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Director, 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 Mt. Wheeler Power, Inc. for approval of financing commitment with National Rural Utilities Cooperative Finance Corporation (CFC), Docket No. 09-031-01.

Date: February 5, 2018

ISSUE

Mt. Wheeler Power, Inc. (Mt. Wheeler, or the Company) requests authorization to extend and increase the financing commitment with National Rural Utilities Cooperative Finance Corporation (CFC) to a total commitment of $25 million. The current commitment with CFC was issued in 1998 for $11.0 million of which $7.5 million has been used to date. The new commitment will be in place for 5 years and will be used to finance projects as necessary. When specific projects are identified, The Company makes a formal request for CFC to issue individual notes under this commitment. Each note is structured with repayment terms appropriate to the project and may have a maturity date and amortization of up to 40 years. Each new advance will reduce the amount available under this commitment but it is not anticipated that the Company will use the total commitment amount. The Company has identified two substation projects that may require up to $5.0 million over the next 5 years.

RECOMMENDATIONS (Approval)

The Division recommends that the Commission approve the request from Mt. Wheeler to extend and increase the commitment with CFC as requested.

DISCUSSION

Information used in the Division's analysis included:

1. Audited financial statements for Mt. Wheeler Power, 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) proposed Loan Agreement, Secured Promissory Note and Restated Mortgage and Security Agreement.
4. Attachments filed by the Company with the Application.
5. Correspondence with Kevin Robison – Mt. Wheeler Power, Inc.

The Company has maintained a relationship with CFC for many years under a similar lending arrangement with current notes outstanding dating back to 1982. Approval of this request will extend the relationship with CFC and increase the commitment amount.

<u>Historical Results</u>

Exhibit 1 is a summary of the Income Statements and Balance Sheet information from 2004 through 2008. The income statement shows an increase in total revenue from 2004 to 2008 of 17.60% per year from $16.147 million to $30.887 million. This large increase is primarily due to a $9.627 million increase in revenue from large commercial customers that occurred in 2005. Since that time, the revenue growth rate from 2005 through 2008 has averaged 6.40%. The increase in commercial customers also affected other aspects of the Company's financials. For example, operating expenses grew from $13.961 million to $27.027 million from 2004 to 2008 for an average annual growth of 17.96%. However, from 2005 to 2008, the growth in Total Operating Expenses was only 4.53%. Net margin grew from $2.386 million to $2.983 million from 2004 to 2008 for a 5.74% increase. The lowest Net Margin was in 2005 with $1.132 million compared to the largest in 2008 of $2.983 million.

The balance sheet information shows a significant increase in Cash and Equivalents for 2007 and 2008 with a current balance of $2.037 million. Net Plant and Equipment showed a 3.49% increase from $27.272 million to $31.278 million with Total Assets increasing at a 3.10% rate from $38.641 million to $43.659 million. Total liabilities decreased 1.28% from $21.686 million to $20.601 million. The decrease in liabilities is due primarily to reductions in Long Term Debt from $16.839 million to $14.141 million. Patron's Capital increased at 7.99% on average per year from 2004 to 2008 and increased from $16.955 million to $23.058 million. The Company's regulatory Capital Structure shows Long-Term Debt at 38.01% with Common Equity at 61.99% for year-end 2008.

The ratio analysis for year end 2008 shows a current ratio[1] of 1.22 and a quick ratio[2] of 0.71. The interest coverage ratio (Times Interest Earned[3]) is calculated at 4.05 for 2008 compared to the average of 3.03 for the years under review. Return on Total Capital for 2008 is calculated at 10.95% compared to the historical average of 8.83%.

Loan covenants in the new agreement have not been changed and require a minimum Debt Coverage Ratio[4] of 1.35. As of 2008 the Debt Coverage ratio is calculated at 2.79 with the average for all years under review of 2.30. Additional covenants specify that any additional loans from entities other than CFC must be less than 15.0% of Total Plant or 50.0% of Equity,

[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.

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

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 all years under review.

Forecast 2009 to 2013

The Division has prepared forecasts based on historical data from 2004 to 2008. Exhibit 2 shows the forecast income statement, balance sheet and ratio analysis for 2009 through 2013. In addition to the forecast years, two years of historical information has been included for comparison. Based on these historical averages and 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.

The forecast uses a 2.50% annual increase in total revenue which is significantly less than the 6.40% historical growth rate. The projected lower sales growth has been used to reflect the recent economic slowdown and national conservation efforts. Projected expenses as well as Property Plant and Equipment have been calculated using historical averages.

The forecast values calculate the financial ratios for liquidity, solvency and profitability near the historical averages. Based on this analysis, the Division recommends that the Commission approve the Application of Mt. Wheeler Power, Inc. to extend the current agreement with CFC and increase the total commitment to $25.0 million.

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