

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application of Garkane)
Energy Cooperative, Inc., for Approval of a) DOCKET NO. 09-028-01
CFC Line of Credit) REPORT AND ORDER

ISSUED: March 30, 2009

By The Commission:

On January 12, 2009, Garkane Energy Cooperative, Inc. (Garkane or the Company) filed its Application for approval of its line of credit (LOC) with the National Rural Utilities Cooperative Finance Corporation (CFC), raising its limit from \$2 million to \$5 million.

On February 25, 2009, the Division of Public Utilities (Division), having reviewed the Company's current financials, and attachments to the Company's Application, filed its analysis recommending approval of the Application. In support of its recommendation, the Division submitted information gathered from the following: 1) Annual Reports of Garkane Energy Cooperative, Inc. for years ending December 31, 2004 through December 31, 2007; 2) financial statements of the Company for the eleven months ending November 30, 2008; 3) attachments filed by the Company with the Application including the "Existing Line of Credit"; and 4) telephone conversations with Garkane's management, on February 4 and February 18, 2009.

The Division summarized the financial history of the company from 2004 to 2007. On average, revenues increased by 5.13%. Operating expenses also increased by 3.68%. Interest expenses also increased. Net income has decreased each year for the four-year period reviewed. The main cause for the increase in interest expense and net income decrease is the

increase in long-term debt taken on by the Company to update and expand property, plant, and equipment. Liabilities have increased much faster than current assets, growing at nearly 15 percent annually. The Company's asset to liability ratio has declined each year from 2004 to 2007, and profitability ratios have also decreased. The Company will attempt to increase profitability by possibly increasing rates by 10% this year to cover high increases in maintenance and expenses, and also by reducing such expenses.

In an attempt to meet increased demand, the Company plans to purchase the electric distribution system of the "Twin Cities"—Hilldale, Utah and Colorado City, Arizona. It intends to then re-sell a portion of the system to cover the purchase. Additionally, the Division feels that, despite significant downturns in profitability for the 2008 year, the Company does have a viable plan to increase profitability for the 2009 year. The Division prepared two financial forecasts for the Company: one forecast assuming the Company was able to sell a portion of the Twin Cities' system and the other assuming it was not. Taking into account the Company's plans for increasing profitability, controlling expenses, and taking the Company's forecasted budget into account, under both scenarios, the Company would be able to meet the increased debt load and still be able to increase profitability.

The Division did not analyze the Company's decision to enter into the LOC agreement with the CFC. Generally, however, the Division relied upon the Company's business expertise and found that it should recommend approval of the increase in LOC based on the following factors:

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- A. The Company, which has total access to financial information about its operations and budgets has conducted an evaluation and concluded that this is the most beneficial option available.
- B. The Company represents the Board of Trustees has approved the proposed transaction at its December 15, 2008 meeting.
- C. The Company has the ability to raise customer charges, if necessary, in order to meet its financial obligations. As mentioned above, Garkane Power is contemplating a 10 percent rate increase for this summer.
- D. Attached as Exhibit 1, in 5 pages, are financial statements of the Company for the years 2004 through 2007. These financial statements are supplied to the Division on an annual basis. The Division has not performed a detailed financial analysis of the Company. However, based upon these financial statements it appears the Garkane has been financially stable until the recent operating loss. The Company expects to be profitable in 2009. Despite the operating loss in 2008, Garkane Power has been able to meet its financial obligations.
- E. The two forecasts prepared by the Division both suggest that the Company should be able to handle a moderate capital expenditure program as well as the property acquisition of the Twin Cities.

Therefore, based on the findings submitted by the Division, and the Application submitted by the Company, the Commission finds that the proposed increase in the line of credit will not harm the State of Utah, its citizens, or the Utah customers of Garkane and is therefore in the public interest.

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ORDER

The Commission orders as follows:

1. The increase in the line of credit is approved;
2. Pursuant to Utah Code § 63G-4-301 and 54-7-15, an aggrieved party may request agency review or rehearing of this Order by filing a written request for review or rehearing with the Commission within 30 days after the issuance of the Order. Responses to a request for agency review or rehearing must be filed within 15 days of the filing of the request for review or rehearing. If the Commission does not grant a request for review or rehearing within 20 days after the filing of a request for review or rehearing, it is deemed denied. Judicial review of the Commission's final agency action may be obtained by filing a petition for review with the Utah Supreme Court within 30 days after final agency action. Any petition for review must comply with the requirements of Utah Code §§ 63G-4-401, 63G-4-403, and the Utah Rules of Appellate Procedure.

DATED at Salt Lake City, Utah, this 30th day of March, 2009.

/s/ Ted Boyer, Chairman

/s/ Ric Campbell, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary
G#61244