**Grant PUD’s Response to the USBR’s December 4, 2019 Questions**

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 initial 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. Grand County responded to these comments and questions on August 12, 2019. USBR submitted comments to Grant PUD on August 27, 2019 and Grant PUD responded to these comments on September 26, 2019. In addition, USBR submitted additional questions to Grant PUD on December 4, 2019. The following are Grant PUD’s responses to those questions.

**Question No. 1 -** As part of Grant’s response to the set of questions that were submitted by Reclamation to Grant on August 27, 2019, Grant provided Reclamation with a copy of a document titled “Revised Exhibit A”. Revised Exhibit A (also attached here in Attachment A for reference) contains information regarding Grant’s 2018 labor costs that were utilized by the District in deriving the “Wages and Salary Allocators” that are shown on Lines 15-19 of Exhibit I to the August 12, 2019 version of Grant’s Transmission Cost of Service Study (“2019 COSS”). One of the labor categories shown in Revised Exhibit A is titled “Capital”. For 2018, the Grand Total figure for the Capital category is $22,753,086.54; however, based upon the calculations shown in this exhibit and the figures shown on Lines 15-19 of Exhibit I, the Capital labor costs were not incorporated into calculation of the “WST” and “WSD” cost allocators in the 2019 COSS. Please explain why 2018 labor costs associated with the Capital category were not included in the calculation of the labor cost-based WST and WSD allocators.

Grant PUD’s 2018 total labor expense was 97,544,956.21, as reflected on “Revised Exhibit A” and summarized in the following table (see Column 2):

Table 1: 2018 Labor, by Function and Allocation Factor Development

|  |  |  |  |
| --- | --- | --- | --- |
| Types of Labor | 2018 Labor $ | Labor Used to Allocated General Expense and Plant Accounts | Allocation Percentage |
| (1) | (2) | (3) | (4) |
| Direct Generation WSG | $21,922,194.55 | $21,922,194.55 | 51.31% |
| Direct Transmission WST | $6,325,809.23 | $6,325,809.23 | 14.80% |
| Direct Distribution WSD | $9,684,507.81 | $9,684,507.81 | 22.66% |
| A&G Labor | $32,060,784.38 |  |  |
| Capital | $22,753,086.54 |  |  |
| Licensing | $4,749,934.43 | $4,798,573.70 | 11.23% |
| Other O&M | $48,639.27 |  |  |
| Total Labor | $97,544,956.21 | $42,731,085.29 | 100.00% |

Reflected in the Column 2 Total labor amount is Capital labor of $22,753,086.54 which represents labor directly assigned to capital projects worked on by Grant PUD employees. Initially, Capital labor amounts are reflected in Account 107 - Grant PUD’s Construction Work in Progress (“CWIP”) account balances until work orders are closed. Once the work order is closed, the labor amounts are included in the appropriate 2018 plant account balances based on the work performed.

The purpose of developing the allocation factors (reflected in Column 4) is to allocate indirect A&G expenses, and indirect General and Intangible plant balances to the Generation, Transmission, and Distribution functions for cost recovery purposes. This treatment is consistent with current cost of service methodologies used by other utility companies in developing their functional calculations. By including the Capital labor amount in the calculations reflected in Columns 3 and 4, would inappropriately allocate indirect costs to plant balances and would cause Grant PUD to under-recover its current operating costs from its current customers.

If Capital labor were to be included to determine the allocation percentages in column (4); the capital labor would first have to be functionalized into Generation, Transmission and Distribution. This would result in functionalized Capital Labor having an immaterial impact to the Allocation Percentages. Therefore, it is inappropriate to include the Capital labor in determining the Transmission WST and Distribution WSD factors because all capital costs (including appropriate capital labor) are allocated using plant balances.

