

Southline Transmission Project

Parker-Davis Project Customer Outreach

May 28, 2015

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

- ❑ 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

- 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

Background – Project Overview

Two Segments, Totaling 360 Miles

- New Build — 345kV double-circuit Afton-Apache, 240 Miles
- Upgrade — 230kV double-circuit Apache-Saguaro/Tortolita, 120 Miles



The Project will have a right-of-way up to 200 feet wide. The Project may include development of a substation in Luna County, New Mexico, with precise location determined when Project route is confirmed.

LEGEND

— Agency Preferred Route
— Alternative Routes

★ Substation End Point
☆ Intermediate Substation Location
● City/Town

0 12.5 25 50
MILES



- ❑ 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
(715 MW with potential Tucson-Oracle re-conducted)
 - Apache to Afton: 971 MW

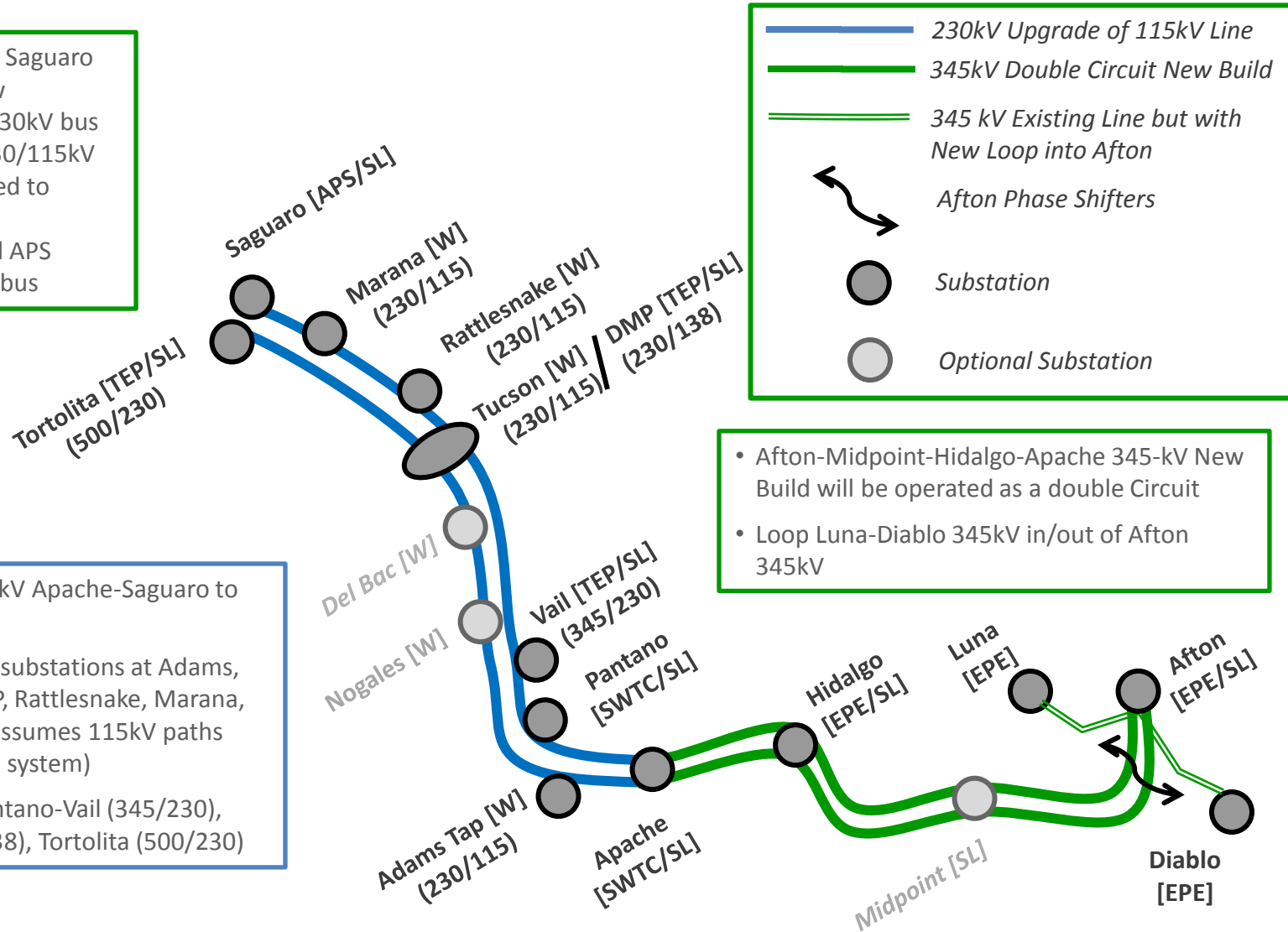
- ❑ Multiple interconnections to existing transmission system
- ❑ Maintains existing PDP 115kV contract paths
- ❑ ROW on approximately equal parts BLM, State and private land
 - Upgrade existing system and follow existing corridors to minimize impacts

