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GRIDLIANCE WEST TRANSCO LLC 2018 ANNUAL UPDATE

Pursuant to GridLiance West Transco LLC's (GridLiance West) formula rate protocols, GridLiance West hereby presents its actual Net Revenue Requirement and the True-Up Adjustment for the 2017 Rate Year (2018 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

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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.

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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, 2018 falls on a weekend, GridLiance West is posting its 2018 Annual Update on July 2, 2018. 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 2017 inputs and produces GridLiance West's actual 2017 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 2017 Rate Year is $5,829,701. This amount reflects GridLiance West's actual operations from September 14, 2017 to December 31, 2017, and reflects a reduction for the total transmission revenue credits that GridLiance West received in 2017. 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 2017 Annual Update is $25,763,473.

1. Net Plant

GridLiance West's 2017 Annual Update is based upon an average net plant value of $24,869,874 for 2017. 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 ($28,677,843), and the average accumulated depreciation of those assets ($3,807,969). The accumulated depreciation consists of the balance reflected in VETA's books and records, plus the depreciation that occurred in 2017, consistent with the approved depreciation rates.

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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 2017 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 the 205 Application, GridLiance West sought authorization to include CWIP associated with the Bob Switch transmission project in rate base. The Commission approved the requested transmission rate incentive in its August 17 Order. GridLiance West recorded a CWIP balance of $412,138, which consists of actual capital expenditures on the Bob Switch project for 2017.

The Annual Update reflects an ADIT balance of $25,740. 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 2017 Rate Year was $455,722.

GridLiance West calculated a cash working capital balance of $307,056, 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 $24,268, which is based on the actual value of the materials and supplies.

GridLiance West made an average of $124,398 in prepayments for the 2017 Rate Year, which consists mainly of a pre-paid annual fee for right-of-way, as well as prepayments made by VETA in the course of becoming a CAISO member (CAISO Transition Costs). 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. <u>Expenses</u>

GridLiance West incurred $2,456,446 in total O&M and A&G expenses, and $565,603 in depreciation expense in the 2017 Rate Year.

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[9] As discussed below, GridLiance West's Annual Update does not include any amortization of a regulatory asset in 2017.

The 2017 Annual Update includes $1,978,020 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.

GridLiance West also incurred $478,426 of A&G expenses, which consist of internal costs and external costs directly incurred by GridLiance West, excluding payroll taxes. Consistent with GridLiance West's 205 Application, the Annual Projection includes no allocation of indirect costs by GridLiance West's affiliates. Such costs are instead being recorded to a regulatory asset, and will not be recovered until such time as authorized by the Commission.

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 $565,603.

C. Taxes

The 2017 Annual Update includes taxes other than income taxes of $86,725, which comprises payroll, property, and gross receipts taxes. Of these, GridLiance West only incurred property taxes of $86,725. Pursuant to its approved formula rate, GridLiance West recorded a recovery for income taxes of $561,715.

D. Return and Capital Structure

GridLiance West's return is equal to its weighted average cost of capital of 8.4%. 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 10.1% ROE is consistent with the Offer of Settlement, which has been approved by the Commission. The total return on rate base reflected in the Annual Update is $2,166,193, 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 $11,275 in revenue in 2017 related to pole attachment agreements.

III. DIFFERENCES BETWEEN 2017 ANNUAL PROJECTION AND 2017 ANNUAL UPDATE

GridLiance West projected in its 2017 Annual Projection a Net Revenue Requirement for the 2017 Rate Year of $18,371,764. Subsequently, GridLiance West filed a revised 2017 Annual Projection to reflect

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

the terms in the Offer of Settlement, which reflected a revised Net Revenue Requirement for the 2017 Rate Year of $17,489,863.

These projections were based on the expectation that GridLiance West's acquisition of the HVTS would close on March 1, 2017. GridLiance West closed its acquisition of the HVTS on September 14, 2017. Thus, GridLiance West's 2017 Annual Projection reflected 10 months of operation in 2017, whereas GridLiance West only operated and earned recovery on the assets for 3.5 months. In the table below, GridLiance West provides its 2017 Annual Projection on both its initial 12-month basis and on the actual 12-month basis and compares these numbers against the 2017 Annual Update.

Table 1: Comparison of 2017 Annual Projection to 2017 Annual Update

	2017					
	Initial Projected	**Initial Projected (3.5 months)**	**Updated Projected**	**Updated Projected (3.5 months)**	**Actual (3.5 months)**	**Net Over/(Under) Collection**
	Note A	Note B	Note A	Note C		
Rate Base	64,519,857		64,463,311	18,801,799	25,763,473	
Rate of Return	8.96%		8.48%	8.48%	8.41%	
Allowed Return on Rate Base	5,783,560	1,686,872	5,469,067	1,595,145	2,166,193	(571,048)
O&M and G&A Expenses	8,696,889	2,536,593	8,244,518	2,404,651	2,456,446	(51,795)
Depreciation Expenses	1,649,630	481,142	1,649,630	481,142	565,603	(84,461)
Income Taxes	1,608,100	469,029	1,493,062	435,476	566,009	(130,532)
Other Taxes	683,585	199,379	683,585	199,379	86,725	112,654
Gross Revenue Requirement	**18,421,764**	**5,373,015**	**17,539,863**	**5,115,793**	**5,840,976**	(725,183)
Revenue Credits	(50,000)	(14,583)	(50,000)	(14,583)	**(11,275)**	(3,308)
Prior Period Revenue True-Up	-				-	-
Net Revenue Requirement	**18,371,764**	**5,358,431**	**17,489,863**	**5,101,210**	**5,829,701**	**(728,491)**
Annualized for Year of Acquisition	**5,358,431**		**5,101,210**		**5,829,701**	**(728,491)**

Note A: Represents projected average 10 months of rate base and the full-year projected costs for O&M, A&G, depreciation, income and other taxes and revenue credits.

Note B: Calculated by dividing the initial projected column by 12 and multiplying times 3.5.

Note C: Calculated by dividing the updated projected column by 12 and multiplying times 3.5.

As reflected above, GridLiance West's updated projected 2017 Net Revenue Requirement, based on 3.5 months of actual ownership, was $5,101,210, which is $728,491 less than its actual 2017 Net Revenue Requirement of $5,829,701. The biggest component of this difference is Rate Base. GridLiance West's updated projected 2017 Rate Base was $18,801,799, and the allowed return on rate base was $1,595,145. This compares to the actual allowed return on rate base of $2,166,193 (a difference of $571,048).

The primary driver for these differences results from the way in which GridLiance West calculated its initial rate projection in its 205 Application. Because GridLiance West expected to close its acquisition on March 1, 2017, it anticipated 10 months of operations in 2017. In an attempt to avoid over-collection, GridLiance prorated its projected annual Net Revenue Requirement to reflect only 10 months of operations. However, when collecting its rates through the Transmission Access Charge, CAISO took this 10-month projection and divided it by 12 to arrive at the monthly rate. Thus, GridLiance West only collected CAISO's computed rate base, whereas in the final formula rate the rate base is determined using the 13-month average rate base for the periods GridLiance West owned the assets.

IV. COMMUNICATIONS

Please direct any questions regarding GridLiance West's 2017 projected revenue requirement to the contacts below:

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