State of Utah
Department of Commerce
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
Jeff Einfeldt , Utility Analyst
Doug Wheelwright, Technical Consultant
Charles Peterson, Technical Consultant

Date: July 16, 2018

Re: Application of Deseret Generation & Transmission Co-operative, Bridger Valley Electric Association, Dixie-Escalante Rural Electric Association, Flowell Electric Association, Garkane Power Association, Moon Lake Electric Association, and Mount Wheeler Power, Inc. for Approval to Issue Securities
Docket No. 18-506-01 (related Docket Nos. 18-022-01, 18-066-02, 18-027-02, 18-028-01, 18-030-02, and 18-031-01**)**

Recommendation (Approve)

The Division of Public Utilities (Division) recommends that the Public Service Commission of Utah (Commission) approve the issuance of securities as set forth in the Application.

Issue

On June 29, 2018, Deseret Generation & Transmission Co-operative (DG&T) and its six member distribution companies Bridger Valley Electric Association, Dixie-Escalante Rural Electric Association, Flowell Electric Association, Garkane Power Association, Moon Lake Electric Association, and Mount Wheeler Power, Inc. (Distribution Members), jointly applied for Commission approval of a proposed issuance of securities pursuant to UCA § 54-4-31. The

Commission issued an action request to the Division with a due date of July 20, 2018. This memorandum is the Division's response to the action request.

The DG&T and the Distribution Members are asking the Commission to approve a Secured Promissory Note in the amount of $10 million (2026 Note); a Substitute and Amended and Restated Secured Promissory Note in the amount of $40 million (2018 Working Capital Loan Note); a Fourth Amended and Restated Revolving Credit Agreement (2018 Line of Credit); a Conformed Obligations Restructuring Agreement Restatement (ORA Restatement); and one or more Joint and Several Guaranty(ees) to be executed by each of Deseret's six Distribution Members.[1]

Background

In its response to a data request received by the Division on July 6, 2018, DG&T provided the following statement that outlines some of the history of DG&T's financial issues and the efforts made to manage those issues. The statement also provides DG&T's argument in support of the approval of the Application.

> For well over two decades, Deseret has continued to operate pursuant to its forbearance arrangement despite the continuing payment default on underlying long-term debt. The key to this arrangement is that Deseret's creditor is willing to forbear from exercising remedies on account of the continuing default as long as Deseret is able to make specified minimum cash payments, together with additional contingent payments, through the year 2025. Given Deseret's status as a financially troubled institution, and specifically given express covenants/restrictions set forth in the forbearance contracts, Deseret has severely limited ability to raise funds through new long-term or short-term debt or through other means.
>
> As conditions change, and as operational requirements shift from time to time, the parties have reached accommodations to adjust minimum scheduled payments and other key provisions that better reflect updated information concerning anticipated cash flows, timing of receipts, major maintenance projects, etc.

[1] Application, page 2.

In this restatement to the debt restructuring arrangement, Deseret will benefit from substantially lower scheduled minimum cash payments which must be made during the upcoming years through 2025. Deseret also receives more favorable treatment in respect of certain restrictive covenants, lessened creditor approval over budgeting, mutually negotiated cash reserve provisions, and generous repayment treatment of future operational cash flow Deseret will be permitted to use to service non-defaulted debt that stands apart from and therefore will be paid ahead of amounts that will be directed to partial payments on account of the restructured obligations under the ORA. In exchange, Deseret is executing a non-interest bearing note in the amount of $10 million (the “2026 Loan Note”), due in 4 quarterly payments in 2026.

Deseret will also benefit from a larger, more generous, and longer term working capital loan facility in the amount of $40 million, increased from and replacing the existing $20 million facility. The more favorable 2018 Working Capital Loan (replacing the short-term working capital facility expiring November 2018) will remain available for requested cash draws at all times through year-end 2025. It will permit repayment of any draws there under by means of interest-only payments through 2025, followed by principal-and-interest amortization through 2030. Currently, Deseret’s working capital facility requires payment in full at maturity (November 2018). Although Deseret has no plan and foresees no need to draw any amounts from its working capital loan facility, the 2018 Working Capital Loan, when coupled with the lower scheduled cash minimum payments (achieved by means of the new 2026 Loan Note) provide Deseret much greater financial sustainability and liquidity in case of unexpected revenue disruption and/or cash requirements for the next 7 or more years. Should it become necessary in order to make the reduced minimum scheduled cash payments remaining through 2025 as well as satisfy other cash needs, Deseret can access the 2018 Working Capital Loan as a powerful tool to better assure continued compliance with the ORA.

Provided all required cash payments and other terms of the ORA can be satisfied through 2025, Deseret is entitled to receive final debt forgiveness on many hundreds of millions of dollars in unpaid and non-performing long-term secured indebtedness, effective March 2026. Once such forgiveness occurs, based on current debt service amortization schedules, Deseret could emerge largely free of all long-term indebtedness after the final 2026 Payment on the 2026 Loan Note. It therefore is imperative that Deseret take full advantage of the favorable provisions that have been negotiated to modify and restate the long-term debt restructuring with its creditor.

Discussion

The Division has reviewed the Application and the attached contracts and other documents and sent data requests to DG&T. Additionally, the Division met with representatives of DG&T on July 10, 2018 to review the Application and the data request responses and to ask follow-up questions. The Division has reviewed the audited financial results for the most recent five fiscal years.

DG&T has previously applied for Commission approval of modifications of its debt agreements that were entered into to help the company manage its debt load. The most recent application was in 2017 in Docket No. 17-506-01; the Commission approved that Application on October 20, 2017.

The Distribution Members are parties to the application because they, along with DG&T's wholly owned subsidiary Blue Mountain Energy, Inc.,[2] are guarantors of the 2026 Note and the 2018 Working Capital Loan Note.

DG&T provided to the Division a cash flow analysis that compared the forecast cash flows of the company for the years 2019 to 2026 under the currently existing agreements with the cash flows under the proposed agreements. Based upon this analysis, DG&T estimates that from 2019 to 2026, it and its Member Distribution Companies will benefit cumulatively by over $12 million. This benefit is front-loaded primarily in the first four years. In 2026, there is a negative benefit of $10 million when DG&T must repay the 2026 Note. The 2026 Note repayment is part of the overall $12 million benefit. The DG&T cash flow forecast is, of course, based upon a number of assumptions. The Division has reviewed the assumptions with DG&T and based upon what is currently known, the Division believes that the assumptions are reasonable.

[2] Blue Mountain Energy, Inc. is the owner and operator of DG&T's coal mine and rail delivery system located near Rangely, Colorado. This coal mine is essentially DG&T's sole source of coal for its Bonanza, Utah plant.

Conclusion

Based upon the Division's review of the Application, DG&T's responses to its data requests, along with the Division's meeting with DG&T representatives and it's analysis of the company's financial information, the Division recommends that the Commission approve "the issuance of securities by Applicants in the form of the Notes and otherwise under or in conjunction with all of the 2018 Restructuring Agreements, in such amounts, for such purposes and with such terms and conditions substantially as specified…."[3]

Cc: David F. Crabtree, attorney for Deseret Generation & Transmission Co-operative
Gary Dodge, attorney for the distribution member applicants
Michele Beck, director, Office of Consumer Services

[3] Application page 15.