Southline Transmission Project

Parker-Davis Project Customer Outreach

May 28, 2015
Agenda

- Purpose of Meeting
- Introduction of Presenters
- Background Information
- Project Proposal
- Potential Impacts to the PDP
- Proposed Timeline
- Discussion / Comments
Purpose of Meeting

- Provide background information
- Provide updates from November 2012 customer meeting
- Discuss the Southline/Western developed proposal and potential impact to PDP transmission customers
- Present preliminary analysis
- Obtain customer feedback on proposal
Presenters

- Project background information – Doug Patterson, Black Forest Partners, Southline Project Manager
- Western participation & updates – Todd Rhoades, Western Technical Lead
- Project proposal & impacts – Mike Simonton, Western Commercial Lead
Southline Transmission, L.L.C., a subsidiary of Hunt Power L.P., is the Project Sponsor

- Hunt Power, L.P. is part of a larger privately-owned group of entities managed by the Ray L. Hunt family that engages in oil and gas exploration and production, refining, power, real estate, ranching, and private equity
- Hunt Power, L.P. develops and invests in large scale entrepreneurial electric and gas utility opportunities, and has played a major role in numerous innovative projects within the energy industry

Black Forest Partners L.P. serves as the Project Manager for Southline Transmission, L.L.C.

- Black Forest is a private investment and development firm focused on electric infrastructure including transmission, efficiency and storage
Two Segments, Totaling 360 Miles

- **New Build** — 345kV double-circuit Afton-Apache, 240 Miles
- **Upgrade** — 230kV double-circuit Apache-Saguaro/Tortolita, 120 Miles
Background – Project Overview

- Bi-directional Capacity WECC Phase 3 Accepted Rating dated March 23, 2015
  - Afton to Apache: 1,037 MW
  - Apache to Saguaro/Tortolita: 1,000 MW
  - Tortolita/Saguaro to Apache: 430 MW
  - Apache to Afton: 971 MW

- Multiple interconnections to existing transmission system
- Maintains existing PDP 115kV contract paths
- ROW on approximately equal parts BLM, State and private land
  - Upgrade existing system and follow existing corridors to minimize impacts

- Project Need
  - Improve Reliability
  - Relieve Congestion
  - Support Growth
  - Facilitate Access to Renewable Resources
• Rebuild Western 115kV Apache-Saguaro to 230kV Double Circuit
• Circuit 1: 230/115kV substations at Adams, Del Bac, Tucson/DMP, Rattlesnake, Marana, Saguaro (230/115) (assumes 115kV paths maintained for PDP system)
• Circuit 2: Apache-Pantano-Vail (345/230), Tucson/DMP (230/138), Tortolita (500/230)
Background – Western’s Current Participation

- The Southline Transmission Project has been identified by Western for further review, evaluation, and consideration of participation and potential Transmission Infrastructure Program (TIP) funding.

- Western’s current participation is through an advance funding agreement to isolate project costs from current customers, including reimbursement for Western employee’s time.

- Western is considering participation in the Project and is serving as co-lead Federal agency for the Environmental Impact Statement (“EIS”) that will be part of its decisional process.

- Western and Southline Transmission have executed basic initial agreements, including:
  1. July 18, 2011, Memorandum of Understanding
  2. March 16, 2012, Advanced Funding Agreement for Southline to fund Western’s efforts

- Ownership and roles discussions have been advanced through a confidential, non-binding participation principles document that sets forth the anticipated terms of a “Participation Agreement” yet to be negotiated to govern their respective rights and obligations to the Project.

- Separate financing discussions are in early stages.
PDP Upgrade Segment Need

- Existing segment is comprised of infrastructure that is past its useful life
- Evidenced by FY13 wood pole study demonstrating that ~21% of the Upgrade Segment’s wood pole inventory is below 65% of design strength which is the American National Standards Institutes recommended replacement strength.
- Access to capital for needed rehabilitation projects such as these has been extremely limited
- Failing and aged infrastructure puts added cost and rate pressure on the PDP system and customers.
- Investment in this part of the PDP system is needed to minimize the increasing probability of extended and costly unplanned outages on over-stressed facilities
Environmental Activity

- Notice Of Intent Published in Federal Register - April 2012
- NEPA Public Scoping Begins – April 2012
- Draft Environmental Impact Statement – Published in Federal Register – April 2014
- Public Comment Period Closed – July 2014
- Final Environmental Impact Statement – Anticipated Publication in the Federal Register -- Q3 2015
- Record of Decision Anticipated – Q3 2015
Technical Activity

- WestConnect Regional Planning Initiated -- 2009
- WECC Path Rating, Phase 1 Report Approved – March 2012
- Facility Study (New Build) Complete – December 2012
- Facility Study (Upgrade) Phase 1 Complete – September 2013
- Facility Study (Upgrade) Phase 2 Complete – December 2014
- WECC Path Rating, Phase 2 Report Approved – January 2015
- WECC Path Rating, Phase 3 Status Granted – March 2015
Commercial Activity

