

Southline Transmission Project

Parker-Davis Project Customer Outreach Meeting May 28, 2015

Questions/Comments and Responses

1. Question/concern over Del Bac being an option. Would appreciate if it was not an option but rather a part of the Project.

Response: The Del Bac addition is currently an option and we appreciate the input as to P-DP stakeholder interests.

2. Are you aware that the EIS is being delayed? There is congressional interest and speaker of the house interest in the wine grower interests in the area.

Response: Western is aware of broad interest in the EIS and is working in collaboration with stakeholders to find amenable solutions to the issues raised in the EIS process.

3. What's the breakdown of state land between New Mexico and Arizona? Have the ROW applications been filed with the state land departments?

Response: Land ownership across the project is approximately 1/3rd each state, private, and Federal. State lands are predominately located in New Mexico. ROW applications have not yet been filed with state land departments; however, Southline has been in communication with the state land departments to keep them apprised as the project develops.

4. On what basis are the participation strawman and principles documents being held confidential?

Response: Elements within the documents are considered confidential commercial or financial information and therefore are exempt from FOIA disclosure under 5 U.S. C. 552(b)(4). Concepts contained in the document were presented at the customer meeting. In the event a FOIA request is received, the project developer will be consulted as to what information is considered confidential before the document is evaluated for release under FOIA.

5. Can you provide an example of a new facility on the Upgrade Segment that would be owned by Southline?

Response: Connection into the Vail Substation would be an example of a new facility within the Upgrade Segment that is currently not part of the existing infrastructure. These facilities would be owned by Southline on lands acquired by Southline. All facilities currently owned by Western on the Upgrade Segment would continue to be owned by Western.

6. Would Southline acquire land with utilities and federal agencies?

Response: Yes, Southline would acquire land rights associated with Southline owned new facilities within the Upgrade Segment that are controlled by an electric utility, and New Build Segment lands owned by electric utilities and Federal agencies such as the Bureau of Land Management.

7. Would Western apply to the state land agencies?

Response: It is assumed on the Upgrade Segment that Western would take the lead, which may entail applications with state land agencies. Further discussion is needed on who would work with state land agencies on the New Build Segment.

8. What is the authority for Western to acquire lands beyond Apache Substation?

Response: Western believes it has authority under Section 402 of the Recovery Act to acquire lands beyond Apache Substation in the Southline project.

9. Would the New Build Segment be made part of the P-DP?

Response: This has not yet been decided. Western is seeking input from P-DP stakeholders as to their desire to incorporate Western acquired New Build Segment capacity into the P-DP. In the event it is not, P-DP will not be responsible for the associated O&M costs. If New Build Segment capacity is incorporated into P-DP it is assumed that the associated O&M costs will be incurred by P-DP in the same proportion as the Western capacity share.

10. Can Western provide further analysis of estimated O&M costs associated to the New Build Segment if adopted by P-DP assuming no additional transmission sales?

Response: Yes, please see Attachment #1 to this document for requested information.

11. Does O&M include future capital expenditures?

Response: Yes, but only within the duration of the lease term.

12. Does the O&M at Del Bac get assigned to CAP?

Response: No. Assets and associated costs related to this project are within the P-DP system. In the event direct benefits to CAP are identified, pro-rata portions of the Del Bac facilities may be assigned to CAP.

13. What is the term of the arrangement (long-term arrangement between Southline & Western)?

Response: The term is not yet determined. It is anticipated to be long-term. The term and any renewal provisions shall be determined within the contracting process.

14. Do you anticipate marketing ahead of time to get off-takers on the New Build Segment?

Response: Western has not anticipated an open season process for its share of New Build Segment capacity, however, would be open to soliciting interest from potential off-takers on the New Build Segment.

15. Would the Project owners (SL & Western) be competing for transmission sales?

Response: In some facets, yes, as each would have similar transmission capacity in the area. However, as the capacity is incorporated into area transmission systems, the nature of the overall transmission that is marketed will inevitably lead to distinct differences in the transmission available to the marketplace, which will limit the direct competition of capacity that is made available.

16. Is Western going to intervene in Southline's FERC filing?

Response: Western does not anticipate intervening in Southline's FERC filing.

17. Is there a decision to be made on Apache to Afton as a stand-alone and whether it would be a P-DP rate or a stand-alone rate?

Response: The project as defined encompasses both New Build and Upgrade Segments. There is still a decision to be made as to Western's capacity interest and disposition of New Build Segment capacity. Options may include:

- i) Acquire proposed New Build Segment capacity and either:
 - a. Incorporate into P-DP; or

- b. Establish it as a stand-alone system
- ii) Acquire a reduced quantity of New Build Segment capacity and either:
 - a. Incorporate into P-DP; or
 - b. Establish it as a stand-alone system

18. Would there be capital cost incurred by Western on the New Build Segment?

Response: No.

