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SVP, General Counsel & Secretary

September 1, 2017

GRIDLIANCE WEST TRANSCO LLC PROJECTED 2017 REVENUE REQUIREMENT

Pursuant to GridLiance West Transco 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 2017 rate year (Rate Year).

I. INTRODUCTION & BACKGROUND

On December 16, 2016, GridLiance West filed with the Federal Energy Regulatory Commission (FERC or the Commission) an application seeking authorization pursuant to section 203 of the Federal Power Act (FPA) to acquire from Valley Electric Transmission Association, LLC (VETA) certain 230 kV transmission assets (Proposed Transaction).[1] The Proposed Transaction was approved by FERC on August 17, 2017.[2]

On December 30, 2016, GridLiance West filed an application pursuant to section 205 of the FPA (205 Application), seeking approval of its proposed formula rate template and the Protocols, as well as certain transmission rate incentives.[3] GridLiance West's 205 Application also included a populated formula rate template that reflects the basis for its projected revenue requirement in 2017. The 205 Application was approved subject to refund and further order by the delegated letter order issued on February 24, 2017.[4] In a separate order, issued on August 17, 2017, the Commission set certain issues for hearing and settlement judge procedures, including GridLiance West's proposed revenue requirement.[5] As a result, GridLiance West's formula rate and Protocols will be effective at the time the Proposed Transaction is closed.

The Protocols require that GridLiance West prepare a projected revenue requirement for the upcoming rate year (Annual Projection). The Annual Projection will 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. Pursuant to the Protocols, the Annual Projection will be posted at least ten days prior to GridLiance West's formula rate becoming effective.[6]

II. ANNUAL PROJECTION

Consistent with the Exhibit No. GWT-203 of the 205 Application, GridLiance West projects that its net revenue requirement for the 2017 Rate Year will be $18,371,764. This projection is based on the expectation that

[1] GridLiance West Transco LLC, Application, Docket No. EC17-49-000 (filed Dec. 16, 2016). VETA is a wholly owned subsidiary of Valley Electric Association, Inc. (Valley).

[2] *GridLiance West Transco LLC*, 160 FERC ¶ 61,002 (2017).

[3] GridLiance West Transco LLC, Application, Docket No. ER17-706-000 (filed Dec. 30, 2016).

[4] *GridLiance West Transco LLC*, 158 FERC ¶ 62,136 (2017) (delegated letter order).

[5] *GridLiance West Transco LLC*, 160 FERC ¶ 61,003 (2017).

[6] As proposed, the Protocols provide that GridLiance West's first Annual Projection will 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. Following a request by CAISO, GridLiance West agreed to modify its protocols to indicate that Annual Projections will be posted to www.gridliance.com/regulatory.

the Proposed Transaction would close on March 1, 2017, and reflects the difference between GridLiance West's projected gross revenue requirement and the total transmission revenue credits that GridLiance West expects to receive as of that date. Consistent with section 2(a) of the Protocols, actual charges will reflect the Proposed Transaction's actual closing date. 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.[7] The total rate base reflected in GridLiance West's 2017 Annual Projection is $64,519,857.

1. Net Plant

GridLiance West's 2017 Annual Projection is based upon a net plant value of $61,839,306. The 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 ($71,860,689), and the accumulated depreciation of those assets. The accumulated depreciation consists of the balance reflected in VETA's books and records, plus the depreciation that would occur in 2017, consistent with the approved depreciation rates. GridLiance West projects that accumulated depreciation at the end of 2017 will equal $10,021,383.

2. Adjustments to Rate Base

Under the approved 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 projects 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 Tap transmission project in rate base. The Annual Projection reflects GridLiance West's expectation that the requested transmission rate incentive will be approved by the Commission. GridLiance West anticipates a CWIP balance of $1,265,731, which consists of projected capital expenditures on the Bob Tap project for 2017.

The Annual Projection reflects an ADIT liability balance of $76,536. 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 approved 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 $1,491,356 for the 2017 Rate Year.

GridLiance West projects a cash working capital balance of $1,087,111, which is equal to the projected 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).[8] GridLiance West's projected O&M and A&G expenses are discussed in greater detail below.

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[7] GridLiance West does not expect to own any land held for future use in the 2017 Rate Year.

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

The projected balance for materials and supplies is $60,988. This projection is based on the value of the materials and supplies maintained by VETA at the time GridLiance West filed its projected revenue requirement in December 2016, as reflected in the Asset Purchase Agreement between GridLiance West and VETA. As the prior owner of GridLiance West's only transmission assets, VETA's account balance for materials and supplies is the best basis for projecting the resources that will be necessary under GridLiance West's ownership in 2017.

GridLiance West expects to have made an average of $343,257 in prepayments for the 2017 Rate Year, which consists 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 will acquire from VETA are located on easements and other right-of-way. The annual fee for the right-of-way and easements is $525,000. This annual fee is paid in December of each year, and ratably amortized over the applicable period. The projected revenue requirement reflects GridLiance West's anticipated share of responsibility for that fee in 2017, $264,603. The CAISO Transition Costs reflected in the projected revenue requirement amount to $78,653, and consist primarily of third-party consultant costs, and internal labor and overhead initially paid by VETA.

III. <u>EXPENSES</u>

GridLiance West expects to incur $8,696,889 in total O&M and A&G expenses, and $1,649,630 in depreciation expense in the 2017 Rate Year.

The 2017 Annual Projection includes $5,314,206 of O&M expense, which is comprised of internal direct labor costs, external costs, insurance, and amortization of prepayments and CAISO transition costs. The external component of this projection is based on the initial budget reflected in the Operations and Maintenance Agreement negotiated by GridLiance West and VETA's parent, Valley.

GridLiance West also anticipates $3,382,683 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 will instead be recorded to a regulatory asset, and will not be recovered until such time as authorized by the Commission.

GridLiance West's anticipated depreciation expense reflects the application of the Commission-approved depreciation rates to its assets, which totals $1,649,630.

IV. <u>TAXES</u>

The 2017 Annual Projection includes taxes other than income taxes of $683,585, which comprises payroll, property and gross receipts taxes.

Payroll taxes of $142,725 represent GridLiance West's portion of expected payroll taxes related to direct employees. Payroll taxes include Social Security, Medicare, federal unemployment and state unemployment taxes. GridLiance West calculated property taxes of $520,603 by applying an estimated local tax rate to the projected assessed value of the acquired utility plant assets. Gross receipt taxes of $20,257 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 approved formula rate, GridLiance West also projects a recovery for income taxes of $1,608,100, which is estimated by applying the applicable tax rate to the projected return on rate base allocable to taxable ownership.

V. RETURN AND CAPITAL STRUCTURE

GridLiance West's return is equal to its weighted average cost of capital of 9.0%. GridLiance West's capital structure and the applicable cost of debt derives from the anticipated debt expense that GridLiance West expects to incur as a result of the debt it will issue in connection with the Proposed Transaction. The anticipated debt issuance was approved by the Commission in Docket No. ES17-9-000.[9] The 10.9% return on equity is consistent with GridLiance West's 205 Application, which has been approved subject to refund and further order by the Commission. The total return on rate base reflected in the Annual Projection is $5,783,560, which is the product of its return and total rate base.

VI. 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 projects $50,000 in revenue in 2017 related to pole attachment agreements.

VII. COMMUNICATIONS

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

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