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Division of Public Utilities

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## ACTION REQUEST RESPONSE

To: Utah Public Service Commission

From: Utah Division of Public Utilities  
Chris Parker, Director  
Artie Powell, Energy Section Manager  
Doug Wheelwright, Technical Consultant  
Jeff Einfeldt, Utility Analyst

Date: March 20, 2018

Re: Docket No. 18-2508-01 – Ticaboo Utility Improvement District Application to Amend its Certificate of Public Convenience and Necessity

### RECOMMENDATION (DENY)

The Division of Public Utilities (Division) has reviewed the application to amend the Ticaboo Utility Improvement District's (TUID) Certificate of Public Convenience and Necessity (CPCN). The Division finds the application and subsequent filing information does not satisfy the requirements as outlined by the Utah Public Service Commission (Commission) and recommends the Commission deny TUID's application to expand its certificated service area.

### ISSUE

On January 9, 2018, TUID submitted an application to amend its CPCN. On January 23, 2018, the Commission held a scheduling conference and on January 24, 2018, issued a Scheduling Order and Notice of Hearing. On February 6, 2018, TUID filed supplements to its initial application, and additional confidential information was filed on February 7, 2018. This memo is the Division's response and recommendation.

## **BACKGROUND**

The Ticaboo Utility Improvement District provides electric service, water, waste water and solid waste management to the residents of Ticaboo, Utah and is governed by the Improvement District Act §17B-2a-406.<sup>1</sup> TUID is faced with the unique and challenging requirement to provide reliable services to a very small and isolated customer base. Due to the remote location, TUID is completely “off the grid” and all electric service is generated primarily from diesel powered generators with limited solar facilities for water pumps. TUID was granted its CPCN by the Commission on November 30, 2009 as part of Docket No. 09-2508-01. Utah Code Section 17B-2a-406(5) states that before an electric improvement district serves any customer, the electric improvement district shall obtain a certificate of public convenience and necessity from the Commission.

TUID is requesting an amendment to its CPCN that would expand its certificated service area to include the National Parks Service (NPS) facilities around Lake Powell – namely Bullfrog Marina, Halls Crossing Marina, Dangling Rope Marina, and Hite Marina. The expanded area would also include JNB Marine and Offshore Marina, both of which are located between Ticaboo and the Bullfrog Marina. TUID has contacted Rocky Mountain Power and Garkane Energy, which are the existing utilities whose currently approved service area include TUID’s targeted expansion. Both entities have expressed to TUID that they have no facilities in this area and are not intending to oppose or intervene in this Docket. TUID is located approximately 13 miles north of Bullfrog Marina on State Route 276.

The primary reason for the expansion request is to allow TUID the opportunity to bid on providing electrical services to the NPS in the areas noted above. NPS has communicated a desire to exit the power generation business and contract with a third party to provide power to its four marina facilities. As of the date of this memo, NPS has not issued a Request for Proposal (RFP) outlining the specific details, nor has it outlined the specific future service requirements.

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<sup>1</sup> Section 17B-2(a)-403(1)(a)(iv) the generation, distribution, and sale of electricity, subject to Section 17B-2a-406. Section 17B-2(a)-406(6)(b) exempts the Improvement district from the rate making process found in § 54-7-12 so long as each requirement is satisfied.

Information from the National Park Service provides an overview of the project scope as follows:

The National Park Service (NPS) is seeking qualified firms who are interested in producing energy and supplying that energy to four marina's or communities on Lake Powell in Glen Canyon National Recreation Area. This is an opportunity to take over operation and maintenance at existing electrical generation systems. The firm selected would be required at their expense to upgrade the existing off-grid systems to utilize photovoltaic collectors, inverters and batteries, and additional diesel generators at some sites, with the intent of reducing the cost of energy production and the National Park Service's reliance and handling of fossil fuels. The intent is to achieve approximately 40 percent production of electric energy from renewable sources annually.<sup>2</sup>

It should be clearly understood that TUID has not been selected to provide this service to NPS. TUID seeks to qualify as one of several potential parties that will likely submit bids for this service through an RFP bidding process. The request to expand the service area is the first step in the process to qualify TUID to bid for the NPS contract.<sup>3</sup> Due to some specific content, **portions of this memo are considered confidential.**

## DISCUSSION

While service territory boundary changes occur infrequently, the Commission has clearly outlined the requirements for granting a certificate of public convenience and necessity in previous decisions and orders.<sup>4</sup> The Commission has identified six specific items that should be present and demonstrated by the applicant.

