

CITY OF SOCORRO

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June 5, 2017

Luis Aguilar, Trustee
Leroy Anaya, Trustee
Mary Baca, Trustee
Anne Dorough, Trustee
Judith Holcomb, Trustee
Dave Wade, Trustee
Donald Wolberg, Trustee
Joseph Herrera, General Manager

RE: Invitation to Explore Reduced Electric Service Costs

Dear Board Members and Mr. Herrera:

As you may know, the City has undertaken considerable research regarding SEC's cost to serve the residents both in and outside of Socorro. We commissioned a University of New Mexico Study, issued a request for information (RFI) regarding wholesale electric power supply costs, and retained an engineering firm to conduct a preliminary feasibility regarding the City's possible acquisition of some or all of SEC's system or the construction of new City owned facilities.

Based on information from SEC's 2016 Annual report filed with the NMPRC, SEC's cost of wholesale power is \$0.07963 per kWh, almost double what the City's market based RFI study revealed.

Also, based on information from SEC's 2016 Annual report filed with the NMPRC, SEC's residential rate is \$0.1562 per kWh, 36% higher than the New Mexico average residential rate.

SEC's industrial rate is \$0.1067 per kWh, which is 83% higher than the New Mexico average industrial rate.

SEC's commercial electricity rate is \$0.1258 per kWh, 35% greater than the New Mexico average commercial rate.

The City invites you to discuss options available to both the City and SEC to put an end to the SEC rate increases (driven in part by wholesale power costs). The City would like to discuss the following possibilities:

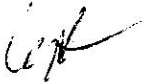
1. The City acquires SEC's assets in the City limit and assumes a related portion of the RUS debt associated with those assets. This option frees up the City to reduce wholesale power costs;
2. The City acquires all of SEC's assets inside and outside the City and assumes all related debt. Again, this option allows the City access to much reduced wholesale power costs; or
3. The City acquires a portion (or corridor) of SEC assets, and enters into a "sharing" agreement with SEC that reduces rates in that corridor, and shares some of those savings with SEC.

The options and opportunities to reduce rates in Socorro and Socorro County are greater now more than ever given historical lows in the cost of wholesale power. Kit Carson Electric Cooperative is just one of dozens of examples of possible opportunities.

In sum, we formally invite you to participate in discussions that help Socorro grow again.

Please let me know your availability.

Sincerely,



Ravi Bhasker, Mayor