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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
Douglas Wheelwright, Technical Consultant
Date: March 3, 2017
Re: Docket No. 17-030-01 – Application of Moon Lake Electric Association, Inc. for Authority to Issue Securities in the Form of a Short Term Line of Credit

RECOMMENDATION (Approve)

The Division recommends that the Commission acknowledge and approve the request of Moon Lake Electric Association to issue securities in the form of an \$8.0 million short-term line of credit agreement with CoBank. The new credit agreement would be unsecured regarding collateral.

BACKGROUND AND ISSUE

Moon Lake Electric Association was organized in 1938 as a consumer owned non-profit electric corporation headquartered in Roosevelt, Utah. The Company provides electric service to over 17,000 residential and commercial customers in Northeastern Utah and Western Colorado. Approximately 80% of the total revenue and receivables are derived from industrial customers and large power users in the energy and mining industry. The electric rates charged to retail

customers are established by the Board of Directors of Moon Lake and wholesale power is purchased from Deseret Power.

Moon Lake desires to issue securities in the form of an \$8.0 million short-term line of credit agreement with CoBank. There is no immediate need for additional funding and the Company does not intend to use this line of credit. The primary purpose of this request is to establish a lending relationship with CoBank. The existing short-term and long-term lending notes were executed with National Rural Utility Cooperative Finance Corporation (CFC).

DISCUSSION

As part of the analysis of this request, the Division reviewed the application along with the audited financial statements of Moon Lake Electric for years ending December 31, 2011 through 2015. The Company has also provided unaudited year-end 2016 financial information since the 2016 audit has not been completed. The Division discussed the specific terms and details of this transaction with Alan Haslem, Manager of Finance / CFO of Moon Lake Electric Association.

Historical Results

Exhibit 1 is a summary of the income statements and balance sheet information for year-end 2011 through 2016 as well as summary cash flow statements for 2011 through 2015.

The income statement on page 1 calculates a 3.85% average annual increase in total revenue from \$63.0 million to \$76.1 million. During the same time period, total operating expense increased 4.61% from \$59.9 million to \$75.0 million. The cost of purchased power represents approximately 75% of the total operating expense and increased at an average annual rate of 4.88%. Net income remained stable for 2011 – 2014 but decreased in 2015 and 2016 primarily due to the increase in the cost of purchased power. While net income was lower than historical levels, the Company reported net income of \$1.7 million in 2015 and \$1.8 million in 2016.

The balance sheet information on page 2 shows a strong and consistent cash position for the periods under review with cash and investments of \$23.1 million as of year-end 2016. The net plant and equipment show a slight decrease of 0.12% from \$72.3 million in 2011 to \$71.9

million in 2016. Total assets increased at a rate of 2.35% from \$99.7 million to \$112.0 million. During the same period, total long-term debt decreased 4.26% from \$11.3 million to \$9.1 million.

Page 3 of exhibit 1 is the statement for cash flows for 2010 through 2015 and reflects a strong cash flow position for all years under review. The cash flow statement for 2016 was not available since the year-end audit has not been completed.

Page 4 of exhibit 1 is the ratio analysis and is calculated from the historical financial information. As a member owned co-op, the Company has strong equity with a regulatory capital structure of 90.2% equity and only 9.8% long-term debt as of year-end 2016. This is consistent with the 5 year average of 88.9% equity and 11.1% debt. Other calculations show a current ratio¹ of 2.34 and a quick ratio² of 0.88 as of year-end 2016. The current ratio is close to the 5 year average of 2.30 while the quick ratio is slightly lower than the average of 1.12. The interest coverage ratio (Times Interest Earned³) is calculated at 2.20 for 2016 compared to the 5 year average of 3.82. The calculation of the profitability ratios shows a net margin of 2.33% in 2016 which is lower than the 5 year average of 3.92% and is primarily due to the increase in the cost of purchased power.

The new financing arrangement will not change the leverage position and will not increase the debt service requirement. The proposed financing arrangement is a new short-term line of credit 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.

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.

CONCLUSION

Based on the historical financial information and attached analysis, the Division recommends that the Commission approve the request of Moon Lake Electric Association to issue securities in the form of an \$8.0 million short-term line of credit agreement with CoBank.

cc: Alan Haslem, Manager of Finance / CFO, Moon Lake Electric Association
Michele Beck, Office of Consumer Services
Cheryl Murray, Office of Consumer Services