



State of Utah

Department of Commerce Division of Public Utilities

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Action Request Response

To: Utah Public Service Commission

From: Utah Division of Public Utilities

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

Date: February 6, 2019

Re: **Application of Dixie Escalante Rural Electric Association, Inc. dba Dixie Power for Authority to Issue Securities, Docket No. 19-066-01.**

RECOMMENDATIONS (Approval)

The Division recommends the Commission approve the request and authorize Dixie Escalante Rural Electric Association, Inc. dba Dixie Power (“Dixie Power”) to issue securities in the form of a \$20,000,000 secured promissory note with National Rural Utilities Cooperative Finance Corporation (“CFC”). This loan is in addition to the currently existing loan with CFC of up to \$3,000,000 and a revolving credit promissory note with COBANK, ACB of \$5,000,000; both previously approved by the Commission.

Issue

Pursuant to Utah Code Ann. §54-4-31, Dixie Power requests authorization for authority to issue securities in the form of a secured promissory note (“promissory note”). The proposed obligation is to provide Dixie Power additional working capital to meet its financial needs as it expands its facilities to meet the growing demand in its service area. Dixie Power represents

these funds will be used primarily to finance new transmission, distribution, buildings, and related facilities.

Discussion

Dixie Power 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”). Any 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 Power from 2013 through 2017. The Division has had discussions with Chery Hulet, CFO 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 January 13, 2019. Copies of the resolution and board meeting minutes were included with the original application.

Historical Results

Exhibit 1 is a summary prepared by the Division 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 million in 2013 to \$34.7 million in 2017. Operating Expenses have grown at a slower rate than revenues, rising from \$23.8 million in 2013 to \$32.2 million in 2017, for a 7.78% annual increase. The cost of purchased power represents 61.8% 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. Dixie Power has experienced an increase in the operating and maintenance costs and customer related expenses through 2017 of

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

3.79% on average over the last five years. This increase in operating expense is primarily due to increased maintenance for repairs to an aging infrastructure and expansion of its infrastructure to meet the demands of significant customer growth in its service territory. It is anticipated the Company will continue to incur higher maintenance costs and expansion in future years.

The balance sheet information on page 2 shows a cash position at the end of 2017 of \$3.3 million, a significant decrease from the 2016 balance of \$10.3 million, but within the range reported for the period 2013 through 2015 (\$946 thousand in 2015 to \$4.08 million in 2013).

Other balance sheet accounts of note are as follows. Net Plant grew at an annual rate of 18.7% from 2013 through 2017. During this same period, Long Term Debt increased at a rate of 32.6% from \$9.7 million in 2013 to \$29.8 in 2017, and Total Patronage Equity increased at 5.7% annually 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 and are close to historical averages. The profitability ratios show an increase in the gross and net margins for 2017. The Company has improved its profitability and is able to meet its obligations and provide a return of patrons' capital in each of the last 5 years.

The Regulatory Capital Structure calculates Long-Term Debt at 51.4% and Equity at 48.6% as of year-end 2017 which is significantly lower than the equity percentage in 2015 of 74.63%. This change is driven by the Company's significant investment in its infrastructure to meet the increased customer growth. Even with the decrease in equity percentage from 2015, it appears the Company is generally healthy and has been able to meet its current obligations.

Conclusion

We conclude, based on the available evidence, that Dixie will be able to meet its obligation. The Division has not attempted to evaluate the reasonableness of the terms and conditions of the financial transaction. The terms, however, 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 January 3, 2019 meeting.
2. The Company has recently increased customer rates and has the ability to raise future customer rates, if necessary, in order to meet its financial obligations.
3. Based upon the financial statements, it appears Dixie Power has been financially stable for the past five years and has been able to meet its financial obligations.

The Division recommends the Commission approve the Application of Dixie Escalante Rural Electric Association, Inc. for Authority to Issue Securities, Docket No. 19-066-01.

cc: LaDel Laub, President and CEO, Dixie Power
Chery Hulet, CFO - Dixie Power
Dane Johnson, Controller - Dixie Power
Jeff Peterson, Director, Utah REA
Michele Beck, Office of Consumer Services