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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. 23-506-01
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**REDACTED APPLICATION FOR CERTIFICATE OF PUBLIC
CONVENIENCE AND NECESSITY – BONANZA RECIP 1 PROJECT**

In accordance with 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 51 MW of peaking generation resources that can be provided from reciprocating engine generation sets fueled by natural gas (the “Bonanza Recip 1” or “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 Confidential Exhibit 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. Communications regarding this Application should be directed to:

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3. 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.

4. Deseret directly owns electric utility equipment and systems in Utah. In addition, Deseret 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, Solomon Station peaking gas resource, Bonanza 1 solar facility, rights to the Hunter II coal-fired generating unit, rights to the Intermountain Power Project 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.

Decision to Acquire Additional Generation

5. As part of regular planning and operations management, Deseret routinely reviews both its system load requirements (electric demand, capacity, and peak generation), projected capacity and availability of generation resources, 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.

6. In completing those tasks this year, Deseret has identified a need to procure additional intermediate/peaking power resources located on land Deseret currently owns within the Bonanza generating plant site in Uintah County, Utah. The Bonanza site currently has no natural gas supply available, and this project includes the construction of an approximately 5-mile pipeline from the plant and a tap to interconnect onto interstate gas transport facilities that pass south of the Plant. The addition of the gas pipeline will allow dual-fuel capability for some systems in Bonanza Unit 1, such as the startup igniters, which should improve the financial results of operations of the existing plant equipment as well.

7. Deseret’s upcoming load/resource picture considers market prices for electricity in the Western U.S. The current and forward market prices continue to show signs of significant stiffening, particularly during the regional on-peak summertime period, which coincides with Deseret’s system peak. The forward price index recently published by Intercontinental Exchange (“ICE”) depicts 2024 monthly average summertime on-peak prices of around \$200 MWh during July and August. At those prices, acquisition of 51 MW of market resources for all on-peak hours during the two months would cost close to \$10 million. This expense would be a one-year solution

and would not provide any relief from forward price projections beyond 2024. If actual prices were to spike, as they have each summer since 2020, to levels in excess of \$1,500 MWh, the cost of market purchases in those hours when the system requirements cannot be satisfied with peak generation capacity within Deseret's control. This poses potential cost and risk of severe financial disruption that could be intolerable.


8. Deseret and its member systems have been receiving requests from both existing and new customers for additional power load, which would require Deseret to either build additional generation resources or purchase power from the market. As a provider of electric service, Deseret has the obligation to serve its members within its service territory. To fulfill this obligation, constructing Bonanza Recip 1 is the most cost-effective and low-risk option, especially given the volatility of power prices and market availability of power. With the closure of more dispatchable resources in western states, meeting member or customer load requirements can be increasingly challenging without owning generation resources. Therefore, Bonanza Recip 1 will provide the necessary additional dispatchable power to Deseret's members.

The Proposed Project

9. Deseret has identified an opportunity to acquire up to 51 MW of generation resources that can be provided from reciprocating engine generation sets fueled by natural gas.

- a. Equipment Information. The Project consists of fourteen (14) Caterpillar (Model CG260-16) 3.657 MW net output *or* twenty-two (22) Caterpillar (Model G3520H) 2.303 MW net output fast-starting generating units. The rated heat rate efficiency (HHV) for the units is expected to be 8,926 btu/kwh or 8,800 btu/kwh, respectively. The actual installed model will be selected by availability at the time an order is made. This heat rate efficiency will be competitive with very efficient generation

options and means that the overall value of the 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 Bonanza Recip 1 project would be installed on land that is owned by Deseret, located adjacent to the existing substation and generation facilities at the Bonanza Power Plant. Because the land is already owned by Deseret, the schedule for construction of the Bonanza Recip 1 project on the site is ideally suited for completion in time to help meet load growth in the anticipated shortfall years. Assuming immediate release to procure and construct, the Project can bring the full 51 MW online beginning November 1, 2024.
- c. Capital Cost/Budget. The full Bonanza Recip 1 Project would cost approximately .
- d. Fuel Cost/Availability. The current site for the Project is situated near existing gas and pipeline facilities, as indicated in Attachment 1. The pipeline tap is located approximately 5 miles south of Bonanza, and a portion of the total project cost has been allocated to construct a pipeline that will transport gas to the Bonanza site. Historically, there is an abundant supply of natural gas at the location where Deseret intends to tap the interstate gas supply facilities which results in more favorable natural gas prices compared with gas deliveries marketed at various locations elsewhere within Deseret's member system areas.
- e. Financial Value/Benefits. Installing the Bonanza Recip 1 project at the Bonanza site carries multiple financial and other benefits: (i) Deseret can use the full 51 MW

