GARY HERBERT
Governor
SPENCER J. COX
Lieutenant Governor

State of Utah
Department of Commerce
Division of Public Utilities

FRANCINE GIANI
Executive Director

THOMAS BRADY
Deputy Director

CHIS PARKER
Director, Division of Public Utilities

ACTION REQUEST RESPONSE

To: Utah Public Service Commission

From: Division of Public Utilities

Chris Parker, Director
Artie Powell, Energy Section Manager
Douglas Wheelwright, Technical Consultant

Date: April 30, 2014

Re: Docket No. 14-031-01 - Application of Mt. Wheeler Power, Inc. for authority to issue securities.

RECOMMENDATION (Approval)

The Division recommends that the Commission approve the request from Mt. Wheeler to extend the draw period under the current commitment with CFC for an additional 5 years.

ISSUE

The current $25 million commitment with CFC was approved by the Commission in Docket No. 09-031-01 on April 23, 2009. The proceeds from this financing arrangement are intended to be used to fund specific capital improvement projects. As capital projects were identified, Mt Wheeler Power, Inc. (Mt Wheeler, or Company) can make a formal request to CFC to issue individual notes under the commitment amount. Individual notes may be structured with repayment terms appropriate to the specific project and may have a maturity of up to 40 years. Each new note or draw reduces the amount available under the commitment. Under the current approval, the draw period was to remain in place from May 12, 2009 through May 12, 2014. As

of December 31, 2013, the Company has drawn $6 million of the original $25 million commitment.

In a letter dated February 12, 2014, CFC has agreed to extend the draw period under the commitment for an additional five years from May 12, 2014 to May 12, 2019. The extension of the draw period will not affect the total commitment amount that was approved in the previous docket and will not changed any of the other terms or conditions outlined in the executed documents. While the draw period is being extended, the maximum allowed maturity date for all individual notes will remain unchanged at May 12, 2049.

DISCUSSION

The Company has maintained a relationship with CFC for many years under a similar lending arrangement. As part of the analysis of this request, the Division has reviewed the application along with the audited financial statements for Mt. Wheeler Power for years ending December 31, 2008 through December 31, 2013. The Division has also had discussions and correspondence with Kevin Robison, Assistant General Manager, Mt. Wheeler Power, Inc.

Historical Results

Exhibit 1 is a summary of the audited income statements, balance sheet and cash flow information from 2008 through 2013. The income statement on page 1 shows a 1.92% annual increase in total revenue from $30.9 million to $34.0 million. During the same time period total operating expense increased 3.36% from $27.7 million to $32.7 million. The primary reason for the increase was due to an increase in the cost of purchased power in 2013. In discussions with the Company, it was discovered that the increase in the cost of purchased power was due to the timing of a $1.1 million annual rebate. The purchased power rebate is usually received in January of each year however the 2013 rebate was received and booked in December 2012. This caused two rebates to be received in 2012 and no rebate to be credited in 2013. The timing of this rebate transaction caused the cost of purchased power to be low in 2012 due to the receipt of 2 rebates and purchased power cost to be high in 2013 with no rebate.

The transaction discussed above carries through to the calculation of the net margin. Without the rebate in 2013, the net margin shows a substantial 24.5% reduction from $2.9 million in 2008 to $0.7 million in 2013. If the rebate transaction noted above is moved from 2012 to 2013, the net margin would increase to approximately $1.8 million in 2013. While this adjusted net margin is lower than some prior years, it is more consistent with historical margins and profitability and is a better representation of normal operations.

The balance sheet information shows a substantial and consistent cash position for the periods under review and stands at $3.3 million as of year-end 2013. The net plant and equipment increased at a rate of 3.17% from $30.4 million to $35.6 million with total assets increasing at a 2.19% rate from $43.7 million to $48.7 million. During the same period, total liabilities increased by 0.13% from $20.6 million to $20.7 million. Total long-term debt increased from $14.0 million in 2008 to $14.6 million in 2013 or 0.85% despite the $6.0 million in new long-term debt advanced under the current commitment. The Company's regulatory capital structure stands at 65.61% common equity and 34.39% debt. Common equity is down slightly from the 5 year average of 66.99%.

The ratio analysis on page 4 of exhibit 1 shows a current ratio[1] of 1.70 and a quick ratio[2] of 0.70. The interest coverage ratio (Times Interest Earned[3]) is calculated at 1.56 for 2013 compared to the average of 3.32 for the years under review. The calculation of this ratio is impacted by the rebate transaction noted above and calculates to 2.81 if the rebate is applied to the appropriate year.

The calculation of the profitability ratios are impacted by the rebate transaction noted above. Return on Total Capital for 2013 is calculated at 3.62% without adjustment and 6.61% after adjusting for the rebate transaction. The adjusted 2013 ratio is more consistent with the adjusted

---

[1] Current ratio is current assets divided by current liabilities. It is a measure of a company's ability to satisfy its cash needs over the coming twelve months.

[2] Quick ratio is cash plus accounts receivable divided by current liabilities. It is a more stringent measure of a company's ability to satisfy its cash needs over the coming twelve months.

[3] Times Interest Earned is calculated as the earnings before tax divided by the interest expense.

5 year average of 7.20% and is more consistent with historical profitability and normal operations. .

As of December 31, 2013 the Debt Coverage ratio is calculated at 1.56 without adjustment and 2.81 with the adjustment noted above. The adjusted ratio is slightly lower than the historical average of 3.28 however, both the adjusted and the unadjusted calculations are above the minimum Debt Coverage Ratio[4] of 1.35 required by the CFC loan covenants. Additional loan covenants specify that any loans from entities other than CFC must be less than 15.0% of Total Plant or 50.0% of Equity, whichever is greater. As of this review, there are no outstanding loans from other entities. The Company has been in compliance with the loan covenants for each year under review.

Forecast 2014 to 2018

Based on the historical financial information, the Division has prepared a forecast income statement, balance sheet and ratio analysis for 2014 through 2018 included as Exhibit 2. In addition to the forecast years, two years of historical information has been included for comparison in the income statement and balance sheet.

In order to provide a more accurate comparison of the cost of purchased power, the amounts in 2012 and 2013 has been adjusted in Exhibit 2 to reflect the rebate discussed above and have been highlighted in yellow. The adjusted purchase power cost provides a more accurate comparison to normal operations and provides a better comparison to the forecast for 2014 through 2018. The ratio analysis in Exhibit 2 includes the adjusted calculations for 2013 and the adjusted 5 year historical average for comparison.

Projected growth rates have been calculated based on the historical information included in Exhibit 1. The forecast uses a 1.92% annual increase in total revenue which is identical to the historical 5 year growth rate. Projected expenses along with the growth rate for property plant

[4] Debt Coverage Ratio is calculated as earnings before interest and depreciation dividing by interest expense and current maturities of long term debt.

and equipment have been calculated based on historical averages and are consistent with prior year information. The calculated financial ratios for liquidity, solvency and profitability are near the historical averages and appear to be reasonable.

Based on the assumptions for future years, the forecast indicates that the Company will be able to meet its financial obligations and will remain in compliance with the covenants established in the CFC Loan Agreement.

CONCLUSION

Based on this analysis, the Division recommends that the Commission approve the Application of Mt. Wheeler Power, Inc. to extend the draw period under the current commitment with CFC for an additional 5 years.

cc: Randy Ewell, General Manager, Mt. Wheeler Power
Kevin Robison, Assistant General Manager, Mt. Wheeler Power
Michele Beck, Committee of Consumer Services
Cheryl Murray, Committee of Consumer Services