

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

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| 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 | <u>DOCKET NOS. 18-506-01, 18-022-01, 18-066-02, 18-027-02, 18-028-01, 18-030-02, and 18-031-01</u> <u>ORDER</u> |
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ISSUED: July 27, 2018

On June 29, 2018, applicants Deseret Generation & Transmission Co-operative (“Deseret”), together with its six (6) distribution cooperative members (the “Distribution Members”), namely, Bridger Valley Electric Association, Dixie-Escalante Rural Electric Association, Flowell Electric Association, Garkane Power Association, Moon Lake Electric Association, and Mount Wheeler Power, Inc. (Deseret and the Distribution Members are referred to collectively as the “Applicants”) filed an application (“Application”) seeking an order from the Public Service Commission (“PSC”) granting Applicants authority, pursuant to Utah Code Ann. § 54-4-31, to issue securities in the form of secured promissory notes in conjunction with certain agreements as follows: (i) a secured promissory note (the “2026 Loan Note”) in the amount of \$10 million to the National Rural Utilities Cooperative Finance Corporation (“CFC”); (ii) a substitute and amended and restated secured promissory note in the amount of \$40 million¹ to the CFC (the “2018 Credit Line Note”); (iii) a fourth amended and restated revolving credit agreement (“2018 Line of Credit”); (iv) a conformed obligations restructuring agreement restatement (“ORA Restatement”); and (v) one or more joint and several guaranty(ees) to be executed by each of Deseret’s six distribution members (“Member Guarantees”).

¹ Replacing Deseret’s current \$20 million note.

Applicants requested informal adjudication of the Application under Utah Admin. Code R746-110 and represented the matter was anticipated to be unopposed and uncontested. Further, Applicants requested a waiver of the 20-day tentative period under R746-110-2 for good cause shown on the basis that the 2018 Line of Credit, 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.

Applicants have 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.

On July 16, 2018, the Division of Public Utilities (“DPU”) filed comments addressing the Application. The DPU states Deseret has previously applied for PSC approval of modifications of its debt agreements that it entered to help it manage its debt load. The most recent application was filed in 2017 in Docket No. 17-506-01, which the PSC approved on October 20, 2017.² The DPU explains the Distribution Members are parties to the application because they, along with Deseret’s wholly owned subsidiary Blue Mountain Energy, Inc., are guarantors of the 2026 Loan Note and the 2018 Credit Line Note.

The DPU analyzed Deseret’s cash flow analysis that compared the forecasted cash flows of the company for the years 2019 to 2026 under the currently existing agreements with the expected cash flows under the proposed agreements. This analysis shows that from 2019 to 2026,

² See *Application of Deseret Generation & Transmission Co-operative for Approval to Issue Securities in the Form of Amended Secured Promissory Note*, Docket No. 17-506-01 (Order issued October 20, 2017).

Deseret 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 Deseret must repay the 2026 Loan Note. The 2026 Loan Note repayment is accounted for in the overall \$12 million benefit.

The DPU reviewed the assumptions used in preparing the Application with Deseret and, based upon what is currently known, the DPU states it believes the assumptions are reasonable. The DPU recommends the PSC approve the Application.

FINDINGS OF FACT

1. 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 line of credit agreement (“Line of Credit”) with the CFC, which can be used for debt service and general corporate purposes. The PSC originally gave Deseret authorization to enter into and to secure the Line of Credit pursuant to its Report and Order dated July 3, 1996 in Docket No. 96-506-01. The Line of Credit has subsequently been amended and extended, and has been restated as approved and authorized pursuant to the PSC’s Report and Order dated January 18, 2002, in Docket No. 01-506-01; its Report and Order dated October 12, 2007 in Docket No. 07-506-01; its Report and Order dated March 14, 2011

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in Docket No. 10-506-01; and its Report and Order dated October 7, 2016 in Docket No. 16-506-01. Deseret represents it has not drawn on the Line of Credit to date.

