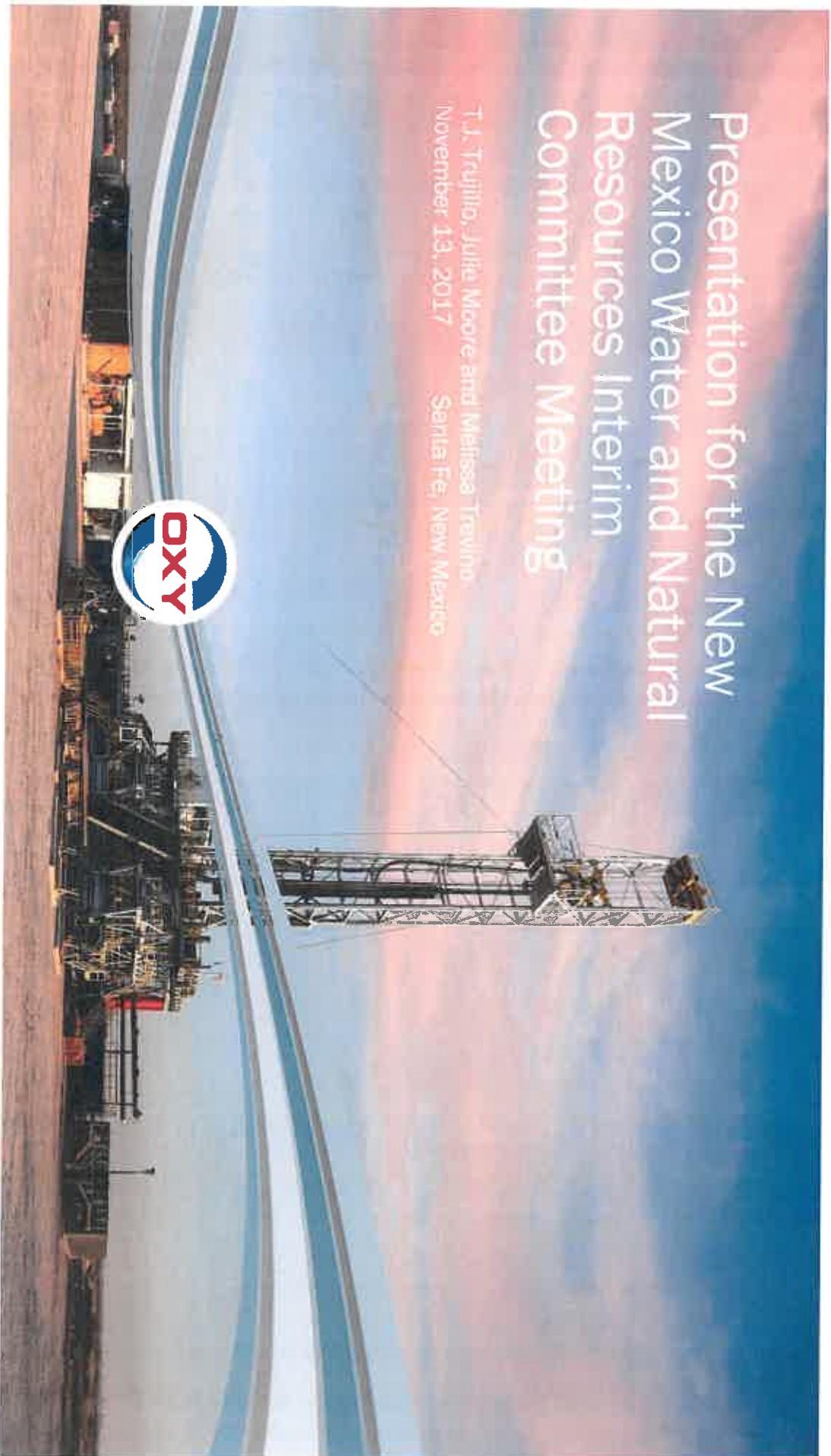


Presentation for the New Mexico Water and Natural Resources Interim Committee Meeting

T.J. Trujillo, Julie Moore and Melissa Treviño
November 13, 2017 Santa Fe, New Mexico



Topics

- **Introductions**
- **Occidental Overview**
- **Electricity Costs and Business Impact**
- **Utility Basics**
- **Rate Regulation**
- **The Problem: High Rates and Lack of Transparency**
- **Conclusion: The Problem and the Solution**