**Question No. 2 -** Pursuant to an open records request submitted by Reclamation to the District on August 30th, Grant provided a breakdown of the line item costs that are included in FERC Account No. 921 (“Office Supplies and Expenses”) which are incorporated into the 2019 COSS on Line 66 of Exhibit III. Reclamation notes that based upon the supplemental information provided by the District, approximately 80% of the overall Account No. 921 total of $20,884,611 are labor-related costs. In particular, filtering the Account No. 921 line item costs on the “Timesheet Trx Entry” identifier in the “Reference” column shows total 2018 labor-related costs of $16,688,351. Given the above cited information, please identify: 1) the specific dollar amount of Grant’s 2018 labor costs that are included in FERC Account No. 921 that are associated with the “Capital” labor category as shown in Revised Exhibit A, and 2) how Reclamation can confirm this amount using the information contained in the Account No. 921 line item detail file that was previously provided by the District.

According to the Grant PUD public records provided to USBR, the amount associated with the Account No. 921 “Timesheet Trx Entry” identifier should be $15,688,351 and not the USBR stated amount of $16,688,351. The Account No. 921 labor amount of $15,688,351 is further support by Table 2.

Table 2: 2018 Acct. No. 921 Labor

|  |  |
| --- | --- |
| Account Number | Acct. 921 Labor |
| 921010 | $15,676,727.13 |
| 921030 | $11,623.86 |
| Total | $15,688,350.99 |

The total A&G labor cost of $32,060,784.38 reflected on Table 1 includes the corrected Account No. 921 labor amount. The A&G labor amounts are appropriately included in O&M expense account Nos. 920 – 935 in the 2018 Transmission COSS. Grant PUD’s 2019 Transmission COSS allocates the A&G labor amounts to the Production, Transmission, or Distribution functions for cost recovery by using the direct labor factors reflected on Table 1, Column 4.

As discussed above in “Question No. 1”, the labor costs attributable to capital plant accounts is $22,753,086.54. These labor amounts are recorded in Account No. 107 until the work order is closed. Once the work order is closed the labor amounts are included in the appropriate plant account balance.

Thus, no part the Account No. 921 labor amount of $15,688,351 is capitalized into plant accounts but is exclusively included in the Grant PUD’s Transmission COSS O&M expense determination.

For further support of this position, see Grant PUD response to USBR’s August 27, 2019 Question No. 10, which states:

*Grant PUD uses the FERC Uniform Chart of Accounts to record all district transactions, such as Operation and Maintenance (O&M) expenses and Plant in Service. As explained in Grant PUD’s 2018 annual report, Notes to the Financial Statements, Note 1, on page 33:*

*“The District maintains its accounts in accordance with accounting principles generally accepted in the United States of America for proprietary funds as prescribed by the Governmental Accounting Standards Board (“GASB”). The District’s accounting records generally follow the Uniform System of Accounts for public utilities and licenses prescribed by FERC. The accompanying financial statements are those of the District, which generates, transmits, and distributes electric energy and wholesale fiber optic network services within Grant County, Washington”.*

*Grant PUD’s external auditor’s (MossAdams LLP) opinion (previously provided in its July 25, 2019 Reply to July 10 Comments, as Attachment A) states:*

*“In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2018, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America”.*

**Question No. 3 -** Pursuant to the same open records request from Question 2, please explain why certain costs that seem related to Generation still show up as a line item contributing to Generation are included in the calculation. For example, there are line items with “QC”, “PEC” or “PRP”.

To the extent O&M expenses are recorded with the “QC” (Quincy Chute), “PEC” Potholes East Canal, or “PRP” (Priest Rapids Project) code, the O&M expenses are functionalized based on where the work was performed. As noted in previous Grant PUD responses, where generation facilities work is performed, then the related O&M expenses are recorded in the generation function. If the performed work is on transmission facilities, then the related O&M expenses are recorded in the transmission function.

Grant PUD continues to support its position that part of the “QC”, “PEC” and “PRP” facilities are appropriately classified as transmission and related expenses should recovered through Grant PUD’s transmission COSS.

