Opinion: Calif. should pay down its CalPERS obligation

By John Moorlach

Gov. Jerry Brown wants to prepay the California Public Employees Retirement System (CalPERS) with $6 billion beyond what most had expected.

The source of the funds is the Surplus Money Investment Fund. Don’t ask me why a state with a $169 billion unrestricted net deficit has some $50 billion in a low interest bearing account with such an odd title. Perhaps the University of California chancellor can explain how her system and the state can better pull these things off?

Also, don’t ask me why the timing is so odd. The Legislature just approved an annual $5.2 billion gas and auto tax increase, and now the governor has $6 billion for non-road repair expenditures?

Despite these concerns and anxieties, I like the proposal. It’s about time that the governor got serious about the state’s spiraling unfunded defined benefit liabilities, but, I would postulate that this proposal needs a little more sizzle to make it an even more interesting opportunity.

Let’s address the cash flow components of this idea. The state currently has funds that are earning less than 1 percent per year. Paying down a 7.5 percent loan would provide a bigger bang for the buck. The spread of more than 6.5 percent will provide significant savings to the state’s general fund.

It’s true that whatever is deposited into a defined benefit pension plan by a plan sponsor is irretrievable. That is, it’s not a loan to CalPERS, it’s a payment. Once it goes in, the state cannot ask for it back. But, this will be a prepayment.

Consequently, should the state have a cash flow emergency, it could simply stop making the regularly scheduled payments into CalPERS and slowly accumulate back this advancement.

The upside? The state gets to pay down its liabilities sooner, which will have the potential of reducing the annual required contributions in future years. The state obtains the 6.5 percent spread in savings. CalPERS can allocate the funding to meet its own cash flow needs and reduce transaction costs by doing it in bulk. The state wins. The taxpayers will win. And CalPERS wins.

What could go wrong? For the answer to this question, you should ask former New Jersey Gov. Christine Todd Whitman. In 1997, she issued $3.4 billion in pension obligation bonds. This is a risky technique that converts a soft debt to the pension system into a hard debt to bondholders.

The idea is similar to Brown's proposal, in that the cost of the money is cheaper than the current 7.5 percent investment assumption rate of the plan. In the late 1990s, this may have been a brilliant move. But, when the dot com boom turned to bust, pension plans lost a significant amount of plan funds invested in the internet-related industries.

The big risk the governor will have to face is the possibility that the investment markets may tank after making the contribution prepayment. Remember, if you lose 50 percent on your investments this year, you have to earn 100 percent next year just to break even on your principal. Will Rogers put it best, "I am not so much concerned with the return on capital as I am with the return of capital."

It's not a good idea to time the market. It's better to dollar-cost average, which means investing the same amount at regular intervals over time.

We cannot see the future. It's obvious that CalPERS cannot, based on their recent repositioning out of certain equity markets last September, which has cost it more than $900 million in lost appreciation. It makes one wonder if they were concerned about Hillary Clinton winning the November election. Had they assumed that Donald Trump was going to win, and held firm, they would have earned nearly 17 percent on equities since the presidential election.

Had Brown recommended this prepayment move last year, he would be a hero right now. So, he has to determine how serious he is about claiming a recession is around the corner.

To make the proposal more interesting, Brown should ask the board of CalPERS what type of incentive they will give the state for the prepayment. CalPERS will benefit from the large influx and should provide at least a 3.75 percent reduction on the actuarially calculated required contribution. This would provide a $225 million savings to the state, using the $6 billion figure, thus providing some sizzle.

Investing is not difficult, but it is also not for the faint of heart. You have to live with your decisions. Trust me, I managed a $7 billion portfolio and sat on the board of one of the nation’s largest public employee pension systems.

While serving as the treasurer of Orange County, I assisted in constructing a prepayment vehicle for the pension system. Instead of 26 regular payments during the year on biweekly pay days, the county paid the full amount up front, less the negotiated incentive. The county borrowed the funds, at an interest rate lower than the investment assumption rate of the retirement system and has realized about $100 million in net present value savings over the last 11 years.

How did the county do with its investments over this time period, with the change in the regular payment intervals? It actually outperformed what would have occurred under the normal protocol.

We should always remember that past performance is not an assurance that future performance will be the same or better. But, prepaying CalPERS's massive obligations is something that should be strongly encouraged. Pension plan debt is an expensive liability in the current low-interest rate environment. Consequently, public employee retirement stakeholders should enter into a good debate on this proposal.