2. Deseret has negotiated the terms of the 2018 Line of Credit with the CFC as an extension to the existing Line of Credit to: (i) increase the maximum available credit from the existing \$20 million up to \$40 million; (ii) extend the applicable period for draw requests through December 31, 2025; and (iii) extend the repayment term to December 31, 2030. In connection with the 2018 Line of Credit, Deseret will execute the secured 2018 Credit Line Note in an amount up to \$40 million. The 2018 Credit Line Note will be secured by the lien of an existing mortgage from Deseret to the CFC.
3. Applicants have represented that the proposed 2018 Line of Credit represents an appropriate 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 and/or unforeseen eventualities.
4. Deseret has negotiated a modification and restatement to its long-term debt restructuring arrangement with the CFC that will include modifying certain scheduled minimum payment amounts under the ORA Restatement and executing an additional secured promissory note, the 2026 Loan Note, in the amount of \$10 million, payable in four (4) quarterly installments beginning March 31, 2026 (the 2018 Credit Line Note and the 2026 Loan Note are referred to collectively as the “Notes”).

5. Each of the Distribution Member cooperatives has agreed to provide guarantees to the CFC in the form of joint and several guarantees of Deseret's repayment obligations under the Notes.
6. The 2018 Line of Credit, the 2026 Loan Note, and the ORA Restatement have been approved by Deseret's Board of Trustees at a regularly scheduled meeting of the board on May 17, 2018.
7. The governing boards of each of the Distribution Members have approved and authorized the Member Guarantees at duly noticed meetings of the respective boards.

CONCLUSIONS OF LAW

1. Deseret is a public utility subject to the jurisdiction of the PSC.
2. All legal and factual prerequisites and requirements for the issuance of this Order have been satisfied.
3. Execution of the 2026 Loan Note by Deseret, as described within the Application, is in the public interest.
4. Execution of the 2018 Line of Credit by Deseret, as described within the Application, is in the public interest.
5. Participation by Deseret in the proposed ORA Restatement, the 2026 Loan Note, and the 2018 Line of Credit, including the proposed issuance and/or renewal of the associated securities and security interests 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.

SUMMARY AND DECISION

No other comments were received, and the opportunity to oppose the Application closed on July 20, 2018. Therefore, considering the representations set forth in the Application, the DPU's recommendation to approve, and there being no opposition, we approve the Applicants' request pursuant to Utah Code Ann. § 54-4-31 as set forth below.

ORDER

1. This matter is converted to an informal adjudication pursuant to Utah Admin. Code R746-110-1.
2. We approve the Application and, in doing so, we waive the 20-day tentative period for good cause and make this a final order pursuant to Utah Admin. Code R746-110-2.
3. Deseret is authorized to secure a fourth amended and restated revolving credit agreement from the CFC in the amount of up to \$40 million and to provide security interests to secure repayment of the same, all under the terms and conditions generally as described in this Order and the Application.
4. Deseret is authorized to execute and deliver a secured promissory note in the amount of \$10 million to the CFC and to provide security interests to secure repayment of the same, all under the terms and conditions generally as described in this Order and the Application.

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5. 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 ORA Restatement, the 2026 Loan Note, and the 2018 Line of Credit.
6. 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.

DATED at Salt Lake City, Utah, July 27, 2018.

/s/ Michael J. Hammer
Presiding Officer

Approved and Confirmed as the Order of the PSC, July 27, 2018.

/s/ Thad LeVar, Chair

/s/ David R. Clark, Commissioner

/s/ Jordan A. White, Commissioner

Attest:

/s/ Gary L. Widerburg
PSC Secretary
DW# 303662

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Notice of Opportunity for Agency Review or Rehearing

Pursuant to §§ 63G-4-301 and 54-7-15 of the Utah Code, an aggrieved party may request agency review or rehearing of this Order by filing a written request with the PSC within 30 days after the issuance of this 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 PSC does not grant a request for review or rehearing within 20 days after the filing of the request, it is deemed denied. Judicial review of the PSC'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 §§ 63G-4-401 and 63G-4-403 of the Utah Code and Utah Rules of Appellate Procedure.

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CERTIFICATE OF SERVICE

I CERTIFY that on July 27, 2018, a true and correct copy of the foregoing was served upon the following as indicated below:

By Electronic-Mail:

David F. Crabtree (crabtree@deseretgt.com)
Deseret Generation & Transmission Co-operative

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By Hand Delivery:

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Administrative Assistant