State of Utah
Department of Commerce
Division of Public Utilities

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MEMORANDUM

To: Utah Public Service Commission

From: Division of Public Utilities

Philip J. Powlick, Director
Artie Powell, Manager, Energy Section
Charles Peterson, Technical Consultant
Marlin Barrow, Technical Consultant
Douglas Wheelwright, Utility Analyst

Subject: Application of Moon Lake Electric Association, Inc. for approval of long term financing, Docket No. 09-030-01.

Date: February 5, 2018

ISSUE

Moon Lake Electric Association, Inc. (Moon Lake, or the Company) requests authorization to obtain long term financing in the amount of $11 million. Proceeds from this loan will be used to finance the construction of a new office and warehouse complex in Roosevelt, Utah. The loan will be repaid over a 30-year period.

RECOMMENDATIONS (Approval)

The Division recommends that the Commission approve the request for Moon Lake to enter into a long term loan agreement as requested.

DISCUSSION

Information used in the Division's analysis included:

1. Audited financial statements for Moon Lake Electric Association, Inc. for years ending December 31, 2004 through December 31, 2007.
2. Internal financial statements of the Company for December 31, 2008.
3. National Rural Utilities Cooperative Finance Corporation (CFC) Financial and Statistical Report.
4. Attachments filed by the Company with the Application.
5. Discussions with Alan Haslem, Manager of Finance / CFO

Proceeds from this loan will be used for the construction of a new office and warehouse facility in Roosevelt and will be built on property currently owned by the Company. At the present time, these operations are housed and managed in two separate locations. It is anticipated that the new facility will be completed within the next 12 months.

Historical Results

Exhibit 1 is a summary of the Income Statements and Balance Sheet information from 2004 through 2008 and the Cash Flow statements from 2004 through 2007. The 2008 cash flow statement will not be available until we receive the audited financial statements. The audited statements should be available by the end of April 2009.

The income statement shows an average increase in revenues of 8.20% per year from $44.3 million in 2004 to $60.7 in 2008. Operating expenses grew from $39.4 million to $56.6 million during this period for an average 9.52% growth. Because the expenses grew at a faster rate than revenue, the net margin declined annually an average of .79%. Average net margin for all years under review is $4.97 million per year.

The balance sheet information shows Cash and Equivalents for 2008 of $11.7 million with an average of $9.5 million for all years under review. The large cash position will be reduced in the next few years as the Company works on several rebuilding projects including a $3.0 million transmission line and substation upgrades. These projects will be funded with internal cash and will not require additional outside financing.

Net Plant and Equipment showed an 8.43% increase from $40.9 million to $56.6 million with Total Assets increasing at a 7.44% rate from $60.6 million to $80.8 million. Total liabilities increased at a 4.89% rate from $12.8 million to $15.5 million. Patronage Capital increased 8.09% on average per year from 2004 to 2008 and went from $47.8 million to $65.3 million. The Company's regulatory Capital Structure shows Long-Term Debt at only 3.98% with Patron's Equity at 96.02% for 2008.

The ratio analysis indicates that margins are consistent for the periods under review. The financial information for year end 2008 shows a current ratio[1] of 1.92 which is identical to the 5 year average of 1.92. The Company's quick ratio[2] for 2008 is calculated as 1.45 compared to 1.40 for the 5-year average. The interest coverage ratio (Times Interest Earned[3]) is calculated at 31.06 compared to the average of 31.72 times. Long-term solvency ratios are strong with Net Worth / Total Debt at 4.23 for 2008 compared to average of 3.88.

The Regulatory Capital Structure stands at 3.98% long term debt and 96.02% common equity for 2008. Long term debt consists of four outstanding notes to CFC totaling $2.4 million. In addition to the term loans in place, the Company has two existing commitments with CFC. The first is a $6.5 million short term revolving line of credit. The second is a $10.0 million commitment that can be used for individual long term notes with up to 30 year maturities. There are no advances on either of these commitments.

[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.

Forecast 2009 to 2013

The Division prepared forecasts for the proposed loan based on historical data from 2004 to 2008. Exhibit 2 includes the new office and warehouse facility and the proposed rebuilding projects along with the new loan amount and required debt service. Based on these historical data and forward looking assumptions, the forecast indicate that the Company will be able to handle the increased capital expenditure and the required debt service.

The forecast uses a 3.86% annual increase in total revenue for the forecast period. This is less than the historical 8.20% growth rate and has been used to reflect the recent economic slowdown and national conservation efforts. Financial ratios for liquidity and solvency show a decrease but remain strong with the average current ratio of 1.45 and the average net worth to total debt at 2.92. The regulatory capital structure is reduced from 96.02% equity in 2008 to 83.29% in 2009.

Based on this analysis, the Division recommends that the Commission approve the Application of Moon Lake Electric Association, Inc. to enter into a new $11.0 million long term loan under Docket No. 09-030-01. The proposed additional debt will not have a significant impact on the profitability of the Company or its ability to meet current obligations.

cc: Alan Haslem, CFO, Moon Lake Electric Association, Inc.
Michele Beck, Committee of Consumer Services
Cheryl Murray, Committee of Consumer Services