UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

MIDAMERICAN CENTRAL CALIFORNIA TRANSCO, LLC	**Docket No. ER19-____-000**

DIRECT TESTIMONY OF HEATHER L. CUSHMAN

June 27, 2019

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

MidAmerican Central California	**)**	
Transco, LLC	**)**	**Docket No. ER19-___-000**

DIRECT TESTIMONY OF HEATHER L. CUSHMAN

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Heather L. Cushman, and my business address is 666 Grand Avenue, Des Moines, Iowa 50309.

Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

A. I am employed by BHE U.S. Transmission, LLC as Controller.

Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

A. I graduated from Iowa State University in 1993 with a Bachelor of Arts degree in Business Administration with a major in Accounting and earned a Master's degree in Business Administration in 2002 from the University of Iowa. In 1995, I became a Certified Public Accountant licensed to practice in Iowa; I am currently a licensed non-active Certified Public Accountant in Colorado.

Upon graduating from Iowa State University, I commenced my professional career in public accounting at Coopers & Lybrand LLC as an Audit Associate and later at Deloitte & Touche, LLC as an Audit Senior. Since 1996, I have held senior accounting management positions in industry, including many as the top financial executive with the

title of Controller. I joined BHE U.S. Transmission, LLC as Controller in November 2013.

In my current position, I am responsible for overseeing the preparation and maintenance of MidAmerican Central California Transco, LLC's ("MCCT") financial records.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE A REGULATORY BODY?

A. Yes. I have previously filed testimony with the Federal Energy Regulatory Commission ("FERC") in support of other MCCT filings in Docket Nos. ER14-1661-000 and ER19-1384-000.

Q. PLEASE EXPLAIN THE PURPOSE OF YOUR TESTIMONY.

A. The purpose of my testimony is to describe the expenses MCCT has incurred related to the Central Valley Power Connect project ("CVPC" or "Project"), for which it seeks recovery. My testimony describes the timing and nature of those costs.

Q. SUMMARIZE THE COSTS FOR WHICH MCCT IS REQUESTING RECOVERY.

A. Exhibit No. MCCT-301 summarizes the Project costs incurred by MCCT prior to the cancellation of the Project by the California Independent System Operator ("CAISO"), which total $7,084,511.20. These costs include internal labor and related-labor costs, fees paid to contractors, net payments to PG&E for cost reimbursements under the cost-sharing mechanism in the Development, Construction and Ownership Agreement between MCCT and PG&E (Confidential Exhibit No. MCCT-400) ("Development Agreement"), and allowance for funds used during construction ("AFUDC"). As shown

in Exhibit No. MCCT-301, all of these costs were incurred after November 3, 2013, the date that MCCT was selected by the CAISO to develop the Project. A breakdown of pre- and post-June 3, 2014 costs incurred by MCCT is shown in Exhibit No. MCCT-302.

Q. HOW ARE PROJECT COSTS ACCOUNTED FOR BY MCCT?

A. MCCT records costs by major expenditure categories including: 1) internal labor and labor-related costs; 2) contract costs; 3) PG&E cost reimbursement; and 4) AFUDC. An annual breakdown of these costs, separated into these four expenditure categories, is included as Exhibit No. MCCT-301. A brief description of the costs in each of these follows.

Internal Labor and Labor-related Costs

MCCT is a special-purpose entity formed to design, build, own, and operate the Project. As such, it has no direct employees, but labor and travel costs incurred by affiliates of MCCT that supported development of the Project are directly charged to the Project along with facility and IT charges.

Contract Costs

Contract costs include payments to unaffiliated third parties that performed services necessary to support the Project. As explained in more detail in the Direct Testimony of Mr. Brandon D. Smith, Exhibit No. MCCT-200, MCCT was assigned certain Project development responsibilities pursuant to the Development Agreement entered into between PG&E and MCCT, including as the lead developer with respect to Project engineering and construction. Given MCCT's role as the delivery lead for the Project, nearly all of the cost categorized as "Contract Costs" are associated with engineering and construction project management services.

Net Payments to PG&E under Cost True-Up Mechanism

As noted above, following the CAISO selection of PG&E and MCCT as Project developers, the two companies entered into a Development Agreement. Among other things, the Development Agreement provides for the equal sharing of project development costs between PG&E and MCCT, which is implemented via a monthly cost reimbursement process. *See* Exhibit No. MCCT-400 at Article VI. Under the Development Agreement, each party prepares a monthly cost report detailing its expenditures. The party that incurs less than 50% of the sum of the total Project costs for a given month is obligated to make a true-up payment to the other party, such that each party's total costs for the month (inclusive of the true-up) are then equal. Given the division of responsibilities, the majority of early stage Project costs for activities such as routing and permitting, public affairs and right-of-way acquisition were initially incurred by PG&E. As such, most monthly true-up payments were payments from MCCT to PG&E. As engineering and construction planning to support permitting activities increased, monthly true-up payments were occasionally made from PG&E to MCCT. Costs in this category reflect the total amount of payments made to PG&E under the development agreement, net of any payments from PG&E.