To further support this position, Grant PUD previously provided the following in its introduction statement to its Reply to July 10 Comments:

*A recurring theme within their comments is the fact that many of Grant PUD’s accounting titles include “PRP” in the title, and the misconception that the Priest Rapids Project (“PRP”)-related costs are all generation costs. The April 17, 2008 Federal Energy Regulatory Commission’s Order Issuing New License for continued operation of the Priest Rapids Project (available at* [*https://www.grantpud.org/templates/galaxy/images/images/Downloads/About/Environment/ShorelineManagement/PriestRapidsProjectLicenseh1.pdf*](https://www.grantpud.org/templates/galaxy/images/images/Downloads/About/Environment/ShorelineManagement/PriestRapidsProjectLicenseh1.pdf)*) lists several transmission specific components to the project.*

Including the following on page 54 of the license:

*The project’s six primary transmission lines (three at the Wanapum development and three at Priest Rapids development), totaling 56.5 miles, deliver project power to the transmission grid via the BPA’s Columbia and Midway substations. Grant PUD is proposing no changes that would affect its own or other transmission services in the region. The project and its transmission lines are important elements in providing power and voltage control to local Grant County, Washington, communities and the region.*

And including the following located on page 59 license:

*(e) three 230-kilovolt (kV) overhead transmission lines with: (i) the first transmission line connecting and terminating at 2 adjacent switchyards 1.5 miles away; (ii) the second running from one of the two switchyards north for 31 miles to the BPA’s Columbia substation; and (iii) the third connecting the Wanapum substation with the Priest Rapids substation running south for 17 miles; and (f) appurtenant facilities.*

*(f) three 230-kV transmission lines from the transformers at the powerhouse to the Priest Rapids switchyard 1 mile away, then continuing for 6 miles to the BPA’s Midway substation;*

For Quincy Chute (“QC”) and Potholes East Canal (“PEC”), Grant PUD previously provided its response to USBR’s Question No. 9 (see Reply to USBR’s July 10 Comments):

*“…If the expenses are related to the PUD’s transmission system, then they should be included as transmission related.”*

Also supporting Grant PUD’s position is its response to USBR’s August 27, 2019 Question No. 10, which is stated above in Question 2.

**Question No. 4 -** From Exhibit III – O&M Expenses, please clarify what is included in Line item 561 and 581 and explain why there is a huge difference in values between these line items.

For accounting purposes, Grant PUD’s utilizes the Federal Energy Regulatory Commission’s (“FERC”) Uniform System of Accounts when recording its Operation and Maintenance Expenses (“O&M”) for labor and all other O&M expenses.

The FERC Uniform System of Accounts for Account #561-Transmission Load Dispatching states:

**561.1 Load Dispatch—Reliability.**

This account shall include the cost of labor, materials used and expenses incurred by a regional transmission service provider or other transmission provider to manage the reliability coordination function as specified by the North American Electric Reliability Council (NERC) and individual reliability organizations. These activities shall include performing current and next day reliability analysis. This account shall include the costs incurred to calculate load forecasts, and performing contingency analysis.

**561.2 Load Dispatch—Monitor and Operate Transmission System.**

This account shall include the costs of labor, materials used and expenses incurred by a regional transmission service provider or other transmission provider to monitor, assess and operate the power system and individual transmission facilities in real-time to maintain safe and reliable operation of the transmission system. This account shall also include the expense incurred to manage transmission facilities to maintain system reliability and to monitor the real-time flows and direct actions according to regional plans and tariffs as necessary.

Items

1. Receive and analyze outage requests

2. Reschedule outage plans

3. Monitor solution quality field data values, providing model updates to NERC and coordinating network model changes across all systems

4. Conduct operating training related to NERC certification

5. Monitor generation resources and communicate expected dispatch actions

6. Ensure ancillary service requirements are met

7. Directing switching

8. Controlling system voltages

9. Obtaining reports on the weather and special events

10. Preparing operating reports and data for billing and budget purposes

**561.3 Load Dispatch—Transmission Service and Scheduling.**

This account shall include the costs of labor, materials used and expenses incurred by a regional transmission service provider or other transmission provider to process hourly, daily, weekly and monthly transmission service requests using an automated system such as an Open Access Same-Time Information System (OASIS). It shall also include the expenses incurred to operate the automated transmission service request system and to monitor the status of all scheduled energy transactions.

