

# Assumptions Tied to Western Management Approval of the ED5 – Palo Verde Market Hub TIP Project

## Purpose:

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This document defines the assumptions used for the ED5-PV Market Hub Project's (Project) application for access to TIP borrowing authority. These assumptions reflect reasonable expectations based upon Western's current understanding of the Project, as developed utilizing internal information and analyses, as well as information provided to Western by other parties. Western's management will work to pursue the use of TIP borrowing authority to finance this Project if this set of assumptions remains intact. If any assumption is changed, Western management will re-evaluate its continued support for this Project in its present form. Western cannot guarantee the ultimate outcome of the TIP funding application; however, based on the assumptions defined herein, Western believes that the ED5-PV Market Hub Project meets all of the TIP Program and Project Principles and Evaluation Criteria. Western Management and the TIP Office will exercise due diligence in order to pursue the use of TIP borrowing authority.

## Assumptions:

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This document does not contain background on the Project. One source for general background is the presentation regarding this Project provided to the public at the October 6, 2010, meeting that can be found at: <http://www.wapa.gov/dsw/pwrmkt/Ed5/Main.htm>. The public comments Western received after this presentation demonstrate the Parker-Davis Project (P-DP) customers' strong support of Western's pursuit of the use of TIP borrowing authority for this Project.

Therefore, Western's Management will pursue the Project predicated upon the following assumptions:

1. The Southwest Public Power Resources (SPPR) Group participants will sign Transmission Service Agreements (TSA) totaling at least 140 MW of new transmission service for a term of at least 25 years (from the time the facilities go in service) on the P-DP transmission system. This must be net new service; the participants shall affirm they will not reduce other existing transmission reservations. These contracts provide roll-over rights. It is anticipated that these TSAs, or interim agreements committing parties to such contracts, will be signed in December, 2010.
2. Parties that wish to utilize the capacity created by this Project must agree that they are beneficiaries of the Project by executing a Facilities Use Charge Agreement, as outlined in the October 6, 2010 public meeting. The estimated total cost of transmission for the project beneficiaries, including estimated impacts due to the Facilities Use Charge, will be determined and shared with project stakeholders. The resulting level of Facilities Use Charge agreements shall be signed, prior to the first use of TIP borrowing authority for construction.
3. A substantial amount of environmental work has already been completed for this Project. An umbrella Environmental Assessment will be completed to combine all of the environmental work being done on different segments of the Project. Based on analysis of the work done so far, it is reasonable to anticipate the Environmental Assessment will yield a Finding of No Significant Impact for this Project.
4. Based on current information, this project facilitates the delivery of power to market, generated by renewable resources that are reasonably expected to be constructed. This project makes capacity available between a prime location for solar development and the Palo Verde Hub. Western has received a Transmission Service

Request from a solar developer that would rely on the capacity from this project, and has received information from multiple potential renewable energy developers in response to a Solicitation of Interest regarding this path.

5. Southeast Valley Project (SEV) participants are willing to structure the SEV Participation Agreements to ensure ED4 and ED3 can enter into agreements with Western which results in Western receiving all rights associated with ownership for the life of the SEV facilities and proportionate with Western's investment (made possible through the use of TIP borrowing authority).
6. Current transmission studies demonstrate the proposed Project's transmission system upgrades between ED5 and the Palo Verde Market Hub will support the required transfers, making this Project economically viable, while also meeting the transmission needs of Western's customers. It is assumed that further study work will continue to demonstrate these transfers can be accommodated. Transmission study work has not yet determined what upgrades, if any, would be required to support the Topock reservation portion of SPPR's request and any costs associated with such upgrades are not covered herein.