



State of Utah

Department of Commerce
Division of Public Utilities

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Action Request Response

To: Public Service Commission of Utah

From: Utah Division of Public Utilities

Chris Parker, Director

Artie Powell, Manager

Doug Wheelwright, Utility Technical Consultant Supervisor

Casey J. Coleman, Utility Technical Consultant

Date: June 24, 2022

Re: **Docket No. 22-506-03**, 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 MWAC of electric generation that can be provided from photovoltaic solar generation facilities located adjacent to the Bonanza Power Plant in Uintah County, Utah (Solar Project). Deseret has received approval to finance the Solar 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 MWAC of photovoltaic solar generation to be located adjacent to and interconnected with transmission facilities located at the Bonanza generating station.

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 to Acquire Additional Generation

As stated by Deseret in its application:

As part of regular planning and operations management, Deseret routinely reviews both its system load requirements (electric demand, capacity, and peak generation), the remaining useful life of existing generating resources, as well as the diversity of generating resources, the environmental attributes, and aspirational renewable resource objectives as established by Deseret’s governing board.

Deseret has identified an opportunity to: (i) diversify and broaden the fuel source(s) of generation resources used to supply Deseret’s member distribution systems with the required power to satisfy customer load demand; and (ii) extend the anticipated life of

coal reserves dedicated to the fuel supply of Deseret's Bonanza Unit 1 coal-fired generating facility.

By adding a PV Solar generating resource adjacent to the Bonanza Unit, Deseret will increase its access to a renewable power resource; diversify its generating resources; and extend the anticipated life of the dedicated coal reserves used to supply the Bonanza Unit 1 generating plant.

In addition, Deseret's investment in and acquisition of the Solar Project will result in valuable federal Solar investment tax credits that will benefit Deseret financially by offsetting anticipated federal income tax liability arising from taxable operating margins during 2022 and/or subsequent years.¹

Bonanza Solar Project

Deseret also indicated in its application:

Deseret intends to acquire up to 15 MW (AC) of photovoltaic solar generation to be located adjacent to, and interconnected with transmission facilities located at the Bonanza generating site. The Solar Project consists of PV solar panels, inverters, and interconnecting facilities. Total aggregate output will be approximately 15 MW at peak. The Solar Project would be installed on land Deseret owns adjacent to the existing Bonanza Unit 1 coal-fired electric generation plant in Uintah, County, Utah. The Solar Project will be interconnected with Deseret facilities located at the Bonanza site. Because the land is already owned and largely suited to the Solar Project, the schedule for construction of the Solar Project on the site is ideally suited for completion in time to qualify Deseret to receive federal investment tax credits by year-end 2022.

¹ Deseret Generation and Transmission Application, June 9, 2022 page 3.

The full 15 MW Solar Project as proposed by Deseret includes costs for budgeted construction/purchase price, allowance for interest during construction, interconnection, and other installation costs.²

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

- (i) Deseret can use the output from the Solar Project to partially reduce coal-fired generation at the Bonanza Unit, thereby extending the remaining useful reserves that could be supplied from the dedicated Deserado coal mine, the sole source of fuel for Bonanza;
- (ii) Deseret can utilize the available output from the Project as added energy to increase total system energy during periods of peak demand on Deseret's system, thereby avoiding costly purchases of energy to satisfy peak demand requirements during very high-priced market conditions; and
- (iii) The 2022 Investment Tax Credit for the Solar Power Project will enable Deseret to avoid federal income tax equal to approximately 26% of the qualifying value of Deseret's equity investment in the Project.³

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 Solar Project. The Division sees no evidence to contradict this.

² Deseret Generation and Transmission Application, June 9, 2022 page 4.

³ Deseret Generation and Transmission Application, June 9, 2022 page 4.

As part of the application Deseret also stated that its company has sufficient capital to finance the Solar 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 2021.

The Division agrees that because of changes in electricity generation with a market transitioning to greener energy sources, growth in Deseret's load demand, and the tightening energy market, Deseret is facing a challenging situation. The proposed Solar Project is a viable option for the company to pursue to help diversify its generation portfolio 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 Solar Project. Additionally, the Division agrees with Deseret that installing the Solar 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

The Division concludes, based on the available evidence, that Deseret has a unique opportunity to invest in a green energy project and receive tax benefits from the federal government. The proposed Solar Project will efficiently and economically allow Deseret to diversify its generation portfolio adding a green energy option to its mix. 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.

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

2. No existing utility will be impacted or harmed by the construction of the Solar 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. 22-506-03.

CC: Certificate of Service List