

# **Grant County PUD 2019/2020 Transmission Rate and Distribution Rate Case**

Presentation to the Grant PUD Board of Commissioners by the Bureau of Reclamation, the Quincy-Columbia Basin Irrigation District and the East Columbia Basin Irrigation District

July 13, 2020

# Today's Topics

1. Grant PUD Transmission Rate and Distribution Rate Technical Points/Proposed Adjustments to the June 2020 Cost of Service Study
2. Grant PUD's Transmission Rate and Distribution Rate Policy
3. Reclamation/Districts' Proposal Regarding Grant PUD's Transmission and Distribution Rates
4. Discussion and Next Steps

# Transmission Rate and Distribution Rate Technical Points/June 2020 COSS Adjustments

## Adjustments to Grant PUD's June 2020 Cost of Service Study

- Reduce Grant PUD's proposed 9.8% Return on Equity component to 0%.
  - Grant PUD's resultant Weighted Average Cost of Capital (WACC) would be 2.10%.
  - A 2.10% WACC allows Grant PUD to fully recover its long-term borrowing costs from its wholesale transmission and distribution wheeling customers (along with fully recovering its capital costs via an annual depreciation charge).
  
- Reduce the Distribution Plant Inclusion Ratio that is currently derived in the June 2020 COSS Grant's (68.02%) to 44.4%.
  - Incorporates a more reasonable allocation of distribution related capital costs to the distribution wheeling rate.
  - The estimated allocation factor is too high.
  - Review of line by line items requires extensive effort.
  - Does not impact the transmission rate.

# Transmission Rate and Distribution Rate Technical Points/June 2020 COSS Adjustments

## **Adjustments to Grant PUD's June 2020 Cost of Service Study (Cont.)**

- Apply a 20% Legacy Adjustment to the Transmission Rate.
  - The Transmission Rate would be reduced by 20% after the application of the change in ROE to 0%.
  
- Apply a 20% Legacy Adjustment to the Distribution Rate.
  - The Distribution Rate would be reduced by 20% after the application of the change in ROE to 0% and the setting of the Distribution Plant Inclusion Ratio to 44.4%.
  
- Transmission and Distribution Rate Tax Gross-ups
  - Tax gross-up factors would be applied to the Transmission Rate and Distribution Rate using the formulas currently contained in the June 2020 COSS.

# Transmission Rate and Distribution Rate Policy

## FERC Regulatory Concerns

- It is Reclamation and the Irrigation Districts position that the FERC does not have jurisdiction over Grant PUD's wholesale transmission rate(s).
- The Commission has the legal authority to establish more than one wholesale transmission rate that reflects the provision of different wheeling services.
- Even if the Commission were to disagree that the FERC does not have jurisdiction over Grant's wholesale transmission rate(s), it clearly does not have jurisdiction over Grant PUD's distribution wheeling services.
- Puget Sound Energy's existing Schedule 449 is a distribution wheeling service that is under the jurisdiction of the Washington Utility and Transportation Commission and not the FERC.
- The Commission has the legal authority to establish more than one distribution rate that reflects the provision of different wheeling services.
- **The Irrigation Districts have prepared a short document (which will be provided to the Commission as part of a pending Transmission/Distribution Rates proposal) that summarizes our opinion of Grant PUD's ratemaking authority with regard to wholesale and retail electric rates.**

# Transmission Rate and Distribution Rate Policy

## Standard Investor-Owned Utility Rate Setting Policy/Procedures

- The entity proposing to enact a new transmission/distribution rate or proposing to change an existing rate generally has the burden of proof in the regulatory proceeding (which is usually a utility but could be other entities as well).
- The utility is generally required to “make their best case” in their opening/initial rate testimony.
- The FERC very strongly discourage utilities from making new arguments and/or introducing new supporting evidence that was not contained in their opening/initial testimony.
- The FERC’s standard is that the transmission (and wholesale power) rates that it approves be “just and reasonable”.
- The FERC and state Rate Commissions require that utilities perform very robust ROE analysis in order to ensure that the resultant rate(s) are “just and reasonable”.