**561.4 Scheduling, System Control and Dispatching Services.**

This account shall include the costs billed to the transmission owner, load serving entity or generator for scheduling, system control and dispatching service. Include in this account service billings for system control to maintain the reliability of the transmission area in accordance with reliability standards, maintaining defined voltage profiles, and monitoring operations of the transmission facilities.

**561.5 Reliability, Planning and Standards Development.**

This account shall include the cost of labor, materials used and expenses incurred for the system planning of the interconnected bulk electric transmission systems within a planning authority area.

Items

1. Developing and maintaining transmission system models to evaluate transmission system performance.

2. Maintaining and applying methodologies and tools for the analysis and simulation of the transmission systems for the assessment and development of transmission expansion plans.

3. Assessing, developing and documenting transmission expansion plans.

4. Maintaining transmission system models (steady-state, dynamics, and short circuit).

5. Collecting transmission information and transmission facility characteristics and ratings.

6. Notifying participants of any planned transmission changes that may impact their facilities.

7. Developing and reporting on transmission expansion plans for assessment and compliance with reliability standards.

8. Developing reliability standards for the planning and operation of the interconnected bulk electric transmission systems that serve the United States, Canada, and Mexico.

9. Developing criteria and certification procedures for reliability authorities, transmission operators and others.

10. Outside services employed.

Note: The cost of supervision, customer records and collection expenses, administrative and general salaries, office supplies and expenses, property insurance, injuries and damages, employee pension and benefits, regulatory commission expenses, general advertising, and rents shall be charged to the customer accounts, service, and administrative and general expense accounts contained in the Uniform System of Accounts.

**561.6 Transmission Service Studies.**

This account shall include the cost of labor, materials used and expenses incurred to conduct transmission services studies for proposed interconnections with the transmission system. Detailed records shall be maintained for each study undertaken and all reimbursements received for conducting such a study.

**561.7 Generation Interconnection Studies.**

This account shall include the cost of labor, materials used and expenses incurred to conduct generation interconnection studies for proposed interconnections with the transmission system. Detailed records shall be maintained for each study undertaken and all reimbursements received for conducting such a study.

**561.8 Reliability Planning and Standards Development Services**

This account shall include the costs billed to the transmission owner, load serving entity, or generator for system planning of the interconnected bulk electric transmission system. Include also the costs billed by the regional transmission service provider for system reliability and resource planning to develop long-term strategies to meet customer demand and energy requirements. This account shall also include fees and expenses for outside services incurred by the regional transmission service provider and billed to the load serving entity, transmission owner or generator.

The FERC Uniform System of Accounts for Account #581-Distribution Load Dispatching states:

**581 Load dispatching (Major only).**

This account (the keeping of which is optional with the utility) shall include the cost of labor, materials used and expenses incurred in load dispatching operations pertaining to the distribution of electricity.

Items

Labor:

1. Directing switching.

2. Arranging and controlling clearances for construction, maintenance, test and emergency purposes.

3. Controlling system voltages.

4. Preparing operating reports.

5. Obtaining reports on the weather and special events.

Expenses:

6. Communication service provided for system control purposes.

7. System record and report forms.

8. Meals, traveling and incidental expenses.

The amounts reflected in both Account Nos. 561 and 581 are labor or labor related overheads associated with the overall operation of Grant PUD’s transmission and distribution system - costs of dispatching electric load through its electric system to meet customer needs. If the labor and labor overhead amounts were incurred for transmission purposes, the amounts were recorded as transmission costs and included in Account No. 561. If the labor and labor overhead amounts were incurred for distribution purposes, the amounts were recorded as distribution costs and included in Account No. 581.

Account No. 561 for 2018 was $5,094,974, while in 2017, the amount was $3,907,764, for a difference of $1,187,210. The explanation of this increase is that in 2018 Grant PUD continued to make improvements to its accounting system by making the determination that Reliability Compliance Standards labor and labor overheads amounts previously in Administrative and General Expense should instead be recorded in Account No. 561 as a direct transmission expense.

To support its accounting position, see Grant PUD response to USBR’s August 27, 2019 Question No. 10, which states:

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