

October 1, 2018

**GRIDLIANCE WEST LLC PROJECT 2019 REVENUE REQUIREMENT**

Pursuant to GridLiance West LLC's (GridLiance West) formula rate protocols (Protocols), and consistent with the commitments made by GridLiance West in Docket No. ER17-706-000, GridLiance West hereby presents its projected revenue requirement for the 2019 rate year (Rate Year).

**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).<sup>1</sup> GridLiance West also sought approval of certain transmission incentive rate treatments, including Construction Work in Progress (CWIP) for the Sloan Canyon Switching Station transmission project.<sup>2</sup> 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 2019.

On February 24, 2017, the Commission issued a Letter Order Accepting and Suspending Filing, Subject to Refund and Further Commission Order.<sup>3</sup> 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.<sup>4</sup> On August 17, 2017, the Commission issued an Order on Incentives and Participating Transmission Owner Tariff, and Establishing Hearing and Settlement Judge Procedures.<sup>5</sup> 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.<sup>6</sup>

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

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<sup>1</sup> *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).

<sup>2</sup> The Sloan Canyon Switching Station was previously called the Bob Switching Station.

<sup>3</sup> *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).

<sup>4</sup> *Id.* at 2.

<sup>5</sup> *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).

<sup>6</sup> *Id.* at P 67.

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 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.<sup>7</sup>

On May 25, 2018, GridLiance West filed an Application for Transmission Rate Incentives,<sup>8</sup> requesting approval of (1) inclusion of 100% CWIP in rate base for costs incurred to develop the Sloan Canyon Switching Station to Mead Substation 230 kV Line Upgrade (Sloan Canyon-Mead); (2) recovery of 100% of all prudently incurred construction costs in the event the Sloan Canyon-Mead project is abandoned or cancelled, in whole or in part; and (3) authorization for an incentive adder of 50 basis points to its authorized return on equity (ROE) in recognition of its status as an independent transmission company, subject to the Commission's requirement that GridLiance West's requested total ROE of 10.6% does not exceed the top end of the zone of reasonableness.

On July 24, 2018, the Commission issued an order granting GridLiance West's requests for inclusion of 100% CWIP in rate base and 100% recovery of prudently incurred abandoned plant costs.<sup>9</sup> The Commission also granted GridLiance West's request for a 50 basis points incentive adder for its status as a Transco and accepted and suspended the proposed total ROE of 10.6% for a nominal period, subject to refund, and established hearing and settlement judge procedures to determine whether the total ROE falls within the zone of reasonableness.<sup>10</sup> On September 28, 2018, GridLiance West filed an Offer of Settlement that fully resolved each of the issues set for hearing with respect to its total ROE. The settlement set GridLiance West's total ROE at 10.60 percent, effective July 25, 2018, and established a rate moratorium on the total ROE as described in the settlement.

GridLiance West's Protocols require that GridLiance West post a projected revenue requirement for the upcoming rate year (Annual Projection) no later than September 30, 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. GridLiance West is posting its Annual Projection for 2019 on Monday October 1, 2018 as September 30, 2018 falls on a weekend. The Annual Projection is required to include (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 projected 2019 inputs and produces GridLiance West's projected 2019 revenue requirement. The explanations for the bases for the projections and input data is provided herein.

## **II. ANNUAL PROJECTION**

GridLiance West projects that its net revenue requirement for the 2019 Rate Year will be \$31,811,547. This projection reflects the reduction to GridLiance West's projected gross revenue

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<sup>7</sup> *GridLiance West Transco LLC*, 163 FERC ¶ 61,203 (2018).

<sup>8</sup> *GridLiance West Transco LLC*, Application for Transmission Rate Incentives, Docket No. ER18-1693-000 (May 25, 2018) (Application).

<sup>9</sup> *GridLiance West Transco LLC*, Order on Transmission Rate Incentives and Establishing Hearing and Settlement Judge Procedures, 164 FERC ¶ 61,049 at PP 19, 25 (2018).

<sup>10</sup> *Id.* at P 40.

requirement for the total transmission revenue credits that GridLiance West expects to receive for 2019. The discussion below sets forth the bases for the components of the Annual Projection.

## **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.<sup>11</sup> The total rate base reflected in GridLiance West's 2019 Annual Projection is \$120,666,971.

