



CITY OF SOCORRO

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March 1, 2022

Socorro Electric Cooperative, Inc.

Board Members:

Paul Bustamante
Luis Aguilar
James Nelson
Leroy Anaya,
Michael Hawkes
Donald Wolberg
Anne Dorough

Joseph M. Herrera, CEO and General Manager

RE: Open Letter to Coop Members; City of Socorro Offer to Acquire Socorro Electric Cooperative

Dear Board Members:

As you are aware, the City has long desired to create and operate a municipal electric utility to attract economic development and better serve its constituents. And, as you know, the City has successfully operated water and wastewater utilities for decades.

The City has conducted multiple feasibility studies and is confident it could energize an overbuilt electric system upon expiration of SEC's franchise in 2024, if not sooner. The City is also confident that any municipal system would have lower electric rates, a lower cost of service and a lower cost of debt. In fact, feasibility studies support these conclusions.

It has also come to our attention that SEC has now openly admitted that it has not been able to maintain its own system. In SEC's response to the New Mexico Public Regulation Commission's Order on Remand of Supreme Court appeal Nos. S-1-SC 38302 and 37948, filed just last week, SEC publicly disclosed that it is unable to keep up with routine deferred maintenance, is unable to hire contractors for routine tree trimming and conduct pole replacements. SEC further disclosed that it has elected not to fill a critical engineering position and has decreased the number of meter readers from three to two positions. SEC also disclosed that it has delayed purchasing new vehicles for its aging fleet, and has indefinitely delayed the construction of a new office headquarters.

SEC alleges these inadequacies despite having recently borrowed \$8 million from FFB which appears as "cash on hand" in SEC's filed financial statements. SEC's 2019-2020 financial statements also show a 13% (about \$76,000) increase in Administrative and General Salaries – despite the fact that it chooses not to fill good paying

positions. Clearly, in addition to some of the highest rates in the State, SEC has financial and management difficulties.

Given the expiration of SEC's right to occupy City owned streets and rights-of-way in 2024, and the financial stability the City brings along with its experience, the City is prepared to purchase SEC's system within the City and assume the obligation to serve SEC's customers in the City. However, if needed, the City would also entertain serving the surrounding areas as well. The City would also be willing to aid SEC in operations and maintenance in the months preceding a sale to facilitate a seamless transition.

The City has conducted a preliminary valuation of the SEC system using an Accredited Senior Utility Appraiser. The City's appraiser determined that original cost less depreciation of SEC's assets likely provides the best indicator of the value range. He preliminarily estimated the market value of SEC's assets using the original cost method within the City to be approximately \$24 million and \$51 million across the entire system. Conversely, a market approach valuation would result in values \$10 million less than those indicated. Regardless, either number would allow SEC to pay off the entirety of its long-term debt.

The City respectfully suggests that a sale of the system to the City would be mutually beneficial to both parties. It would also resolve years of litigation, regulatory issues, and reduce rates and customer complaints and meet the City's goal of finally attracting the economic development Socorro deserves. The City would also be willing to hire existing SEC employees, and purchase any remaining functional vehicles and other assets.

Your response is kindly requested by March 24th, after your next Board of Trustees meeting. Please let us know your willingness to consider further discussion of this proposal.

Sincerely,



Ravi Bhasker
Mayor
City of Socorro