, Socorro General Hospital, the Arc of Socorro, the United States Bureau of Reclamation, the New Mexico State Highway Department, Socorro County and the Socorro Dialysis Center.

In terms of legality the approach by the City to establish its own municipality is well within the council's rights.

“The Federal Energy Regulation Commission (FERC) supports the creation of publicly owned electric utilities, including municipal utilities, to encourage competition and lower costs of service to rate payers,” the study states. “FERC's own policy, established in 1996 requires that Regional Transmission Operators (RTOs) and Balancing Area Controllers, such as Western Area Power Administration (WAPA) and Tri-State, make their transmission grid and ancillary services available to their wholesale customers under the same availability and rate conditions as they apply to themselves. Therefore the municipal utility is assured to receive the wholesale transmission, energy and ancillary services at a non-discriminating rate.”

The impasse in the situation might be that the City could have to rely on Co-op facilities to go forward with establishing its own municipality.

According to the feasibility study, “In order for Socorro to purchase existing SEC facilities, (the) SEC would be required to cooperate voluntarily, or the City could procure the necessary system in the City limits using its eminent domain powers. The time frame necessary for this approach could take multiple years if the SEC resists this approach.”

And the City hasn't necessarily gotten along with the Co-op in recent years.

Dating back to the June 2015 meeting when the Socorro City Council originally passed the resolution to carry on with its plans to bring its own electric municipality to the city, that resolution stated: “After having been in lengthy deliberations with the (SEC) regarding the role of the SEC in community-related affairs and various SEC policies, it has become evident that SEC operations, and the subsequent results of those operations, have had a negative impact on the ability of this community to fully realize the economic potential of the area...”

Socorro Mayor Ravi Bhasker has been diligent in his opinion that the City could separate itself from the Co-op for at least three years, when the council commissioned a study in 2014 by the Bureau of Business and Economic Research study at the University of New Mexico.

That study found that “a switch of electric providers from Socorro Electric Cooperative to PNM would result in savings of \$2,118,037 annually to 2,802 households in the City of Socorro.”

That study claimed that the average Socorro household could save \$755.90 per year, including \$182.16 in direct savings from lower residential electricity bills and an additional \$476.90 in indirect savings passed on by commercial and industrial users who would pay lower electricity costs.

However, the recently released study focused primarily on the “feasibility of the creation and initial operation of a conventional municipality utility for provision of electric power to the users in the Industrial Park and university only.” (*F first in a series on this subject*)