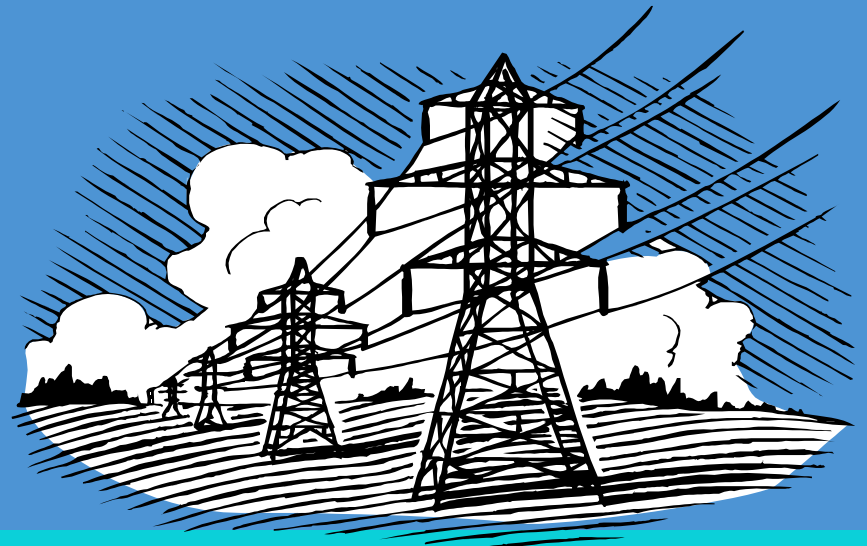


Prepayment Funding Option



APRIL 21, 2010



Agenda

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- Purpose of Meeting
- Clarification Discussion
 - Impacts to Rates
 - Impacts to Financial Statements
 - Use of Cash Across Power Systems (P-DP & Intertie)
- Oversight Process and Documentation Discussions
- Action Items
 - Next Steps
 - Next Meeting

Western's Basic Proposal

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Currently

- Firm transmission customers of P-DP and Intertie are paying bills in advance of service
- Advance payments are currently funding the O&M Program for these Projects, to the extent possible, but not the Construction Program

DSW Proposes

Cash available from prepayments cover Construction Program activities for P-DP and Intertie in years that Appropriations are insufficient

Background

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- Decreasing appropriations for construction creates potential risk for reliability of our transmission systems
- DSW has had to delay much needed construction projects on many occasions due to a lack of appropriated funds
- Use of remaining cash available from P-DP and Intertie prepayments can assist in maintaining system reliability while minimizing rate impacts
- Based on current estimates, approximately \$15 million per year could be available to fund the P-DP and Intertie Construction Programs

Customer Feedback

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Based on the initial Customer meeting on February 17, 2010

- Written comments received from 29 entities
 - 27 – supported concept
 - Suggested DSW move forward on use of prepayments to fund construction activities
 - 2 – requested information
- **DSW Decision:** overwhelming support received for moving forward with concept and DSW intends to do so
 - Prepayment cash available will be held pending further customer discussion
 - No specific construction projects have been selected to date, pending further customer discussion

Thanks

Customer Feedback

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- Agreed this proposal should allow more progress on required construction activities
- Indicated that an oversight framework is needed
- Advised that the Ten Year Plan for P-DP and Intertie should be jointly developed by DSW and its Customers
- Now reaching out to Intertie Customers, as well as P-DP

Effects on Rates

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- Prepayments - function of the rate; transmission service paid one month in advance
- Not requesting advances outside of established rate; therefore, not paying twice for the same costs
- Costs funded with prepayments are treated the same as appropriations
- Rates are cost-based and designed to recover power system costs regardless of funding source

