



United States Department of the Interior



BUREAU OF RECLAMATION
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IN REPLY REFER TO:

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VIA ELECTRONIC MAIL ONLY

Board of Commissioners
Grant County Public Utility District
30 C St SW
Ephrata, WA 92283
commissioners@gcpud.org

Subject: Bureau of Reclamation, Quincy-Columbia Basin Irrigation District, East Columbia Basin Irrigation District (Districts), 2020 Transmission and Distribution Rates Proposal

Dear Grant PUD Commissioners:

The Bureau of Reclamation, in partnership with the Districts, present the attached transmission and distribution rate proposal, as discussed in the Commission Workshop held on July 13, 2020.

Thank you for the opportunity to address the Commission and present information that we believe to be important in setting a reasonable and appropriate price for the transmission and distribution service. We look forward to your response.

Sincerely,

Robert Skordas
Deputy Regional Director

Attachment - Grant PUD 2020 Transmission Rate Case USBR Rates Proposal

cc:

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INTERIOR REGION 9 • COLUMBIA-PACIFIC NORTHWEST

IDAHO, MONTANA*, OREGON*, WASHINGTON

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**Bureau of Reclamation,
Quincy-Columbia Basin Irrigation District and
East Columbia Basin Irrigation District
Grant PUD 2020 Transmission and Distribution Rates Proposal
July 15, 2020**

1. Introduction

The United States Bureau of Reclamation, Quincy-Columbia Basin Irrigation District, and East Columbia Basin Irrigation District (referred to as “Parties”) appreciate the opportunity to present to the Grant County PUD Commission this proposal to establish updated rates for the wheeling of Federal Reserved Power to Reclamation loads that are served off of transmission and distribution facilities owned by Grant PUD. The Parties’ proposal is based upon: 1) the most recent June, 2020 Cost of Service Study (June 2020 COSS) performed by Grant Staff, and 2) a limited number of adjustments to the June 2020 COSS results that are further described in this document. In addition, the Parties propose a formula rate approach that will result in Grant establishing transmission and distribution rates for a ten-year period, subject to an annual cost update process.

In making this proposal to the PUD Commission, the Parties make a clear distinction between Grant’s *transmission rate* – which will apply to the wheeling of Federal Reserved Power to Reclamation’s pumping loads served at 115 KV – and Grant’s *distribution rate* – which will apply to the wheeling of Federal Reserved Power to Reclamation’s pumping loads served at 13.2 KV. While both wheeling services are interrelated, different sets of terms and conditions, including adjustments to the cost-of-service rates derived in Grant’s June 2020 COSS, may be appropriate in establishing sets of just and reasonable transmission and distribution rates.¹

2. Term of Transmission and Distribution Rates for the Wheeling of Federal Reserved Power

The Parties propose that the transmission and distribution rates for the wheeling of Federal Reserved Power to Reclamation pumping loads located on Grant PUD’s system be established for a term of ten years beginning on January 1, 2021. Grant’s transmission and distribution rates would, however, be subject to a set of yearly updates as described further in the Annual Adjustments section.

3. Base Transmission Rate

The Base Transmission Rate to be in effect during the first calendar year of the ten-year Term (i.e. 2021) will be derived as follows:

Base Transmission Revenue Requirement

The Parties propose that the Base Transmission Revenue Requirement be computed using the results from the June 2020 COSS (which are based upon actual calendar year 2018

¹ For example, the Parties note that while the Federal Energy Regulatory Commission establishes just and reasonable transmission rates for the electric utilities that are under its jurisdiction, distribution wheeling rates (which generally apply to wheeling services provided at voltages less than 115 KV) are under the jurisdiction of State or local regulatory authorities, such as the PUD Commission.

data, as captured in the current model) and the application of a limited number of discrete adjustments in the COSS model as detailed below:

1. In Exhibit X (Rate of Return) - Reduce the 9.8% Proprietary Capital (a/k/a Return on Equity) value to 0 percent.
2. In Exhibit I (Cost of Service Factors) – Apply a 20% reduction to the Net 115kV-230kV Wholesale Cost of Service value (legacy adjustment).

Base Transmission Load Allocation Factors

The Parties accept Grant’s proposal that the PUD’s initial Base Transmission Rate be established using the 2018 actual transmission and distribution loads as shown in Exhibit XII (System Loads) to the June 2020 COSS.

Base Transmission Rate Calculation

The initial Base Transmission Rate will be computed as shown in Exhibit I to the June 2020 COSS, but using the Parties’ modified Base Transmission Revenue Requirement. The resultant initial Base Transmission Rate would therefore be \$1.690/Kw-mo (inclusive of the tax gross-up).

