

## Grant PUD's Responses to USBR's August 27, 2019 Comments

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. Grand County responded to these comments and questions on August 12, 2019. USBR submitted additional comments to Grant PUD on August 27, 2019. The following are Grant PUD's responses to these comments.

1. There have been significant cost increases from 2017 to 2018 data, based on the information presented. Please provide additional information for the cost increases.

During the preparation of Grant PUD's responses to Question #1, it was discovered that some of 2017 cost data previously provided in the June 19, 2019 COSS model was incorrect. The incorrect data impacted Grant PUD's responses to #1a. and #1b. below. The corrected 2017 data is provided in Grant PUD's responses to USBR August 27, 2019 comments and questions. Because of the incorrect 2017 data, Grant PUD staff reviewed the 2018 cost data published in the July 25, 2019 COSS model, and believes that this data is correct.

Items below are shown as examples from Exhibit II - Plant Data:

- a. Line 3 - Miscellaneous intangible plant had a net increase of \$23 million

The 2017 COSS model incorrectly states Account 303 accumulated depreciation at \$68,244,937 (see June 19, 2019 COSS model, Exhibit II – Plant Data, Col. (e), Line 3) the correct number is \$46,367,380.92, thus resulting in net plant of \$88,539,048. The 2018 Account 303 net plant balance is \$89,931,920 (see July 25, 2019 COSS model, Exhibit II – Plant Data, Col. (f), Line 3) , resulting in a difference of \$1,392,872.

**b. Line 12 - Subtotal Hydro Production Plant increase of \$97 million**

The June 19, 2019 COSS (Exhibit II – Plant Data, Col. (d)) model incorrectly states certain 2017 data for the following line items:

- Account 330 Land and Land Rights, Line 5 reflects \$19,692,643, the correct amount is \$19,685,660, the resulting in a decrease of \$6,983; and
- Account 331 Structures and Improvements, Line 6 reflects \$139,054,611, the correct amount is \$138,048,228, resulting in a decrease of \$1,006,383; and
- Account 333 Water Wheels, Turbines, and Generators, Line 8 reflects \$518,989,256, the correct amount is \$506,700,838, resulting in a decrease of \$12,288,418.

The corrected 2017 Subtotal Hydro Production Plant is \$1,291,697,511, the 2018 Subtotal Hydro Production Plant is \$1,424,488,777 (July 25, 2019 COSS Model, Exhibit II – Plant Data, Col. (d), Lines 13 and 14), resulting in a plant balance increase of \$132,791,266.

See the following 2018 project asset expenditures increase explanation:

2018 Project Assets	Amount (in millions)
Priest Rapids Turbine and Generator upgrade designs-	\$38.8
Priest Rapids 1 <sup>st</sup> Turbine upgrade-	\$32.1
Wanapum 9 <sup>th</sup> Generator upgrade-	\$27.9
Priest Rapids #09 Generator upgrade-	\$18.2
Crescent Bar Water system-	\$1.8
Crescent Bar Waste Water Treatment Facility-	\$4.2
Wanapum Spillway Gate Coating & Upgrades Tainter Gates	\$4.8
<b>Total 2018 project assets explained</b>	<b>\$127.8</b>

c. Line 26 - Poles and towers had a net increase of \$8.5 million

Account 364 explanation:

	Amount (in millions)
2018 Project Assets	
Cloudview Substation	\$6.1
Quincy Plains Substation	\$4.2

d. Line 32 - Meters had a net increase of \$8.6 million

Installed new Advanced Meters across district

e. Line 36 - Structures and Improvements had a net increase of \$31 million

Crescent Bar work - on and off island

f. Line 43 - Communication equipment had a net increase of \$2.7 million

Advance Meter Infrastructure Power Supply change out

2. The official wholesale wheeling process started with the May 1st meeting of this year, followed by explanatory/review meetings and written comment submission. Please clarify what the PUD's next steps are and any milestones that USBR needs to be aware of.

Commission review of the Transmission ("wheeling") COSS has been tentatively scheduled for the November 12, 2019 meeting.

3. Exhibit V - ROR - Rates are to be set to recover costs and earn additional return to maintain bond ratings and invest in new facilities. USBR is still uncertain that this needs to be applied. Please clarify why the 9.8% ROR is needed.