19. What are the current reservations on Apache to Saguaro?

Response: The Apache to Saguaro line is fully subscribed.

20. Does the anticipated 250 MW of capacity include the existing 120 MW or is it incremental?

Response: The 250 MW is inclusive of the 120 MW. Western would acquire approximately 130 MW of additional capacity on the Upgrade Segment.

21. Are there any requests for capacity for the existing Saguaro-Apache line in the queue? This includes capacity requests impacted by or associated to the Saguaro-Apache segments.

Response: Yes. A customer request of 40 MW is currently processing and is in the facility study phase.

22. Suggest Western to review the 120 MW of existing Upgrade Segment capacity and verify that amount.

Response: Western has confirmed that existing capacity between Apache and Saguaro is 120 MW. There is additional capacity available between Saguaro and Tucson when factoring in the redundancy through Oracle Substation.

23. Where does the 40 percent on the capacity allocations come from?

Response: The 40 percent is the percentage share of the Saguaro to Apache upgraded capacity Western would need to acquire, based on current rated capacity estimates, to acquire the approximate amount of upgraded P-DP capacity that would result from constructing the Upgrade Segment elements within Western's 10-Year Plan.

24. Are Hidalgo and Afton within the current P-DP marketing area?

Response: No.

25. What is the relationship between Southline and SU FERC?

Response: Southline Transmission, L.L.C. is an indirect wholly-owned subsidiary of Hunt Power, LP, which in turn is a subsidiary of Hunt Consolidated, Inc., a diversified holding company for a privately-owned group of entities based in Dallas, Texas. Hunt Power, LP develops and invests in entrepreneurial electric and gas opportunities, and is part of a larger privately-owned group of companies managed by the Ray L. Hunt family that engages in oil and gas exploration, refining, power, real estate, ranching and private equity investments. Southline Transmission, L.L.C. will own the non-Western assets and lease them to SU FERC, which will administer the non-Western capacity rights.

SU FERC, L.L.C. is a wholly-owned subsidiary of Sharyland Utilities, LP. Shary Holdings, LLC is a 1 percent owner and the general partner of Sharyland Utilities, LP and SU Investment Partners, LP owns the remaining 99 percent. Both Shary Holdings and SU Investment Partners are owned by members of the Hunt family.

26. How critical is the success of the whole Project on the New Build segment?

Response: The Project is defined to include the New Build and Upgrade Segments. All previous studies, ratings, EIS, ROW, technical, and commercial work has been accomplished with the Project as defined. The viability of the project in a segregated platform has not been studied and speculating on the success of one segment without the other would be premature.

27. Is the \$3.10/kW-year savings over the 40-year period?

Response: Yes.

28. Do the \$3.10/kW-year savings include additional capacity sales?

Response: No. Capacity sales were assumed constant at today's levels when calculating the \$3.10/kW-year estimated rate savings.

29. Please provide a worksheet showing how Western got to these savings figures.

Response: Please see Attachment #2 to this document for a worksheet depiction of how Western calculated the \$3.10/kW-year figure.

30. When would Western conduct an Open Season?

Response: Western has not currently established an open season for anticipated capacity it may acquire. However, Western will consider either an open season or other means of gauging potential transmission sales associated with project capacity it may acquire.

31. There is concern that if Western obtained capacity in the New Build Segment that it would have increased costs without the benefit of additional revenue from capacity sales.

Response: Western appreciates this input and recognizes the need for a sufficient recovery mechanism.

32. What is the timeline for in-service?

Response: It is preferred to be in-service in 2017; however, 2018 is more likely. It is anticipated to be at least partially in service during this timeframe.

33. Is it anticipated that it would be a 2-year construction window?

Response: Yes.

34. When does Southline anticipate going to the Arizona Corporation Commission?

Response: That has not yet been determined.

35. Please provide a list of segments where the expansion of the Upgrade Segment ROW is planned.

Response: For the Saguaro–Tucson and Tucson–Apache transmission line segment, the existing 100-foot ROW would be utilized, with an expansion of 50 feet of adjacent ROW where possible. No expansion of ROW would be required through Bar V Ranch (a local conservation area east of Tucson) or in congested suburban areas such as from the Del Bac Substation through Tucson to the Rattlesnake Substation, or near J-6 Ranch and Mescal.

