



GARY HERBERT  
*Governor*  
SPENCER J. COX  
*Lieutenant Governor*

State of Utah  
Department of Commerce  
Division of Public Utilities

FRANCINE GIANI  
*Executive Director*

THOMAS BRADY  
*Deputy Director*

CHIS PARKER  
*Director, Division of Public Utilities*

**ACTION REQUEST RESPONSE**

To: Utah Public Service Commission  
From: Division of Public Utilities  
Chris Parker, Director  
Artie Powell, Energy Section Manager  
Douglas Wheelwright, Technical Consultant  
Date: January 14, 2016  
Re: Docket No. 15-025-01 – Notification from Empire Electric Association, Inc. of its Prepayment of Outstanding Loans from Rural Utility Service

**RECOMMENDATION (Approve)**

The Division recommends that the Commission acknowledge the prepayment of the loans from Rural Utility Service and approve Empire Electric Association's action to issue securities in the form of an \$11.0 million lending agreement with CoBank. The new lending will refinance existing long-term debt with a shorter term and a lower interest rate.

**ISSUE**

Empire Electric Association is a consumer owned non-profit electric corporation headquartered in Cortez, Colorado. The Company provides electric service to 15,800 residential and commercial customers. The Company's service territory includes all of Montezuma County and parts of Dolores and San Miguel counties in Colorado and part of San Juan County in Utah which includes the town of Monticello. Empire distributes electricity purchased from Tri-State

Generation and Transmission Association, a not-for-profit cooperative. The electric rates charged to customers are established by the Board of Directors of Empire Electric.

Empire desires to retire an existing \$11.0 million debt obligation with Rural Utility Services (RUS) and enter into an \$11.0 million financing agreement with CoBank. The terms of the new lending arrangement will retire the debt in 2035 which is 7 years earlier than the current agreement and will reduce the interest rate from 4.36% to 3.51%.

## **DISCUSSION**

As part of the analysis of this request, the Division has reviewed the application along with the audited financial statements of Empire Electric for years ending December 31, 2009 through 2014. The Company has also provided year-to-date financial information through November 2015. The Division has discussed the specific terms and details of this transaction with Josh Dellinger, General Manager of Empire Electric Association.

### Historical Results

Exhibit 1 is a summary of the income statements, balance sheet and cash flow information for year-end 2009 through 2014. The year-to-date information for the first 11 months of 2015 has been included for comparison but is not used in the annual change calculations.

The income statement on page 1 calculates a 5.44% average annual increase in total revenue from \$50.5 million to \$65.8 million. During the same time period, total operating expense increased 5.55% from \$47.4 million to \$62.0 million. The cost of purchased power represents approximately 80% of the annual operating expense and increased at an average rate of 6.43%. The operating margin before capital credits grew at a 3.80% average annual rate for the periods under review. The net operating margin before capital credits averaged \$1.2 million per year from 2009 – 2014. Capital Credits from Tri-State Generation and Transmission averaged \$3.1 million per year resulting in an average net margin for all years under review of \$4.5 million per year. For year end 2014 the net margin after capital credits was \$5.0 million.

The balance sheet information on page 2 shows a strong and consistent cash position for the periods under review. The net plant and equipment increased at a rate of 5.91% from \$44.4 million to \$59.1 million. Total assets increased at a rate of 6.82% from \$88.0 million to \$122.3 million. During the same period, total long-term debt increased 6.95% from \$31.2 million to \$43.7 million and total liabilities increased by 8.15% from \$39.8 million to \$58.9 million. Page 3 of exhibit 1 is the statement for cash flows for 2009 through 2014 and reflects a strong cash flow position for all years under review.

Page 4 of exhibit 1 is the ratio analysis calculated from the historical financial information. These calculations show a current ratio<sup>1</sup> of 1.51 and a quick ratio<sup>2</sup> of 0.78 as of year-end 2014. Both ratios are above the 5 year averages of 1.29 and .75 respectively. The interest coverage ratio (Times Interest Earned<sup>3</sup>) is calculated at 1.94 for 2014 with the 5 year average at 1.60.

The calculation of the profitability ratios shows a net margin of 7.7% in 2014 which is consistent with the 5 year average of 7.4%. The Return on Patrons Capital is calculated at 8.2% compared to the average of 7.5%. The Company's regulatory capital structure is 58.2% equity and 41.8% debt. This is consistent with the 5 year average of 58.7% and 41.3% respectively. For all of the years under review the Company has maintained consistent earnings and leverage percentages.

The new financing arrangement will not change the leverage position and will not increase the debt service requirement. The proposed change is a simple refinance of the existing debt obligations with a different lending institution. Based on the past performance, it is anticipated that the Company will be able to meet its current and the proposed financial obligations.

---

<sup>1</sup> 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.

<sup>2</sup>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.

<sup>3</sup> Times Interest Earned is calculated as the earnings before tax divided by the interest expense.

## **CONCLUSION**

Based on this analysis, the Division recommends that the Commission approve the repayment of the \$11.0 million debt obligation to Rural Utility Service and issue securities in the form of an \$11.0 million lending agreement with CoBank.

cc: Josh Dellinger, General Manager, Empire Electric Association, Inc.  
Michele Beck, Office of Consumer Services  
Cheryl Murray, Office of Consumer Services