4. Base Distribution Rate

The Base Distribution Rate to be in effect during the first calendar year of the ten-year Term (i.e. 2021) will be derived as follows:

Base Distribution Revenue Requirement

The Parties propose that the Base Distribution Revenue Requirement be computed using the results from the June 2020 COSS (which are based upon actual calendar year 2018 data, as captured in the current model) and the application of a limited number of discrete adjustments in the COSS model as detailed below:

1. In Exhibit X (Rate of Return) - reduce the 9.8% Proprietary Capital (a/k/a Return on Equity) value to 0 percent (same as for the Base Transmission Rate).
2. In Exhibit I (Cost of Service Factors) – Set the Distribution Plant Inclusion Ratio value to 44.4%. The proposed calculation factor is computed using the same numerator as the current model (FERC Accounts 360-364, Exhibit V) to account for inclusion of costs allocated to the delivery on the 13.2kV distribution system. However, the denominator should include all items under Distribution Plant (FERC Accounts 360-373) to account for all the costs. Rather than looking at each item line-by-line, this approach provides a simpler method in calculating the plant inclusion ratio as shown below:

$$\frac{\text{FERC Accounts 360 – 364}}{\text{FERC Accounts 360 – 373}} = \frac{\$270,259,292}{\$609,096,159} = 44.4\%$$

3. In Exhibit I (Cost of Service Factors) – Apply a 20% reduction to the Net Sub-115kV Wholesale Cost of Service value (legacy adjustment).

Base Distribution Load Allocation Factors

The Parties accept Grant’s proposal that the PUD’s initial Base Distribution Rate be established using the 2018 actual transmission and distribution system loads as shown in Exhibit XII (System Loads) to the June 2020 COSS.

Base Distribution Rate Calculation

The initial Base Distribution Rate will be computed as shown in Exhibit I to the June 2020 COSS, but using the Parties’ modified Base Distribution Revenue Requirement. The resultant initial Base Distribution Rate would therefore be \$1.882/Kw-mo (inclusive of the tax gross-up).

5. Annual Adjustments to Grant’s Base Transmission and Distribution Rates for the Wheeling of Federal Reserved Power

The Parties propose that the Base Transmission Rate and the Base Distribution Rate be adjusted on an annual basis, with updated rates to be in effect for the 12-month period beginning on January 1 of each year during the ten-year Term, with the first such rate adjustments to be effective on January 1, 2022. There would be two different adjustment mechanisms as follows:

Annual Revenue Requirements Adjustment

The Base Transmission Revenue Requirement and the Base Distribution Revenue Requirement will be adjusted on January 1 of each year beginning in Year 2 (2022). The Adjusted Revenue Requirements will be derived by Grant and provided to Parties for review prior to September 1 of each year. In deriving the annual sets of adjustments to the Base Transmission and Distribution Revenue Requirements, the Revenue Requirements will first be divided into three general sub-categories consisting of: 1) Revenue Requirements associated with depreciation expense, 2) Revenue Requirements associated with Return, and 3) the Revenue Requirements associated with all other cost and revenues included in the June 2020 COSS. The Revenue Requirements in each sub-category will be adjusted annually as follows:

Depreciation

The Base Transmission and Base Distribution Depreciation costs will be adjusted each year based upon Grant’s average actual net plant in service during the previous calendar year. Grant’s updated net plant in service figures will be derived in the same form and fashion as shown in Exhibits V, VI, and VII of the June 2020 COSS. For example, the depreciation-related adjustments to the Base Transmission and Distribution Revenue Requirements to be effective for the 12-month period beginning on January 1, 2025, would be based upon Grant’s average actual net plant in service during calendar year 2023.

Return

The Base Transmission and Base Distribution Return costs will be adjusted each year based upon Grant’s average actual net plant in service during the previous

calendar year. Grant's updated net plant in service will be derived in the same form and fashion as shown in Exhibits V, VI, and VII of the June 2020 COSS. For example, the Return-related adjustments to the Base Transmission and Distribution Revenue Requirements to be effective for the 12-month period beginning on January 1, 2025, would be based upon Grant's average actual net plant in service during calendar year 2023 and the Base Rate of Return.

Other

The Other Base Transmission and Distribution Revenue Requirements will be adjusted each year based upon the change in the most-recent month of December's Consumer Price Index (CPI) for each year relative to December of 2020. For example, the CPI adjustments to be applied to the Other Base Transmission and Distribution Revenue Requirements (e.g. O&M, A&G, etc.) to be effective for the 12-month period beginning on January 1, 2025, would be based upon the cumulative difference in the CPI as measured between December 2020 and December 2023.