Introductions

Julie Moore

- Senior Director State Government Affairs, Occidental Petroleum Corp
- Responsible for legislative and regulatory affairs in New Mexico and Texas

Melissa Trevino

- Manager Energy, Occidental Energy Ventures LLC
- Responsible for power rates and electric matters in New Mexico and Texas

Anthony “T.J.” J. Trujillo

- Shareholder at Gallagher & Kennedy law firm
- Attorney and registered lobbyist for Occidental in New Mexico
- Specializes in administrative law and government affairs



Occidental Corporate Overview

Performance
Innovation
Growth



Oil and Gas

- Exploration and production activities focused in the United States, Middle East and Latin America
- Largest operator and producer of oil in the Permian Basin of West Texas and Southeast New Mexico
- Industry leader in the application of enhanced oil recovery (EOR) techniques such as CO₂ flooding

Midstream and Marketing

- Gathers, processes, transports, stores, purchases and markets oil, condensate, natural gas liquids (NGLs), natural gas, carbon dioxide (CO₂) and power
- Crude oil terminal in Ingleside, Texas, began exporting crude oil to international and domestic markets in 2016

OxyChem

- Wholly owned subsidiary that manufactures and markets basic chemicals and vinyls with plants in 12 U.S. states, Canada and Chile
- Market position among top three producers in the U.S. in 2016 for principal products it manufactures and markets

New Mexico Highlights

In 2016 Occidental paid over \$166MM in royalties and taxes to New Mexico.



Permian Resources

- Approximately 290,000 Net Acres of Development Areas in the NM Delaware Basin
- Fastest-growing asset
- Plans for significant growth in 2018

Permian EOR

- Nearly three-quarters of the EOR production comes from fields that actively employ CO2 flooding
- Bravo Dome is our largest source of naturally occurring CO2, and electricity is almost 80% of their operating costs

Electricity Cost and Business Impact



- Electricity is typically one of the top three operating costs for large industrial/manufacturing businesses
- For Occidental's operations in New Mexico, electricity is the second largest operating cost
- Electricity costs can impact business decisions, including expansion and location decisions, which can impact New Mexico jobs and tax revenue
- These business decisions occur everyday in New Mexico

Utility Basics:

IOU vs Coop



New Mexico Investor Owned Utility

- Privately owned regulated monopolies
- Utility rates are set to recover costs and provide an opportunity for a return for investors
- Regulated by the State
- All rate increases require a rate case filing with the New Mexico Public Regulation Commission (“NMPPRC”)
- Serve municipalities and large population areas

New Mexico Electric Cooperatives

- Serve much of rural New Mexico through member owned distribution cooperatives
- Budgets, planning and rates developed by a Board of Directors
- Limited regulation by NMPPRC and the Federal Energy Regulatory Commission (“FERC”)
- Rate review by NMPPRC is only triggered by a formal complaint or protest

Utility Basics:

