

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application of Deseret)
Generation & Transmission Co-operative for) DOCKET NO. 11-506-01
Authority to Issue Securities in the form of)
Secured Promissory Note to National Rural) REPORT AND ORDER
Utilities Cooperative Finance Corporation)

ISSUED: October 5, 2011

By The Commission:

On August 15, 2011, Applicant Deseret Generation & Transmission Co-operative (“Deseret” or “Applicant”) filed a verified application seeking authority pursuant to Utah Code Ann. § 54-4-31 to issue certain securities in the form of two secured promissory notes in the amount of approximately: (i) \$20 million related to a restated revolving line of credit (the “Restated Credit Line”) for working capital financing; and (ii) \$40 million related to a long-term loan agreement (the “2011 Term Loan”). Applicant requested informal adjudication of the application under Utah Admin. Code R746-110, and represented that the matter was anticipated to be unopposed and uncontested. Applicant requested a waiver by the Commission of the 20-day tentative period under Utah Admin. Code R746-110-2 for good cause shown on the basis that the Restated Credit Line and 2011 Term Loan, in order to provide maximum protection and flexibility to Deseret, must be final and fully enforceable in full force and effect at all times without being subject to any appeal or protests.

Applicant has submitted copies of the relevant documents, certified and verified pursuant to the verified application, and other information to establish the facts pertinent to the application.

FINDINGS OF FACT

1. This application involves two credit lines: (a) the Restated Credit Line involves an extension of an existing \$20 million revolving line of credit that will mature on October 16, 2011, and (b) the 2011 Term Loan involves a \$40 million long-term financing facility that will be used to fund anticipated capital projects. If approved, the Restated Credit Line will be extended to October 2016.

2. In October, 1996, Deseret entered into a comprehensive financial restructuring involving secured creditors who, at that time, agreed to a long-term financial forbearance and, together with other major creditors in December 1998, finalized a substantially permanent financial recapitalization of the company. As part of the 1996 restructuring, as incorporated into and made a part of the 1998 recapitalization, Deseret entered into a \$20 million line of credit (the “Existing Line of Credit”) with the National Rural Utilities Cooperative Finance Corporation (“CFC”) which can be used for debt service and general corporate purposes. The Commission gave Deseret authorization to enter into and to secure the Existing Line of Credit pursuant to its Report and Order dated July 3, 1996 in Docket No. 96-506-01. The Existing Line of Credit was further amended and extended, as approved and authorized pursuant to the Commission’s Report and Order dated January 18, 2002 in Docket No. 01-506-01 and its Report and Order dated October 12, 2007 in Docket No. 07-506-01. Deseret has not drawn on the Existing Line of Credit to date.

3. Applicant has stated that it anticipates potential liquidity needs during the coming months related to several factors, including without limitation repairs and maintenance at the Bonanza Unit 1 (“Bonanza”), ongoing maintenance projects and/or capital improvement projects

which have taken place and/or which are anticipated at the Hunter 2 Unit (“Hunter 2”) which it jointly owns with another public utility; reduction in anticipated revenue occasioned as a result of a planned maintenance outage at Bonanza; increased expenditures for mine-safety related equipment and other capital replacements at the Deserado Mine operated by Deseret’s wholly owned subsidiary, Blue Mountain Energy, Inc. (“BME”); and potential obligation to make payments for certain capital improvements at Hunter 2, payment of which might deplete Deseret’s available cash and/or liquid assets otherwise available to finance working capital needs and finance capital improvements.

4. Applicant has negotiated the terms of the Restated Credit Line with CFC as an additional potential working capital financing resource for its liquidity needs. The Restated Credit Line will be secured by a first-priority lien of a restated mortgage from Deseret to CFC and will supplement, and will not replace, a supplemental line of credit between Deseret and CFC executed earlier this year, 2011.

5. Applicant has negotiated the terms of the 2011 Term Loan with CFC as a long-term financing resource for anticipated and/or potential capital investment requirements as well as other corporate financing purposes. The 2011 Term Loan will be secured by a first-priority lien of a restated mortgage from Deseret to CFC.

