

In his Pagosa Daily Post letter, an LPEA Director, not speaking on behalf of the LPEA board, made statements that require redress.

Each year LPEA compares itself to approximately 800 other electric cooperatives in the US. This peer review process, called the Key Ratio Trend Analysis (KRTA), allows us to compare our coop's performance against other coops. The most recent data we have is for 2016, as 2017's data will be released later this year. Tri-State's wholesale power cost to LPEA, was 64% of revenue in 2016 compared with 61% for all electric coops in the US in the KRTA. LPEA's cost per kWh was less than other coops in the KRTA. Even when normalized for an end of year adjustment in 2016, and in looking at our power costs for 2017 being just under 7.3 cents, we know Tri-State's wholesale rates are comparable and competitive.

Additionally, when one is considering the 7.3 cents, we need to be reminded this is a bundled cost that not only includes the cost of energy but also capacity. You and the other members rely on us to supply both your energy needs and your instantaneous demand, or capacity, needs. Renewables are a great generator of energy kWh, but come up short on supply demand or capacity.

We've seen rate increases from Tri-State in the past, the last one at the beginning of 2017. It's just one reason LPEA works hard to do innovative rate designs, such as our Time-of-Use rate, which allows members to control their energy use and save money. It also helps LPEA control our wholesale power costs to our entire membership.

Of course, LPEA has concerns about any rate increase from Tri-State or any of our other vendors. It is why we are very diligent with our relationship with them. During the February Tri-State board meeting, which I attended along with LPEA's director delegate on that board, we learned that Tri-State is currently projecting stable rates for the next five years - no rate increases from Tri-State until 2023 at the earliest. LPEA is not the only coop member of Tri-State that expresses concerns, as most member cooperative of Tri-State expect that Tri-State become more competitive.

LPEA is also concerned with Tri-State's concentration in coal. That's not only an environmental impact concern we have, it's a risk management issue to be so heavily concentrated in one fuel source. It could be one reason, (the most dominant reason being the Colorado bulk power market is long in generation), Tri-State closed its interest in the San Juan coal plant outside Farmington last year, is closing Nucla in 2022, and is closing Craig 1 in 2025.

Simultaneously, Tri-State is increasing its production of renewable energy from wind and solar sources, and Tri-State is the leading solar Generation and Transmission cooperative in the nation with three utility-scale solar projects totaling 85 megawatts. Tri-State is now approaching 30% of its energy generation from renewable sources and is continuing to embrace more.

While Tri-State is doing more, utility scale renewable costs are becoming more competitive and declining in price. LPEA recognizes we need to do more. The 5% limit which is aptly discussed needs to be put in perspective. Tri-State provided incentives well above their avoided fuel costs so LPEA could make the community solar garden projects financially viable, and the waste heat recovery and our local hydro projects all work.

While we've used up that portion of our contract allotment, other options are available to us to see continued development of local renewable generation. Both PURPA's Qualified Facility (QF) option and Tri-State's Policy 118 allow LPEA to continue to do renewable projects. Here's the really good part, doing these two types of projects could allow LPEA to lower our incremental wholesale costs. This is why I proposed in my CEO vision that LPEA focus on renewable projects in these two categories.

Finally, what we've learned about Kit Carson Electric Coop's buyout of its Tri-State contract makes for more questions than answers. Kit Carson's rates increased in December 2016. The press article referenced below indicates the rate increase was to help the coop with unprofitable affiliates, but the timing is a concern to me. Kit Carson also received New Mexico Public Regulatory Commission approval for a wholesale tariff adjustment rider, which suggest Kit Carson's rates were not fixed, as was suggested at the Green Business Roundtable last April in Durango. While we don't know the exact terms of Kit Carson's deal with their new wholesale power supplier, I feel their Palo Verde delivery point arrangement is not fixed, but rather variable and subject to volatility.

Additionally, in our conversations with Kit Carson's CEO, we were able to model Kit Carson's comparative power costs between their new supplier, Guzman, and their former supplier, Tri-State. Our analysis suggests Kit Carson was financed at 12% to pay Guzman for the buyout costs. If you look at Kit Carson's year-end 2015 and 2016 financial statements it's clear their net margins are insufficient, and probably don't meet their mortgage covenants, in my opinion, though I have not read their mortgage agreements and documents. The bottom line is - it's too soon to declare Kit Carson a model to follow. We will continue to monitor for information that tells us how they're doing with their power supply arrangement

LPEA has reported that for each \$100 million in buyout costs, LPEA's rates would increase 1.5 cents per kWh. You can see why we're cautious about moving to emulate Kit Carson.

I'll be presenting a contract valuation at the February LPEA board meeting on the 21st at LPEA's office in Durango's Bodo Park. This won't produce a buy-out number, but should likely help us understand what a buy-out might look like. Join us if you're interested in learning more.

I am certain of two things: LPEA's members want us to develop additional local renewable resources to generate electricity, and they expect us to deliver on the promise of lower electric rates. That's achievable, if we're wise in assessing our evolving energy market.

LPEA's employees and leadership have a long history of achievement. We're committed to achieving results for you.

Mike Dreyspring, CEO
LPEA

References:

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