Electric Cooperatives

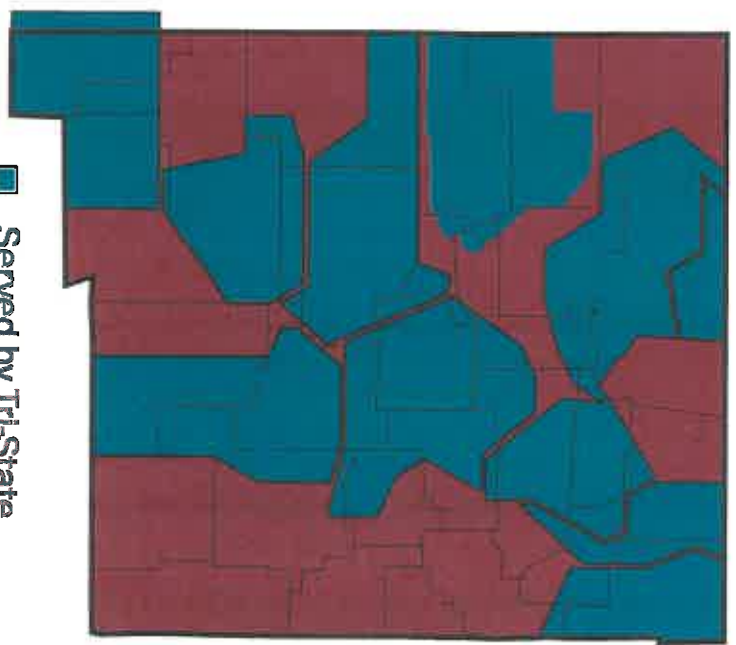


Electric Cooperative Structure

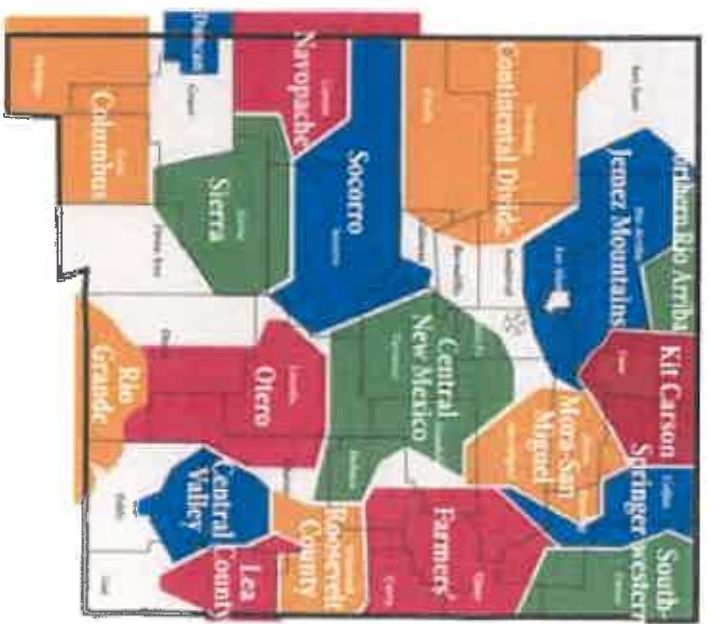
- **Distribution Cooperatives:** Sell power directly to end-use customers in their geographic service area.
 - ❖ Examples: Southwest Electric Cooperative (SWEC), Kit Carson, Springer, Lea County
- **Generation and Transmission (G&T) Cooperatives:** Responsible for providing transmission and generation service to their member distribution cooperatives.
 - ❖ Examples: Tri-State, Western Farmers

Utility Basics:

Location of Electric Cooperatives



■ Served by Tri-State



Coop Names & Locations

Source: <http://www.nmelectric.coop/coops>

Utility Basics:

Electric Cooperatives



Monopoly Providers

- Distribution electric cooperatives are monopoly service providers, just like investor-owned electric utilities
 - ❖ Exclusive right to serve all end-use customers within their geographic service area
 - ❖ Regardless of size, each customer of the distribution cooperative (collectively known as “members”) has one vote
- Distribution cooperatives, in turn, are “members” of G&T cooperatives
- Generally, distribution electric cooperatives have “all requirements” contracts to buy all (or nearly all) of their power from a specific G&T cooperative

Rate Regulation



- Distribution cooperatives are subject to rate regulation by the New Mexico Public Regulation Commission (NMPRC), similar to a regulated investor-owned utility (for example, PNM or SPS).
- The majority of distribution cooperatives' rates are often dictated by the rates they are charged by their G&T cooperative.
- **BUT... the NMPRC does not generally have regulatory authority over the rates of G&T cooperatives that sell power to the distribution cooperatives.**