1. Whether there is a need, demand, or necessity by the general public for the proposed service.
2. Whether the proposed service is economically feasible, financially sound, efficient, stable, and continuing.
3. Whether the applicant is operationally and financially capable of providing the proposed service.
4. Whether the effect of granting a certificate would be detrimental to the existing suppliers.
5. Whether the applicant has established a ratio of debt capital to equity capital which renders it financially stable and whether the proposed financing is in the public interest.

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<sup>2</sup> Glen Canyon National Recreation Area (NRA) Industry Day, Design, Build and Operate Electric Generation and Distribution Systems a Four Glen Canyon NRA Marinas, Dated 12/13/2017.

<sup>3</sup> Utah Code Title 54 sec 10-8-14(4)

<sup>4</sup> Docket Nos. 86-2106-01, 86-057-03, 86-091-01, 86-2109-01.

6. Whether the public interest and welfare of the general public in the state of Utah and the public convenience and necessity required the proposed service.

As part of the review of the proposed application, each of the six items identified by the Commission will be addressed along with a more detailed discussion of various elements that have been included or that may be missing from the application.

### **Item 1 – Need and Demand**

TUID has identified a desire to expand its current service area in order to bid and possibly provide electrical service to the Glen Canyon National Recreation Area, specifically four marina areas on Lake Powell. The application is not to extend TUID’s existing service lines to accommodate additional customers or expand the current distribution system. Instead, it represents a significant expansion of service, including the take-over, significant upgrade, and maintenance of four independent, distinct micro-grid generation and distribution facilities completely separate from TUID’s current facilities.

Glen Canyon National Recreation Area operates independent electric generation and distribution systems in four marinas; Bullfrog, Halls Crossing, Dangling Rope, and Hite. All of these systems and locations are extremely isolated from commercial power sources and are made up of diesel and propane generators. The areas serviced include hotels, restaurants, commercial, and residential users. If TUID is the successful bidder to provide these services, TUID will require a significant expansion of resources and personnel to accommodate the increased size. In response to Data Requests, TUID provided the following approximate annual energy usage comparison.

Ticaboo (current customers)	505,000 kWh
Bullfrog Marina	5,300,000 kWh (per NPS)
Halls Crossing Marina	1,373,200 kWh (per NPS)
Hite Marina	262,000 kWh (per NPS)
Dangling Rope	108,500 kWh (per NPS)

If successful, this expansion request represents a significant opportunity for growth for TUID. Obtaining this contract would require TUID to generate 15 times more energy than it has in the past but would also require these services to be provided from five independent micro-grid locations. The Bullfrog Marina is the closest of the four new locations, however it is

approximately 13 miles south of Ticaboo. While this is the closest marina, it will not be connected to TUID's existing distribution system. Halls Crossing Marina is located across Lake Powell and is approximately nine miles from Bullfrog by ferry and 144 miles away by highway. The power generation for Halls Crossing would also be provided by a separate stand-alone facility and would not be connected to any other TUID resources. Dangling Rope Marina is accessible only by water and is the only place to get boat fuel between the Wahweep Marina (Page, Arizona) and Halls Crossing/Bullfrog Marina. The Hite Marina is located on the northeast end of Lake Powell and is approximately 65 miles from Ticaboo. Each of the marina locations are remote and are miles apart from each other.

One item of concern that has not been addressed in the TUID application is the need and demand for services in the area between Bullfrog and TUID. The Company has indicated that JNB Marine and Offshore Marina would be included in the expanded service area but no information has been provided concerning the impact of the change on these potential customers or if they are requesting service from TUID. There has been no information provided to estimate a cost to connect these customers to the TUID system or if these customers would be allowed to maintain their own independent power systems.

