

Reply to August 5, 2019 Bonneville Power Authority Comments and Questions

I. Introduction

As part of its customer engagement process for developing an updated transmission (wheeling) cost of service study (“COSS” or “Study”), Public Utility District No. 2 of Grant County (“Grant PUD”) requested comments and feedback regarding its draft transmission (“wheeling”) COSS.

The draft study was published on June 19, 2019. Following a review process with stakeholders, written feedback regarding the draft Study was due to Grant PUD by July 10, 2019. The Irrigation Districts and USBR submitted comments and questions on this date. Grant PUD updated the COSS study and responded to the parties’ comments on July 25, 2019. Grant PUD responded to the remaining questions on August 5, 2019.

The Bonneville Power Authority (BPA) submitted its comments and questions to Grant PUD on August 5, 2019. The BPA questions included requests for various information regarding Grant PUD’s financial data. This financial information is gathered and published by Grant PUD’s finance and accounting department in accordance with generally accepted accounting principles. Additionally, Grant PUD’s financial statements are audited by an independent financial firm. Where specific data has been requested, the response to those inquiries may be provided via Grant PUD’s records department. If additional data is required, please visit www.grantpud.org/contact-us to complete a public records request form.

II. Exhibit I – Allocators

1. Lines 15-18 reference a ‘Note D’. There is no Note D. Please provide a source/basis to justify the values in Lines 15-18.

Grant PUD agrees with BPA that the note does not exist. The Note D reference should have been removed from the spreadsheet. The July 25, 2019 COSS Exhibit 1, Line 15-18 reflects total direct labor of \$42,731,085. See “Revised Exhibit a” published on August 9, 2019 for further details.

2. Given Note A, and that Line 2 has a value of \$0, have Grant's books been adjusted to fully remove state-jurisdictional facilities from the transmission function? If not, Transmission Plant Included in Rates must be reduced.

The amounts reflected in Grant PUD's COSS do not include any state-jurisdictional facilities, no reduction is required.

3. Given Note B, and that Line 3 has a value of \$0, is no transmission plant included in developing ancillary services rates? If not, Transmission Plant Included in Rates must be reduced.

Grant PUD's transmission COSS reflects the costs for its wholesale transmission (wheeling) services. The ancillary service costs will be determined later in this process.

III. Exhibit II – Plant Data

4. Grant has not justified the segmentation between Transmission and Distribution Plant. Bonneville requests project-specific data to ensure that costs are appropriately characterized.

Grant PUD believes that the functional plant balances reflected in July 25, 2019 Exhibit II have been properly recorded. This is supported by the Independent Audit Report Letter reflected in the PUD's 2018 Annual Report (See Attachment A published on July 25, 2019), which states:

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

If further information is still needed, see Section I – Introduction for Grant PUD's procedures in acquiring public data.

5. Grant has not recognized the fundamental difference between Distribution and Retail. Line numbers 30-33 are related to retail service and should not be a part of the formula rate applied to service under the sub-115 kV rate. Lines 30-33 should be removed from the Distribution cost of service.

As reflected on Exhibit II, Lines 30-33, Columns (h) through (j) published on July 25, 2019, the plant account balances for Accounts 368 (Line 29), 369 (Line 30), 370 (Line 31), and 373 (Line 32) have been excluded from the distribution function for determining the transmission COSS.

6. Grant should provide greater transparency regarding the costs within FERC Accounts. Grant's Reply to July 10 Comments justified the inclusion of costs from several FERC Accounts based on an Independent Audit Report Letter. This might support a claim that costs have been assigned to the appropriate FERC Account, but it does not necessarily justify including all costs from a given FERC Account in a wholesale transmission or distribution rate. For example, Account 398 properly includes restaurant equipment, but such costs may be inappropriate to recover through wholesale transmission and distribution rates. Grant should be transparent about the costs included in its proposed rates.

Grant PUD believes its transmission COSS process is transparent. Based on Irrigation District and USBR concerns from the July 10, 2019 comments and questions, the PUD is analyzing balances in four Exhibit II plant accounts, Accounts 302, 303, 390, and 397. These results will be made public once the analysis has been completed. Grant PUD notes this may result in modifying its transmission COSS.

If further information is still needed, see Section I – Introduction for Grant PUD's procedures in acquiring public data.

IV. Exhibit III – O&M Expenses

7. Please explain Grant's rationale for the numerous additions and changes to the O&M Expenses cost tab since the prior version. Grant should be transparent about the basis for each change to cost categories, and allow customer groups to review and comment.

Grant PUD believes its transmission COSS process is transparent and that its July 25, 2019 COSS model simplified and clarified Exhibit III (O&M Expenses) to allow better transparency. Grant PUD's July 25, 2019 COSS summarized individual account detail to simplify Exhibit III. Further, the PUD added column (f), "Comments re: Adjustments" that adds additional information detailing whether an account and/or an amount were excluded from the transmission COSS calculation.

8. Hydraulic Power Generation O&M Expenses is not an appropriate cost category to recover in Grant's transmission rate. These costs must be removed.

