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State of Utah
Department of Commerce
Division of Public Utilities

FRANCINE GIANI
Executive Director

CHRIS PARKER
Director, Division of Public Utilities

ACTION REQUEST RESPONSE

To: Utah Public Service Commission

From: Utah Division of Public Utilities

Chris Parker, Director
Artie Powell, Energy Section Manager
Doug Wheelwright, Technical Consultant
Jeff Einfeldt, Utility Analyst

Date: July 2, 2018

Re: **Docket No. 18-066-T02**

Dixie Escalante Rural Electric Association's Proposed Tariff Revisions.

RECOMMENDATION

The Utah Division of Public Utilities ("Division") recommends that the Utah Public Service Commission ("Commission") acknowledge Dixie Escalante Rural Electric Association, Inc.'s ("Dixie") changes to its Retail Electric Rate tariff, and make them available for public inspection. Specifically, Dixie is changing its Distributed Generation rate (to replace the existing net metering rate), the High Density rate, and the Industrial rate.

Dixie's customers were given ample notification of these proposed rate changes as specified in Utah Code §54-3-3 and §54-4-1.1. Likewise, the Commission was notified at least 30 days prior to the proposed effective rate change as required by Commission Rule R746-405-2-E.2 and Utah Code §54-3-3.

ISSUE

Dixie notified the Commission of proposed changes to its tariffs via a letter dated June 8, 2018. The Commission issued an action request dated June 18, 2018, requesting the Division investigate the proposed tariff changes with the Division's response due by July 3, 2018. This memorandum is the Division's response to the Commission's action request.

BACKGROUND

Dixie's Board of Directors approved the three new tariffs on May 3, 2018, with notices mailed to all consumers on May 20, 2018. The new rates were presented and discussed at customer meetings held on June 5, 2018 in Beryl, Utah and June 6, 2018 in St. George, Utah. The rates are scheduled to become effective August 1, 2018.

Dixie 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 2013 through 2017. Chery Hulet, CFO for Dixie Power, provided the Division with copies of the 2017 year end audited financial statements, minutes for relevant board meetings and customer meetings, and copies of notices mailed to customers. The notifications to customers and the Commission appear to comply with Utah Code §54-7-12.

DISCUSSION

Exhibit 1 is a summary of the audited financial results for 2013 through 2017. The income statement on page 1 indicates that Total Revenue has increased 9.25% annually from \$24.4

¹ Dixie Escalante Rural Electric Association, Inc. audited financial statements, April 3, 2018, Note 11.

million in 2013 to \$34.7 million in 2017. Operating Expenses have grown at a slower rate than revenues, rising from \$23.8 million to \$32.2 million over the same period for a 7.78% annual increase. The cost of purchased power represents 62% of operation expenses for 2017 and experienced an average annual increase of 10.3% from 2013 through 2017. Utah customers represent approximately 90% of the total usage.

The balance sheet information on page 2 shows a cash position ranging from \$0.9 million in 2015 to \$10.3 million in 2016 with a balance of \$3.3 million at the end of 2017. The significant swings in the year end cash balances during the last few years is due to expenditures on capital improvements to update aging facilities and meet the demand of significant new customer growth.

Other balance sheet accounts of note are Net Plant, which grew at an annual rate of 18.7% from 2013 through 2017, with a balance in 2013 of \$44.6 million and a balance of \$88.4 million at the end of 2017. During this same period, Long Term Debt increased at a rate of 32.6% from a balance of \$9.6 million in 2013 to \$29.8 million in 2017. Customer Advances for Construction increased from \$2.7 million to \$7.6 million from 2013 to 2017 for an average annual increase of 29.7%. Deferred Revenue – Impact Fees also increase during the same time period from \$21.5 million to \$32.7 million representing an annual average increase of 11%. Total Patrons Equity increased at an annual rate of 5.7% from \$22.6 million in 2013 to \$28.2 million in 2017.

Page 4 of Exhibit 1 identifies the financial ratios for 2013 through 2017. The Long-term Solvency ratios in 2017 remain strong. The profitability ratios remain strong with an improving trend over the last few years indicating the Company remains profitable and is able to meet its obligations and provide a return of patrons' capital. The Company paid \$0.668 million and \$0.759 million for Return on Patrons' Capital in 2016 and 2017.

The Regulatory Capital Structure calculates Long-Term Debt at 51.40% and Equity at 48.60% as of year-end 2017. The current capital structure in the past two years has changed when compared to the historical averages but is not a cause for concern. Based on the historical

information, it appears the Company is generally healthy and has been able to meet its current obligations.

CONCLUSION

The Division recommends the Commission acknowledge the proposed tariff changes submitted by Dixie and make them available for public inspection.

CC LaDel Laub, President and CEO, Dixie Escalante Electric Association
Maria Wright, DPU Customer Service
Michele Beck, Office of Consumer Services
Jeff Peterson, Director, Utah REA