Rate Regulation



Three Protest Rule

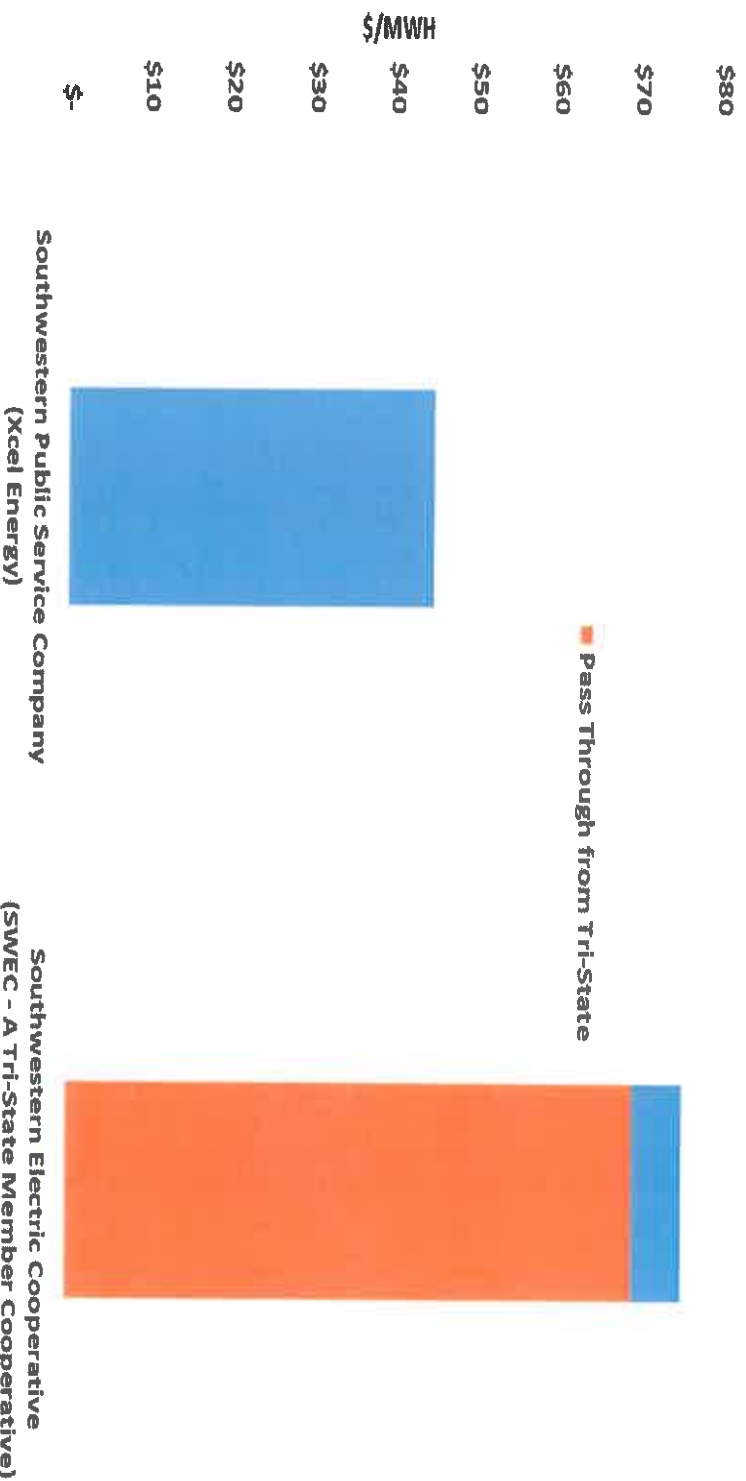
- Currently, three distribution cooperatives must protest a G&T cooperative's rates in order for the Commission to be able to review the rates. While end use customers may intervene at that point, they cannot institute a rate review no matter how unjust or unreasonable the rates.
- End-use customers have no ability to review or challenge the G&T rates directly.
- In many instances, FERC also does not have jurisdiction over G&T cooperatives' generation rates.
- In most instances, rates are approved by the G&T cooperative's Board, and there is no regulatory oversight.

The Problem: High Rates and Lack of Transparency



- When the G&T won't work with the end use customers, there is a major gap in regulatory protection and rate oversight. This gap can cause serious harm to New Mexico ratepayers and the economy.
- Tri-State's rates are substantially higher than other providers in New Mexico and comparable utilities throughout the United States.
- Tri-State has never had a meaningful rate review by the NMPPRC!
 - The three protest rule has only been used once in the last 17 years
 - However, the protest was settled, and end use customers were not able to participate

Comparison of Electric Rates for New Mexico Utilities



- Rates depicted for a 50 MW load at 95% load factor with no power factor penalty or credit. Pricing based on filed tariff with the New Mexico Public Regulation Commission as of November 9, 2017.
- Source: <http://www.nmprc.state.nm.us/consumer-relations/company-directory.html>



Conclusion:

The Problem and
the Solution



Problem

- A monopoly utility with no accountability
- No transparency
- The Three Protest Rule is ineffective in providing adequate regulation
- End use customers have no voice or recourse

Solution

- Amend the Three Protest Rule
- Allow G&T rates to be challenged in a more meaningful manner to protect customers
- Allow stakeholders the opportunity to look into Tri-State's current cost of service and wholesale rates

Thank You