I see nearly $400 million in opportunity savings by taking low to no earning funds and paying down a 7.5 percent loan. I see the plan more efficiently investing the $6 billion. And I see lower plan contributions as the unfunded actuarial accrued liability is reduced. Those are strong arguments.

I would encourage the governor to move forward with his proposal. But, I would also tell him to get more sizzle to the deal by negotiating with the CalPERS board before writing the check. And, if he is concerned about market volatility, he may want to encourage the board to consider allocating the funds toward fixed income investments that provide income commensurate with the investment assumption rate.

If the governor is really serious about the state's pension plan liabilities, he would figure out how to increase the annual contributions to CalPERS by $6 billion every year, even if it has to come out of the general fund. Doing anything else is only deluding everyone about the seriousness of this rapidly growing and all-consuming obligation.

Thanks for thinking outside the box, governor. Now, take it to the next level.

State Sen. John Moorlach, R-Costa Mesa, represents the 37th Senate District.

Opinion: Rigging of the U.S. system

By Janine R. Wedel

Pundits often attribute Donald Trump’s success to right-wing “populism.” This conclusion is dangerously misleading. Trump’s rise is rooted firmly in his ability to make an old-fashioned word—“rigged”—work in surprisingly fresh ways.

Trump correctly diagnosed a feeling among working people that the system was rigged against them, and then leveraged that against his opponents in both parties.

As a social anthropologist who studies both “influence elites” and the workings of bureaucracy, I can help explain why this “rigging” resonates with so many regular people. I began my career in 1980s Poland studying how communist systems worked. In the past decade or so, I’ve experienced a nagging sense of déjà vu as Americans perceive a widening gap between how they expect the system to operate and how it really does.

I’ve seen this most clearly among the Trump supporters I encounter in rural Kansas, where I grew up, and rural upstate New York, where I’m a partner in a family business. They all say they are against the system because it’s rigged against the little guy at the bottom, even if they have little idea what to replace it with. They may not find him appealing, but Trump would at least “shake things up.”

The “system” goes well beyond the government. Whether it’s your bank, your doctor, public school, news sources, unions, or even your place of worship, all have posted staggering declines in confidence in recent decades. These institutions also are fundamentally different than they were at the time when public trust was first measured. A bank of today is not the bank of the 1970s, when you could get a mortgage by talking to the local lending officer with whom you could meet face-to-face. He might not meet your needs, but at least he had the authority to take into account your own circumstances and history in his decision. Today, this all goes by algorithm in some unseen office.

Ditto when I have a sinus infection and need to see a specialist. While I used to be able to call the doctor's office directly, now I have to call a number that routes me through an incomprehensible phone tree and connects me with people who themselves have little authority. Similar changes have proliferated throughout our lives. Which explains why United initially barely apologized when a paying customer was dragged off a flight.

You don't have to spend much time punching through a phone menu to realize that no one, besides you, is incentivized to care if you get a mortgage, heal your sinus infection, or make your flight to Louisville. And, while you know you're interacting with machines, the frustration, impersonality, and disaffection you feel feels like something I have experienced before: the daily disaffection that eventually led people under communism to revolt. Americans have recently lost power and become disconnected from community in ways that can't entirely be explained by money or inequality.

In my research I've found that nearly every policy venue affecting our lives—from foreign policy to health care to the economy—has indeed been rigged to varying extents by elites shaping decisions to fit their own self-interested agendas.

For instance, the banking giant Goldman Sachs favored some of its powerful clients against others (including pension funds) in the notorious Abacus Deal of 2007. When the deal was discovered only one lower-level executive was punished and the company paid a fine that paled alongside its profits. Meanwhile, so many former executives from the company took positions in the administrations since the Bill Clinton era that the company is jokingly called “Government Sachs.”

The sense of pervasive rigging explains the groundswell of distrust that brought President Trump to power last fall. His constant references to Hillary Clinton’s private email server and problematic family foundation—raising the idea that she didn’t just escape the rules, but actually invented them to serve herself—resonated with many voters.

Ironically, in a mere 100-plus days, Trump has brought the very rigging he has railed against to a new level of blatancy: from Ivanka Trump using her position to promote her fashion line to packing his cabinet with bankers and billionaires with financial conflicts—all while starving parts of the bureaucracy through unfilled positions and budget cuts.

