



## State of Utah

### Department of Commerce Division of Public Utilities

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## Action Request Response

**To:** Public Service Commission of Utah

**From:** Utah Division of Public Utilities

Chris Parker, Director

Artie Powell, Manager

Doug Wheelwright, Utility Technical Consultant Supervisor

Casey J. Coleman, Utility Technical Consultant

**Date:** November 23, 2021

**Re:** **Docket No. 21-066-01**, In the Matter of the Application of Dixie-Escalante Rural Electric Association, Inc. for Authority to Issue Securities in the Form of a Loan Agreement and Secured Promissory Note. (Approve).

### Recommendation (Approve)

The Division recommends 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 \$20,000,000 secured promissory note with National Rural Utilities Cooperative Finance Corporation (“CFC”). This loan is in addition to the currently existing loan with CFC of up to \$20,000,000 and a revolving credit promissory note with COBANK, ACB of \$5,000,000; both 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 secured promissory note (“promissory note”). The proposed obligation is 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. Dixie Power represents these funds will be used primarily to finance new transmission, distribution, buildings, and related facilities.

## **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”).<sup>1</sup>

Information used in the Division’s analysis included the Company’s application, along with the audited annual financial reports for Dixie Power from 2016 through 2020. The proposed loan was approved by the board of directors by resolution on November 3, 2021. Copies of the resolution and board meeting minutes were included with the original application.

### Historical Results

Exhibit 1 is a summary prepared by the Division of the audited financial results for 2016 through 2020. The income statement on page 1 indicates that Total Revenue has increased 6.11% annually from \$31.0 million in 2016 to \$41.7 million in 2020. Operating Expenses have grown at a slower rate than revenues, rising from \$29.5 million in 2016 to \$38.9 million in 2020, for a 5.64% annual increase. The cost of purchased power represents 63.1% of operation expenses for 2020 and experienced an average annual increase of 5.2% from 2016 through 2020. Utah customers represent approximately 90% of the total usage. Dixie Power has experienced an increase in the operating and maintenance costs and customer related expenses through 2020 of 2.78% on average over the last five years. This increase in operating expense is primarily due to

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<sup>1</sup> Dixie Escalante Rural Electric Association, Inc. audited financial statements, March 27, 2013.

increased maintenance for repairs to an aging infrastructure and expansion of its infrastructure to meet the demands of significant customer growth in its service territory. It is anticipated the Company will continue to incur higher maintenance costs and expansion in future years.

The balance sheet information on page 2 shows a cash position at the end of 2020 of \$3.3 million, very close to the cash position in 2017, and also within the range reported for the period 2016 through 2020 (\$10.3 million in 2016 to \$3.3 million in 2020). The \$10.3 million in 2016 is the only outlier in the cash positions for the five year period.

Other balance sheet accounts of note are as follows. Net Plant grew at an annual rate of 13.36% from 2016 through 2020. During this same period, Long Term Debt increased at a rate of 15.67% from \$22.9 million in 2016 to \$47.5 in 2020, and Total Patronage Equity increased at 8.5% annually from \$25.5 million in 2016 to \$38.3 million in 2020.

Page 4 of Exhibit 1 identifies the financial ratios for 2016 through 2020. The Long-term Solvency ratios in 2020 remain strong and are close to historical averages. The profitability ratios for 2020 are close to historical averages. The Company has maintained its profitability and is able to meet its obligations and increase the return of patrons' capital in each of the last 5 years.

The Regulatory Capital Structure calculates Long-Term Debt at 55.3% and Equity at 44.7% as of year-end 2020 which is slightly lower than the average equity percentage of 47.8%. This gradual reduction in equity is driven by the Company's significant investment in its infrastructure to meet the increased customer growth. Even with the decrease in equity percentage, it appears the Company is generally healthy and has been able to meet its current obligations.

## **Conclusion**

We conclude, based on the available evidence, that Dixie will be able to meet its obligation. 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 November 3, 2021 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 Dixie Power 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 Dixie Escalante Rural Electric Association, Inc. for Authority to Issue Securities, Docket No. 21-066-01.

CC: Certificate of Service List