# Transmission Rate and Distribution Rate Policy

## Return on Equity

- Is it appropriate for a publicly-owned electric utility to incorporate a Return on Equity component in its wholesale transmission and/or distribution rates?
- If the Commission's response to the above question is "yes", then how can a just and reasonable ROE be established for Grant PUD that accurately reflects the PUD's specific financial and regulatory risk profile?
- Grant PUD has not demonstrated the type of robust ROE analysis that would be required of an investor-owned utility in either a FERC or state regulatory proceeding in order to justify the utility's proposed ROE.
- The Columbia Basin Project and its beneficiaries are the same retail customers that Grant PUD is seeking to protect; therefore it is inappropriate for the PUD to apply an ROE to the Reclamation contract rate(s).
- Grant PUD has stated that its proposed ROE includes risk related to renewable energy plants removing their service request or filing for bankruptcy; however, Reclamation's Federal Reserved Power loads do not present this level of financial risk.

# Transmission Rate and Distribution Rate Policy

## Legacy Rate Adjustment(s)

- General societal benefits of developing low cost power and water supplies to sustain agricultural community within Grant County that serves the Nation and World.
  - 1930's Grant County Landowners formed Irrigation Districts and Grant PUD for this purpose.
  
- History of facilities constructed for the delivery of Federal Reserved Power to Reclamation loads within Grant County.
  - 1940's BPA 115 KV Lines / 115KV – 13.2 KV substations
  - 1950's USBR 115 KV Lines / 13.2 KV Lines – from BPA to USBR Loads – Irrigator (Grant PUD's Core) paid
  - 1950's USBR contracts with for Grant 13.2 KV lines (26 miles) – from BPA to USBR loads – Irrigator (Grant PUD's Core) paid
  
- The wheeling of Federal Reserved Power to Reclamation loads is a unique service.
  - Grant PUD/Reclamation 1950's agreement for Distribution – Irrigators have paid \$2.3M YTD
  - Grant PUD acquires BPA facilities 1976 – assumes wheeling obligation – Paid \$4M – Valued at \$10M – Grant Co benefit
  - Grant PUD/Reclamation/QCBID 1978 agreement for USBR line maintenance by Grant – Irrigators pay repairs
  
- **Maintaining Grant County's agricultural community core customers' legacy of low cost power and water is a shared responsibility of Grant PUD and Irrigation Districts.**



# Transmission Rate and Distribution Rate Policy

## Long-term Wheeling Rates Stability/Formula Rates Approach

- Grant PUD and core customers would both benefit by the establishment of a formula rates methodology that creates a measure of long-term transmission and distribution rate stability and predictability.
- Reclamation's proposed formula rates methodology will involve minimal time and effort for the Parties to implement.
- Reclamation's proposed formula rates methodology will utilize readily-available actual data from Grant and publicly available sources.
- **Reclamation and the Irrigation Districts have prepared a written Transmission and Distribution Rates Proposal which will be provided to the Commission (in the form of an attachment to a letter from Reclamation) by COB on July 15, 2020.**

# Reclamation/Districts' Proposal Regarding Grant's Transmission and Distribution Wheeling Rates

## Key Points Incorporated into the Proposal

- Reflects the technical issues and adjustments to the June 2020 COSS previously discussed.
- Treats transmission wheeling (to Reclamation loads served at 115 KV) and distribution wheeling (to Reclamation loads served at 13.2 KV) as separate services that might be subject to different terms and conditions.
- Provides for a ten-year term with annual rate adjustments to be performed utilizing a pre-defined methodology and data sources (i.e. a “Formula Rate” approach).
- Annual adjustments are based upon sets of actual data.
- Provides a level of long-term stability and certainty for all parties.

# Reclamation/Districts' Proposal Regarding Grant's Transmission and Distribution Wheeling Rates

## Transmission and Distribution Rates

- Applying the previously described adjustments to ROE and the Distribution Plant Inclusion Ratio along with applying the Legacy Adjustments results in the following Transmission and Distribution rates to be effective on January 1, 2021 for the wheeling of Federal Reserved Power to Reclamation loads:
  - **Transmission Rate - \$1.690/Kw-mo.**
  - **Distribution Rate - \$1.882/Kw-mo.**

# Discussion and Next Steps

- Questions/Discussion
- Potential next steps and follow up actions

