



# 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, Manager, Energy Section  
Douglas D. Wheelwright, Technical Consultant  
Jeffrey S. Einfeldt, Utility Analyst

Subject: Empire Electric Association, Docket No. 17-025-01; Restructuring of existing long-term debt and acquisition of additional long-term debt for future capital improvements.

Date: October 10, 2017

### **RECOMMENDATIONS (Approval)**

The Division of Public Utilities (Division) recommends the Public Service Commission (Commission) approve the request and authorize Empire Electric Association, Inc. (Empire) to retire outstanding loan balances with United States Rural Utilities Service (RUS) in the approximate amount of \$32,040,816 from loan funds to be acquired from National Rural Utilities Cooperative Finance Corporation (CFC) in the approximate amount of \$30,800,000. Additionally, Empire seeks to acquire \$16,000,000 of new construction loan funds from CFC over the next five years for construction projects as needed.

### **ISSUE**

Pursuant to Utah Code Ann. § 54-4-31, Empire requests authorization for authority to issue securities in the form of a long-term secured debt obligation. The proposed obligation is a long-

term loan agreement with (CFC) for \$30,800,000 to be used to retire all the outstanding debt of RUS in the approximate amount of \$32,040,816. This will result in the retirement of all loans between Empire and RUS. Empire also seeks authorization to acquire additional loan proceeds not to exceed \$16,000,000 over the next five years to finance new construction.

## **DISCUSSION**

Empire is a non-profit, cooperative association serving parts of southwestern Colorado and southeastern Utah. Information used in the Division's analysis included Empire's application along with the audited annual financial reports from 2012 through 2016. The proposed loan acquisitions and payoffs were approved by the board of directors by resolution on September 8, 2017. Copies of the resolutions were included with the original application.

### Historical Results

Exhibit 1 is a summary of the audited financial results for 2012 through 2016. The income statement on page 1 indicates that Total Revenue has increased 5.18% annually from \$52.8 million in 2012 to \$67.9 million in 2016. Operating Expenses have grown at a slightly faster rate than revenues, rising from \$50.5 million in 2012 to \$65.6 million in 2016, for a 5.38% annual increase. The cost of purchased power represents 81.6% of operation expenses for 2016 and experienced an average annual increase of 5.69% from 2012 through 2016. The Company implemented a rate increase for its customers effective January 2017 to offset the increase in operating expenses. Utah customers represent approximately 9.2% of the total customers and Utah and Colorado customer rates are the same.

The balance sheet information on page 2 shows a cash position at the end of 2016 of \$7.5 million. Other balance sheet accounts of note include Net Plant & Equipment of \$59.5 million, which grew at an annual rate of 1.28% from 2012 through 2016. During this same period, Long Term Debt decreased at a rate of 0.61% and Total Patrons Equity increased at 3.57% annual rate from \$57.1 million in 2012 to \$68.0 million in 2016.

Page 4 of Exhibit 1 identifies the financial ratios for 2012 through 2016. The Long-term Solvency ratios in 2016 remain strong and are close to historical averages. The profitability

ratios show a decrease in the net margins for 2016 due to the increase in operating costs mentioned above. While the margins are lower, the Company remains profitable and is able to meet its obligations and provide a return of patrons' capital for the past 5 years.

The Regulatory Capital Structure calculates Long-Term Debt at 38.2% and Equity at 61.8% as of year-end 2016, which is a slightly higher equity percentage than the 58.8% historical average. Based on the historical information, it appears the Company is generally healthy and has been able to meet its current obligations.

## **CONCLUSIONS**

The Division has not attempted to evaluate the reasonableness of the terms and conditions of financial transaction, however, the terms appear to be in line with current market rates. The recommendation for approval is based on the following factors.

1. The Board of Directors has approved the proposed transaction during the September 8, 2017 meeting.
2. The Company has recently increased customer rates and has the ability to raise future customer rates, if necessary, in order to meet its financial obligations.
3. Based upon the financial statements, it appears Empire has been financially stable for the past five years and has been able to meet its financial obligations.

The Division recommends the Commission approve the Application of Empire to restructure its existing long term debt and for Authority to Issue Securities (acquire additional debt), Docket No. 17-025-01.

cc: Josh Dellinger, General Manager, Empire Electric Association, Inc.  
Jeff Peterson, Director Utah Rural Electric Association  
Michele Beck, Office of Consumer Services