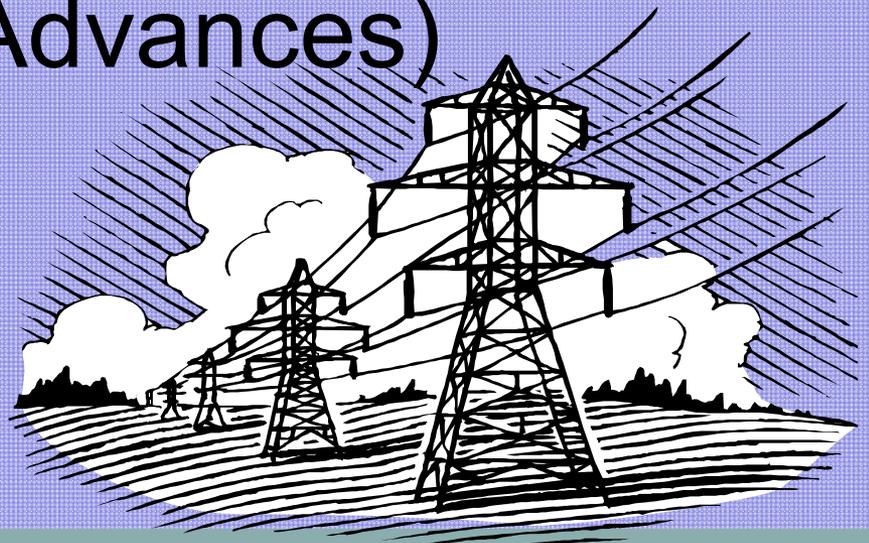


Potential Funding Mechanism for Construction

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Prepayments (Customer Advances)



April 13, 2010

Proposal

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- Firm transmission customers of Parker-Davis and Intertie Projects are paying bills in advance of service
- Advance payments are currently funding expenses for these Projects, to the extent possible, but NOT Construction costs
- DSW is proposing that cash available from these prepayments also cover some Construction activities for these Projects in years that Appropriations are insufficient
- Builds incrementally on Customer agreements now in place in DSW
- It is currently projected this could provide up to \$15 million/year for Construction

Process/Status Overview

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- Initial Customer meeting took place Feb. 17
- Written comments received from 29 entities
 - 27 - supported moving forward with concepts presented
 - 2 - contained questions and did not express an opinion
- Customers agree this process should allow progress on required construction activities while minimizing rate impacts
- Many of these letters contained specific feedback about how to proceed, including numerous comments requesting the development of an oversight framework
- DSW has started work on oversight alternatives
- DSW will request customer input on construction projects to be funded

Basic Concept Not New to Western

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We are proposing to extend the use of prepayments due to decreasing availability of appropriations.

- Has no net impact to Treasury:
 - More Prepayments mean Less Appropriations
 - Less Prepayments mean More Appropriations
- Western has historically worked with Customers to deal with dwindling Appropriations:
 - Purchase Power and Wheeling (use of receipts)
 - Net Zero
 - Construction Customer Advances received by Other Regions

Appropriation levels Example

Parker-Davis Project

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Budget Request

- FY10 Parker-Davis Project TYP Budget requested \$33.75 million including \$15 million for Basic Substation Remediation

Actual Need

- FY10 P-DP Actual Construction Need for Wood Pole Replacement Program alone is \$50 million per Year for the next 11 years

Received

- DSW Received \$20.0 million: \$18.5 Non-Reimbursable for Basic Substation Remediation and \$1.5 million for Construction Program

Effect

- Insufficient funds to complete full Construction Program so projects need to be pushed out into future years

Repayment and Rate Setting

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- Power system repayment tracked in separate Power Repayment Studies (PRS)
- PRS and measurement of repayment is entirely revenue based
 - Repayment (P&I) measured against revenues applied to investment—NOT cash to Treasury
- All construction investments have some rate impact
- Rate impact of this approach is identical to the use of Appropriations for Construction

Existing Oversight Includes

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- Joint Planning Agreement (JPA)
 - Transmission plans beyond the TYP window
 - Currently meets yearly in July
 - Collaborative discussions with customers
- Ten-Year Plan (TYP)
 - Plan that identifies construction projects
 - Currently meets yearly in December
 - Sent to customers prior to meeting requesting input and revisions
- Rates Process
 - Informal and formal customer meetings for DSW power systems
 - Calculated using TYP, audited financial statements, forecasted costs, sales and other revenues

Enhanced Oversight Framework

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- Oversight Must :
 - Allow for Customer input on Prioritization of Projects
 - Provide for Customer Voting
 - Be Binding - If Customers do not support the use of Prepayments for a project, Western shall not use Prepayments for that project
- JPA – Retain annual meeting
 - Shall conduct additional JPA meetings and address topics as requested by the customers

Enhanced Oversight Framework

- TYP – Retain Annual Meeting
 - Conduct additional meeting(s) to ensure adequate oversight
These may be earlier in the year, as agreed to by Western and the Customers to jointly work on TYP development
 - Improve collaboration to prioritize and finalize TYP projects
 - Follow up meeting(s) to vote on whether to fund TYP using prepayments. These meetings shall be focused on funding as TYP should be agreed to and finalized in earlier meeting.
- Rates – Retain annual meeting and uses new TYP agreed to by customers

Features of Framework

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- Funding Options Available
 - Appropriations – requested from Congress
 - Prepayments – to fund appropriation shortages
 - 3rd Party Funding – (i.e., APA) when appropriations and prepayments inadequate and Western/Customers agree
- Focus for TYP and Funding – Reliability of System
- Build in process for emergencies
- Provides greater opportunity for customer input
- Provides for Customer oversight and maintains Western authorities
- OMB/Congressional Oversight remains
- Budget not increased – only supported projects move forward
- Cash generated by Customer Advances (Prepayments) has not and will not be moved outside DSW

Successful Funding Program

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Includes Several Components:

- Flexibility – use all available funding options to address agreed upon needs
- Customer Participation – Active and increased participation in development of JPA, TYP and Rates
- Cooperative Spirit – Meet Customers' needs while maintaining a reliable and affordable transmission system

Next Steps

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- DSW posted Feb 17 material from Customer meeting and Questions and Answers on follow up Customer Comments. Will post data requests as completed.
- DSW will continue to work with its Customers to answer additional questions and move forward. A second customer meeting is now scheduled.
- Establishing oversight will be an important aspect of this collaborative effort
- SPPR customer coordination continues on parallel track as required to accommodate customer timelines
- Continue to request Appropriations as the first alternative for Construction Activities