Grant PUD agrees with BPA. As reflected in the July 25, 2019 COSS, Exhibit III, Lines 1-14, Column (f), the O&M account balances for Accounts 535 (Line 1) through 545.1 (Line 13) have been excluded from the transmission (wheeling) COSS.

9. Grant included FERC Account 564, Transmission Service Studies, in the O&M Expenses. If Grant is reimbursed for study costs, then those reimbursements must appear in the Revenue Credit section of the formula rate proposal.

Grant PUD agrees with BPA. As reflected in the July 25, 2019 COSS, Exhibit III, Line 19, Columns (c) through (e), the YE 2018 O&M account balance for Accounts 564 is zero, therefore, has no impact on the transmission COSS.

If in future years, Grant PUD incurs O&M expenses in preparing studies for others and bills for its services, the amount billed would offset the O&M expenses.

10. On Line No. 20, FERC Account 565, Grant PUD describes the account as Station Expenses. However, FERC Account 565 is 'Transmission of Electricity by Others'. Please clarify this discrepancy and confirm whether the appropriate costs have been applied to this Account. Including Account 565 costs in transmission rates would require justification that is currently absent.

The June 19, 2019 transmission COSS model, the Transmission O&M account numbers and descriptions were matched in accordance with FERC Uniform System of Accounts. The updated July 25, 2019 transmission COSS the Transmission O&M account numbers and descriptions were miss-aligned. Grant PUD believes that the remaining O&M account numbers and descriptions were published in accordance with FERC Uniform System of Accounts. On August 12, 2019, Grant PUD published a revised July 25, 2019 transmission COSS correcting the transmission COSS accounts and descriptions.

11. As in Exhibit II, Grant has inappropriately included costs in Distribution O&M that should instead be recovered through Grant's retail rates. In particular, Lines 43 and 44 appear retail-specific. Additional costs may be inappropriately assigned to distribution, and Bonneville requests supporting documentation to validate this information.

As reflected in the July 25, 2019 COSS, Exhibit III, Lines 43-44, Columns (c) through (e), the O&M account balance for Accounts 596 (Line 43) through 597 (Line 44) have been excluded from the transmission (wheeling) COSS.

Grant PUD believes that the functional O&M accounts balances reflected in July 25, 2019 Exhibit III have been properly recorded. This is supported by the Independent Audit Report Letter reflected in the PUD's 2018 Annual Report (See Attachment A published on July 25, 2019), which states:

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a

direct and material effect on the determination of financial statement amounts.

If further information is still needed, see Section I – Introduction for Grant PUD’s procedures in acquiring public data.

V. Exhibit V – ROR

12. Bonneville continues to disagree with Grant’s inclusion of a flat Rate of Return based on investor-owned utilities’ Returns on Equity rather than recovering actual debt service/borrowing costs incurred related to capital expenditures through a transmission rate. Grant has not justified the recovery of such additional costs here. The goals of a public utility district differ from an IOU’s in that there are no shareholders/investors to compensate, and the goal is to optimize benefits to customers by keeping rates as low as possible while assuring full cost recovery. A public utility district’s debt service/borrowing costs are not equivalent to, and are generally lower than, an IOU’s because (1) publics do not have shareholders that expect a specific rate of return; (2) publics can issue debt on a tax-exempt basis (which typically has lower interest rates); and (3) public institutions usually have a ready source of secure income. Further, Grant’s Reply to July 10 Comments appears to confuse Grant’s opportunity costs with those of its customers. The 9.8% ROE should be removed and replaced with a rate based on Grant’s actual debt service/borrowing costs related to outstanding bonds or other debt instruments. If additional funds are desired to meet financial metrics or for capital expenditures, such amounts should be clearly identified as such.

At present, Grant PUD continues to support its June 19, 2019 and July 25, 2019 COSS position that the ROE of 9.8% is a reasonable proxy for the cost of ratepayer supplied capital. The COSS model utilizes a cost of capital to reflect the financing costs associated with Grant PUD’s capital costs. Rather than adjusting target revenue to meet financial metrics and obtaining cash necessary for capital investments, this method estimates the cost of capital, which includes the cost of equity in the market, and treats this as an operating cost.

Use of these funds carries with it, at a minimum, an opportunity cost. The cost estimates that Grant PUD would need to pay investors if the equity was not supplied by customers. Conversely, it represents a return that customers could expect to earn if they were able to invest that money in similar projects in the marketplace.

VI. Exhibit VII – Revenue Credits

13. The load associated with Bonneville and Grant's General Transfer Agreement should be removed from the divisor of Grant's proposed transmission rates, and added as a revenue credit, in order to avoid double recovery.

Grant PUD believes its COSS properly accounts for BPA load and there is no double recovery.

The transmission COSS assumes this load is subject to the new transmission rate and that the billing units should be used in the divisor of the new rate. If this load was removed from the divisor, a higher rate would result in order to recover the necessary revenue requirement. The current billing units reflected in the transmission COSS are Grant PUD's best estimate.

There is no revenue credit for this load because Grant PUD does not believe there will be any additional revenue from this load that would qualify as a revenue credit.