Impacts to Rates

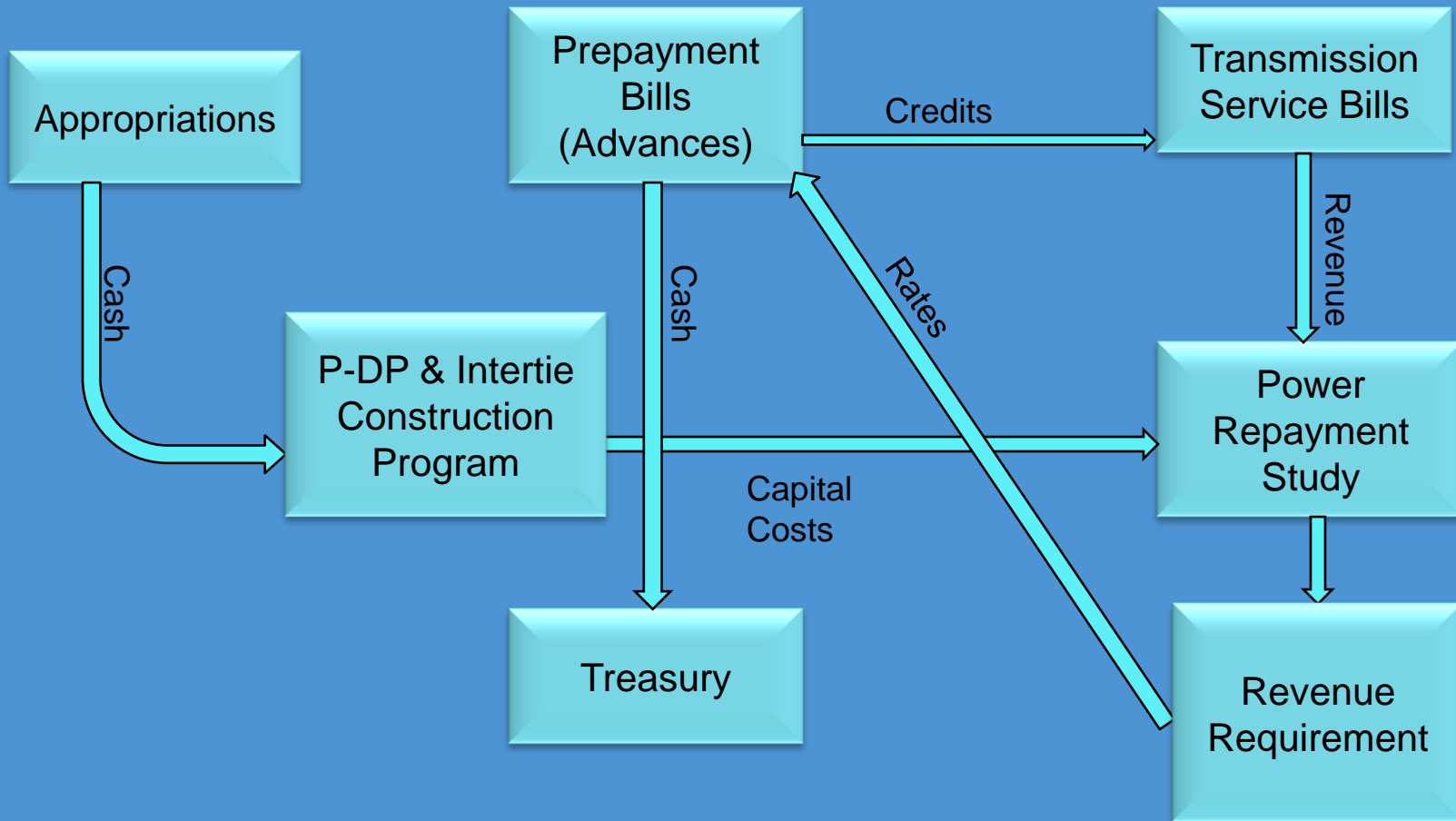
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- Financing construction with prepayments has the same rate impact as funding via appropriations
- No changes/impacts to the PRS from current process

Year	Construction Financing		Financial Statements		Power Repayment Study			Annual Cost
	Annual	Cumulative	CWIP	Plant-In-Service	Transmission Investment	Interest Rate	Amortization Period	
1	\$750,000	\$750,000	\$600,000					
2	\$5,500,000	\$6,250,000	\$4,875,000					
3	\$3,500,000	\$9,750,000	\$7,500,000					
4	\$250,000	\$10,000,000	\$9,400,000					
5	\$0	\$10,000,000	\$0	\$10,000,000	\$10,000,000	4.0%	32 years	\$559,486

