

GRIDLIANCE WEST LLC 2019 ANNUAL UPDATE

Pursuant to GridLiance West LLC's (GridLiance West) formula rate protocols, GridLiance West hereby presents its actual Net Revenue Requirement and the True-Up Adjustment for the 2018 Rate Year (2019 Annual Update).

I. INTRODUCTION & BACKGROUND

On December 29, 2016, pursuant to Section 205 of the Federal Power Act and Part 35 of the Federal Energy Regulatory Commission's (Commission) regulations, GridLiance West filed with the Commission its Transmission Owner Tariff (TO Tariff), including a formula rate template (Template) and implementation protocols (Protocols) (together, Formula Rate).¹ GridLiance West also sought approval of certain transmission incentive rate treatments. GridLiance West's TO Tariff and Formula Rate are designed to calculate and recover the annual transmission revenue requirement associated with GridLiance West's acquisition of the High Voltage Transmission System (HVTS) from Valley Electric Transmission Association, LLC (VETA), as well as future GridLiance West projects. GridLiance West's 205 Application included a populated Template that reflected the basis for its projected revenue requirement in 2017.

On February 24, 2017, the Commission issued a Letter Order Accepting and Suspending Filing, Subject to Refund and Further Commission Order.² In the February 24 Letter Order, the Commission accepted GridLiance West's TO Tariff for filing and suspended it for a nominal period, to be effective as set forth in the February 24 Letter Order, subject to refund and further Commission order.³ On August 17, 2017, the Commission issued an Order on Incentives and Participating Transmission Owner Tariff, and Establishing Hearing and Settlement Judge Procedures.⁴ In the August 17 Order, the Commission set GridLiance West's proposed TO Tariff, Formula Rate, and projected cost of service for hearing and settlement judge procedures, to be effective as set forth in the February 24 Letter Order.⁵

On March 14, 2018, GridLiance West filed an Offer of Settlement that fully resolved each of the issues set for hearing with respect to its 205 Application. As part of this Offer of Settlement, GridLiance West submitted an updated 2017 populated Template to reflect the agreed-upon terms, including a lower return on equity (ROE). On April 30, 2018, the settlement judge issued a Certification of Uncontested

¹ *GridLiance West Transco LLC*, Application for Acceptance of Transmission Owner Tariff, Transmission Formula Rate and Approval of Transmission Rate Incentives, Docket No. ER17-706-000 (Dec. 29, 2016) (205 Application).

² *GridLiance West Transco LLC*, Order Accepting and Suspending Filing, Subject to Refund and Further Commission Order, 158 FERC ¶ 62,136 (2017) (February 24 Letter Order).

³ *Id.* at 2.

⁴ *GridLiance West Transco LLC*, Order on Incentives and Participating Transmission Owner Tariff, and Establishing Hearing and Settlement Judge Procedures, 160 FERC ¶ 61,003 (2017) (August 17 Order).

⁵ *Id.* at P 67.

Settlement. On June 21, 2018, the Commission issued a letter order approving the Offer of Settlement and directing GridLiance West to make certain agreed upon revisions in a subsequent compliance filing.⁶

GridLiance West's Protocols require that GridLiance West calculate its Annual Update, as described in section 2 of the Protocols, on or before June 30 of the following rate year, provided that if the date for posting falls on a weekend or holiday recognized by FERC, then the Annual Projection shall be posted no later than the next business day.⁷ Because June 30, 2019 falls on a weekend, GridLiance West is posting its 2018 Annual Update on July 1, 2019. This posting includes (i) all inputs in sufficient detail to identify the components of GridLiance West's projected Net Revenue Requirement, and (ii) explanations of the bases for the projections and input data. The Formula Rate Template posted herewith has been populated with GridLiance West's actual 2018 inputs and produces GridLiance West's actual 2018 revenue requirement. The explanations for the bases for the projections and input data is provided herein.

II. ANNUAL UPDATE

GridLiance West's actual Net Revenue Requirement for the 2018 Rate Year is \$21,012,765. This amount reflects GridLiance West's actual operations from January 1, 2018 to December 31, 2018, and reflects a reduction for the total transmission revenue credits that GridLiance West received in 2018. The discussion below sets forth the components of the Annual Update.

A. Rate Base

Total rate base under GridLiance West's formula rate is the sum of net plant, any adjustments to rate base, land held for future use, and total working capital.⁸ The total rate base reflected in GridLiance West's 2019 Annual Update is \$91,052,545.

1. Net Plant

GridLiance West's 2019 Annual Update is based upon an average net plant value of \$79,838,969 for 2018. The average net plant value reflected in the Annual Update is equal to the difference between the original cost of constructing the assets, including the value of the requisite right-of-way and the cost of all renewal and replacements (\$93,515,656), and the average accumulated depreciation of those assets (\$13,676,687).

⁶ *GridLiance West Transco LLC*, 163 FERC ¶ 61,203 (2018).