In dismantling and reorganizing governance, Trump is borrowing from the communist playbook: power and personality frequently trump process, formal position, bureaucracy, and elected bodies. He has tried to enfeeble pillars of democracy: civil liberties, a free press, an independent judiciary.

When your democracy doesn’t feel like a democracy, the system demands overhaul. Starving it will only lead to more distrust. Public institutions need remaking; they need to re-deliver.

Janine R. Wedel is university professor in the Schar School of Policy and Government at George Mason University and the author of “UNACCOUNTABLE: How the Establishment Corrupted our Finances, Freedom and Politics and Created an Outsider Class.”

Opinion: Read a book; you may just learn from it

By Brian Greenspun, Las Vegas Sun

Asked how to explain one of President Trump’s latest incredulisms – I think I just made that word up – a CNN commentator said she was at a loss. The issue was Trump’s belief that, had he been around at the time, President Andrew Jackson could have staved off the Civil War, a war that didn’t have to happen and a war for which our president wasn’t quite sure how and why it happened. Or so he said.

After a few pundits took a stab at trying to tell us what Trump might have really meant to say – to little or no avail – the last commenter said the issue wasn’t about what the president was trying to say. It was really about what he wasn’t trying to know. The solution, she declared, was an immediate need for Trump to “crack open a book.”

She implied willful ignorance, and I am pretty sure it was a negative comment.

But I am not here trying to be negative, I am merely picking up on the concept of reading a book.

Read the whole story

Opinion: California’s housing

crisis only getting worse

By Joe Mathews

California has begun a takeover of local housing policy.

That’s the big picture behind the more than 100 housing bills that have been introduced in the Legislature. None of these proposals is up to the task of getting the state to build sufficient housing, especially the affordable kind. But taken together, the legislative proposals—covering production incentives for builders, rental assistance, greater enforcement of state housing laws, even taxation of second homes—clearly signal the state’s intention to take a leading role in how California houses itself.

Joe Mathews

The prospect of a Sacramento intervention is usually worrisome. But this one should be welcomed. The threat of the state seizing power may be necessary to pressure the biggest obstacles to new housing—local governments—to get out of the way.

One can hardly blame state government for aggressive meddling. California has a nasty history of destabilizing housing calamities: from the 1970s run-up in housing prices that produced the Proposition 13 backlash; to the debt-fueled mid-2000s increases that led to the Great Recession.

Today, California’s housing crisis results from a failure to create enough units to meet the population’s needs. While the state needs an estimated 180,000 new units a year, it’s been getting less than half of that. By one estimate, the resulting shortage is a $140 billion annual drag on the state economy. Home ownership is at the lowest rate in California since the 1940s.

The crisis also represents a public health issue. Housing costs force Californians into long commutes that damage our health, our infrastructure and the environment. And housing prices are one big reason why California suffers from the greatest homelessness and the highest poverty rate of any state.

A response is difficult because of the bewildering mix of federal, state, and local policies that affect housing. Federal and state programs, which support those who seek housing and those who try to provide it, are tiny compared to the need for subsidies in expensive California.

Local governments add to the shortage by establishing limits on housing development, density, and sometimes rents themselves. This local hostility to housing is fueled by NIMBYism, environmentalism, and a state fiscal system that encourages local governments to pursue retail development (which produces sales tax for local coffers) instead of housing.

The state goal should be straightforward: more housing. That should mean more assistance to those seeking housing, more incentives to produce more housing, and fewer regulations that limit housing. But the politics are wickedly complicated, even by California standards. Housing divides key interests that come together to pass new laws. Among these are labor (split between building trades unions that oppose reforms to lower housing costs, and service-sector unions whose members need lower-cost housing), environmentalists (between those who embrace denser development and hardliners who oppose all growth), and advocates for the poor (between those who want to revive poorer communities with new housing and those who fear new housing will displace poor people).

Some of the more than 100 housing bills in the legislature could make things worse, by adding to the costs of housing, or creating disincentives for local governments to approve housing. And it’s difficult to make even small gains in housing. State Sen. Toni Atkins of San Diego, for example, has built a formidable coalition behind a bill to provide a dedicated funding stream to support below-market housing. Politically, achieving such funding would be a huge breakthrough. But the legislation would produce just $250 million a year, a fraction of the tens of billions in affordable housing needs statewide.

