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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Deseret Generation and Transmission Co-Operative for a Certificate of Public Convenience and Necessity Authorizing the Acquisition of Electric Utility Plant and Equipment	Docket No. 21-506-02

DESERET GENERATION AND TRANSMISSION CO-OPERATIVE APPLICATION FOR CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

Pursuant to Utah Code Ann. § 54-4-25, Deseret Generation and Transmission Co-Operative ("Deseret") hereby applies for a certificate of public convenience and necessity ("Certificate" or "CPCN") with the Public Service Commission of Utah ("Commission") to acquire up to 15 MW of peaking generation that can be provided from reciprocating engine generation sets fueled by natural gas (the "Peaker Project" of "Project").

Pursuant to Commission Rules R746-110 and R746-1-104(1)(a), Deseret hereby requests Informal Adjudication of this Application. Deseret represents that the matter is anticipated to be unopposed and uncontested. Submitted herewith is Attachment "1," which includes documentation and other relevant information necessary to establish the facts pertinent to this Application.

In support of this Application, Deseret represents as follows:

Background

1. Deseret is a Utah not-for-profit corporation organized and operating as a wholesale electric generation and transmission cooperative. Deseret supplies and transmits electric power and energy for the benefit of its member-consumers and non-member contract patrons. Much of the electric

service provided by Deseret is transmitted for use in primarily rural, agricultural areas in the State of Utah and surrounding states.

2. As a rural electric generation transmission cooperative, Deseret has no stock, shareholders, or Investors. It is governed by democratically selected directors, elected from among its electric consumers. Deseret is regulated as a public utility by the relevant rate making and administrative agencies under Utah and federal law.

3. Deseret directly owns electric utility equipment and systems in Utah. In addition, Deseret also owns electric utility equipment and systems in Colorado through a wholly owned, cooperatively organized coal mining and private rail subsidiary. The power systems in Utah include the Bonanza coal-fired generating unit, rights to the Hunter II coal-fired generating unit, rights to the Intermountain Power Plan coal-fired generating unit, and an allocation of power from the Colorado River Storage Project ("CRSP"), which includes hydro generated power from several dams including Fontanelle, Flaming Gorge, and Glen Canyon.

Need for Additional Peaking Generation

4. As part of regular planning and operations management, Deseret routinely reviews both its system load requirements (electric demand, capacity, and peak generation) as well as projected capacity and availability of generation resources. In completing those tasks this year, and because of the recent development described below, Deseret now identifies a need to procure additional electricity to service short periods of peak system load requirements beginning next summer (2022).

5. Two recent developments create and/or exacerbate the need to add additional peak generation on Deseret's system. First, driven by prolonged drought conditions, the Western Area Power Administration ("WAPA") has determined that it will significantly alter the management of the hydroelectric projects in the CRSP to reduce the quantity of water released through the dams in the Salt Lake Integrated Project facilities ("SLIP"). The SLIP dams include Fontanelle, Flaming Gorge, and Glen Canyon (Lake Powell). The SLIP facilities are the source of Deseret's assigned hydroelectric capacity entitlements, which Deseret uses to serve a portion of the Deseret system peak demand. With reduced

water flows, the seasonal Sustainable Hydro Power that WAPA will deliver to Deseret next year will be reduced by about 30 MW. Thus, an immediate "gap" of 30 MW will arise in the deficit between total peak system demand in 2022 and the total available peak generating capacity that otherwise could be used to meet that demand. The WAPA reduction is not merely a one-time response; it is expected to continue indefinitely.

6. Given the unexpected drop in hydroelectric power deliveries, coupled with ongoing load growth, Deseret projects it will not have sufficient peak generating capacity to meet total system peak demand in most of the summer month on-peak hours next year. Deseret can draw on withdrawal rights from Intermountain Power Project to meet some, but not all, of the projected shortfall.

7. The Second development impacting Deseret's upcoming load/resource picture involves the market prices for electricity in the Western U.S. The market prices next year are showing signs of significant stiffening, particularly during the on-peak summertime period when Deseret's system peak will be at its highest. The forward price index recently published depicts 2022 monthly average summertime prices above $200 MWh during July and August (on-peak). At those prices, a replacement purchase of 30MW for all on-peak hours during the two months would cost very close to $5 million. This expense would be a one-year solution and would not provide any relief from forward price projections beyond 2022. If actual prices were to spike, as they did in summer 2020 to levels of $1,900 MWh, the cost of market purchases in those hours when the system requirements cannot be satisfied with peak generation capacity within Deseret's control, poses potential cost and risk of severe financial disruption that could be intolerable.

