State of Utah
Department of Commerce
Division of Public Utilities

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MEMORANDUM

To: Utah Public Service Commission

From: Division of Public Utilities

Philip J. Powlick, Director
Artie Powell, Manager, Energy Section
Charles Peterson, Technical Consultant
Marlin Barrow, Technical Consultant
Douglas Wheelwright, Utility Analyst

Subject: Docket No. 10-027-01, Application of Flowell Electric Association, Inc. for approval to issue securities in the form of a Secured Promissory Note to National Rural Utilities Cooperative Finance Corporation (CFC) in the amount of $2,000,000.

Date: July 29, 2010

The Division's memo submitted July 15, 2010, contained an error in understanding the terms of the proposed commitment. A revised analysis has been completed and the Division maintains the recommendation for approval.

The Division's previous memo stated that this request would increase the commitment with CFC from $1.85 million to $2.0 million. While this is true, the current commitment has been utilized and the Company has four individual long term notes. However, this proposal also constitutes a request to issue securities in the amount of $2 million that is in addition to the existing long term loans currently in place with CFC. The $2.0 million is in the form of a line of credit, a "Power Vision Loan," that can be used to provide a source for long term financing for planned capital work projects. This structure is utilized by CFC and other coop electric companies to simplify

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the process of financing individual capital expenditures and will be in place for 5 years. This request is being proposed in order to have a funding vehicle in place in advance of identifying a funding need. No capital needs have been identified and the Company does not anticipate that this line will be used due to capital restrictions.

In 2006 and 2007 the Company added $2.3 million to plant in service and $1.85 million to the outstanding debt. These events reduced the equity position from 75.3% in 2007 to 43.2% in 2008. Because of the reduced equity position and restrictions by CFC, the Company is currently prohibited from refunding patronage capital to its members. In 2009 the Company implemented a 10% rate increase in order to generate additional revenue and strengthen the equity position. It is unlikely that the Company would incur additional debt until the equity position has improved.

While it is not anticipated, the forecast in exhibit 2 has been revised to include a total of $2.0 million in additional capital expenditures in 2011 and 2012. If this were to occur, the forecast indicates that the Company would be able to remain profitable and stay within the debt service covenants required by CFC. Therefore, the Division reaffirms its original recommendation to approve Flowell's request.

cc: Durand Robison, General Manger, Flowell Electric Association, Inc.
Gary A. Dodge, Attorney for Flowell Electric Association, Inc.
Michele Beck, Office of Consumer Services