And subsidized housing reflects only a fraction of our housing market. The state’s nonpartisan Legislative Analyst’s Office has called for a focus on encouraging additional private housing construction in high-demand coastal areas. Shortages there, the legislative analyst said, have rippled across the state, sending people further inland in search of cheaper housing, and driving up housing costs for everyone in the process.

The housing crisis is urgent and has been years in the making, and the state’s legislative efforts to gain power over the problem could take many years, with hiccups and mistakes. Is there any way to go faster? Perhaps, but it would require the politically difficult step of empowering developers.

One model, with a record of success in Massachusetts, gives private developers, nonprofit organizations, and local authorities great powers to challenge land-use regulations that prevent housing development. The developers get an especially free hand in localities that fail to meet state requirements on housing. This puts local governments on the defensive; they can’t just say no to housing projects, but must make plans for housing.

Such pressure from the state may sound extreme. But so are the consequences of our housing shortage.

Joe Mathews writes the Connecting California column for Zócalo Public Square.

Opinion: Calif. was a leader in interstate system

By Daniel J.B. Mitchell

In June, Californians should be marking the 70th anniversary of the Collier-Burns Act. But you probably have never heard of it, even though Collier-Burns likely has an everyday impact on your life.

The Collier-Burns Act of 1947 created the California freeway system by substantially raising the gasoline and other motor-vehicle taxes and earmarking the resulting revenues for highway construction. If you drive on freeways, you are utilizing a legacy of Collier-Burns.

State Sen. Raymond Collier and Assemblyman Michael Burns played a part in enacting the law and received the titular credit for it. But the act would never have been passed without the leadership of then-Gov. Earl Warren.

Warren is well remembered, but not as the father of the California freeways. His career as a California state politician is largely eclipsed by his national service as chief justice of the U.S. Supreme Court and the landmark decisions of the Warren Court in desegregation, criminal justice, and political reform. To the extent that any governor is given credit for the California freeways nowadays, it is likely to be Pat Brown, our current governor's dad.

But the true origins of Collier-Burns are worth knowing, as they bear on today's difficulties with building and maintaining essential infrastructure.

The story of Collier-Burns takes us to the period immediately after World War II. California's population had grown at a rapid pace in the 1940s, from 6.9 million in the 1940 census to 10.6 million in 1950. The state's roads hadn't kept up with growth, given the scarce tax receipts during the Great Depression and the diversion of public resources to the war effort.

Southern California in particular already had a reputation for heavy reliance on the automobile before World War II, but neither the north nor the south had a road system that matched their car-oriented reputation. The absence of modern roads in California in the 1940s wasn't due to lack of planning. There were plans gathering dust in drawers for a system of limited access highways with maps that look similar to what we have today. The problem in implementing these grand plans was the cost of building roads. You could float bonds to stretch out the expense. But eventually, the bonds had to be paid off. And apart from debt service, roads, once built, needed continuous funding for maintenance and repair.

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The state financed major roads as one-off ventures; the Arroyo Seco Parkway, now known as the Pasadena Freeway, was partly financed by the federal government as a Depression-era jobs creation project and completed in 1940. But such financing was not enough to develop a system of roads.

Gov. Warren ran for re-election to a second term in 1946. Under the state's then-existing cross-filing system, he won the nominations of both the Republican and Democratic parties in the primary, although he was a Republican. As the nominee of the two major parties, he had only token opposition in the general election. Armed with an overwhelming victory and evident popularity, he proposed a hike in the gas tax and other vehicle fees, with the money to be placed in a trust fund and earmarked for modern road construction.

Warren faced strong opposition to his highway plan. Trucking companies wanted the revenue to come mainly from the gasoline tax, not a tax on the diesel fuel that trucks used. Utility companies wanted reimbursement for the cost of shifting the wires that were in the paths of the new roads. There was a north vs. south political split in the Legislature and regional suspicion over how the proposed revenue bounty for roads would be divided. And there was a similar urban vs. rural divide.

These legislative frictions were important barriers to getting a bill passed. But the chief opposition was from oil companies that didn’t want a gasoline tax hike to be the major funding source. There were various communications from Warren supporters to oil executives trying to explain that more roads would mean more driving, more cars, and therefore more gasoline sales. But this simple and obvious proposition was strongly resisted by the oil lobby.

