

-BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH-

In the Matter of the Application of Deseret)
Generation & Transmission Co-operative)
for Authority to Issue Security in the form)
of Promissory Note to National Rural)
Utilities Cooperative Finance Corporation)

DOCKET NO. 05-506-01

REPORT AND ORDER

Issued: December 14, 2005

By the Commission:

On November 30, 2005 Applicant Deseret Generation & Transmission Co-operative ("Deseret" or "Applicant"), filed an application for authority to issue securities in the form of a promissory note to the National Rural Utilities Cooperative Finance Corporation ("CFC") in connection with a Note Purchase Transaction (the "Note Purchase Transaction"). Applicant requested Informal Adjudication of the Application under R746-110, Rules of the Public Service Commission, and represented that the matter was anticipated to be unopposed and uncontested. Applicant requested expedited consideration of the Application, on the grounds that the terms of a Note Purchase Transaction required payment of the purchase price for the existing indebtedness owing from Applicant to one of its major creditors to be made on or about December 16, 2005 and that there was no obligation for the holder of that indebtedness to honor the agreed-upon price if closing did not occur on approximately that date.

Applicants submitted draft transaction documents and term sheet setting forth the substantive terms of the proposed transaction, a sworn statement from Applicant, certified documents and other information to establish the facts pertinent to the Application.

FINDINGS OF FACT

Deseret is a wholesale electric cooperative providing electric generating and transmission services to its six member rural electrical cooperatives who, in turn, provide retail electric services to their member/owners in the States of Utah, Wyoming, Arizona, Colorado, and Nevada.

For several years, Deseret has faced severe financial difficulties. In 1996 and again in 1998, Deseret entered into a series of arrangements with its major creditors for restructuring and recapitalizing Deseret's secured indebtedness. As part of the 1998 Recapitalization Agreement (the "Recapitalization Agreement"), Deseret issued promissory notes in favor of General Electric Capital Corporation ("GECC") which obligated Deseret, among other things, to make certain payments to GECC from Deseret's future cash flows (the "GECC Notes").

3. A portion of the payments to become due under the GECC Notes were of a fixed, scheduled nature, and another portion of payments thereunder were contingent, depending on the amount of future net cash flows generated by Deseret from its operations during the years 2020 through 2030. By Report and Order dated November 2, 1998, in Docket No. 98-506-01, this Commission approved the issuance of the GECC Notes.

4. Deseret and GECC have negotiated the terms of a transaction whereby Deseret will essentially refinance the GECC Notes through a purchase from GECC all of GECC's right, title and interest in and to the GECC Notes as well as all related rights of GECC to receive future cash flow payments or debt service payments from Deseret (the "GECC Note Purchase Transaction"). As part of the GECC Note Purchase Transaction, GECC release all of Deseret's assets from the lien of a Subordinated Mortgage currently encumbering certain assets in favor of GECC. In addition, GECC and Deseret will each release the other from future claims for damages or payments arising on account of Deseret's past indebtedness to GECC, reserving only certain indemnity claims of GECC as set forth in the transaction documents.

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5. In consideration of the transfer of GECC's rights to receive future payments from Deseret, Deseret has agreed to pay GECC in cash at closing a specified amount (the "Purchase Price").

6. Deseret will finance the payment of the Purchase Price through a new loan arrangement (the "Project Loan") with CFC. To evidence Deseret's repayment obligation under the Project Loan, Deseret will issue the Project Loan Note to CFC, an amount equal to \$37,000,000. In order to induce CFC to make the Project Loan, Deseret will also purchase from CFC loan capital term certificates ("LCTC's") in an amount equal to 12.5% of the principal amount of the Project Loan Note. The LCTC's will be purchased using Deseret's existing cash and will not require any new financing. LCTC's will be eligible for capital patronage rotation from CFC and will be paid in accordance with CFC's policies for Patronage Capital.

7. Under the terms of the Project Loan Note, Deseret will repay the Project Loan as follows:

In quarterly installments, over a period of up to and through December 31, 2019, the accrued interest on the outstanding balance under the Project Loan (the "Interest Only Payment Period"); and

In approximately equal quarterly installments beginning March 31, 2020 through December 31, 2025, principal and accrued interest to amortize the outstanding balance of the Project Loan. The Project Loan will become due and payable in full in all events no later than March 31, 2026.

Subject to certain provisions pertaining to prepayments of the Project Loan Note, Deseret's existing obligations to CFC will be modified, essentially to: (i) provide that payment of the Project Loan Note will be made by Deseret in accordance with the terms thereof, regardless of Deseret's cash flow during any given year and prior to calculating the amount payable to CFC on existing Debt from such Deseret cash flows; (ii) increase the

amount to be paid to CFC on existing Debt from Deseret's future cash flows beginning in 2020 through 2025 in an amount corresponding to one-half of the payment of scheduled minimum debt service that would otherwise have been made to GECC under the purchased GECC Notes plus an amount sufficient to offset the effect on payment of Deseret's existing debt to CFC occasioned by the debt service payment under the Project Loan Note during those years; and (iii) exclude certain net cash flows derived from a potential waste coal-fired generating unit (the "WCFU Unit") to be constructed on property currently owned by Deseret from the calculation of payments to CFC from Deseret's available cash flows under its existing Debt, except that WCFU-derived cash flows may be used to make up any minimum payment shortfalls.

