State of Utah
Department of Commerce
Division of Public Utilities

ACTION REQUEST RESPONSE

To: Utah Public Service Commission

From: Division of Public Utilities

Chris Parker, Director
Artie Powell, Manager, Energy Section
Charles Peterson, Technical Consultant
Douglas D. Wheelwright, Technical Consultant

Subject: Application of Dixie Escalante Rural Electric Association, Inc. dba Dixie Power for Authority to Issue Securities, Docket No. 13-066-01.

Date: August 29, 2013

RECOMMENDATIONS (Approval)

The Division recommends that the Commission approve the request and authorize Dixie Power to issue securities in the form of a $3,000,000 short term revolving credit facility.

ISSUE

Pursuant to Utah Code Ann. § 54-4-31, Dixie Escalante Rural Electric Association, Inc. dba Dixie Power (Dixie) requests authorization for authority to issue securities in the form of a short-term unsecured debt obligation. The proposed obligation is a $3,000,000 short-term revolving credit facility that can be used for general operational needs and interim capital expenditures. The term is from June 26, 2013 to August 31, 2014 and may be renewed for an additional year. The variable rate for the line of credit as of August 2, 2013 was 2.89%.

The lender for this obligation is CoBank which is a new lender for Dixie. All of the existing financial obligations are with a different lender, National Rural Utilities Cooperative Finance

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Corporation (CFC). The Company believes that maintaining relationships with both lenders will be beneficial and could provide long term advantages. At the present time the Company has no specific project or planned expenditure and does not anticipate using the new credit facility.

DISCUSSION

Dixie-Escalante Rural Electric Association, Inc. is a non-profit, cooperative association organized January 1, 1978 as a result of a consolidation of Dixie Rural Electric Association and Escalante Valley Electric Association for the purpose of providing electric service to rural areas located in southwestern Utah and northwestern Arizona. Dixie has a contract to purchase power from the Western Area Power Administration. Monthly power needs in excess of this allocation are purchased from Deseret Generation and Transmission (Deseret G&T). Additional power beyond that provided by these two sources would be purchased under a contract with the Intermountain Power Project (IPP).[1]

Information used in the Division's analysis included the Company's application, along with the audited annual financial reports for Dixie from 2008 through 2012. The Division has had discussions with Dane Johnson, Controller for Dixie Power, regarding certain details of the application and questions regarding the historical financial statements. The proposed loan was approved by the board of directors by resolution on July 10, 2013. Copies of the resolution and board meeting minutes were included with the original application.

The proposed obligation is the result of marketing efforts by CoBank to compete with CFC. At this time there are no specific plans to utilize the new borrowing facility. The Company believes that maintaining relationships with both lenders will be beneficial and could provide long term advantages.

Historical Results

Exhibit 1 is a summary of the audited financial results for 2008 through 2012. The income statement on page 1 indicates that Total Revenue has increased 2.88% annually from $20.3 million in 2008 to $22.7 million in 2012. Operating Expenses have grown at a faster rate than

[1] Dixie Escalante Rural Electric Association, Inc. audited financial statements, March 27, 2013.

revenues, rising from $19.1 million in 2008 to $22.5 million in 2012, for a 4.22% annual increase. The increase in operating expenses is driven primarily by an increase in the cost of purchased power that occurred in 2011 and 2012. The Company has implemented a rate increase for Utah customers effective July 2012 to offset the increase in purchased power cost. Utah customers represent approximately 90% of the total usage. A similar increase is scheduled for the Arizona customers and should become effective in October of this year. Due to the late implementation of the rate change, the impact of the Utah rate increase will be reflected in future financial statements. The new rates include a wholesale power cost adjustment provision which will allow Dixie to move rates up or down as wholesale prices change. The addition of the power cost adjustment mechanism should help maintain the gross margin closer to historical levels. In addition to the lower gross margin, Dixie has experienced an increase in the operating and maintenance costs and customer related expenses in 2012. This increase in operating expense is primarily due to increased maintenance for repairs to an aging infrastructure. It is anticipated that the Company will continue to incur this higher level of maintenance costs in future years. Customer related expenses have increased due to an increase in new customers and implementation of a rebate programs.

The balance sheet information on page 2 shows a strong cash position at the end of 2012 of $2.7 million. This is higher than the historical average and is primarily due to the retirement of the note receivable in 2012. The note receivable was with the Ft Pierce Industrial Park and was set up as an incentive to encourage the development of a commercial property and encourage additional electric usage. The accounts receivable other account has experienced significant fluctuations in the periods under review. While this is an operating account, this account is used for large individual transactions that may arise from damage to the power system and for the receivable from Flowell Electric for work on that electrical system. As of January 1, 1999, all of the employees, with the exception of the manager, of Flowell Electric became employees of Dixie. Under the agreement between these two companies, Dixie provides Flowell with customer billing statements and plant maintenance services. Flowell provides a shop and yard facilities for Dixie equipment and inventory. This agreement allows the two companies to share resources and provides Flowell with access to engineering and other resources that were not available internally. The agreement has been structured in this way due to the mutual relationship with Deseret Generation and Transmission.

Other balance sheet accounts of note are the Net Plant which grew at an annual rate of 2.26% from 2008 through 2012. During this same period, Long Term Debt increased at a rate of 0.51% and Total Patrons Equity increased at 6.7% annual rate from $16.8 million in 2008 to $21.9 million in 2012. Due to the strong cash and equity position, the Company was able to refund capital to members in each of the years under review except for 2011. In 2012, the Company refunded $341,124.

Page 4 of Exhibit 1 identifies the financial ratios for 2008 through 2012. The Long-term Solvency and ratios in 2012 remain strong and with the exception of the times interest earned ratio are all higher than the historical averages. Net Operating Margin for 2011 and 2012 were down due to the increase in purchased power cost mentioned above. The net margin for 2012 was 4.51% compared to the historical average of 7.31%. While the margin is lower, the Company remains profitable and is able to meet its obligations and provide a return of patrons capital. Due to the lower margins, Return on Patrons Capital was 4.77% in 2012 compared to the 5 year average of 7.82%.

The Regulatory Capital Structure calculates Long-Term Debt at 27.93% and Equity at 72.07% as of year-end 2012 which is near the historical average. Based on the historical information, it appears that the Company is generally healthy and has been able to meet its current obligations.

CONCLUSIONS

The Division has not attempted to evaluate the reasonableness of the terms and conditions of financial transaction however, the terms appear to be in line with current market rates. The recommendation for approval is based on the following factors.

1. The Board of Directors has approved the proposed transaction during the July 10, 2013 meeting.
2. The Company has the ability to raise customer charges, if necessary, in order to meet its financial obligations.

3. Based upon the financial statements, it appears that Dixie has been financially stable for the past five years and has been able to meet its financial obligations.

The Division recommends that the Commission approve the Application of Dixie Escalante Rural Electric Association, Inc. for Authority to Issue Securities, Docket No. 13-066-01.

cc: Chery Hulet, CFO - Dixie Power
Dane Johnson, Controller - Dixie Power
Michelle Beck, Office of Consumer Services