The result was months of conflict and jockeying in the legislature and a near-death experience for the Collier-Burns Act. Warren, rather than play a defensive game, went on the radio denouncing the oil companies as ruthless special interests. One particularly damning charge made by Warren was that California’s obsolete roads caused accidents and that those resisting passage of Collier-Burns would therefore have blood on their hands if their efforts succeeded in killing the bill.

Compromises reshaped the bill as it moved through the legislature. Warren's proposed 2-cent tax hike was reduced to 1.5 cents. One reluctant legislator was persuaded to vote for the bill in exchange for a deal on pet food labeling. In the end, Collier-Burns was enacted in late June 1947. Warren proclaimed that the new law would keep California "among the most progressive and forward-looking states in the Union."

However, the influence of Collier-Burns ultimately extended beyond California to other states. When the Eisenhower administration took office in 1953, it envisioned a new federal road system. Originally, the administration favored toll roads as the basis of the proposed interstate system. But the California model was already influential. By the 1950s, California was the second most-populous state (behind only New York) and had a large and powerful congressional delegation. Vice President Richard Nixon was a Californian, as was William Knowland, the Republican minority leader in the U.S. Senate. As House and Senate committees considered the Eisenhower proposal, experts from California were brought in to testify.

Eventually, the toll road idea was dropped, although a provision accommodated those Eastern states that already had built toll roads. The federal bill became a larger projection of the California approach, i.e., gas tax and trust fund, and was enacted by Congress in 1956. For California, the federal bill became a matching source of money that accelerated and expanded what the state was already building or planned to build. Pat Brown was elected governor in 1958, just in time to inherit Earl Warren's legacy in highway construction.

Of course, the same California freeways that were seen 70 years ago as a model for the nation are now heavily congested and in need of repair. Critics say the freeways encourage urban sprawl, displace public transit, and cause environmental damage. Nonetheless, Gov. Jerry Brown recently pushed a bill through the Legislature to raise the gas tax and other vehicle fees for road repair and other transportation purposes. Along the way, he used some tactics to obtain the necessary votes that Earl Warren would have found familiar.

From an historical perspective, Collier-Burns was more than a state highway bill. It marked California’s entrance as a major influence in the American polity. California became seen as a model of public policy and planning. It is only natural that, after 70 years, our views regarding the freeway system that resulted from Collier-Burns would have changed. But at a time when California’s politics seem to be moving in the opposite direction from much of the rest of the country, it’s nice to look back to an era when what California was doing was what the other states hoped to emulate.

Daniel J.B. Mitchell is professor-emeritus at UCLA Anderson School of Management and at UCLA Luskin School of Public Affairs.

Opinion: America’s unfriendly skies

By Jonathan Grella, U.S. News & World Report

The ugly viral video incident that has sent United Airlines’ reputation and stock price into a tailspin has generated calls to boycott the airline – “delete the app,” to employ contemporary parlance.

But it’s tough to delete the app when it’s the only app in town. Lack of consumer choice in air travel makes it near impossible to just pick another airline in many U.S. markets.

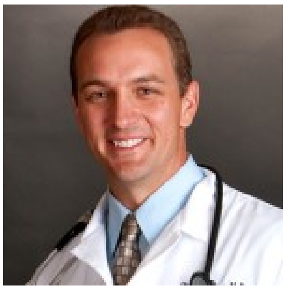
A decade ago, nine airlines competed fiercely to win traveler loyalty. Today, following a wave of mergers and consolidations, only four airlines control almost 80 percent of all available domestic capacity in the U.S.

Read the whole story

Opinion: GOP health care plan could hurt Tahoe

By Clint Purvance

Recently, the House of Representatives narrowly passed the American Health Care Act (H.R. 1628). The bill now resides in the Senate for determination and possible modification. Though we do not know if the senators will pass the American Health Care Act, Barton Health is committed to providing consistently exceptional care for our Lake Tahoe community members and visitors.



Clint Purvance

Many of our residents rely on health care coverage from the expansion of the Affordable Care Act. Since the passage of healthcare reform, the number of residents covered by Medi-Cal has doubled. Currently, 9,500 South Tahoe residents receive Medi-Cal benefits and the area’s uninsured population has reduced from 26.2 percent in the 2012 Community Health Needs

Assessment to 14.7 percent in the 2015 Community Health Needs Assessment.

If the American Health Care Act passes and is enacted in the Senate without changes, the American Hospital Association estimates that $880 billion will be cut from Medicaid programs nationwide. This will affect more than 14 million Californians – many children, senior citizens, and low-income families – who rely on Medi-Cal, California's Medicaid, for health care services.

