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## 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  
Doug Wheelwright, Utility Technical Consultant Supervisor  
Casey J. Coleman, Utility Technical Consultant

**Date:** January 6, 2023

**Re:** **Docket No. 22-028-04**, In the Matter of the Application of Garkane Energy Cooperative, 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 Garkane Power Association, ("Garkane") 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 loans with CFC previously approved by the Commission.

## Issue

Pursuant to Utah Code Ann. §54-4-31, Garkane requests authorization for authority to issue securities in the form of a secured promissory note ("promissory note"). The proposed obligation is to provide Garkane additional working capital to meet its financial needs as it expands its facilities to meet the growing demand in its service area. Garkane represents these funds will be used primarily to finance new transmission, distribution, buildings, and related facilities.

Division of Public Utilities

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## **Discussion**

Garkane is a rural electric cooperative that provides electric service at retail to its members or owners in the States of Utah and Arizona.

Information used in the Division's analysis included the Company's application, 2022 financial reports through October, along with the audited annual financial reports for Garkane from 2018 through 2021. The proposed loan was approved by the board of directors by resolution on April 26, 2022. 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 2018 through 2021. The income statement on page 1 indicates that Total Revenue has increased 3.09% annually from \$28.5 million in 2018 to \$32.2 million in 2021. Operating Expenses have grown at a slightly faster rate than revenues, rising from \$25.6 million in 2018 to \$29.6 million in 2020, for a 3.72% annual increase. The cost of purchased power represents 35.7% of operation expenses for 2021 and experienced an average annual increase of 2.68% from 2018 through 2021. Garkane has averaged over the last four years an increase of 6.51% on operating costs and 1.28% on maintenance costs. 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 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 2021 of \$2.3 million, a decrease to the cash position of \$3.2 million in 2018. The cash position for 2021 is the lowest total for the four year period analyzed with the range reported for the period 2018 through 2021 with the high being \$4.57 million in 2020 and the low of \$2.3 million in 2021.

Page 4 of Exhibit 1 identifies the financial ratios for 2018 through 2021. The Long-term Solvency ratios in 2021 remain strong and are close to historical averages. The profitability

ratios for 2021 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 4 years.

The Regulatory Capital Structure calculates Long-Term Debt at 35.7% and Equity at 62.2% as of year-end 2021. Over the past four years Garkane has been able to increase its equity position. This increase in its equity has happened despite the company's investment in its infrastructure to meet the increased customer growth. Approval of the proposed loan will increase the debt and lower the equity position of Garkane, but will not cause the debt-to-equity ratios to be unreasonable. It appears the Company is generally healthy and has been able to meet its current obligations. Even with the proposed loan obligations, it appears, Garkane should be able to meet its future financial obligations.

## **Conclusion**

We conclude, based on the available evidence, that Garkane 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 April 26, 2022 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 Garkane has been financially stable for the past four years and has been able to meet its financial obligations.

The Division recommends the Commission approve the Application of Garkane Power Association, for Authority to Issue Securities, Docket No. 22-028-04.

cc: Certificate of Service List