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Action Request Response

To: Public Service Commission of Utah

From: Utah Division of Public Utilities

Chris Parker, Director

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Date: January 21, 2022

Re: **Docket No. 21-506-02**, 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. (Approve).

Recommendation (Approve)

The Division of Public Utilities (“Division”) recommends the Public Service Commission of Utah (“Commission”) approve the application and grant Deseret Generation and Transmission Co-Operative (“Deseret”) a certificate of public convenience and necessity (“CPCN”). The purpose is to acquire up to 15 MW of peaking generation from reciprocating engine generation sets fueled by natural gas (“Peaker Project”). Deseret has received approval to finance the Peaker Project through its lender, National Rural Utilities Cooperative Finance Corporation (“CFC”). Once the Project is completed, Permanent Financing will be obtained for a long term secured loan of 25 years.

Issue

Pursuant to Utah Code Ann. §54-4-25, Deseret applied for a CPCN with the Commission to acquire up to 15 MW of peaking generation from reciprocating engine generation sets fueled by natural gas. The proposed Peaker Project is in response to an analysis done by the company that showed a need to procure additional electricity to service short periods of peak system load requirements beginning in the summer of 2022.

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. 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

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 Deseret identified a need to procure additional electricity to service short periods of peak system load requirements beginning the summer of 2022.

The need for additional peaking is a result of two different situations occurring in the energy landscape today. 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 in 2022 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.

The second development impacting Deseret’s upcoming load/resource picture involves the market prices for electricity in the Western U.S. The market prices for 2022 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).¹ 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 the summer of 2020² and 2021³ because of extreme weather conditions, 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.

Given the unexpected drop in hydroelectric power, Deseret is in a difficult situation. The 30 MW loss of energy could be supplemented from its other generation facilities, but all the energy needed at peak load cannot be covered because of lost hydroelectric generation. Without another

¹ S&P Capital IQ Tradition Forward Power Index—On Peak
<https://www.capitaliq.spglobal.com/web/client?auth=inherit#markets/energymarketspowersummary?key=5647e4a2-63af-4257-b57f-5a8a1fc4cfac>

² CALISO Preliminary Root Cause Analysis Mid-August Heat Storm; October 6, 2020.

³ Disavino, Scott, Reuters, Extreme Heat Drives “High Risk” Summer for U. S. Power, especially in California, May 26, 2021.

option to cover the load requirements, Deseret would be forced to purchase the required energy from the open market. If market conditions persist, which the Division sees as a plausible scenario, Deseret would be required to cover any energy shortfall with open market purchases at times when the cost of energy is at the highest because of the market demand.

Peaker Project

The Peaker Project consists of six (6) Caterpillar 2.5 MW fast-starting generating units, designated Model 3520H. These generating units 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 this year. Assuming immediate release to procure and construct, the Project can be expedited to bring the full 15 MW online beginning June 1, 2022.

The full 15 MW Peaker Project would cost approximately \$22.1 million, which includes budgeted construction/purchase price, allowance for interest during construction, interconnection, and other installation costs, and an allowance for possible sales tax. 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 of \$4.70 per dth.

In its application Deseret claims three financial benefits of the Peaker Project. Those claims are:

- (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 5 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.

Another financial benefit of the Peaker Project is an increase of net Cashflow for 2022 of approximately \$1.54 million and the potential to significantly hedge its exposure to an otherwise volatile and likely high-priced market for purchased power.

Discussion

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. According to Utah Code Ann. §54-4-25(4), among the requirements for approval of the CPCN are obtaining the proper permits and acknowledging the proposed construction will not conflict with or adversely affect the operations of any existing certificated public utility. Deseret has indicated in its application that it will obtain the necessary permits and stated that no existing public utility will be adversely affected by the construction of the Peaker Project. The Division sees no evidence to contradict this.

As part of the application Deseret also stated that its company has sufficient capital to finance the Peaker Project and a capital structure that renders Deseret financially stable. Again, the Division has seen no evidence casting doubt on this.

As part of the review and analysis for this Docket the Division used information from Deseret's application, along with the audited annual financial reports from 2016 through 2020 and year to date information from November 2021.

The Division agrees that because of changes in hydroelectric power, growth in Deseret's load demand, and the tightening energy market, Deseret is facing a challenging situation. The proposed Peaker Project is a viable option for the company to pursue to help meet the peak demand load necessary to serve its customers. The analysis done by Deseret seems just and

reasonable and in the public interest. The Division reviewed the financial position⁴ of Deseret and agrees the company has the financial stability to install the Peaker Project. Additionally, the Division agrees with Deseret that installing the Peaker Project likely provides several financial benefits to the company and its customers.

Finally, the Division expects that, based on the history of a filing of this type for an entity of this type, and with the information submitted by the company, there will be no objections or opposition to the filing. Therefore, the Division requests that this docket be adjudicated informally in accordance with Commission Rule R746-110-1.

Conclusion

We conclude, based on the available evidence, that Deseret requires additional generation resources to meet system peak load requirements. The proposed Peaker Project will efficiently and economically allow Deseret to meet the additional load requirements. The recommendation for approval is based on the following factors.

1. Deseret has obtained all the necessary permits needed for construction or will obtain any outstanding approvals.
2. No existing utility will be impacted or harmed by the construction of the Peaker Project and the Division is not aware of any opposition to the project.
3. Deseret has a capital structure and sufficient financial resources to adequately cover the costs of construction.
4. Based upon the financial statements, it appears Deseret has been financially stable for the past five years and has been able to meet its financial obligations.

The Division recommends the Commission approve 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.

CC: Certificate of Service List

⁴ See Confidential Attachment 1 for the detailed financial analysis done by the Division.