AFUDC

AFUDC permits regulated entities such as MCCT to recover the financing, or carrying, costs that occur during the time period beginning when the entity incurs project-related costs and ending when activity on the project is no longer occurring. MCCT ceased recording AFUDC costs on March 16, 2017 following the deferral of the Project and recorded the last development costs in April 2017. AFUDC treatment applied to

project costs recognizes that regulated entities that pay for project costs well in advance of recovering these costs bear cost of capital and financing costs.

Q. HOW IS AFUDC CALCULATED FOR PROJECT COSTS?

A. Consistent with MCCT's formula rate and the hypothetical capital structure incentive approved by FERC in the June 2014 Order,[1] the AFUDC rate was calculated on a monthly basis using a weighted average cost of capital based on the then-current cost of debt, an allowed return on equity of 10.3% and a hypothetical capital structure consisting of 48% debt and 52% equity. Each year the debt rate was set at the average of the LIBOR 1-Month rate for the first business day of each month in that year. The weighted average cost of capital rate was applied to the average of the beginning and ending construction work-in-progress ("CWIP") balance. Accumulated monthly AFUDC charges are added to the CWIP balance semi-annually (in May and November).

Q. PLEASE DESCRIBE THE TIME PERIODS OVER WHICH AFUDC WAS ACCRUED.

A. MCCT began incurring Project costs after the award date of November 6, 2013. Project costs are recorded in Account 107, Construction Work in Progress – Electric. AFUDC was calculated as described herein commencing on the date costs were first incurred. As of March 16, 2017, following the deferral of the Project, MCCT moved the balance in Account 107, Construction Work in Progress – Electric to Account 105, Plant Held for Future Use. Because AFUDC is not accrued on balances in that account, no further AFUDC costs were incurred after this date.

[1] *MidAmerican Transco Cent. Cal. Transco, LLC*, 147 FERC ¶ 61,179 (2014) ("June 2014 Order").

Q. PLEASE EXPLAIN THE CHANGE IN THE CWIP BALANCE FROM 2017 TO 2018 AS SHOWN ON FORM 730.

A. In 2018, certain Project costs that were originally recorded in Account 182.3, Regulatory Asset – Pre-Commercial Cost were moved to Account 107, Construction Work in Progress – Electric after MCCT determined that such costs should have initially been capitalized as components of construction cost under FERC's Electric Plant Instruction No. 3, and should not have been treated as deferred expenses in Account 182.3. The change in CWIP balance reflects this adjustment.

Q. HAVE ANY PROJECT COSTS INCLUDED IN THE REGULATORY ASSET BEEN INCLUDED AS CWIP?

A. No. On March 19, 2019, MCCT filed for recovery of pre-commercial costs recorded as a regulatory asset pursuant to the June 2014 Order. None of those costs were included in CWIP or are otherwise included in the Project costs for which MCCT seeks recovery in this filing.

Q. HOW DOES MCCT PROPOSE TO RECOVER THE COSTS ASSOCIATED WITH THE ABANDONMENT OF THE PROJECT?

A. MCCT proposes that recovery of abandoned plant costs for the Project be implemented via MCCT's formula rate. MCCT is seeking authorization to recover the abandoned plant costs associated with the Project over a 57-month amortization period beginning April 1, 2019, the first full month following the CAISO's cancellation of the Project, and ending on December 31, 2023.

Q. PLEASE EXPLAIN THE BASIS FOR MCCT'S PROPOSED AMORTIZATION PERIOD.

A. The proposed amortization period of 57-months is reasonable in this situation given the relatively small amount of costs involved and the fact that, if this amortization period is approved, the end date of this period (December 31, 2023) would coincide with the end of the amortization period for the regulatory asset that MCCT has established for recovery of pre-commercial costs. A longer amortization period would spread the relatively minor revenue requirement impact of the abandoned plant costs recovery over a longer period than is necessary. Requiring a longer amortization period risks requiring MCCT, which owns no FERC-jurisdictional physical assets, to continue to operate and incur the costs associated with administering a formula rate solely for the purpose of supporting a lengthy amortization period with minimal benefit to customers. Finally, MCCT's proposed amortization period is consistent with prior FERC precedent granting requests for amortization periods of five years or less.[2]

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

[2] *See, e.g.*, *Exelon Corp.*, Delegated Letter Order, Docket No. ER18-404-000 (issued Feb. 5, 2018) (granting five year amortization period); *see also S. Cal. Edison Co.*, 148 FERC ¶ 61,126 (2014) (authorizing request to amortize abandoned plant costs over a period of 12 months).

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State of Iowa)
) ss
County of Polk)

AFFIDAVIT OF HEATHER L. CUSHMAN

Heather L. Cushman, being first duly sworn, on oath says that she is the Heather L. Cushman identified in the foregoing prepared direct testimony; that the answers therein are true to the best of her knowledge and belief; and that if asked the questions appearing herein, her answers would be the same.

Heather L Cushman
Heather L. Cushman

Subscribed and sworn to (or affirmed) before me this 27th day of June 2019, by Heather L. Cushman, proved to me on the basis of satisfactory evidence to be the person who appeared before me.

Shelley L. Mossberg
Notary Public

NOTARIAL SEAL IOWA
SHELLEY L. MOSSBERG
Commission Number 731412
My Commission Expires
November 23, 2019

My commission expires on: 11-23-2019