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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
Artie Powell, Manager
Brenda Salter, Utility Technical Consultant Supervisor
Michael Healy, Utility Analyst

Date: April 21, 2022

Re: **Docket No. 22-030-01**, Application of Moon Lake Electric Association, Inc. for Authority to Issue Securities in the Form of a Loan Agreement and Secured Promissory Note.

Recommendation (Approve)

The Division of Public Utilities (DPU) recommends the Public Service Commission of Utah (Commission) approve the request and authorize Moon Lake Electric Association, Inc. (Moon Lake, Company) to issue securities in the form of a \$35,000,000 secured promissory note with National Rural Utilities Cooperative Finance Corporation (CFC). This loan is in addition to the currently existing loan with CFC of \$11,000,000 previously approved by the Commission.

Issue

Pursuant to Utah Code Ann. § 54-4-31, Moon Lake requests authorization for authority to issue securities in the form of a secured promissory note. The proposed obligation is to provide Moon Lake additional working capital to meet its financial needs as it expands its facilities to meet the growing demand, especially among industrial customers, in the Uintah

Division of Public Utilities

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Basin. Moon Lake represents that the funds will be used primarily to finance new transmission, distribution, buildings, and related facilities.

Background

Moon Lake Electric Association, Inc. was organized in 1938 as a consumer owned non-profit electric corporation headquartered in Roosevelt, Utah. The Company provides electric service to over 21,000 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.

Discussion

Moon Lake desires to issue securities in an aggregate amount not to exceed \$35,000,000 in the form of a loan agreement with a secured promissory note to the National Rural Utilities Cooperative Finance Corporation (CFC). Moon Lake will use the proceeds to help finance the construction of new transmission and distribution infrastructure, buildings, and related facilities.

Economic activity in the Uintah Basin is expected to grow and Moon Lake will be able to meet the load demands of its customers with the addition of a new electrical transmission line, buildings, and facilities. Moon Lake plans to construct 46 miles of 138-kV transmission line to connect the Deseret Generation & Transmission Bonanza Power Plant to the future Pole Line Substation. This project is called the Bonanza II Project and is expected to be completed by the end of 2025 at a cost of \$24,500,000 for the construction of the transmission line and \$13,000,000 for the Pole Line Substation and other related infrastructure.

The company anticipates that the Bonanza II Project will require \$25 million of the loan amount for new construction with the additional \$10 million if needed to address unforeseen circumstances such as supply chain difficulties.

The company made a presentation to the Ballard City Council on February 1, 2022, and held a public meeting on March 3, 2022, to update and discuss the Bonanza II project and provide an update to any interested parties. Attendees were given the opportunity to ask questions and provide feedback. On March 9, 2022, the Board of Directors of Moon Lake unanimously authorized the company to enter into the loan agreement.

As part of the analysis of this request, the Division reviewed the application along with the audited financial statements of Moon Lake for years ending December 31, 2017, through 2021.

Historical Results

Exhibit 1 is a summary of the income statements and balance sheet information prepared by the Division for year-end 2017 through 2021 as well as summary cash flow statements provided by Moon Lake for 2017 through 2021.

The income statement on page 1 calculates a 0.72% average annual increase in total revenue from \$76.6 million in 2017 to \$79.4 million in 2021. During the same time period, total operating expense increased 0.68% from \$73.3 million to \$75.8 million. The cost of purchased power represents approximately 74% of the total operating expense and increased at an average annual rate of 0.75%. Net income of \$7.0 million was reported in 2021 which was a substantial increase over the previous year at \$4.4 million. From 2017 to 2021 Net Income has seen a 9.24% annual growth.

The balance sheet information on page 2 shows a strong and consistent position for the periods under review with Total Current Assets of \$42.8 million as of year-end 2021. The net plant and equipment has grown at a rate of 2.2% per year during the period for a total of \$82.3 million in 2021. Total assets increased at a rate of 1.96% from \$116.0 million to \$127.8 million. During the same period, total long-term debt decreased 2.36% from \$9.1 million to \$8.1 million.

Page 3 of Exhibit 1 is the statement for cash flows for 2017 through 2021 and reflects a strong cash flow position for all years under review.

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 92.7% equity and only 7.3% long-term debt as of year-end 2021. This is consistent with the 5-year average of 91.3% equity and 8.7% debt. Other calculations show a current ratio¹ of 2.67 and a quick ratio² of 1.02 as of year-end 2021. The current ratio is close to the 5-year average of 2.54 while the quick ratio is slightly higher than the average of 0.88. The interest coverage ratio (Times Interest Earned³) is calculated at 11.77 for 2021 compared to the 5-year average of 7.91. The calculation of the profitability ratios shows a net margin of 8.81% in 2021 which is higher than the 5-year average of 5.97%.

Based on the past performance, it is anticipated that the Company will be able to meet its current and the proposed financial obligations.

Conclusion

Based on the historical financial information and attached analysis, the Division recommends that the Commission approve the request of Moon Lake to issue securities in the form of a \$35.0 million loan agreement with the National Rural Utilities Cooperative Finance Corporation.

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

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.