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# 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  
Brenda Salter, Assistant Director  
Doug Wheelwright, Utility Technical Consultant Supervisor  
Casey J. Coleman, Utility Technical Consultant

**Date:** June 23, 2023

**Re:** **Docket No. 23-506-01**, 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 51 MW of peaking generation resources that can be provided from reciprocating engine generation sets fueled by natural gas (Bonanza Recip 1 or Project). Deseret has received approval to finance the 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 26.5 years.

Division of Public Utilities

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## **Issue**

Pursuant to Utah Code Ann. § 54-4-25, Deseret applied for a CPCN with the 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 Commission issued an Action Request on May 30, 2023, for the Division to review the application and make recommendations with a due date of June 29, 2023. Subsequently, the Commission issued a Notice of Filing and Comment Period where interested parties could provide comments by June 26, 2023. This memorandum represents the Division's response to the Commission's Action Request.

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.

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.

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 [would be an intolerable financial impact]. This poses potential costs and risk of severe financial disruptions that could be intolerable.

Deseret and its member systems have been receiving requests from both existing and new customers indicating 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 appears to be 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.<sup>1</sup>

### Bonanza Recip 1 Project

Deseret also indicated in its application:

Deseret intends to acquire up to 51 MW of generation resources that can be provided by reciprocating engine generation sets fueled by natural gas. 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.

The 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. The schedule for construction on the Project 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.<sup>2</sup>

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

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<sup>1</sup> Deseret Generation and Transmission Application, May 30, 2023 page 3-4.

<sup>2</sup> Deseret Generation and Transmission Application, May 30, 2023 page 4-5.

- (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 complement 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.<sup>3</sup>

## 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

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<sup>3</sup> Deseret Generation and Transmission Application, May 30, 2023 page 5-6.

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 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 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, and responses to a data request, along with the audited annual financial reports from 2020 through 2022.

As an additional step in the review process, the Division had an informal virtual meeting on June 7, 2023, with representatives of Deseret. This meeting was to clarify some of the points made in the application by Deseret and to better understand the scope of the project. Through this meeting, the Division verified the need for additional peaking resources and the just and reasonable steps Deseret is taking to meet the increasing energy demand by its members.

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 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 position<sup>4</sup> of Deseret and agrees the company has the financial stability to install the Project. Additionally, the Division agrees with Deseret that installing the 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

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<sup>4</sup> See Confidential Attachment 1 for the detailed financial analysis done by the Division.

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 need for additional peaking generation facilities. The proposed Project will efficiently and economically allow Deseret to diversify its generation portfolio adding a viable intermediate generation source to its portfolio 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.
2. No existing utility will be impacted or harmed by the construction of the 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 on the financial statements, it appears Deseret has been financially stable for the past three 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. 23-506-01.

CC: Certificate of Service List