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## UTAH DEPARTMENT OF COMMERCE

### Division of Public Utilities

MARGARET W. BUSSE  
Executive Director

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Division Director

**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. 22-506-02, 22-022-02, 22-066-02, 22-028-02, 22-030-03, 22-031-03, In the Matter of the Verified Application for Authority to Issue Securities Related to Acquisition of the Bonanza Solar Facility.**

### Recommendation (Approve)

The Division of Public Utilities (Division) recommends the Public Service Commission (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.

Deseret applied for a Certificate of Public Convenience and Necessity (CPCN) authorizing the acquisition of the Bonanza Solar Generating Project (Project) in Docket No. 22-506-03 on June 9, 2022. The CPCN has not yet been issued by the Commission and the Division's recommendation to issue securities in this docket is contingent upon the issuance of the CPCN.

Division of Public Utilities

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## **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 (Bonanza Solar Loan Agreement) between Deseret and CFC, a Secured Promissory Note in an amount not to exceed [REDACTED] million, and Joint and Several Guarantees of Deseret's payment obligations 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, 2022, 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."<sup>1</sup>

The Project consists of PV solar panels, inverters, and interconnecting facilities with a total peak output of 15 MW and is anticipated to be completed by year end 2022. The project will enable Deseret to reduce coal-fired generation at the Bonanza site, extend the remaining coal fuel, provide additional peaking power during periods of peak system load,

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<sup>1</sup> Deseret Application, beginning on page 2

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and will qualify for a 2022 Investment Tax Credit. Deseret would like to begin drawing funds on the Bonanza Solar 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 the Bonanza Solar Facility, the Loan Agreement, Secured Promissory Note, Member Guaranty, and the audited financial statements of Deseret for the past five years.

The Application states that:

1. The Bonanza Solar 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 Bonanza Solar 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 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.

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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.

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 ratio<sup>2</sup> of 5.42 and a quick ratio<sup>3</sup> 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 Earned<sup>4</sup>) 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 Bonanza Solar Project.

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<sup>2</sup> 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.

<sup>3</sup>Quick 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.

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

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