Grant PUD continues to support its 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, the ROE method estimates the cost of capital, which includes the cost of equity in the market, and treats this as an operating cost. The ROE cash injection is necessary to continue the District’s asset growth and to provide funds to maintain the current facilities.

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.

While there are often differences in opinion on the correct level of ROE in developing transmission rates, the cost of service methodology is consistent with FERC guidance. Given the current and potential level of transmission, and for ease and consistency in implementation, staff is using standard industry methodology when possible.

- 4. Exhibit VI - Other Taxes, Line 1 (FERC Account No. 408). Taxes are assessed based on specific items. Please provide breakout of these taxes.

See the following for Grant PUD’s 2018 Taxes-Other Than Income by specific tax item.

Account No. 408	Amount
Revenue-Taxes Fiber	\$18,724
Revenue-Taxes Utility	\$7,936,039
Revenue-Taxes Privilege	\$6,178,665
Revenue-Taxes City	\$2,448,395
Revenue-Taxes Fire District	\$219,476
<b>Total Taxes Other Than Income</b>	<b>\$16,801,299</b>

5. Version 1 released in June was based on 2017 data contained more detailed information than either of the two versions subsequently posted to date for cost studies. The PUD's response to concerns on this lack of granularity was that the current version is a simplified version and that additional data must be requested via public data requests. This "simplified version" obfuscates the data that is needed to provide a more thorough analysis of the cost study for wholesale rates.

Grant PUD continues to believe that its simplified COSS version is easier to follow and understand. If USBR has specific concerns regarding the COSS, Grant PUD encourages USBR to contact the appropriate staff to resolve its concerns or submit a public records request for the necessary information.

6. There have been multiple revisions released by the PUD. Please clarify differences between cost studies released on July 25 and August 12.

The July 25, 2019 COSS model reflected account description errors for the transmission O&M expenses. This was brought to Grant PUD's attention in BPA's August 5, 2019 Comments and Questions, Item No. 10. Grant PUD response stated:

*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.*

The only difference between the July 25, 2019 COSS model and the August 12, 2019 COSS model is Grant PUD correcting the Transmission O&M expense accounts for the miss-align account description.

7. How are the ancillary services captured in the cost studies and how will they be addressed?

The costs associated with ancillary services are captured in Grant PUD's cost of service models (transmission and retail). Grant PUD anticipates that once the Commission approves the Transmission and Retail COSS model, the ancillary services COSS will be developed.

Grant PUD plans to develop ancillary service charges to cover the costs incurred by a balancing authority and transmission system in hosting a load or generator. Some of the ancillary services may not be calculated as part of the current effort and will be determined in future efforts. Additional ancillary services may be required in the future as the industry evolves. The applicable ancillary services are:

- Scheduling, System Control and Dispatch
- Reactive Supply and Voltage Control
- Regulation and Frequency Response
- Operating Reserves
- Energy Imbalance
- Transmission Losses
- Variable Energy Resource Balancing Service

8. Exhibit III - O&M Expenses - Transmission O&M expenses still appear to have erroneous FERC codes attached.

Grant PUD has reviewed its August 12, 2019 COSS model and believes the O&M expense account numbers and account descriptions match the FERC Uniform Chart of Accounts' account numbers and descriptions. However, the COSS model previously posted on Grant PUD's website was miss-labelled, this has been corrected. The August 12, 2019 COSS is now correctly labelled "Draft Transmission Cost Study Version 2 (With Corrections)". The July 25, 2019 COSS model is labelled "Draft Transmission Cost Study Version 2".

9. We are unable to locate a referenced “Revised Exhibit A” to a BPA question which was reportedly published on August 9, 2019. Please provide this document.

See the attached Exhibit A.

10. It was stated in response to several previous questions that the PUD was in the process of updating accounting to FERC uniform system of accounts and that the costs were extracted from the internal accounting to be placed into respective FERC accounts. More detailed data is required to verify that costs are appropriately characterized. Did the independent auditor referenced in Attachment A base the audit on FERC accounting or on the internal accounting methodology?

