United States Department of the Interior

BUREAU OF RECLAMATION
1150 North Curtis Road
Boise, ID 83706-1234

IN REPLY REFER TO:
CPN-1030
2.2.2.10

VIA ELECTRONIC MAIL ONLY

Board of Commissioners
Grant County Public Utility District
30 C St SW
Ephrata, WA 98823
commissioners@gcpud.org

Subject: Grant County Public Utility District Commissioners Meeting May 12, 2020

Dear Grant County Public Utility District Commissioners:

I will attempt to capture my comments from yesterday's Commissioners' Meeting in a letter format. This letter also includes additional comments for consideration by the Commissioners.

I appreciate the opportunity to speak during the above referenced meeting. I am grateful for the opportunity to again voice our concerns over the transmission rate schedule that was presented during the May 12, 2020 meeting.

My comments followed those of Bonneville Power Administration (BPA). Reclamation agrees with and supports the comments provided by BPA.

You will recall on March 23rd, we provided a letter to Grant PUD outlining our concerns over the applicable use of Return on Equity (ROE). Subsequently, on April 27th, we submitted another letter identifying specific costs that need to be reviewed that are currently within the cost model. Grant PUD staff provided a written response on the ROE, but we have not heard anything on the April 27th comments.

We recognize the effects of the pandemic on utilities and the additional difficulties that individuals face during this time may hinder Grant PUD from responding to our concerns. That being said, it appears that Grant PUD continues to proceed with establishing a rate that will ultimately increase costs for it farming customers. We therefore ask again for further discussion before undertaking such a major action that will negatively impact the rate payers, all of whom reside within Grant county.

The rate schedule that Grant PUD is seeking to establish utilizes the 9.8% ROE with which Reclamation and the Columbia Basin Irrigation Districts (Districts) continue to disagree. Grant PUD has not demonstrated that it's proposed 9.8% ROE is Just and Reasonable.

- Grant PUD's proposed 9.8% ROE is based upon the average of the ROE's recently approved by the Federal Energy Regulatory Commission (FERC) in transmission rate cases submitted by two Investor-Owned Utilities (IOUs), Puget Sound Energy (PSE) and PacifiCorp (PAC).

    - Neither PSE nor PAC is a valid comparable for establishing a Just and Reasonable transmission and/or distribution wheeling rate ROE for Grant PUD, which is a publicly-owned, not-for-profit utility.

    - Grant PUD's transmission (and distribution) business risk profile is significantly different than that of either PSE or PAC.

    - Unlike PSE or PAC, Grant PUD has no need to attract equity investors in its transmission and/or distribution business.

    - Grant PUD has failed to demonstrate that any level of ROE above 0% is needed in order to attract investment capital for Grant PUD's transmission and/or distribution systems.

- Shareholders of IOUs will demand a premium – in the form of a higher allowed ROE – in exchange for subjecting their investment capital to certain regulatory risks. Grant PUD, however, has no investors seeking a return on capital in exchange for the risk of investment.

- Both PSE and PAC regularly pay dividends to their respective shareholders/equity investors while Grant PUD does not. Dividends paid by PSE and PAC – and expected to be received by shareholders as part of their overall return on investment – are factored into the Just and Reasonable ROEs established by FERC.

Grant PUD has not conducted a comprehensive ROE analysis similar to the analyses previously performed by PSE and PAC in justifying their respective approved transmission ROEs.

- In a FERC wholesale transmission rate case setting, the burden of proof is on the entity that is requesting the change in rates, which in this case is Grant PUD.

- In Grant PUD's 2020 Transmission Rate Case, Grant PUD has failed to conduct anywhere near the type of comprehensive ROE analysis that would be required by FERC to establish a Just and Reasonable ROE and associated Just and Reasonable transmission rates.

- The above information demonstrates that Grant PUD has not met its burden of proof in the 2020 Transmission Rate Case and therefore has failed to validate that its proposed 9.8% is Just and Reasonable.

The ROE incorporated into Grant's January 27, 2020 Transmission Cost of Service Study (COSS) has an outsized and unreasonable impact on the resultant transmission and distribution rates charged to serve Reclamation project loads.

- A ROE of 9.8% acts to increase Grant PUD's per-unit rate for transmitting power across its transmission system to Reclamation loads served at 115 kV by an unreasonable 29%.

- A ROE of 9.8% similarly acts to increase Grant PUD's per-unit rate for transmitting power across its distribution system to Reclamation loads served at 13.2 kV by an unreasonable 31%.

- The 29% and 31% figures are a measure of the pure profit to be received by the PUD in providing transmission and distribution services to Reclamation project lands if the Commission sets the rates based upon inflated "costs of service" that incorporate a 9.8% ROE.

Any transmission and/or distribution ROE above 0% represents pure profit earned by the PUD that is in excess of its actual long-term transmission and distribution system debt costs.