The Division concludes that TUID has established that there is a need to provide or maintain service to this area. The Division also confirmed that the NPS is planning on issuing a request for proposals to take over service to this area.

### **Item 2 – Economic Feasibility**

As of the date of this memo, the NPS has not issued an RFP with the specific terms of the proposal nor has TUID provided estimates of the cost to provide service or the potential revenue. Historical usage for each area has been provided and it is clear that if TUID is successful in bidding for this contract it will require a significant change to TUID's current financial and operational structure. To date, TUID has not provided sufficient detail to determine whether the plan to serve the expanded territory is economically feasible.

TUID has received one proposal to construct [REDACTED]

The proposed facility involves [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
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[REDACTED]

In addition to the capital cost for new generation facilities, the preliminary information from NPS states that the successful bidder will take over the operation and maintenance of the existing generation and distribution facilities. In response to data requests, TUID indicated that it had not completed an inspection of the current facilities to determine the current condition and possible repair and upgrade requirements at any of the four locations. Repair and maintenance cost could be significant but are unknown at this time. TUID indicated that [REDACTED]  
[REDACTED]

As of the date of this memo, [REDACTED]  
[REDACTED]

Based on the information that has been provided, the Division cannot determine that the proposed expansion is economically feasible.

**Item 3 – Operational and Financial Capability**

While TUID has experience in operating an off-grid power generation system, if TUID is

successful in obtaining the contract with NPS, TUID would be required to run and maintain five separate micro-grid power generation and distribution systems located in separate and remote locations. Today TUID does not have the operational resources or personnel that would be required to operate and maintain five separate systems and has not provided any information or forecasts to show how it would operate in the future. Exhibit 1 is a map of the Glen Canyon National Recreation Area and has been included to show the distance between the locations and the relationship to Ticaboo.

As part of its analysis, the Division requested copies of the audited financial statements for TUID along with forecasts and projections to estimate future income. Included as Exhibit 2 is a summary of the historical income statements, balance sheets, and cash flow statements for 2012 through 2016. Audited financial information for year end 2017 will not be available until May 2018. TUID has not provided financial forecasts or earnings estimates for the proposed expansion.

Page 1 of Exhibit 2 provides a comparison of the income statements for TUID from 2012 – 2016. Operating Revenue increased from 2012 through 2014 but declined in 2015 and 2016. Earnings from Operations indicate that TUID has not been profitable and is reporting negative earnings for each of the five years included in the analysis. Page 3 provides a comparison of the statement of cash flows for the same time period. This report indicates that TUID has had negative cash flow for two of the five years covered by the report. Cash Flows from Operating Activities were positive for 2015 and 2016 due solely to the receipt of significant debt proceeds. No projections or prospective information has been provided to estimate the total capital expenditures or how the necessary capital expenditures will be financed.

Without additional information and projections from TUID, the Division cannot determine that TUID has the operational and financial ability to meet the needs of the proposed change to the service area.

#### **Item 4 – Detriment to Existing Suppliers**

TUID has contacted Rocky Mountain Power and Garkane Energy, which are the existing utilities

serving the proposed expansion area. Both entities have represented to TUID that they have no facilities in this area and are not intending to oppose or intervene in this Docket. TUID has not articulated any specific benefits or costs it anticipates to any existing customers in the proposed expanded service area, specifically customers residing outside the NPS service locations. Since no other parties are opposed to the expansion, the Division concludes that the district has satisfied this requirement.

### **Item 5 – Debt to Equity Ratio and Financial Stability**

Page 4 of Exhibit 2 calculates the financial ratios for 2012 – 2016. As of December 31, 2016, TUID had a regulatory capital structure of 36.3% debt and 63.7% equity. A breakdown of the total debt obligations has been included on page 5 and totals \$1.2 million for 2016 in the form of four revenue bonds. Three of the four bonds have a 0% interest rate and the fourth bond has an interest rate of 1.5%. The current debt financing has an unusually low interest rate and it is unlikely that future debt offerings will have similar low interest rates. New debt offerings will likely carry a greater interest rate burden.