⁷ As proposed, the Protocols provided that GridLiance West's Annual Projection would be posted on the California Independent System Operator Corporation (CAISO) website; however, CAISO has informed GridLiance West that it typically does not post projected revenue requirements or formula rate true-ups on its website. Accordingly, the Annual Update is instead being posted to GridLiance West's corporate website at www.gridliance.com/gwt.

⁸ GridLiance West did not own any land held for future use in the 2018 Rate Year.

2. Other Adjustments to Rate Base

Under the formula rate, the total adjustments to rate base comprise: (1) accumulated deferred income taxes (ADIT); (2) Account No. 255 (accumulated deferred investment tax credits); (3) construction work in progress (CWIP); (4) unfunded reserves; (5) unamortized regulatory assets; and (6) unamortized abandoned plant. However, GridLiance West has zero balances for all of the above, except CWIP and ADIT.

In Docket Nos. ER17-706 and ER18-1693, GridLiance West sought authorization to include CWIP associated with the Sloan Canyon Switching Station and Sloan Canyon-Mead transmission projects in rate base. The Commission approved the requested transmission rate incentive in its July 24, 2018 Order. GridLiance West recorded a CWIP balance of \$9,536,587, which consists of actual capital expenditures on the Sloan Canyon Switching Station (formerly, Bob Switch) and Sloan Canyon-Mead (formerly, Bob-Mead) for Rate Year 2018.

The Annual Update reflects an ADIT credit balance of \$9,846. ADIT was calculated as the difference between the straight-line book depreciation expense and the accelerated depreciation recognized for tax purposes.

3. Working Capital

Pursuant to GridLiance West's formula rate, total working capital is equal to the sum of cash working capital, materials and supplies, and prepayments. GridLiance West's total working capital for the 2018 Rate Year was \$1,686,835.

GridLiance West calculated a cash working capital balance of \$1,222,229, which is equal to the actual total operations and maintenance (O&M) and administrative and general (A&G) expenses, less the amortization of any regulatory asset, times one eighth (1/8).⁹ GridLiance West's actual O&M and A&G expenses are discussed in greater detail below.

The balance for materials and supplies is \$79,265, which is based on the actual value of the materials and supplies.

GridLiance West made an average of \$385,341 in prepayments for the 2018 Rate Year, which includes a pre-paid annual fee for right-of-way and insurance prepaids. Some of the assets that GridLiance West acquired from VETA are located on easements and other rights-of-way. The annual fee for the rights-of-way and easements is \$525,000. This annual fee is paid in December of each year, and ratably amortized over the applicable period.

B. Expenses

GridLiance West incurred \$9,777,833 in total O&M and A&G expenses, and \$1,964,700 in depreciation expense in the 2018 Rate Year.

⁹ GridLiance West's Annual Update does not include any amortization of a regulatory asset in 2018. On October 25, 2018, GridLiance West requested authorization to amortize its regulatory asset over a ten-year period beginning January 1, 2019. The Commission accepted GridLiance West's request in an order dated December 11, 2018 in Docket No. ER19-191.

The 2019 Annual Update includes \$6,516,776 of O&M expenses, which are comprised of internal direct labor costs, external costs, insurance, and amortization of prepayments. The external component primarily represents the amounts paid under the Operations and Maintenance Agreement negotiated by GridLiance West and VETA's parent, Valley Electric Association, Inc.

GridLiance West also incurred \$3,261,057 of A&G expenses, which consist of internal costs and external costs directly incurred by GridLiance West, excluding payroll taxes.

GridLiance West's actual depreciation expense reflects the application of the Commission-approved depreciation rates included in the 205 Application to the GridLiance West assets, which totals \$1,964,700.

C. Taxes

The 2019 Annual Update includes taxes other than income taxes of \$338,409, which comprises property and gross receipts taxes. Of these, GridLiance West only incurred property taxes of \$323,509. Pursuant to its approved formula rate, GridLiance West recorded a recovery for income taxes of \$1,069,593.

D. Return and Capital Structure

GridLiance West's return is equal to its weighted average cost of capital of 8.7%. GridLiance West's capital structure and the applicable cost of debt derives from the actual debt expense that GridLiance West incurred as a result of the debt it issued in connection with its acquisition of the HVTS. The debt issuance was approved by the Commission in Docket No. ES17-9-000.¹⁰ The 2018 ROE of 10.32% is calculated based on FERC approved rate of 10.1% total ROE effective from 1/1/2018 through 7/24/2018 and subsequently approved total ROE of 10.6% (Docket Nos. ER18-1693) effective from 7/25/2018 through 12/31/2018. The total return on rate base reflected in the Annual Update is \$7,890,795, which is the product of its return and total rate base.

E. Revenue Credits

Under GridLiance West's formula rate, all revenue credits are deducted from the gross revenue requirement to calculate the Net Revenue Requirement for the Rate Year. GridLiance West received \$38,658 in revenue in Rate Year 2018 related to pole attachment agreements.

