Bloomfield Electric Utility Proposal Carries High Risk

This rash proposal impacts ALL Farmington Electric Utility Service (FEUS) customers. Additional loss of load or service area would diminish economies of scale (operational and financial efficiencies) and have immediate negative impact on the cost of service for ALL customers. In response to a September 18 editorial written by Bloomfield City Manager Eric Strahl, I will address three practical considerations: *Rates, Risk, and Revenue.*

Rates –Rates have serious ramifications on regional economic development and struggling households. Businesses choose to locate or remain in places with low cost electricity. Bloomfield has pledged they would not increase rates. If Bloomfield was able to keep rates the same as FEUS on a long-term basis, they would accomplish something few, if any similarly situated utilities in a multi-state region have accomplished. Farmington rates range from 9%-60% less than regional utility comparisons. These are well managed, experienced utilities. In some cases (like Bloomfield), they simply do not have the same benefits of *economy of scale.* Bloomfield hypes with its "no rate increase" promise – it will somehow, with no previous experience operate an electric utility more cost effectively than Aztec, La Plata-Durango, SRP-Arizona, Xcel-Denver, PNM, APS and others. Is this a sensible gamble?

Risk – The promoters of an independent Bloomfield electric utility are leading the good people and leadership of Bloomfield down a primrose path by relying on a 2014 feasibility report. (Bloomfield tells us that it has no other, more comprehensive and realistic evaluation.) The 2014 report is inaccurate and incomplete. Their report estimates total acquisition, plus all other considerable cost elements of forming an electric utility at $6.9 million. The actual cost may be over 10 times that amount – consequently leveraging the city in debt. There is no mention of the fact that 66% of the assumed load to pay that debt comes from just 2 "non-captive" customers. Electric usage by these 2 customers is currently down 41%. Who's left holding the debt bag? The Bloomfield citizens. These facts alone discredit the report and demonstrate the recklessness of the proposal. As if this is not enough to raise momentous questions, additional crucial analysis is noticeably missing from the report – no cash-flow forecast, no sensitivity analysis regarding long-term volatility in fuel and purchase power and no realistic accounting for all transmission costs, system severance, operations, infrastructure construction, or stranded costs.

The report grossly underestimates the resources needed to maintain reliability and restore power during outages. Bloomfield proposes to purchase "one used bucket truck" and hire 4 transmission and distribution employees. FEUS has 91 transmission and distribution personnel and 22 bucket trucks/heavy equipment. Each of these cost from $300,000 - $400,000.

Revenue – This proposal is predicated on conjecture Bloomfield is able to yield the same "net revenue" as FEUS from the electric sales associated with our customers located within their city limits. Mr. Strahl referred to, "$1M – 1.5M of surplus funds". FEUS did produce 1.52M in net revenue from this load in FY2015, prior to the most recent economic decline. He erroneously asserted, "This money goes straight to Farmington's general fund." First, the utility retained $910,000 of this net revenue to reinvest exclusively in electric infrastructure (including Bloomfield) and to keep rates low for ALL customers. Only $610,000 of this net revenue was distributed to Farmington's general fund as a return on investment. How likely is a very small, start-up utility – leveraged in debt – to create the same economies of scale of an experienced larger utility like FEUS which owns generation assets and is debt free? It is quite likely Bloomfield would produce little net revenue or may even lose money.

There is a better way for Bloomfield to guarantee financial benefit – with no risk! Mr. Strahl failed to mention that Farmington also paid Bloomfield $214,408 as a license fee in that same year – and if Bloomfield would have merely entered a new franchise agreement with different terms to reflect recent annexation (the prior 1985 franchise having terminated in 2010), Bloomfield could have received a considerably higher fee in FY2015 and going forward. Instead, Bloomfield chose costly litigation.

Given these issues, we will continue to use every resource and legal means to defend our entire historic and lawful service territory—in order to maintain economies of scale—and keep rates low for ALL our customers throughout San Juan County.