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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(s).** 23-506-02, 23-022-02, 23-066-02, 23-028-01, 23-030-01, and 23-031-01, Application of Deseret Generation and Transmission Co-Operative, Bridger Valley Electric Association, Dixie Power, Garkane Energy Cooperative, Inc., Moon Lake Electric Association, Inc., and Mt. Wheeler Power, Inc. for Authority to Issue Securities Related to Acquisition of Bonanza Recip 1.

Recommendation (Approve)

The Division of Public Utilities (Division) recommends the Public Service Commission of Utah (Commission) approve the request and authorize Deseret Generation and Transmission Co-Operative, Bridger Valley Electric Association, Dixie Power, Garkane Energy Cooperative, Inc., Moon Lake Electric Association, Inc., and Mt. 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 (Bonanza Recip 1 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

Division of Public Utilities

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obligations by each of Deseret's Members. The Commission issued an Action Request on May 31, 2023, for the Division to review the application and make recommendations, with an ASAP due date. 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.

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 Bonanza Recip 1 Project (Project) in Docket No. 23-506-01. 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 Bonanza Recip 1 Loan Agreement as soon as July 1, 2023.

Discussion

The Division has reviewed the Verified Application for Authority to Issue Securities Related to Acquisition of Bonanza Recip 1 Project, audited financial statements for the past three years, Loan Agreement, Secured Promissory Note, Member Guaranty, and the CPCN Application filed by Deseret.

The Application states that:

¹ Deseret Application, May 30, 2023 beginning on page 2.

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1. The Bonanza Recip 1 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. To lend further financial stability to the Project, Deseret's membership will support a fuel adjustment charge (FAC) to the base wholesale rate tariffs.
3. All five members on Deseret's Board of Trustees have approved the terms of the Bonanza Recip 1 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

Exhibit 1 is a summary prepared by the Division of the audited financial results for 2020 through 2022. The income statement on page 1 indicates that Total Revenue has increased 7.91% annually from [REDACTED] million in 2020 to [REDACTED] million in 2022. Operating Expenses have grown at a slightly quicker rate than revenues, rising from [REDACTED] million in 2020 to [REDACTED] million in 2022, for an 8.43% annual increase. The cost of purchased power represents 29.05% of operating expenses for 2022.

The balance sheet information on page 2 shows a cash position at the end of 2022 of [REDACTED] million, slightly below the cash position in 2020, and also within the historical range reported by Deseret.

Other balance sheet accounts of note are as follows. Construction Work in Progress increased 296.86% to a total of [REDACTED] million. This significant increase reflects Deseret's investment in generating facilities to meet growing demand. Total Liabilities stayed relatively flat over the last three years only increasing 1.1%, and Total Patronage Equity increased by 5.98% annually from [REDACTED] million in 2020 to [REDACTED] million in 2022.

Page 4 of Exhibit 1 identifies the financial ratios for 2020 through 2022. The Long-term Solvency ratios in 2022 remain strong and are close to historical averages. The profitability ratios for 2022 are close to historical averages. The Company has maintained its profitability

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and is able to meet its obligations and increase the return of patrons' capital in each of the last 3 years.

The Regulatory Capital Structure calculates Long-Term Debt at 44.76% and Equity at 55.24% as of year-end 2022. The Equity portion of the capital structure for Deseret has been increasing each year showing the Company is generally healthy and has been able to meet its current obligations.

Conclusion

The Division has reviewed and analyzed the application, loan documents, and audited financial statements of Deseret Generation & Transmission Co-Operative. The Division 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 Recip 1 Project.

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