### **1. Net Plant**

GridLiance West's 2019 Annual Projection is based upon an average net plant value of \$93,070,383 for 2019. The average net plant value reflected in the Annual Projection 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 (\$108,820,775), and the average accumulated depreciation of those assets (\$15,750,393). The accumulated depreciation consists of the accumulated depreciation carried forward from 2018, plus the depreciation that will occur in 2019, consistent with the approved depreciation rates. GridLiance West projects that accumulated depreciation at the end of 2019 will equal \$16,999,904.

### **2. 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) CWIP; (4) unfunded reserves; (5) unamortized regulatory assets; and (6) unamortized abandoned plant. However, GridLiance West projects 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 incentives, as described above. GridLiance West anticipates a CWIP balance of \$26,398,390, which includes projected capital expenditures on the Sloan Canyon Switching Station and Sloan Canyon-Mead projects for 2019.

The Annual Projection reflects an ADIT liability balance of \$1,434,190. 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 projects a total working capital of \$2,632,388 for the 2019 Rate Year.

GridLiance West projects a cash working capital balance of \$2,043,021, which is equal to the projected total operations and maintenance (O&M) and administrative and general (A&G) expenses, less

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<sup>11</sup> GridLiance West does not expect to own any land held for future use in the 2019 Rate Year.

the amortization of any regulatory asset, times one eighth (1/8).<sup>12</sup> GridLiance West's projected O&M and A&G expenses are discussed in greater detail below.

The projected balance for materials and supplies is \$78,872. This projection is based on the expected value of the materials and supplies.

GridLiance West expects to have made an average of \$510,495 in prepayments for the 2019 Rate Year, which consists mainly of 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 right-of-way.

### **Expenses**

GridLiance West expects to incur \$16,344,167 in total O&M and A&G expenses, and \$2,325,331 in depreciation expense in the 2019 Rate Year.

The 2019 Annual Projection includes \$7,806,508 of O&M expense, which is comprised of internal direct labor costs, external costs, insurance, and amortization of prepayments. The external component of this projection is based on the budget expected to be agreed upon as part of the Operations and Maintenance Agreement negotiated by GridLiance West and VETA's parent, Valley Electric Association, Inc.

GridLiance West also anticipates \$8,537,659 of A&G expenses, which consist of internal costs and external costs projected to be directly incurred by GridLiance West. The 2019 Annual Projection A&G amounts include allocations of indirect costs from GridLiance West's affiliates, which were previously recorded to a regulatory asset.

GridLiance West's anticipated depreciation expense reflects the application of the depreciation rates filed in the 205 Application to the GridLiance West assets, which totals \$2,325,331.

### **B. Taxes**

The 2019 Annual Projection includes taxes other than income taxes of \$449,255, which comprises property and gross receipts taxes.

GridLiance West calculated property taxes of \$426,404 by applying an estimated local tax rate to the projected assessed value of the acquired utility plant assets. Gross receipt taxes of \$22,851 relate to the Nevada Commerce Tax and are estimated by applying the applicable Commerce Tax rate for utilities to GridLiance West's projected gross revenue.

Pursuant to its formula rate, GridLiance West also projects a recovery for income taxes of \$1,231,161, which is estimated by applying the applicable tax rate to the projected return on rate base allocable to taxable ownership.

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<sup>12</sup> As discussed below, GridLiance West's Annual Projection does not include any amortization of a regulatory asset in the current 2019 Rate Year projection.

**C. Return and Capital Structure**

GridLiance West's return is equal to its weighted average cost of capital of 8.85%. GridLiance West's capital structure and the applicable cost of debt derives from the debt expense that GridLiance West expects to incur as a result of the debt issued in connection with the Transaction. The debt issuance was approved by the Commission in Docket No. ES17-9-000.<sup>13</sup> The 10.6% return on equity is consistent with the Settlement Agreements reached in Docket Nos. ER17-706 and ER18-1693, which set GridLiance West's base ROE at 9.6% and its total ROE, inclusive of all incentive rate adders, at 10.6%. The total return on rate base reflected in the Annual Projection is \$10,681,440, which is the product of its return and total rate base.

**D. True-Up Adjustment**

Under GridLiance West's formula rate, all True-Up Adjustments are added to the gross revenue requirement to calculate the net revenue requirement for the Rate Year. GridLiance West projects \$780,193 in True-Up Adjustments related to 2017 Rate Year to be included in the net revenue requirement for Rate Year 2019.

**III. COMMUNICATIONS**

Please direct any questions regarding GridLiance West's 2019 projected revenue requirement to the contacts below.

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<sup>13</sup> *GridLiance West Transco LLC*, 158 FERC ¶ 62,234 (2017) (delegated letter order).