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 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.*

The data that has been recorded in these various accounts is voluminous, and in some instances may only be available on paper. The information stored electronically is not easily accessed, categorized, and summarized. Therefore, Grant PUD considers providing the requested detail level of account data extremely cumbersome, but has attempted to provide BPA requested account detail through its formal record requests made to Grant PUD. Further, Grant PUD has limited capability to provide detailed work order level information in a quick and efficient manner.

11. Exhibit II - Plant Data Line 43 (FERC Account No. 397, Communication Equipment), USBR asked previously for the breakdown and description for wholesale rate inclusion (also re-stated above). As a follow-up question, does this include only the portion “for general use in connection with utility operations” referenced in FERC 397? Please provide details for this \$238-million line item.

Grant PUD originally responded to USBR’s concerns regarding Account #397 in its July 25, 2019 response to USBR’s July 10, 2019 Comments, Item No. 4. Later in Grant PUD responses to Bonneville Power Authority’s August 5, 2019 Comments,

For Item No. 6; Grant PUD stated:

*“...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.”*

At present, the Grant PUD analysis is on-going and has not been completed. Grant PUD still plans to make this analysis public once complete.

12. Exhibit III – O&M Expenses, Line 36 (FERC Account No. 586, Meter expenses) have been zeroed. Please clarify where the meter expenses are now included.



In its latest August 12, 2019 COSS model, the financial data was updated to Year End 2018. For this year, Account 586 reflects a zero balance, in other words, no amounts were booked into Account 586 during 2018. Grant PUD did not make any adjustments to this account for its August 12, 2019 COSS model.

13. Exhibit III – O&M Expenses, Line 37 (FERC Account No. 587, Customer installation expenses) does not seem appropriate to include in the wholesale rate. The previous answer to this question stated that Grant PUD was reviewing this. Please provide the results of that review.

Grant PUD originally responded to USBR's concerns regarding Account #587 in its July 25, 2019 response to USBR's July 10, 2019 Comments, Item No. 10.

For Item No. 10, Grant PUD stated:

“Grant PUD is reviewing its COSS calculation and as a result, the PUD may modify its study.”

At present, the Grant PUD analysis is on-going and has not been completed. Grant PUD plans to make this analysis public once complete.

2018 Labor (Including Benefits)

Revised (Exhibit A)

Sum of NET Row Labels	Column Labels			Hydro-Production	Transmission	Distribution	Other O&M	Capital Account
	Elec	PRP	Grand Total					
A&G	16,695,334.48	15,365,449.90	32,060,784.38					
Capital	12,256,269.85	10,496,816.69	22,753,086.54					22,753,087
Distribution	9,684,507.81		9,684,507.81			9,684,508		
Generation	561,781.53	21,360,413.02	21,922,194.55	21,922,195				
Licensing		4,749,934.43	4,749,934.43				4,749,934	
Other O&M	48,639.27		48,639.27				48,639	
Transmission	2,020,253.32	4,305,555.91	6,325,809.23		6,325,809			
<b>Grand Total</b>	<b>41,266,786.26</b>	<b>56,278,169.95</b>	<b>97,544,956.21</b>	21,922,195	6,325,809	9,684,508	4,798,574	22,753,087

2017 Labor (Including Benefits)

Sum of Net Row Labels	Column Labels			Hydro-Production	Transmission	Distribution	Other O&M	Capital Account
	Elec	PRP	Grand Total					
A&G	15,733,558.10	16,264,186.38	31,997,744.48					
Capital	11,052,878.53	9,775,003.26	20,827,881.79					20,827,882
Distribution	10,403,542.91		10,403,542.91			10,403,543		
Generation	378,264.84	20,362,303.81	20,740,568.65	20,740,569				
Licensing		4,773,849.25	4,773,849.25				4,773,849	
Other O&M	16,536.05	33.12	16,569.17				16,569	
Transmission	1,531,108.28	3,560,401.48	5,091,509.76		5,091,510			
<b>Grand Total</b>	<b>39,115,888.71</b>	<b>54,735,777.30</b>	<b>93,851,666.01</b>	20,740,569	5,091,510	10,403,543	4,790,418	20,827,882

A&G Labor is allocated to function based on the functional direct labor total, see Exhibit 1 - Allocators of the COSS model.

Capital Account Labor is directly assigned to function on the basis of individual work orders.