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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: May 30, 2024

Re: **Docket No(s). 24-506-02, 24-022-02, 24-066-01, 24-028-01, 24-030-01, and 24-031-01**, 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 Installation of the Bonanza SCR.

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 (Deseret), Bridger Valley Electric Association, Dixie Power, Garkane Energy Cooperative, Inc., Moon Lake Electric Association, Inc., and Mt. Wheeler Power, Inc (Deseret or 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 SCR Loan Agreement) between Deseret and CFC, a Secured Promissory Note in an amount not to

Division of Public Utilities

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exceed [REDACTED], and Joint and Several Guarantees of Deseret's payment obligations by each of Deseret's Members. The Commission issued an Action Request on May 23, 2024, 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 10, 2024. 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 SCR Project (Project) in Docket No. 24-506-01. The Project will enable Deseret to install SCR² technology to capture additional coal reserves. Deseret would like to begin drawing funds on the Bonanza SCR Loan Agreement as soon as [REDACTED].

Discussion

The Division has reviewed the Verified Application for Authority to Issue Securities Related to Acquisition of Bonanza SCR Project, audited financial statements for the past four years,

¹ Deseret Application, May 23, 2024 beginning on page 2.

² SCR - Selective Catalytic Reduction means of converting nitrogen oxides, also referred to as NOx with the aid of a catalyst.

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Loan Agreement, Secured Promissory Note, Member Guaranty, and the CPCN Application filed by Deseret.

The Application states that:

1. The Bonanza SCR 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. All five members on Deseret's Board of Trustees have approved the terms of the Bonanza SCR Loan Agreement.
3. The financial position of Deseret will be strengthened, and Deseret will be better able to respond to opportunities in the market.
4. The Board's approval of the Loans occurred at a duly noticed public meeting.

Historical Results

Confidential Exhibit 1 is a summary prepared by the Division of the audited financial results for 2020 through 2023. The income statement on page 1 indicates that Total Revenue has increased 6.93% annually from █████ million in 2020 to █████ million in 2023. Operating Expenses have grown at a slightly slower rate than revenues, rising from █████ million in 2020 to █████ million in 2023, for a 5.45% annual increase. The cost of purchased power represents █████ of operating expenses for 2023.

The balance sheet information on page 2 shows a cash position at the end of 2022 of █████ million, higher than the cash position in 2020 of █████ million, which reflects an █████ annual increase.

Other balance sheet accounts of note are as follows. Construction Work in Progress increased 69.57% to a total of █████ million. This increase reflects Deseret's investment in generating facilities to meet growing demand. Total Liabilities stayed relatively flat over the last four years increasing less than █████, and Total Patronage Equity increased by █████ annually from █████ million in 2020 to █████ million in 2023.

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Page 4 of Confidential Exhibit 1 identifies the financial ratios for 2020 through 2023. The Long-term Solvency ratios in 2023 remain strong and are close to historical averages. The profitability ratios for 2023 are close to historical averages. Deseret has maintained its profitability and is able to meet its obligations and increase the return of patrons' capital in each of the last 4 years.

The Regulatory Capital Structure calculates Long-Term Debt at 27.72% and Equity at 72.28% as of year-end 2023. The Equity portion of the capital structure for Deseret has been increasing each year, showing Deseret 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] loan agreement with the National Rural Utilities Cooperative Finance Corporation for the acquisition of the Bonanza SCR Project.

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