- PDP Outreach Effort Begins – November 2012
- Participation Strawman Approved by Management Committee – September 2013
- Preliminary Financial Model Developed – September 2013
- Participation Principles Finalized – March 2015
- Customer dialogue and input
Project Proposal – Participation Principles

- Financial Contributions
  - Western would not have a financial obligation for the construction of the Project
  - Southline would fund all land acquisitions, construction of new facilities, and improvements to existing facilities within the project scope of work

- Ownership of Physical Assets
  - Western would own all upgraded facilities (i.e. existing Western-owned facilities that are modified, improved, or replaced)
  - Southline would own the new facilities constructed within the Upgrade Segment and all the New Build facilities
  - No joint ownership of assets. Terms would provide for avoidance of stranded assets and/or patchwork ownership at termination of contracts
Project Proposal – Participation Principles

- Lands
  - Western would:
    - Use its current ROW as a basis for lands on the Upgrade Segment
    - Manage the overall land acquisition process
    - Acquire and own land rights required to complete the Upgrade Segment (with exception)
    - Acquire and own land rights required to complete the New Build segment (with exception)
  - Southline would:
    - Acquire and own land rights associated with Southline owned new facilities within the Upgrade Segment that are controlled by an electric utility
    - Acquire and own land rights within the New Build Segment that are owned by electric utilities and Federal agencies

- Operating Lease:
  - Western would lease to Southline designated Western lands
  - Southline would own facilities on leased Western lands through a tenant improvement arrangement
  - Tenant improvement facilities within the Upgrade Segment revert to Western at the expiration of the lease pending any necessary financial settlement and closeout
Project Proposal – Participation Principles

- **Construction Management**
  - Western would be the construction manager for the Upgrade Segment
  - Southline would be responsible for construction management for the New Build Segment

- **Operations & Maintenance**
  - Western would maintain O&M responsibilities for the Upgrade Segment
  - O&M provider for the New Build segment is to be determined by the Parties
  - Project O&M costs and expenses would be shared between the parties in proportion to their respective capacity rights
Capacity Rights

- Western and Southline will obtain capacity rights in the project commensurate with their contributions.
- Western would retain its existing capacity on the Upgraded Segment and acquire percentage shares of any additional capacity yields; Southline would acquire percentage shares of additional capacity per segment.

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<thead>
<tr>
<th>Segment</th>
<th>Western Static MW</th>
<th>Western Upgrade %</th>
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</thead>
<tbody>
<tr>
<td>Apache to Saguaro</td>
<td>120</td>
<td>15%</td>
</tr>
<tr>
<td>Saguaro to Apache</td>
<td>120</td>
<td>40%</td>
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<tr>
<td>Afton to Apache</td>
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<td>15%</td>
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Participating in the project:

- **Western:**
  - Segment SAG: 250 MW, Upgrade: 156 MW
  - Segment APE: 156 MW, Upgrade: 156 MW
  - Total: 156 MW

- **Southline:**
  - Segment SAG: 750 MW, Upgrade: 881 MW
  - Total: 750 MW

*Approximate MW figures, final percentages and MW to be rounded as necessary.*
Western Capacity
- All Western acquired Upgrade Segment capacity would be incorporated as a PDP transmission asset and marketed as such.
- Western acquired New Build Segment capacity options for consideration are as follows:
  - Allocate transmission capacity to PDP
  - Establish as a stand alone asset
- Existing contract rights will be honored, all remaining capacity will be marketed through Western’s Open Access Transmission Tariff.

Southline Capacity
- Southline may lease or reassign its capacity rights to third parties.
- Market capacity through an open solicitation process.
Potential Impacts to PDP

- **Anticipated Benefits:**
  - Alternative Source of Capital
  - Mitigate Rate Cost Components
  - Improve Reliability
  - Maintain Ownership and Control of Existing Infrastructure
  - Increase Available Capacity
  - Additional POR/POD Combinations
  - Shared O&M Costs
  - Enables re-allocation of funding for other needed initiatives
  - Potential synergy with other Western assets/efforts

- **Potential Risks:**
  - Unwinding in the event of a Southline default
Potential Impacts to PDP

- Assumptions:
  - No additional transmission sales (remain constant)
  - 4.875% Interest rate
  - 40 year repayment period

- Cost Savings:
  - Capital Expense:
    - $145M of PDP initial investment
    - $126M capital investment
    - $19M interest during construction
    - $187M of interest
    - Total P&I of $332M or $8.3M per year
  - Operations & Maintenance
    - $220K per year

- Rate Savings Estimate:
  - Avoids upward rate pressure of $3.10 kW-year or $0.258 kW-month
Western is seeking PDP customer input and dialogue

Western proposes that participation in the Southline project as described within has ample benefits with minimal risks for the PDP

Anticipated Timeline:

- 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
<table>
<thead>
<tr>
<th>Name</th>
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<th>Email Address</th>
<th>Position</th>
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Submit Input to:
DSW-SouthlineComments@wapa.gov

Western’s Southline website
http://ww2.wapa.gov/sites/western/transmission/infrastruct/Pages/Southline.aspx

Southline Project website  www.southlinetransmissionproject.com
Questions / Comments