8. The Project Loan Note may be prepaid at any time without penalty, provided such prepayment is made from Deseret's uncommitted (retained) share of prior years' net cash flows (the share of prior years' net cash flows which Deseret is not obligated to pay to CFC under the terms of its existing debt arrangements is called the "Deseret Retained Share"). Other prepayments may be made only with the consent of CFC. Upon prepayment of the Project Loan Note from Deseret's Retained Share, the amount of increased future cash flows to be paid to CFC under the modification to Deseret's existing Debt will be modified and reduced proportionately to the amount of such prepayment(s), thereby allowing Deseret to retain a greater percentage of the cash flows and minimum debt service payments that would otherwise have been paid to GECC under the GECC Notes (and decreasing the one-half of such GECC cash flow/debt payments to be paid to CFC during 2020 through 2025).

9. The Project Loan Note will bear interest initially at a variable interest rate, but may be converted in whole or part at Deseret's option to a fixed rate, by paying CFC any fees and costs associated with fixing the cost of financing with respect to the Project Loan. The initial variable

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interest rate of the Project Loan Note is anticipated to be equal to 6.1%, and will be adjusted as of the Closing Date to reflect CFC's standard variable rate for long term indebtedness as of such date.

10. Amounts owed by Deseret to CFC under the Project Loan Note will be secured by the consolidated mortgage and financing statement executed by Deseret in connection with the 1996 debt restructuring arrangement with CFC, which will be modified to reflect the terms of the Project Loan as set forth in the preceding paragraph. Notably, under the terms of the Project Loan, the property currently encumbered by such mortgage which is surplus to the operation of Deseret's existing generating unit(s) and which is necessary to the completion and operation of the WCFU Unit will be released from the lien of the CFC Mortgage so that it may be transferred by Deseret to the entit(ies) constructing the WCFU Unit, and such property will be free and clear of the lien of the CFC mortgage.

11. The representatives of all six Deseret Members on Deseret's Board of Trustees have actively participated in the development of, and the Board of Trustees has unanimously approved the terms of the Note Purchase Transaction, including the Project Loan arrangement.

12. Applicant has submitted with this application substantially final drafts of agreements and transaction documents pertaining to the Note Purchase Transaction. After the transaction documents have been finalized, Deseret will submit the final transaction documents to the Commission.

CONCLUSIONS OF LAW

1. Applicant is a public utility subject to the jurisdiction of this Commission.
2. All legal and factual prerequisites and requirements for the issuance of this Order have been satisfied.
3. Participation by Deseret in the Note Purchase Transaction and the Project Loan as described herein is in the public interest. Although not entirely without risk, Deseret's future debt service obligations will be more certain and rate risks will be reduced as a result of the transaction.

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4. Participation by Deseret in the Note Purchase Transaction and the Project Loan, including issuing the proposed security in connection therewith, in exchange for the projected benefits of the same is (i) for a lawful and proper purpose; (ii) within Applicant's corporate powers; (iii) consistent with the public interest, sound financial practices and the proper performance of Applicant's public service; and (iv) designed to enhance and not to impair Applicant's ability to perform its public services.

ORDER

NOW THEREFORE, IT IS HEREBY ORDERED AS FOLLOWS:

1. Deseret is hereby authorized to participate in the Note Purchase Transaction as generally described in this Report and Order, or on other terms and conditions substantially consistent with the Report and Order.

2. Deseret is authorized to issue securities in the form of the Promissory Note in favor of CFC for the purpose of financing the purchase of the GECC Notes in the principal amount of approximately \$37,000,000.00 and to provide security interests in its assets to secure repayment of the same as generally described in this Report and Order, or on other terms and conditions substantially consistent with the Report and Order.

3. Applicant is hereby authorized to execute such documents and take such actions as may be reasonably necessary or convenient to the completion of the Note Purchase Transaction and the Project Loan.

4. Deseret shall certify by affidavit that the final transaction documents are substantially consistent with the terms of the proposed transaction filed with the Commission.

5. Nothing in this Order shall be construed to obligate the State of Utah to pay or guarantee in any manner whatsoever securities authorized, issued, assumed, or guaranteed hereunder.

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6. For good cause shown, the 20 day tentative period under R746-110-2 is hereby waived. This Order will become final and effective on the date of issuance.

Agency Review and Judicial Appeal

Pursuant to Utah Code 63-46b-12 and 54-7-15, agency review or rehearing of this order may be obtained by filing a request for review or rehearing with the Commission within 30 days after the issuance of the order. Responses to a request for agency review or rehearing must be filed within 15 days of the filing of the request for review or rehearing. If the Commission fails to grant a request for review or rehearing within 20 days after the filing of a request for review or rehearing, it is deemed denied. Judicial review of the Commission's final agency action may be obtained by filing a Petition for Review with the Utah Supreme Court within 30 days after final agency action. Any Petition for Review must comply with the requirements of Utah Code 63-46b-14, 63-46b-16 and the Utah Rules of Appellate Procedure

DATED at Salt Lake City, Utah, this 14th day of December, 2005.

/s/ Ric Campbell, Chairman

/s/ Ted Boyer, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary
G#46883