- ❑ Project Need
 - Improve Reliability
 - Support Growth
 - Relieve Congestion
 - Facilitate Access to Renewable Resources

Background—Project Overview

- Southline Ties to APS Saguario will be through a new electrically isolated 230kV bus via two step down 230/115kV Transformer banks tied to existing APS Saguario East and APS Saguario West 115kV bus

- Rebuild Western 115kV Apache-Saguaro to 230kV Double Circuit
- Circuit 1: 230/115kV substations at Adams, Del Bac, Tucson/DMP, Rattlesnake, Marana, Saguario (230/115) (assumes 115kV paths maintained for PDP system)
- Circuit 2: Apache-Pantano-Vail (345/230), Tucson/DMP (230/138), Tortolita (500/230)



- Afton-Midpoint-Hidalgo-Apache 345-kV New Build will be operated as a double Circuit
- Loop Luna-Diablo 345kV in/out of Afton 345kV

- ❑ 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

- ❑ 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

- ❑ 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

- ❑ 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
- ❑ **PDP Customer Project Proposal – May 2015**
- ❑ Customer dialogue and input



We are here

❑ 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

□ 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

❑ Construction Management

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

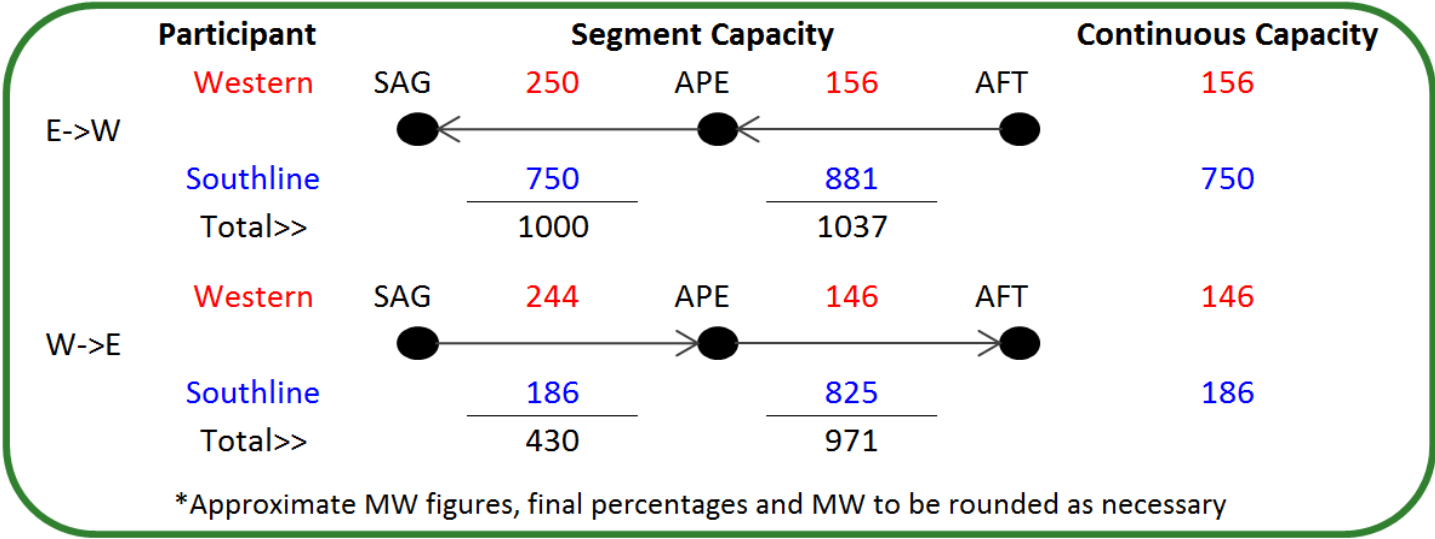
❑ Operations & Maintenance

- 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

Segment	Western Static MW	Western Upgrade %
Apache to Saguaro	120	15%
Saguaro to Apache	120	40%
Afton to Apache		15%
Apache to Afton		15%



❑ 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

□ 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

- ❑ 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

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

Southline Project website www.southlinetransmissionproject.com

Questions / Comments