While the additional capital expenditures that would be necessary with the NPS contracts would require some form of debt and equity financing, TUID has not provided any information on how the necessary capital expenditures would be funded. In order to maintain a healthy equity position, the Company would require additional equity capital in some form. It is unlikely that the existing distribution system that is part of the National Park would be contributed or given to the successful bidder similar to the way TUID received its generators from the mining companies. Were they to be transferred, it is not clear what value they may have. It is likely that additional equity would be needed from some source that has not been explained or included in the application.

TUID has not demonstrated that it could maintain a healthy debt to equity ratio or that it has the financial stability to support the proposed expansion.

### **Item 6 – Public Interest**

The original application included letters of support from Garfield County, Kane County, San



Juan County, and the Utah Association of Municipal Power Systems (UAMPS). Each of the parties expressed its support for improved utility service in the expanded service area generally and the desire for future development and lower power cost for the area. A strong electrical distribution system in these locations could enhance future economic growth in the surrounding communities and encourage more visitors and residents to the area.

The Division supports the goal of economic development along with a goal of lower power rates for this area; however, the current application does not provide any analysis or comparison of the current electric cost with an estimated or proposed electricity cost that would be provided by TUID. Current customers of TUID pay some of the highest electricity prices in the United States for the current off-grid power generation. Creating and maintaining four additional micro grid distribution systems at the same or higher rates may not be in the public interest. While TUID anticipates that a future rate study will result in proposed rates that may be lower than the current TUID rate, that information is not currently available and TUID has not provided any information to show what current customers within the NPS are paying for the electric service. While the Commission does not directly approve the rates for TUID, it can determine if an expansion of the service area is in the public interest. Given the wholly speculative nature of any cost projections, other public interest factors weigh against a public interest determination.

One item that has not been discussed is the potential detrimental impact to the existing customers of TUID. As mentioned above, this proposal is not a simple line extension to add a few customers to the existing customer base. The proposed change represents a dramatic change to TUID's current method of doing business and will require additional personnel and financial resources. TUID has stated that the intent of this request is to achieve economies of scale by serving more customers and allow the administrative and overhead cost to be spread among more customers.<sup>5</sup> TUID has also stated that the only reason to pursue this project is to reduce the cost of electric service to the existing customers. While this may be the intent, the Company has not provided any supporting information to demonstrate how expanding the service area would

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<sup>5</sup> Docket No 18-2508-01; In the Matter of the Application for Amendment to the certificate of Public Convenience and Necessity of Ticaboo Utility Improvement District; SUPPLEMENTAL INFORMATION, filed 2/6/2018.

reduce the cost for existing customers. If TUID is the successful bidder for the NPS contract, TUID will be responsible to generate as much power in one month as it has generated historically during an entire year. The dramatic expansion of services has the potential to increase overhead cost instead of reducing overhead cost to the existing customers or benefitting proposed customers.

TUID has also indicated that its existing tariff will need to be changed but no specifics or details have been explained or provided. No new rate design has been proposed and it is unclear if the NPS contract will be structured as a single customer or if service would be provided under one or more Purchase Power Agreements (PPA). If the Company does structure the contract as one or more PPAs, the Company has no experience in administering PPA Contracts and would likely need additional support from third parties. In addition, the Company has not explained how the proposed change would impact the identified parties that are physically located between TUID and Bullfrog. TUID identified JNB Marine and Offshore Marina but did not provide any information for how they might be impacted by an expansion of the service area. Lastly, if the contract payments prove insufficient to handle the costs of serving the NPS load, those additional costs would likely be borne by other TUID customers.

TUID has not demonstrated that expanding the service area is in the public interest.

## **CONCLUSION**

The Commission has clearly established the criteria to approve a CPCN for expansion of a service area. The Division has reviewed each of the items and finds the application to be premature and lacks sufficient detail to amend TUID's CPCN. Because the Company has not met the requirements established by the Commission the application should be denied.

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