



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: Application of Dixie Escalante Rural Electric Association, Inc. dba Dixie Power for Authority to Issue Securities, Docket No. 18-066-01.

Date: January 25, 2018

RECOMMENDATIONS (Approval)

The Division recommends that the Commission approve the request and authorize Dixie Escalante Rural Electric Association, Inc. dba Dixie Power (“Dixie Power”) to issue securities in the form of a \$5,000,000 revolving credit promissory note and supplement to COBANK, ACB (“CoBank”). This loan is in addition to the currently existing loan with National Rural Utilities Cooperative Finance Corporation (“CFC”) of up to \$3,000,000 previously approved by the Commission.

ISSUE

Pursuant to Utah Code Ann. § 54-4-31, Dixie Power requests authorization for authority to issue securities in the form of a revolving credit promissory note (“promissory note”). The proposed obligation is a revolving credit obligation to provide Dixie Power additional working capital to meet its financial needs as it expands its facilities to meet the growing demand in its service area.

DISCUSSION

Dixie Power is a non-profit, cooperative association organized January 1, 1978 as a result of a consolidation of Dixie Rural Electric Association and Escalante Valley Electric Association for the purpose of providing electric service to rural areas located in southwestern Utah and northwestern Arizona. Dixie has a contract to purchase power from the Western Area Power Administration. Monthly power needs in excess of this allocation are purchased from Deseret Generation and Transmission (“Deseret G&T”). Any additional power beyond that provided by these two sources would be purchased under a contract with the Intermountain Power Project (“IPP”).¹

Information used in the Division’s analysis included the Company’s application, along with the audited annual financial reports for Dixie Power from 2012 through 2016. The Division has had discussions with Chery Hulet, CFO for Dixie Power, regarding certain details of the application and questions regarding the historical financial statements. The proposed loan was approved by the board of directors by resolution on January 12, 2018. Copies of the resolution and board meeting minutes 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 8.03% annually from \$22.7 million in 2012 to \$31.0 million in 2016. Operating Expenses have grown at a slower rate than revenues, rising from \$22.5 million in 2012 to \$29.5 million in 2016, for a 7.06% annual increase. The cost of purchased power represents 61.6% of operation expenses for 2016 and experienced an average annual increase of 7.7% from 2012 through 2016. Many of the other operational expenses experienced similar percentage increases. The Company has implemented a small rate increase for Utah customers effective February 2018 to offset the increase in operating expenses. Utah customers represent approximately 90% of the total usage. The new rate increase represents a wholesale power cost adjustment provision which will allow Dixie

¹ Dixie Escalante Rural Electric Association, Inc. audited financial statements, March 27, 2013.

Power to move rates up or down as wholesale prices change. Dixie Power has experienced an increase in the operating and maintenance costs and customer related expenses through 2016. This increase in operating expense is primarily due to increased maintenance for repairs to an aging infrastructure and expansion of its infrastructure to meet the demands of a significant increase in the number of customers in its service territory. It is anticipated the Company will continue to incur this higher level of maintenance costs and expansion in future years.

The balance sheet information on page 2 shows a cash position at the end of 2016 of \$10.3 million, a significant increase from historical balances ranging from \$946 thousand in 2015 to \$4.08 million in 2013.

Other balance sheet accounts of note are the Net Plant which grew at an annual rate of 12.2% from 2012 through 2016. During this same period, Long Term Debt increased at a rate of 28.26% from \$8.5 million in 2012 to \$22.9 in 2016, and Total Patrons Equity increased at 3.9% annual rate from \$21.85 million in 2012 to \$25.5 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 an increase in the gross and net margins for 2016. The Company has improved its profitability and is able to meet its obligations and provide a return of patrons' capital in 4 of the last 5 years.

The Regulatory Capital Structure calculates Long-Term Debt at 47.37% and Equity at 52.63% as of year-end 2016 which is significantly lower than the equity percentage in 2015 of 74.63%. This change is driven by the Company's significant investment in its infrastructure to meet the increased customer growth. Even with the decrease in equity percentage from 2015, it appears the Company is generally healthy and has been able to meet its current obligations.

CONCLUSION

The Division has not attempted to evaluate the reasonableness of the terms and conditions of the financial transaction. The terms, however, 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 January 12, 2018 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 that Dixie has been financially stable for the past five years and has been able to meet its financial obligations.

The Division recommends that the Commission approve the Application of Dixie Escalante Rural Electric Association, Inc. for Authority to Issue Securities, Docket No. 18-066-01.

cc: Chery Hulet, CFO - Dixie Power
Dane Johnson, Controller - Dixie Power
Michele Beck, Office of Consumer Services