6. Applicant states that the Restated Credit Line and the 2011 Term Loan would provide increased flexibility and continued credit resource(s) in the event that Applicant’s liquidity needs in the coming months and years experience the full potential of possible demands for financing due to the factors identified above.

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7. Applicant has represented that the proposed Restated Credit Line and 2011 Term Loan represent the best available means available to Deseret to maintain a necessary financial working capital source(s) in the event of liquidity needs for debt service or ongoing operations to address certain potential eventualities, as well as long-term financing for capital investment and other corporate financing purposes. The Restated Credit Line and 2011 Term Loan were each approved by Deseret's Board of Trustees at a regularly scheduled meeting of the board on July 21, 2011.

8. On September 15, 2011, the Division of Public Utilities reviewed the application and recommended approval of it.

CONCLUSIONS OF LAW

1. Deseret is a public utility subject to the jurisdiction of the Commission.
2. Pursuant to Utah Code Ann. § 54-4-31, Deseret must first receive consent of the Commission before issuing the securities referred to here.
3. Participation by Deseret in the proposed Restated Credit Line and 2011 Term Loan, including the proposed issuance and/or renewal of securities and security interest in connection therewith is (i) for lawful and proper purposes; (ii) within Deseret's corporate powers; (iii) consistent with the public interest, sound financial practices and the proper performance of Deseret's public service; and (iv) designed to enhance and not impair Deseret's ability to perform its public service.

ORDER

The Commission orders as follows:

1. Deseret is hereby authorized to secure a Restated Credit Line from the National Rural Utility Cooperative Finance Corporation in the amount of up to \$20,000,000 and to provide security interests to secure repayment of the same, all under the terms and conditions generally as described in this Report and Order;

2. Deseret is hereby authorized to secure a 2011 Term Loan from the National Rural Utility Cooperative Finance Corporation in the amount of up to \$40,000,000 and to provide security interests to secure repayment of the same, all under the terms and conditions generally as described in this Report and Order.

3. Deseret is hereby authorized to execute and deliver such documents and take such actions as may be reasonably necessary or convenient to the completion of the Restated Credit Line and the 2011 Term Loan.

4. Nothing in this Order shall be construed to obligate the State of Utah to pay or guarantee in any manner whatsoever any securities authorized, issued, assumed, or guaranteed hereunder.

5. For good cause shown, the 20 day tentative period under Utah Admin. Code R746-110-2 is hereby waived.

DATED at Salt Lake City, Utah, this 5th day of October, 2011.

/s/ Melanie A. Reif
Administrative Law Judge

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Approved and confirmed this 5th day of October, 2011, as the Report and Order of the Public Service Commission of Utah.

/s/ Ted Boyer, Chairman

/s/ Ric Campbell, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary
D#210561

Notice of Opportunity for Agency Review or Rehearing

Pursuant to Utah Code Ann. §§ 63G-4-301 and 54-7-15, a party may seek agency review or rehearing of this order by filing a request for review or rehearing with the Commission within 30 days after the issuance of the order. Responses to a request for agency review or rehearing must be filed within 15 days of the filing of the request for review or rehearing. If the Commission fails to grant a request for review or rehearing within 20 days after the filing of a request for review or rehearing, it is deemed denied. Judicial review of the Commission's final agency action may be obtained by filing a Petition for Review with the Utah Supreme Court within 30 days after final agency action. Any Petition for Review must comply with the requirements of Utah Code Ann. §§ 63G-4-401, 63G-4-403, and the Utah Rules of Appellate Procedure.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 5th day of October, 2011, a true and correct copy of the foregoing REPORT AND ORDER, was served upon the following as indicated below:

By U.S. Mail:

Deseret Generation & Transmission Co-operative
Attention: Mr. David F. Crabtree
10714 South Jordan Gateway, Ste. 300
South Jordan, UT 84095

By Hand-Delivery:

Division of Public Utilities
160 East 300 South, 4th Flr.
Salt Lake City, Utah 84111

Office of Consumer Services
160 East 300 South, 2nd Flr.
Salt Lake City, Utah 84111

Administrative Assistant