There would be approximately two miles of new ROW to accommodate the construction of the new transmission line that will interconnect with the existing Tucson Electric Power Company (TEP) Vail Substation, located southeast of Tucson and just north of the existing 115-kV Tucson–Apache line; and U3aPC is a variation of the proposed Project in the Upgrade Segment and was developed to shift segment U3a of the Proponent's Preferred Alternative

away from potential conflicts with Pima County economic development efforts. U3aPC was also developed to minimize ROW encroachment conflicts and dense development around the existing Western line in the Summit area. Realigning the existing Western line along U3aPC would allow for safer and easier maintenance of the line in this area.

36. Please provide a more detailed timeline of the Project.

Response: The milestones provided in the presentation (listed below) will be expanded, and a more detailed schedule provided, following the conclusion of the NEPA process as much of the subsequent schedule is contingent upon the NEPA process.

May 2015 – Provide Project proposal and seek customer input

June 30, 2015 – Comment and input due

Q3 2015 – Record of Decision published (EIS)

Q3 2015 – Southline open solicitation initiated

Q3 2015 – Customer update and feedback

Q4 2015 – Western evaluation to continue pursuing Project

Q4 2015 – Contract negotiations

2016 – Initiate design and construction.

ATTACHMENT #1

**Parker-Davis Project
New Build O&M Rate Estimate
(For Southline Project)**

New Build O&M Costs	
New Build O&M Estimate	\$5,500,000
Western % Share	15.000%
Western \$ Share	\$825,000
Costs to Rate	
Annual Costs to Rate	\$825,000
Rate Impact	
Annual Cost to Rate	\$825,000
Typical Project-Wide Sales (kW)	2,750,000
Rate Impact - \$/kW-Year	\$0.30
Rate Impact - \$/kW-Month	\$0.025

ATTACHMENT #2

**Parker-Davis Project
Saguaro-Apache Incremental Rate Estimate
(For Southline Project)**

Construction Costs						
Facility	Estimated IDC Rate	Year 1	Year 2	Year 3	Year 4	Close-Out Year 5
Saguaro-Tucson 115kV Rebuild	4.875%	-	39,597,000	-	-	-
Apache-Tucson 115kV Rebuild Phase 1	4.875%	20,000,000	-	-	-	-
Apache-Tucson 115kV Rebuild Phase 2	4.875%	-	-	32,588,000	-	-
Apache-Tucson 115kV Rebuild Phase 3	4.875%	-	-	-	34,308,000	-
		\$20,000,000	\$39,597,000	\$32,588,000	\$34,308,000	\$0

Estimated Construction Costs: \$126,493,000

Interest During Construction (IDC)						
	Estimated IDC Rate	Year 1	Year 2	Year 3	Year 4	Close-Out Year 5
Saguaro-Tucson 115kV Rebuild	4.875%	-	965,177	1,977,406	2,073,805	2,174,903
Apache-Tucson 115kV Rebuild Phase 1	4.875%	487,500	998,766	1,047,455	1,098,519	1,152,072
Apache-Tucson 115kV Rebuild Phase 2	4.875%	-	-	794,333	1,627,389	1,706,724
Apache-Tucson 115kV Rebuild Phase 3	4.875%	-	-	-	836,258	1,713,283
		\$487,500	\$1,963,943	\$3,819,194	5,635,971	\$ 6,746,982

Estimated IDC: \$18,653,590

Construction Costs w/IDC						
	Estimated IDC Rate	Year 1	Year 2	Year 3	Year 4	Close-Out Year 5
Saguaro-Tucson 115kV Rebuild	4.875%	-	40,562,177	1,977,406	2,073,805	2,174,903
Apache-Tucson 115kV Rebuild Phase 1	4.875%	20,487,500	998,766	1,047,455	1,098,519	1,152,072
Apache-Tucson 115kV Rebuild Phase 2	4.875%	-	-	33,382,333	1,627,389	1,706,724
Apache-Tucson 115kV Rebuild Phase 3	4.875%	-	-	-	35,144,258	1,713,283
		\$20,487,500	\$41,560,943	\$36,407,194	\$39,943,971	\$6,746,982

Estimated Construction Costs (w/IDC): \$145,146,590

Principal & Interest	
Construction Costs (w/IDC)	\$145,146,590
Projected Interest Rate	4.875%
Repayment Period (yrs)	40
Resultant Annual P&I	\$8,314,583
Costs to Rate	
Resultant Annual P&I	\$8,314,583
Additional O&M	\$220,408
Annual Costs to Rate	\$8,534,991
Rate Impact	
Annual Cost to Rate	\$8,534,991
Typical Project-Wide Sales (kW)	2,750,000
Rate Impact - \$/kW-Year	\$3.10
Rate Impact - \$/kW-Month	\$0.258