ELECTRICAL DISTRICT NO. 4

PINAL COUNTY

POST OFFICE BOX 605 – ELOY, ARIZONA 85131

Telephone: (520) 466-7336

BOARD OF DIRECTORS:
MARK HAMILTON, CHAIRMAN
CHARLES BUSH
THOMAS W. ISOM
JAMES F. SHEDD
WILLIAM WARREN

DISTRICT MANAGER:
RON McEACHERN

VIA ELECTRONIC MAIL TO:
DSWFPP@wapa.gov

July 19, 2010

Mr. Darrick Moe
Desert Southwest Regional Manager
Western Area Power Authority
P.O. Box 6457
Phoenix, AZ 85005-6457

Re: SPPR Proposed ED5 to Palo Verde Transmission Project

Electrical District Number Four of Pinal County ("ED4") and Electrical District Number Five of Pinal County ("ED5") are members of the Southwest Public Power Resource ("SPPR") Group and support the ED5 to Palo Verde Project Statement of Interest ("SOI") submitted by the SPPR Group. ED4 is also a participant in the Southeast Valley ("SEV") Project and has offered to supply SEV capacity rights to Western. The SEV capacity rights, when integrated with the Parker-Davis Project ("PDP"), are critical components of the proposed ED5 to Palo Verde Project and will for the first time interconnect Western's PDP transmission system to the Palo Verde market hub.

ED4 and ED5 are totally dependent upon the PDP transmission system. 100% of their power resources are delivered to ED4 and ED5 customers over the PDP transmission system. For this reason we are compelled to respond to several comments you have received from others regarding: (1) existing PDP customers' repayment obligations; (2) Western's "core mission obligations" and justification for a stand-alone project and (3) the use of Transmission Infrastructure Program ("TIP") Funding.

Existing PDP Customers' Repayment Obligations

We could understand the concern expressed by those who say they should not be at risk of repaying construction costs for transmission *if* those costs were incurred solely for the benefit of renewable developers. Such, however, is not the case with SPPR's proposed ED5 to Palo Verde Project. On the contrary the ED5 to Palo Verde Project will benefit many existing PDP customers and will at least partially facilitate Western's PDP rehabilitation efforts. In fact, the suggested paradigm of limiting Western's construction solely to rehabilitation activities would serve only to deter those rehabilitation activities from occurring in a timely manner. It is common knowledge that much of the PDP transmission system has suffered greatly from the lack of funding for necessary repairs.

The ED5 to Palo Verde Project provides a unique opportunity for Western to access funding that will complement severely limited existing funding sources needed for rehabilitation, while at the same time advancing the development of solar projects in the general vicinity of existing federal facilities in Pinal County. Indeed, SPPR's SOI contemplates that capacity from Palo Verde to ED5 will be reserved by the SPPR Group as additional new PDP transmission reservations, and that the ED5 to Palo Verde capacity will be available for renewable developers. The ED5 to Palo Verde Project is comprised of several components that include upgrades to the existing PDP system and additions that are not currently part of the PDP transmission system. However, these components are inter-dependent; and the costs cannot be easily separated based on the contemplated use of the capacity. It is our belief that SPPR's commitment for additional reservations more than offsets the costs for the non-PDP components, and that existing customers are at only minimal risk for the costs of upgrades to the PDP transmission system. We believe this to be the case even assuming ***no*** future reservations of the available capacity to Palo Verde.

Finally, concerning the subject of risk assessment, Western has estimated the downside risk to be minimal, even assuming no future reservations of capacity for deliveries to the Palo Verde hub. The more likely outcome is that PDP transmission rates will be reduced for all customers as this capacity becomes reserved. If anything, there is a risk that increased repayment obligations will occur if current PDP customers are pressured into reducing their capacity reservations on the PDP transmission system because of pancaking issues.

Western's "Core Mission Obligations" and Stand-Alone Project

The comments that Western should be confined to its "core mission obligations" are contrary to established policy and the public interest. Like Salt River Project ("SRP"), Arizona Public Service ("APS"), Tucson Electric Power ("TEP") and Southwest Transmission Cooperative ("SWTC"), Western is a major transmission provider in Arizona and the Desert Southwest Region and, as a major transmission provider, Western has responsibilities that extend beyond its "core mission obligations". It is not in the public interest to stifle the ability of any of these transmission providers to address their customers' needs. Moreover, any attempt by one transmission provider to stifle the ability of another transmission provider to offer competing services raises market power concerns.

The "core mission obligations" comments can also be viewed as self-serving. For instance, some of Western's transmission customers do not anticipate needing additional Western transmission services and would be content with the status quo. This might be acceptable up to the point where the argument is made that Western's "core mission obligations" somehow require the status quo, to the detriment of customers that do require additional transmission services. And, as discussed above, since ED4 and ED5, like other PDP customers, rely on Western to provide these additional transmission services, it is reasonable for Western to pursue the course outlined in its presentation.

Some have suggested that Western, on behalf of the SPPR group and renewable developers, pursue a stand-alone project to serve the additional transmission needs. Of course, this approach would present both SPPR and the renewable developers with pancaked rates that render access to the Palo Verde market hub less economic and less competitive relative to those who would not have to pay pancaked rates. While this might not be the intent of the comments, it could very well be the result. Furthermore, expanding an existing system promotes the efficient use of that system consistent with

sound, cost-effective transmission planning and operational principals. Building a separate stand-alone project does just the opposite and will perpetuate a strategy of bypassing the federal system.

Use of Western's TIP Funding

SPPR's proposal to seek Western's TIP funds for the ED5 to Palo Verde Project offers an effective mechanism to add value to the PDP transmission system by providing a new non-pancaked transmission path between the Palo Verde market hub and an existing transmission constrained area in Pinal County. ED4 and ED5 support prudent steps to ensure that the benefits and burdens of TIP-funded projects are treated appropriately, but suggest that prudent steps are not just limited to short-term rate impacts. Prudent steps include performing needed system maintenance and upgrades in a timely manner, increasing reliability and load serving capability, addressing competitive barriers (access to markets), mitigating the effects of pancaked transmission service, and making efficient use of public utility corridors.

The SPPR's SOI included a letter from a property manager expressing interest in approximately 200 MW of transmission capacity from Pinal County to the Palo Verde market hub. Other developers have abandoned sites in Pinal County due to the lack of transmission access. The Arizona Public Service (APS) company posted a system impact study report on its OASIS indicating that access from Pinal County to the Phoenix load center and Palo Verde market hub is constrained. Salt River Project ("SRP") has posted a request for proposals for renewable resources that requires interconnection to its 12.47 kV system, presumably because of the constraints on the transmission system. The ED5 to Palo Verde Project is a real opportunity to remove some of the barriers to renewable development, it is "shovel-ready", and it poses far less economic risk than any other TIP proposal in the Southwest.

ED4 and ED5 thank Western for its leadership and willingness to work with the SPPR Group. The proposed ED5 to Palo Verde Project provides real and substantial benefits to the PDP system and is consistent with the mission and goals of TIP funding. For the reasons stated here, and in SPPR's SOI, we encourage Western to approve the ED5 to Palo Verde Project and move forward as quickly as possible.

Sincerely,

Ron McEachern

Ron McEachern
Manager of ED4 and Manager of ED5

cc: Bill Stacy (ED3)
Grant Ward (ED3)
Tom Martin (ED2)
Don Kimball (SPPR)
Dennis Delaney (KRSA)
Mark Mitchell (SRP)
Robert Lynch (IEDA)