It is Barton Health's commitment, in conjunction with the California Hospital Association, the American Hospital Association, and many other health care providers, to ensure health care coverage for as many individuals and families as possible.

Though changes and revisions are expected, it is important for all of us to keep a watchful eye on this bill. The American Health Care Act puts less financial strain on the federal government, while adding more pressure on states, local jurisdictions, health care organizations, and the patients and communities we serve.

Barton Health is determined to provide programs and services for all our patients. We will continue to work closely with the California Hospital Association and American Hospital Association to find a bipartisan solution that keeps as many residents insured as possible in order to support the overall health and well-being of our community.

Clint Purvance is the CEO and president of Barton Health in South Lake Tahoe.

Editorial: If only more Republicans were like Sandoval

Publisher's note: ***This editorial is from the May 8, 2017, Las Vegas Sun.***

During his recent trip to Washington, D.C., Gov. Brian Sandoval showed why the Republican Party should encourage him to come back for an extended stay.

Like six years in the Senate. Or maybe even four years in the White House.

Sandoval went to the nation's capital in an awkward position, as a moderate and results-oriented governor meeting with Cabinet members of a hard-line extremist presidential administration. On two of the main issues that prompted his visit — supporting last November's successful ballot question legalizing recreational marijuana and opposing the Yucca Mountain high-level nuclear waste dump — he was completely out of step with the president.

Read the whole story

Opinion: Don't mess with California's mountains

By Tom Mooers, Denver Post

Dear Colorado:

Welcome to Lake Tahoe!

We’ve been reading in our local California papers, as well as the *Denver Post*, about the new relationship between Aspen Skiing Co. and KSL Capital Partners. And of their subsequent purchases of IntraWest and Mammoth ski resorts – quite a dowry!

You likely share in the stoke for the new couple’s community property – an incredible list of mountains that reads like a bucket list for American skiers: Colorado’s Aspen and Steamboat resorts and California’s Mammoth and Squaw – with more rumored soon.

We have one request in return: don’t mess with our mountains. We hold our Sierra Nevada and its incredible places – Yosemite, Lake Tahoe, etc. – in high regard. And we defend them with great ferocity.

Read the whole story

Letter: Trying to understand Liberty Utilities

Publisher’s note: ***The following letter is from the North Tahoe Citizens Action Alliance to the California Public Utilities Commission. It is published with permission.***

Dear Commissioner [Carla] Peterman,

We welcome you to your new assignment to preside over the administration of the decision. As citizens and ratepayers we understand the Commission is our ally for affordable and fair costs of any regulated utility monopoly. NTCAA intervened on behalf of residential and small commercial ratepayers and the Office of Ratepayer Advocates was not able (due to limited staff and funding) to intervene. As a group of ratepayers in a very small electric utility service area we could only hire a technical consultant. We are not presenting our side moderated by attorneys or their paid consultants contriving evidence to suit a particular argument for their client. Our concern has always been the technical realities; i.e. the scientific and economic facts used as the basis and rationale for the proposed expenditure.

Due to the most recent submission of Advice Letter filings we noticed how Liberty Utilities insists repeatedly that the 89MW peak load has validity per the decision. NTCAA finds this position a consistent and predictable pattern due to their zeal for the Phases 2 & 3 despite the lack of technical support. The numbers used in the Decision (e.g., 89MW for Phase 2) were derived from discredited technical data – the model inputs were flawed and constantly manipulated with every iteration of their studies (four iterations to date). The most recent iteration completely excludes the essential diesel power plant (recently upgraded), so that LU’s consultant could try to show support for the 89MW number.

We do not understand why the completely discredited number was mentioned in the decision other than as a tentative example of triggers from prior technical studies. If the triggers were valid in the eyes of the presiding ALJ and the commissioner then there would have been no reason for the decision to explicitly condemn the studies for fatal flaws incapable of technical support and have specific language calling for a new network study.

But Liberty Utilities continues to spend ratepayer funds repeating the 89MW trigger as if it has any technical support. The decision calls for a new load study to establish technically supported triggers for Phase 2, and even more importantly for Phase 3 which is the most controversial power line expansion through the Lake Tahoe Basin. These two phases are a $50 million investment for Liberty shareholders at with a return paid for by 46,000 ratepayers of about $10 million per year.

