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State of Utah
Department of Commerce
Division of Public Utilities

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ACTION REQUEST RESPONSE

To: Utah Public Service Commission
From: Division of Public Utilities
Chris Parker, Director
Artie Powell, Energy Section Manager
Charles Peterson, Technical Consultant
Douglas Wheelwright, Technical Consultant
Date: July 30, 2014
Re: Docket No. 14-022-01 - Application of Bridger Valley Electric Association, Inc.
for authority to issue securities.

RECOMMENDATION (Approve)

The Division recommends that the Commission approve the request from Bridger Valley Electric Association to issue securities in the form of an \$8 million lending agreement with National Rural Utilities Cooperative Finance Corporation (CFC).

ISSUE

Bridger Valley Electric Association is a consumer owned non-profit electric corporation organized under the laws of the State of Wyoming. The utility provides electric service to Uintah, Lincoln and Sweetwater counties in Wyoming along with Daggett and Summit counties in Utah. Pursuant to Utah Code 54-4-31, Bridger Valley Electric Association has applied to the Utah Commission for the authority to issue securities. Bridger Valley desires to enter into an \$8 million financing agreement with National Rural Utilities Cooperative Finance Corporation (CFC). The proceeds from this financing arrangement are intended to be used to construct new

electric transmission and distribution facilities as they may be needed. Along with the application, the Company submitted copies of the Loan Agreement, Secured Promissory Note and Restated Mortgage and Security Agreement.

The proposed lending arrangement is structured under a “Power Vision” loan program and is secured by the real property of the Company. The lending commitment will remain in place and has a draw or advance period available for five years. As capital projects are identified, Bridger Valley can make a formal request to CFC to issue individual notes under the commitment amount. Individual notes may be structured with repayment terms appropriate to the specific project and may have a maturity of up to 40 years. Each new note or draw reduces the amount available under the commitment.

DISCUSSION

As part of the analysis of this request, the Division has reviewed the application along with the audited financial statements for Bridger Valley for years ending December 31, 2009 through December 31, 2013.

Historical Results

Exhibit 1 is a summary of the audited income statements, balance sheet and cash flow information from 2009 through 2013. The income statement on page 1 shows a 6.85% annual increase in total revenue from \$9.6 million to \$12.3 million. During the same time period total operating expense increased 6.27% from \$8.9 million to \$11.0 million. The primary reason for the increase was due to a large increase in the cost of purchased power in 2013.

The balance sheet information on page 2 shows a substantial and consistent cash position for the periods under review and stands at \$0.9 million as of year-end 2013. The net plant and equipment increased at a rate of 3.07% from \$17.3 million to \$19.9 million with total assets increasing at a 3.90% rate from \$20.3 million to \$23.6 million. During the same period, total long-term debt increased 2.14% from \$5.0 million to \$6.0 million and total liabilities increased by 2.03% from \$8.1 million to \$8.5 million.

The ratio analysis on page 4 of exhibit 1 shows a current ratio¹ of 1.18 and a quick ratio² of 0.97 as of year-end 2013. Both ratios are above the 5 year averages of 1.03 and .83 respectively. The interest coverage ratio (Times Interest Earned³) is calculated at 5.08 for 2013 compared to the 5 year average of 4.00.

The calculation of the profitability ratios shows a net margin of 10.63% in 2013 compared to the 5 year average of 7.94% and the Return on Patrons Capital is calculated at 8.96% compared to the average of 6.54%. The Company's regulatory capital structure is 71.51% common equity and 28.49% debt. This is consistent with the average of 71.06% and 28.94% respectively and indicates a healthy utility with low leverage.

Forecast 2014 to 2018

Based on the historical financial information, the Division has prepared a forecast income statement, balance sheet and ratio analysis for 2014 through 2018 included as Exhibit 2. In addition to the five forecast years, two years of historical information has been included in the income statement and balance sheet for comparison.

Projected growth rates have been calculated based on the historical information included in Exhibit 1. The forecast uses a 3.43% annual increase in total revenue which represents 50% of the historical 5 year growth rate of 6.85% and results in a more conservative forecast. Projected expenses along with the growth rate for property plant and equipment have been calculated based on historical averages and are consistent with prior year information. The calculated financial ratios for liquidity, solvency and profitability are near the historical averages and appear to be reasonable.

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.

²Quick 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.

Based on the assumptions for future years, the forecast indicates that the Company will be able to meet its current and proposed financial obligations.

CONCLUSION

Based on this analysis, the Division recommends that the Commission approve the request from Bridger Valley Electric Association to issue securities in the form of an \$8 million lending agreement with National Rural Utilities Cooperative Finance Corporation (CFC).

cc: Jud Redden, General Manager, Bridger Valley Electric Association, Inc.
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