- Grant PUD's Reclamation transmission and distribution rates should be established at the level that allows the Grant PUD to recover the annual interest expenses associated with its outstanding long-term transmission system debt.

FERC's approval of non-zero ROEs for publicly-owned utilities that are members of a Regional Transmission Organization (RTO) or Independent System Operator (ISO) is not relevant to Grant PUD's specific situation or its proposed transmission rate.

- Grant PUD is not currently a member of any RTO or ISO. Furthermore, it is highly unlikely that any such organizations will be formed in the Pacific Northwest Region in the foreseeable future.

- Grant PUD has failed to identify any comparable for the ROEs established by publicly-owned utilities that are similarly situated to the Grant PUD and that are not members of an RTO or ISO.

- A publicly-owned utility that joins an RTO or ISO voluntarily agrees to operate its transmission system pursuant to a common transmission tariff that is under FERC jurisdiction. Earning a ROE above zero acts to compensate the publicly-owned utility for subjecting itself to additional regulatory risk of FERC jurisdiction. However:
    - Grant PUD has expressly stated that it will not be filing an Open Access Transmission Tariff (OATT) with FERC.
    - Grant PUD intends its transmission rate be established by the Grant PUD Commission rather than by FERC or any other independent outside regulatory body; therefore, no regulatory risk premium is warranted in this instance.

- Incorporating the same regulatory risk premiums experienced by PSE and PAC – but not by Grant PUD - into Grant PUD's transmission COSS ROE will result in transmission and distribution wheeling rates that are not Just and Reasonable.

Grant PUD staff indicated the package materials made available for the May 12, 2020 meeting contained their response to our ROE questions. In the letter from EES Consulting it should be noted that the letter does not actually endorse or support the 9.8% rate proposed by Grant PUD. The EES Consulting letter also indicates that a comprehensive ROE analysis would be needed in order to support Grant PUD's proposed 9.8% ROE figure as Just and Reasonable. As previously stated, the resultant rate has an outsized impact to the rates by as much as 30%.

During the morning session of the meeting a suggestion was made for a transmission rate workshop to include Reclamation and the Districts. We welcome the opportunity to work with the Grant PUD Commission and staff.

In closing, Reclamation asks that the Commission not establish a transmission rate based on the current Cost of Service until all questions and concerns have been addressed. Thank you for your time. We look forward to speaking with you in the future.

Sincerely,

Robert Skordas

Robert Skordas
Deputy Regional Director

cc: Quincy Columbia Basin Irrigation District
Attn: Roger Sonnichsen
1720 Central Avenue S
P.O. Box 188
Quincy, WA 98848

Mr. Craig Simpson
Manager
East Columbia Basin Irrigation District
P.O. Box E
Othello, WA 99344

EAST COLUMBIA BASIN IRRIGATION DISTRICT

55 North 8th
P.O. Box E

OTHELLO, WASHINGTON 99344

Phone 509 488 9671
Fax 509 488 6433

May 15, 2020

Grant County PUD Commissioners
PO Box 37
30 C Street SW
Ephrata, WA 98823

RE: GPUD Commissioner meeting comments for May 12, 2020

Dear Commissioners:

Please accept these comments for the record that relate to the comments made during your May 12, 2020 Commission meeting:

Thank you for the opportunity to address the Commission. I would also like to thank you for requesting a workshop for the Commission to better digest the complexities of establishing a transmission rate for our Reserved Power delivery. We hope for an opportunity to interact with you in that forum at a time we can all sit around a table.

We agree with the comments provided by BPA and Reclamation during the meeting.

It's important that GPUD doesn't establish a new rate to wheel our Reserved Power prematurely. There are unanswered questions regarding data and assumptions used for the current COS-based rate calculations. There needs to be ample evaluation and discussion of our numerous concerns directly with the Commissioners. Unfortunately, the Governor's proclamations regarding public meetings restricts our ability to effectively work the District on this topic now and into the foreseeable future. You are also presently restricted from taking non-routine actions, like establishing a new rate.

We don't find GPUD staff's recommendations on Return on Equity (ROE) justifiable. Your consultant, EES, states that proper development of an ROE is an expensive undertaking, one that GPUD is not performing to inform their decision.

We have other concerns that we look forward to sharing with you as discussions proceed.

Please take these comments into consideration prior to rushing ahead with a decision on ROE and the establishment of new rates to wheel our Reserved Power. Especially considering the directives that Governor Inslee has placed us all under.

Thank you for your time. Please contact me with any questions.

Sincerely,

Craig N. Simpson, P.E.
Secretary – Manager

CNS:wl

cc: Directors
Anna Franz
Roger Sonnichsen
Rob Skordas
Marc Maynard

Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

POWER SERVICES

Official File

May 14, 2020

In reply refer to: PSST-6

Grant PUD Board of Commission:

Thank you again for considering Bonneville's concerns with the proposed Rate of Return. We appreciate the Commission's willingness to discuss this issue more fully with stakeholders, and look forward to participating in that meeting.