III. DIFFERENCES BETWEEN 2018 ANNUAL PROJECTION AND 2018 ANNUAL UPDATE

GridLiance West projected in its 2018 Annual Projection a Net Revenue Requirement for the 2018 Rate Year of \$19,551,512. Subsequently, GridLiance West filed a revised 2018 Annual Projection to reflect

¹⁰ *GridLiance West Transco LLC*, 158 FERC ¶ 62,234 (2017) (delegated letter order).

the effective ROE of 10.6%, which reflected a revised Net Revenue Requirement for the 2018 Rate Year of \$19,869,135.

These projections were based on GridLiance West's 2018 Annual Projection reflected 205 days of 10.1% effective ROE in 2018 and 160 days of 10.6% effective ROE in 2018. In the table below, GridLiance West provides its 2018 Annual Projection on both its initial 12-month basis and on the actual 12-month basis and compares these numbers against the 2019 Annual Update.

Table 1: Comparison of 2018 Annual Projection to 2018 Annual Update

	2018						
	Projected (ROE 10.1% effective 1/1/2018-7/24/2018)	Pro-rated	Projected (ROE 10.6% effective 7/25/2018)	Pro-rated	Projected Total	Actual ATRR	Net Over/(Under) Collection
	Note A	Note B	Note C	Note D	Note E		
Rate Base	89,783,239	50,426,203	89,783,239	39,357,036	89,783,239	91,052,545	(1,269,306)
Rate of Return	8.48%	8.48%	8.7800%	8.78%		8.67%	
Allowed Return on Rate Base	7,613,619	4,276,142	7,882,968	3,455,548	7,731,690	7,890,795	(159,106)
O&M	5,953,045	3,343,491	5,953,045	2,609,554	5,953,045	6,516,776	(563,731)
G&A	2,379,671	1,336,528	2,379,671	1,043,143	2,379,671	3,261,057	(881,386)
Depreciation Expenses	1,984,695	1,114,692	1,984,695	870,003	1,984,695	1,964,700	19,995
Income Taxes	969,954	544,769	1,017,797	446,158	990,926	1,079,685	(88,759)
Other Taxes	710,528	399,064	710,959	311,653	710,717	338,409	372,308
Gross Revenue Requirement	19,611,512	11,014,685	19,929,135	8,736,059	19,750,744	21,051,423	(1,300,679)
Revenue Credits	(60,000)	(33,698.63)	(60,000)	(26,301.37)	(60,000)	(38,658)	(21,342)
Net Revenue Requirement	19,551,512	10,980,986	19,869,135	8,709,758	19,690,744	21,012,765	(1,322,021)
FERC Approved Interest							(108,330)
Final 2018 True-Up Adjustment							(1,430,351)

Note A: Represents projected Annual rate base and the full-year projected costs for O&M, A&G, depreciation, income and other taxes calculated with approved ROE 10.1% effective from 1/1/2018 - 7/24/2018.

Note B: Calculated by dividing the Projected (ROE 10.1% effective 1/1/2018 - 7/24/2018) column by 360 and multiplying times 205 (to represent the Net Revenue Requirement calculated by effective 10.1% ROE period for Southwest Nevada Assets)

Note C: Represents projected the full-year costs for O&M, A&G, depreciation, income and other taxes for effective 10.6% ROE as 7/25/2018

Note D: Calculated by dividing the Projected (ROE 10.6% effective 7/25/2018) Annual column by 360 and multiplying times 160 (to represent the Net Revenue Requirement calculated by effective 10.6% ROE period for Southwest Nevada Assets)

Note E: Calculated by adding the Projected (ROE 10.1% effective 1/1/2018 - 7/24/2018) and Projected (ROE 10.6% effective 7/25/2018) pro-rated columns to reflect 2018 total projection.

As reflected above, GridLiance West's updated projected Rate Year 2018 Net Revenue Requirement, based on blended ROE rate of 10.1% and 10.6% was \$19,690,744, which is \$1,322,021 less than its actual Rate Year 2018 Net Revenue Requirement of \$21,012,765. The key components of this difference are O&M and A&G. Projected Rate Year 2018 O&M was \$5,953,045 compares to the actual O&M of \$6,516,776 (a difference of \$563,731), and projected Rate Year 2018 A&G was \$2,379,671 compares to the actual A&G of \$3,261,057 (a difference of \$881,386).

The primary differences between projection and actual resulted from the way projection was calculated and the availability of information during the initial rate projection. For instance, the key driver for O&M difference of (\$563,731) is due to easements and other rights-of-way related payments not included in the original projection. The payment amount was not available during initial projection and to avoid over-collection, related expenses were not included in the projection. Additionally, the higher direct costs (and corresponding indirect costs) charged to rates in 2018 compared to the projection made in 2017 resulted from the inclusion of indirect costs within rates beginning October 2018 and higher than projected direct A&G costs.

IV. COMMUNICATIONS

Please direct any questions regarding GridLiance West's 2019 Annual Update to the contacts below:

N. Beth Emery
Senior Vice President, General Counsel and Secretary
bemery@gridliance.com
972-476-0150

Justin Campbell
Senior Vice President, Chief Development Officer
President, GridLiance West LLC
jcampbell@gridliance.com
972-476-0170

Don Zybak
Vice President, Controller
dzybak@gridliance.com
972-476-0139