Why is Liberty Utilities pushing so hard for the 89MW number? We can see a few reasons.

1) They are getting a very substantial return on rate base net of depreciation, taxes, insurance, and increased maintenance. So whether LU spends $5 million or $ 50 million is the same generous level of return on cash spent. Unchecked this can lead to "Cadillac" upgrades that only benefit investment groups.

2) They are completing the transmission network upgrade as envisioned and designed by NVEnergy (Sierra Pacific Power Company) in 1996. But the fact that NVEnergy retained assets that will significantly benefit from this regional upgrade does not matter for LU because they get the financial return anyway. Whether this obligation for LU to complete NVEnergy's Application from 2010 was a part of the sale we do not know. But LU's legal team has always been pushing it hard from the beginning as if there was some other motive behind being the surrogate for NV Energy.

LU attorneys have submitted two Advice Letters (both pending) trying to push, or more precisely lobby, the Energy Division into granting Phases 2 and 3. The Energy Division is apparently working to implement the Decision as written to conduct a new network study using valid, technically supported, and consistent assumptions including the diesel power plant.

3) Once they have latched on to a number, especially a number from NV Energy, the legal strategy seems to be just dig in and repeat it over and over again, hoping people will eventually believe it. NTCAA is asking that you and the new ALJ Robert

Haga, and any staff involved in the proceeding do not submit to this pressure by LU attorneys and their biased consultants. In LU’s Advice letter filings the 89MW is mentioned several times referencing the Decision, but as usual it is taken out of context without any mention of the numerous references that the technical studies are flawed so deeply that number is unsupported, and therefore this led to the Decision’s explicit language for a new network study to determine trigger points for Phase 2 and 3. The fabrication of a minor equipment failure as reason to approve Phase 2 is simply further evidence of LU advocacy on behalf of NV Energy.

NTCAA believes that LU is pushing a project originally conceived in NV Energy’s 1996 study (under the name Sierra Pacific Power Company) was called the North Tahoe Capacity Plan covering the entire region (including Nevada’s Incline Village and the Truckee Donner PUD) because SPP (NV Energy) owned all the substations in that region. Then SPP sold a slice of their system (just the California customers) and a few substations while retaining the key substations, some distribution lines, and half of the diesel generator output. A map of current system ownership is an attachment to NTCAA’s Motion to Compel in the record.

The 1996 design was to accommodate growth that never happened. In fact, the loop that is to be upgraded experienced peak loads of about 61MW in 1996 and about 61MW in 2015. There was no net load growth because of technical efficiencies and restrictive growth controls in the Lake Tahoe Basin.

The key to understanding this issue is that the loop upgrade was SPP’s 1996 plan to accomplish two system benefits: First, is to enhance the existing backup source for Incline Village since the Kings Beach substation currently feeds the Knotty substation in Incline Village, Nevada, and second, is to move the current loop source from the Truckee Substation (60kV) to the North Truckee substation (120kV). Under the 1996 Plan SPP was prepared to spend $15,000,000 to make the same improvements on behalf of the regional system. But today it is LU customers only that would pay for the system's improvements.

The Truckee 60kV substation is being pushed to capacity by steady new net loads in Truckee. If NV Energy moves the source of the 61MW loop to its North Truckee 120kV substation, then they can increase revenues by serving continued load growth in Truckee. The regional improvements benefit NV Energy's substations in Truckee and Incline Village. With 120kV lines serving an upgraded Kings Beach substation which include additional 14.4kV feeder capabilities to NV Energy customers in Incline Village, their backup needs are paid for.

And of course this planning (1996) was all before the sale to LU of its California customer base. Now LU is pushing the same regional upgrades with huge benefits to what are now NV Energy assets on the backs of a narrow and very small LU customer base. This is unjustified from the LU ratepayers' perspective as the costs are not correlated to the beneficiaries, and at best are not proportional. NV Energy should be paying for at least half of the Kings Beach substation upgrade portion ($ 9 million) and all the cost of moving the source line to the North Truckee substation ($6 million). Instead, LU is using their attorneys and biased consultants to suppress information, manipulate the technical studies, and divert the arguments to procedural issues.

NTCAA urges you to allow the Energy Division to continue its work in implementing the Decision without falling victim to carefully crafted legal jargon that is a smokescreen for the technical realities on the ground.

Sincerely,

David McClure, president NTCAA