The following reflects the public comments we presented at the May 12, 2020 Commission meeting.

Thank you,

/s/ Dan Yokota

Dan Yokota
Manager, Transfer Services

<u>Bonneville Power Administration's May 12 Public Comments</u>

Good afternoon. I am Neal Gschwend, on behalf of the Bonneville Power Administration. Thank you again for this opportunity to discuss the proposed Return on Equity.

We continue to be concerned with this proposal, and the way it is being presented to the Commission. We have reviewed the materials posted for today, and would like to make three points. First, the Commission does not have discretion to choose an ROE that is not based on Grant's costs. Second, while cost-based and accrual-based accounting methods should be equal over time, this proposal will over-collect Grant's costs year after year. Third, the proposal to borrow an ROE value from a different utility is not consistent with FERC ratemaking, is not transparent, and is not consistent with Grant's cost-based ratemaking authority.

<u>The Commission does not have discretion to choose an ROE that is not based on Grant's costs.</u>

First, the Commission does not have discretion to choose an ROE that is not based on Grant's costs. The last time we discussed this ROE issue, Mr. Nordt said something concerning. He said the Commission has discretion to set the ROE level "from 0 to whatever." But under Washington law, RCW 54.24.080, Grant's rates must be cost-based. This is foundational. Discretion that is not tied to Grant's costs is inconsistent with the PUD's obligation to set cost-based rates.

For instance, Grant could not set its rates by surveying investor-owned utility rates and picking a number that felt reasonable. While that might be a simpler process, there would be no basis to say that such a rate would recover Grant's costs. Because of that, it would not be within the Commission's authority to adopt that rate.

In the same way, surveying investor-owned utilities' equity costs says nothing about Grant's equity costs. Grant Staff, in telling this Commission it has the discretion to swing rates by over $30 million per year, is inviting this Commission to choose an arbitrary number that is not tied to Grant's costs.

<u>While cost-based and accrual-based accounting methods should be equal over time, this proposal will over-collect Grant's costs year after year.</u>

Second, while cost-based and accrual-based accounting methods should be equal over time, this proposal will over-collect Grant's costs year after year. An important point to make, and one that EES Consulting made repeatedly in its letter, is that these two methods should be equivalent in the long-run. Switching to an accrual method does not add new costs. We agree with EES that depreciation expense and the return on investment should equal debt service and revenue-financed capital over time. Which means, if done correctly, we should be indifferent to whichever method is used, and the conversation would just be about the value of rate stability.

However, by introducing an ROE based on the costs of specific investor-owned utilities, rather than an analysis of Grant-specific costs, every indication is that the proposed cost of service is significantly higher. They are not equal. These are not Grant's costs; these are higher.

Let's hold up these two methods, and compare whether the results are reasonable. Under the accrual-based proposal, there is $31 million of depreciation expense and $33 million for return on investment. That's $64 million per year under the accrual method, as proposed. We should be able to see the same number on the cash-based side. Now, compare that $64 million against $8 million of interest payments under the cash method. If these two methods are to be equal, that means that Grant Staff is expecting to need, on average, an extra $56 million per year for capital financed by higher rates and for principal. There is no Grant-specific staff analysis to support that very large amount. That is not transparent, and is not consistent with cost-based ratemaking. Rather than smoothing out the peaks and valleys of capital investment, this proposal will simply over-collect—year after year.

The proposal to borrow an ROE value from a different utility is not consistent with FERC ratemaking, is not transparent, and is not consistent with Grant's cost-based ratemaking authority.

Finally, the proposal to borrow an ROE value from a different utility is not consistent with FERC ratemaking, is not transparent, and is not consistent with Grant's cost-based ratemaking authority. To be clear, there is absolutely no generic, FERC-approved, reasonable ROE. The determination is incredibly fact-intensive and specific to each utility. It is because of this difficulty that EES recommends simply borrowing an ROE from others.

However, not only would properly determining a Grant-specific ROE be difficult, it may be impossible. As we have discussed before, the questions that a FERC ROE expert would ask are focused on determining what level of dividends are required to encourage shareholder investment in that utility. These questions do not make sense in a PUD context. Fundamentally, failing to look at Grant's specific costs in determining its ROE is not transparent. It is not consistent with any FERC ratemaking approach, and most importantly, it is not consistent with the PUD's cost-based ratemaking authority under state law.

Conclusion

We are very concerned by this proposal. Under Washington law, the PUD must set rates to recover its costs. That is not what the proposed ROE does. We look forward to being able to discuss this further with the Commission at the public meeting that was agreed to at the March 10 Commission meeting. Thank you.