- output to satisfy load growth on its system during hours when the Project is operating, thereby avoiding market purchases of power in high-market price hours; (ii) Deseret's membership will support seasonal rate adders in the form of a seasonal fuel adjustment demand and energy charge ("FAC") to the base wholesale rate tariffs (as further described in Attachment 1); (iii) Installing the gas pipeline adds significant value to the Bonanza plant site as a potential future site for additional major baseload generation, possibly including construction of gas-fired generation to replace/succeed the coal-fired Unit 1 when/if it is decommissioned; (iv) With natural gas on-site at Bonanza, Deseret will be able to dual-fuel switch between diesel and more economical natural gas in those elements; (v) The Project allows for fast-response backup that can be utilized to compliment Deseret's expanding solar/renewable resources, which in turn permits Deseret to market blocks of energy derived mainly from variable energy resources, that otherwise could not command full market prices due to intermittent variability, solar ramping, etc.; (vi) The Project likely extends the period before which Deseret would need to undertake the addition of large, replacement generation to meet robust load demand growth driven by shifting demographics in several of Deseret's member service areas. Deferring large incremental plant investments provides significant value for Deseret's membership; and (vii) Adding significant dispatchable generation maximizes the value and utilization of existing transmission capacity interconnected at the Bonanza site.
- f. Net Revenue/Savings. Deseret estimates that, with the availability of relatively attractive priced gas in the Uintah Basin, and with anticipated heat rate of the new peaking resource, Deseret projects the Project will operate at a variable strike price

(accounting for fuel and variable O&M) equal to [REDACTED] during summertime months. Wintertime Strike Price (mid-range case) is projected at [REDACTED]. Deseret has prepared several projections based on varying cases as follows:

- a. A “Year 1” financial operating proforma cash flow projection (as described in Attachment 1) – forecasting potential net cashflow from the Project expected to be collected during the first 13-month Operating period (*i.e.*, cash collections/savings from operations beginning November 1, 2024 through November 30, 2025). Using a mid-range forecast for both gas price and electricity pricing, Deseret projects the positive net market value (accrual basis), from the completion of this Project would equal a net [REDACTED] between now and the end of 2025.
- b. A 3-year “Change Case” cashflow model adjusting Deseret’s latest financial model to reflect: (i) increased Member rate revenue associated with a seasonal rate adder tied to proceeding on the Project; (ii) partial rebate of the seasonal rate adder; and (iii) net operating cash flows expected to be available if the Project were included in projected operating results and the rate adjustment/rebate applied as projected in Deseret’s mid-case cash projection.
- c. A sensitivity analysis evaluating the projected performance of the Project under “high” and “low” market scenarios for both fuel price and electricity market prices. In all cases, the analysis demonstrates an extremely high probability of financial value added by the Project to Deseret’s forecasted cashflow results; in particular, the rate surcharges (described above and in Attachment 1) provide solid reinforcement to ensure sufficient cashflow

against the unlikely event of extremely low electricity prices coupled with unexpectedly high gas prices in any particular year.

Project Financing

10. Deseret has received approval to finance the Bonanza Recip 1 project through its lender, National Rural Utilities Cooperative Finance Corporation (“CFC”). The acquisition cost will be financed on a long-term secured loan of 26.5 years from CFC in substantially the form identified in the Application for Authority to Issue Securities filed contemporaneously with this Application).

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 is in the process of obtaining the required air permits from the Environmental Protection Agency (“EPA”), or the appropriate state agency (if applicable). 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. Construction of the Project will not commence until Deseret has received the proper and necessary permits to proceed.

12. As required by Utah Code Ann. § 54-4-25(4)(b), Deseret submits that the Bonanza Recip 1 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 will not constitute an impermissible extension into the certificated service territory of any existing public 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 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.

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 Bonanza Recip 1; 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 30th day of May, 2023.

Respectfully submitted

By: 

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*Attorneys for Deseret Generation &
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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Application was served by email this 30th day of May, 2023, upon the following:

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