The adjusted Depreciation, Return, and Other Transmission and Distribution Revenue Requirements will be summed in order to arrive at the overall Adjusted Transmission and Distribution Revenue Requirements. These Adjusted Revenue Requirements will then be used in the Base Transmission and Distribution Rates Formulas in order to derive the Adjusted Transmission Rate and the Adjusted Distribution Rate that will be in effect for the next 12-month period beginning on January 1 of each year.

Annual Grant Load Adjustment

The Base Transmission System Loads and the Base Distribution System Loads will be adjusted on January 1 of each year beginning in Year 2 (2022) in order to incorporate Grant's actual transmission and distribution system loads from the previous calendar year. The Adjusted Loads will be derived by Grant and provided to the Parties for review prior to September 1 of each year.

The Adjusted Transmission Loads and the Adjusted Distribution Loads will then be used in the Base Transmission and Distribution Rates Formulas to derive the Adjusted Transmission Rate and the Adjusted Distribution Rate that will be in effect for the next 12-month period beginning on January 1 of each year. For example, the load adjustments to be applied to the Base Transmission and Base Distribution System Loads to be effective for the 12-month period beginning on January 1, 2025, would be based upon Grant's actual calendar year 2023 monthly peak transmission and distribution system loads.

Adjusted Transmission Rate Calculation

The Adjusted Transmission Rate to be in effect during the 12-month period beginning on January 1 of each year (with the first such adjustment occurring on January 1, 2022) will be calculated using the same June 2020 COSS load share formulas used to derive the initial Base Transmission Rate but will incorporate the Adjusted Transmission Annual

Revenue Requirement figure and the Adjusted Grant Transmission System Load figures. The Adjusted Transmission Rate will be derived by Grant and provided to the Parties for review prior to September 1 of each year.

Adjusted Distribution Rate Calculation

The Adjusted Distribution Rate to be in effect during the 12-month period beginning on January 1 of each year (with the first such adjustment occurring on January 1, 2022) will be calculated using the same June 2020 COSS load share formulas used to derive the initial Base Distribution Rate but will incorporate the Adjusted Distribution Annual Revenue Requirement figure and the Adjusted Grant Distribution System Load figures. The Adjusted Distribution Rate will be derived by Grant and provided to the Parties for review prior to September 1 of each year.

6. The Contract Rate

The Parties support and request that the Commission establish a separate wheeling rate for Reclamation reserved power loads under a contract to recognize the unique relationship and history between the Columbia Basin Project and Grant PUD.

PUD Rate Making Authority

Under RCW 54.24.080(1), PUD rates must be fair and non-discriminatory. Washington law allows for the establishment of different rate classifications so long as the classes are reasonable and not arbitrary or capricious.

FERC Jurisdiction

While Grant PUD is using FERC rate setting parameters of “just and reasonable” and “not unduly discriminatory” to set the rates under its state authority, FERC does not have jurisdiction over Grant PUD under the Federal Power Act (FPA). Section 211A of the FPA, previously referenced by Grant PUD staff, simply does not control a rate setting situation where two wheeling customer classes are defined as allowed by state law. In addition, Section 201(f) of the FPA provides that FERC's regulation of the transmission of electric energy (including rate-setting) does not apply to any political subdivision, agency, authority or instrumentality of a State or the United States. If the Commission has concerns about whether FERC has jurisdiction over Grant PUD, the Quincy- and East Columbia Basin Irrigation Districts offer the two following options to resolve this matter:

- Contract Clause: Establish the rate under a contract for Reserved Power Transmission and Distribution as previously proposed to include a clause providing that in the event that there is a challenge of the contract rates to FERC that the Parties have the right to contest the FERC petition and that the Contract rates will be reviewed and amended as necessary in response to an order by FERC.
- Petition for Declaratory Order: Extend the MOA to allow time for the Districts to petition FERC for a declaratory order that FERC does not have jurisdiction over Grant PUD and the proposed contract rates.

The Districts' legal counsels are available to further discuss with Grant PUD's FERC counsel the above referenced FERC jurisdiction over setting of Federal Reserved Power wheeling rates.

In conclusion, the Parties request that the Commission establish contract rates that recognize the history of shared development between Grant PUD and the Columbia Basin Project and recognize that the Irrigation Districts, as the ultimate wheeling rate payers, serve the same customers as Grant PUD. Therefore, the Parties' Reserved Power Transmission and Distribution rates should recognize that the return on equity component is not an appropriate component of this rate as the Columbia Basin Project and its beneficiaries are the same retail customers that Grant PUD is seeking to protect. Therefore, the policy purposes behind the ROE simply do not apply to the Parties' Reserved Power Transmission and Distribution rates.