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UTAH DEPARTMENT OF COMMERCE

Division of Public Utilities

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Redacted

Action Request Response

To: Public Service Commission of Utah

From: Utah Division of Public Utilities

Chris Parker, Director
Artie Powell, Manager
Brenda Salter, Utility Technical Consultant Supervisor
Michael Healy, Utility Analyst

Date: June 24, 2022

Re: Docket No. 22-506-01, 22-022-01, 22-066-01, 22-028-01, 22-030-02, 22-031-02, In the Matter of the Verified Application for Authority to Issue Securities Related to Acquisition of the Ft. Pierce Gas Facility.

Recommendation (Approve)

The Division of Public Utilities (Division) recommends the Public Service Commission of Utah (Commission) approve the request and authorize Deseret Generation & Transmission Co-Operative (Deseret, the Company), and its members consisting of Bridger Valley Electric Association, Dixie-Escalante Rural Electric Association, Garkane Power Association, Moon Lake Electric Association, and Mount Wheeler Power, Inc. (Members) to issue securities in the form of a [REDACTED] secured promissory note with National Rural Utilities Cooperative Finance Corporation (CFC). This loan is in addition to the currently existing loans with CFC previously approved by the Commission.

Issue

Pursuant to Utah Code Ann. §54-4-31, Deseret requests an Order approving and authorizing the issuance of securities in the form of a Loan Agreement (Ft. Pierce Loan Agreement) between Deseret and CFC, a Secured Promissory Note in an amount not to exceed [REDACTED], and Joint and Several Guarantees of Deseret's payment obligations

Division of Public Utilities

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by each of Deseret’s Members. The Commission issued two Action Requests on June 10, 2022, for the Division to review the application and make recommendations, the first with a due date of July 8, 2022, the second with an ASAP due date. Subsequently, the Commission issued a Notice of Filing and Comment Period where interested parties could provide comments by June 23, 2022. On June 23, the Division filed with the Commission an extension to the comment period to June 24, 2022. This memorandum represents the Division’s response to the Commission’s Action Request.

Background

As provided in Deseret’s application, “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. 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 under Utah and federal law.”¹

Deseret applied for a Certificate of Public Convenience and Necessity (CPCN) authorizing the acquisition of the Ft. Pierce Generating Project (Project) in Docket No. 21-506-02. The Project will enable Deseret to provide additional peaking power during periods of peak system load. Deseret would like to begin drawing funds on the Ft. Pierce Loan Agreement as soon as July 1, 2022.

Discussion

The Division has reviewed the Verified Application for Authority to Issue Securities Related to Acquisition of Ft. Pierce Gas Facility, the audited financial statements of Deseret for the

¹ Deseret Application, beginning on page 2

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past five years, the Loan Agreement, Secured Promissory Note, Member Guaranty, and the Approved CPCN Order.

The Application states that:

1. The Ft. Pierce Loan Agreement was negotiated and structured in the public's interest to avoid any adverse impact or risk to Deseret or Deseret's Members.
2. The Company does not anticipate any change in rates because of the loan agreement.
3. All five members on Deseret's Board of Trustees have approved the terms of the Ft. Pierce Loan Agreement.
4. The financial position of the Company will be strengthened, and Deseret will be better able to respond to opportunities in the market.
5. The Board's approval of the Loans occurred at a duly noticed public meeting.

Historical Results

The Division also examined Deseret's audited financial statements for 2017 through 2021. Exhibit 1 is a summary of the income statements, balance sheets, and cash flow statements prepared by the Division.

The income statement on page 1 calculates a 0.48% average annual increase in total revenue from \$221.5 million in 2017 to \$235.5 million in 2021. During the same period, total operating expense increased 4.34% from \$179.5 million to \$227.2 million. Net income for 2021 was down substantially in part to a large increase in Maintenance Expense for the year. Deseret's net income has been volatile over the past five years with a low of \$-35.4 million in 2018 and a high of \$41 million in 2019.

The balance sheet information on page 2 shows a strong and consistent position for the periods under review with Total Current Assets of \$180.3 million as of year-end 2021. During the same period, total long-term debt decreased 5.2% annually from \$162.5 million in 2017 to \$105 million in 2021 putting the Company in a better position to increase debt.

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Page 3 of exhibit 1 is the statement of cash flows for 2017 through 2021 and reflects a strong and consistent cash flow position for all years under review.

Page 4 of exhibit 1 is the ratio analysis and is calculated from the historical financial information. Deseret's capital structure has gone from 61% debt and 39% equity in 2017 to 47% debt and 53% equity by year-end 2021. Other calculations show a current ratio² of 5.42 and a quick ratio³ of 2.28 in 2021. The current ratio is close to the 5-year average of 4.64 while the quick ratio is slightly higher than the average of 1.88. The interest coverage ratio (Times Interest Earned⁴) is calculated at 1.10 for 2021 compared to the 5-year average of 2.35. The calculation of the profitability ratios shows a net margin of 1.93% in 2021 which is much lower than the 5-year average of 5.23%.

Based on the past performance, it is anticipated that the Company will be able to meet its current and the proposed financial obligations.

Conclusion

The Division has reviewed and analyzed the application, loan documents, and audited financial statements of Deseret Generation & Transmission Co-Operative and recommends that the Commission approve the Companies' request to issue securities in the form of a [REDACTED] million loan agreement with the National Rural Utilities Cooperative Finance Corporation for the acquisition of the Ft. Pierce Generating Project.

cc: Phillip J. Russell, James Dodge Russell & Stephens, P.C.
Michele Beck, Director, Office of Consumer Services

² Current ratio is current assets divided by current liabilities. It is a measure of a company's ability to satisfy its cash needs over the coming twelve months.

³Quick ratio is cash plus accounts receivable divided by current liabilities. It is a more stringent measure of a company's ability to satisfy its cash needs over the coming twelve months.

⁴ Times Interest Earned is calculated as the earnings before tax divided by the interest expense.