The Proposed Project

8. Deseret has identified an opportunity to acquire up to 15 MW of peaking generation that can be provided from reciprocating engine generation sets fueled by natural gas (the "Peaker Project" or "Project").

a. Equipment Information. The Peaker Project consists of six (6) Caterpillar 2.5 MW fast-starting generating units, designated Model 3520H. The rated heat rate efficiency

(HHV) for the units is expected to be 8883 MMBtu/MWh. This heat rate efficiency will be competitive with very efficient generation options and means that the overall value of the Peaker Project will not be overly sensitive to fluctuations in the price of the natural gas fuel source. A complete summary of the equipment/construction schedule is included in several documents, labeled collectively as Attachment 1.

b. Site and Schedule. The Peaker Project would be installed on land that will be contributed at minimal cost to Deseret, located adjacent to existing substation facilities in the service territory of Dixie Power, in St. George, Utah. Because the land is already owned and largely suited (as is) to the Project, the schedule for construction of the Peaker Project on the site is ideally suited for completion in time to help meet the summertime peak load next year. Assuming immediate release to procure and construct, the Project can be expedited to bring the full 15 MW online beginning June 1, 2022.

c. Capital Cost/Budget. The full 15 MW Project would cost approximately $22.1 million, which includes $20,787,102.41 budgeted construction/purchase price, allowance for interest during construction, interconnection, and other installation costs, and an allowance for possible sales tax (which might be avoided, depending on the status of Utah state tax exemptions at the time the purchase is completed).

d. Fuel Cost/Availability. The current site is already located in a developed industrial park with an adequate natural gas supply. Deseret has negotiated an option to firm the natural gas fuel supply for up to five (5) years at a stated price (currently $4.70 dth) and could shape/firm that fuel price for expected operating capacity by month (to be designated by calendar month at the time the price is locked).

e. Financial Value/Benefits. Installing the Peaking Project at the St. George Site carries three financial benefits: (i) Deseret can use the full 15 MW output to satisfy native load on Dixie Power's system during hours when the Peaking Project is operating, thereby avoiding market purchases of power in high-market price hours; (ii) Deseret can utilize the Peaking Project

capacity to satisfy mandatory spinning reserve requirements for its overall system (generation and load) in hours when the Peaker Project does not run; and (iii) in hours when the Peaker Project delivers energy into the Dixie Power system, Deseret will avoid costly transmission delivery charges that are otherwise incurred to deliver energy from Deseret's Bonanza/Hunter generating facilities into southern Utah, which requires wheeling power through the PacifiCorp transmission system.

f. Net Revenue/Savings. Using the current Palo Verde forward price index for average prices during the months of June through December 2022, and assuming Deseret were to fix the fuel price using a 5-year fixed price at currently offered levels, the first-year value of generated energy, together with the value of spinning reserves and transmission savings in 2022 would total $2.53 million (after all variable fuel & O&M). Deducting debt service and other annual costs such as property tax/insurance, Deseret would realize an overall increase in net Cashflow for 2022 of approximately $1.54 million and significantly reduce (hedge) its exposure to otherwise potentially volatile and likely high-priced market for purchased power during the critical summer period.

9. A busbar cost/savings analysis is included in Attachment 1, showing relative net revenue/savings using a Base Case (based on current Palo Verde forward prices), a high-gas price Case, and a Low-Electric Market Case. In order to select the gas project, Deseret contemplated and modeled other options, including solar development, long-term power contracts with other providers, and spot market power purchases. In each case, the gas project was the most affordable, reliable, economical, and efficient way to meet the needs of Deseret and its members.

Project Financing

10. Deseret has received approval to finance the Peaker Project through its lender, National Rural Utilities Cooperative Finance Corporation. Once the Project is completed, Permanent Financing will be financed on a long term secured loan of 25 years.

Approval Criteria

The following information is provided pursuant to Utah Code Ann. §54-4-25, which sets forth the criteria for approval by the Commission of an application for a CPCN.

11. Deseret has received or is in the process of obtaining all required consents, permits and other authorization(s) for the Project as required by Utah Code § 54-4-25(4)(a). Deseret has also obtained conditional use permits ("CUPs") from Washington County. In addition to the CUPs, Deseret is in the process of obtaining the required consents and permits from the State of Utah, which will be obtained once the Project is completed. Any permits and approvals required from State agencies for the actual construction and operation of the Project will also be obtained in the ordinary course of development. To the extent that any further permits may be required during Project construction, Deseret will provide notice of receipt of the consent or permit as may be directed by the Commission.

12. As required by Utah Code Ann. § 54-4-25(4)(b), Deseret submits that the Project will not conflict with or adversely affect the operations of any existing certificated fixed public utility which supplies electric power or services to the public, and the Project will not constitute an impermissible extension into the certificated service territory of any existing public electric utilities.

13. Deseret has sufficient access to capital to finance the Project and a capital structure that renders Deseret financially stable.

14. As set forth above, Deseret requires additional generation resources to meet system peak load requirements. Deseret has determined that the Project represents the least-cost, least-risk approach to meet Deseret's electric service obligations to its customers. As a result, the Project is in the public interest and public convenience and necessity does or will require the construction of the Project.

Notice

Deseret respectfully requests that all formal and informal correspondence and requests for additional information regarding this filing be addressed to the following (email preferred):

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Requested Action

Wherefore, Deseret respectfully requests:

A. The Commission enter an order as expeditiously as possible granting Deseret a certificate of public convenience and necessity to construct the proposed Project; and

B. The Commission grant such other authority and authorizations as may be necessary to facilitate the construction of the Project; and

C. Pursuant to Commission Rules R746-110 and R746-1-104(1)(a), and because the matter is anticipated to be unopposed and uncontested, handle the application request by Informal Adjudication.

DATED this 22nd day of December 2021.

JAMES DODGE RUSSELL & STEPHENS

By: 

Phillip J. Russell
Attorneys for Deseret Power

CERTIFICATE OF SERVICE
Docket No. 21-506-02

I hereby certify that a true and correct copy of the foregoing was served by email this 22nd day of December 2021 on the following:

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/s/ *Phillip J. Russell*