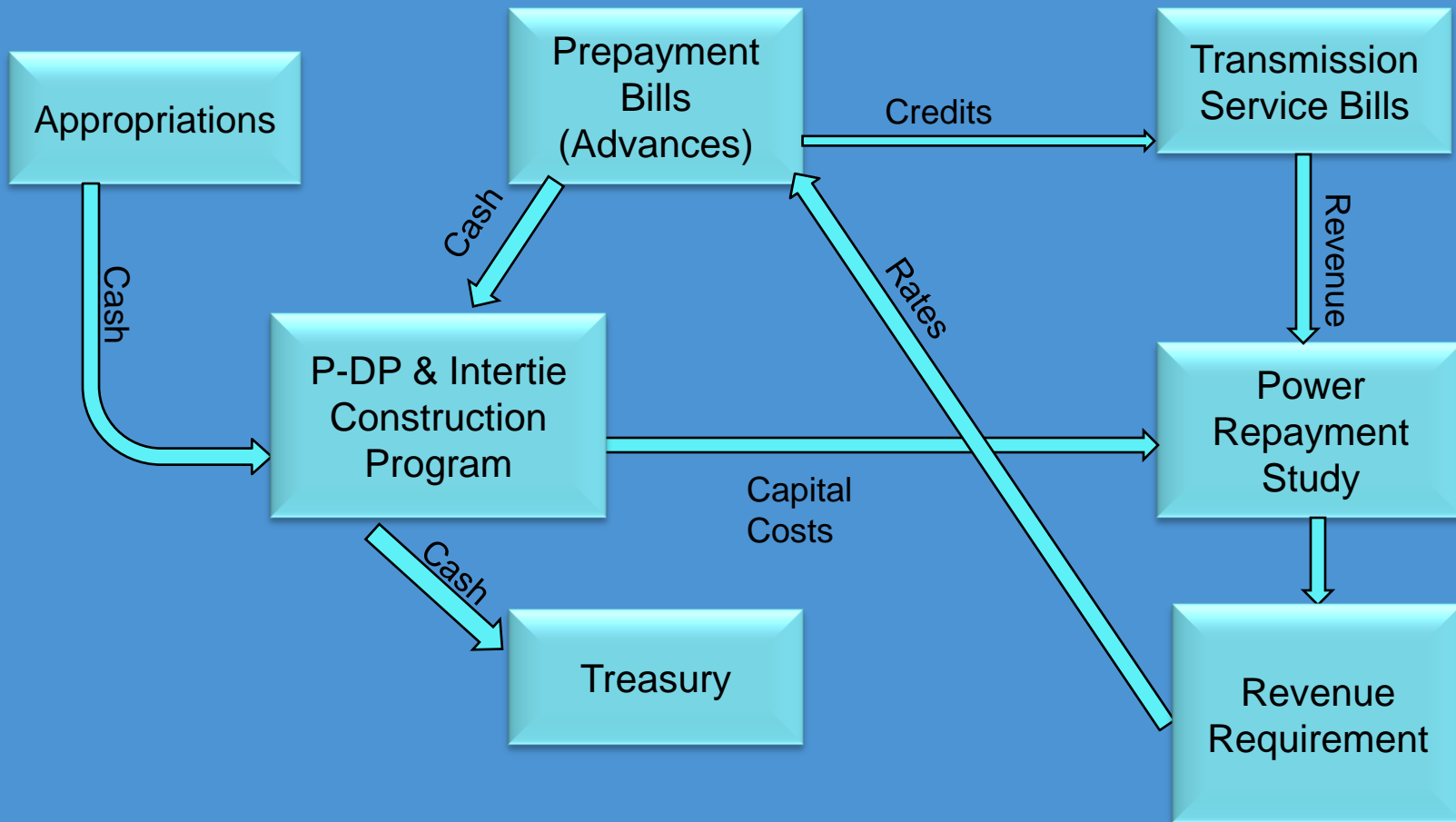
Transaction Flow Without Using Prepayments

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Transaction Flow With Using Prepayments

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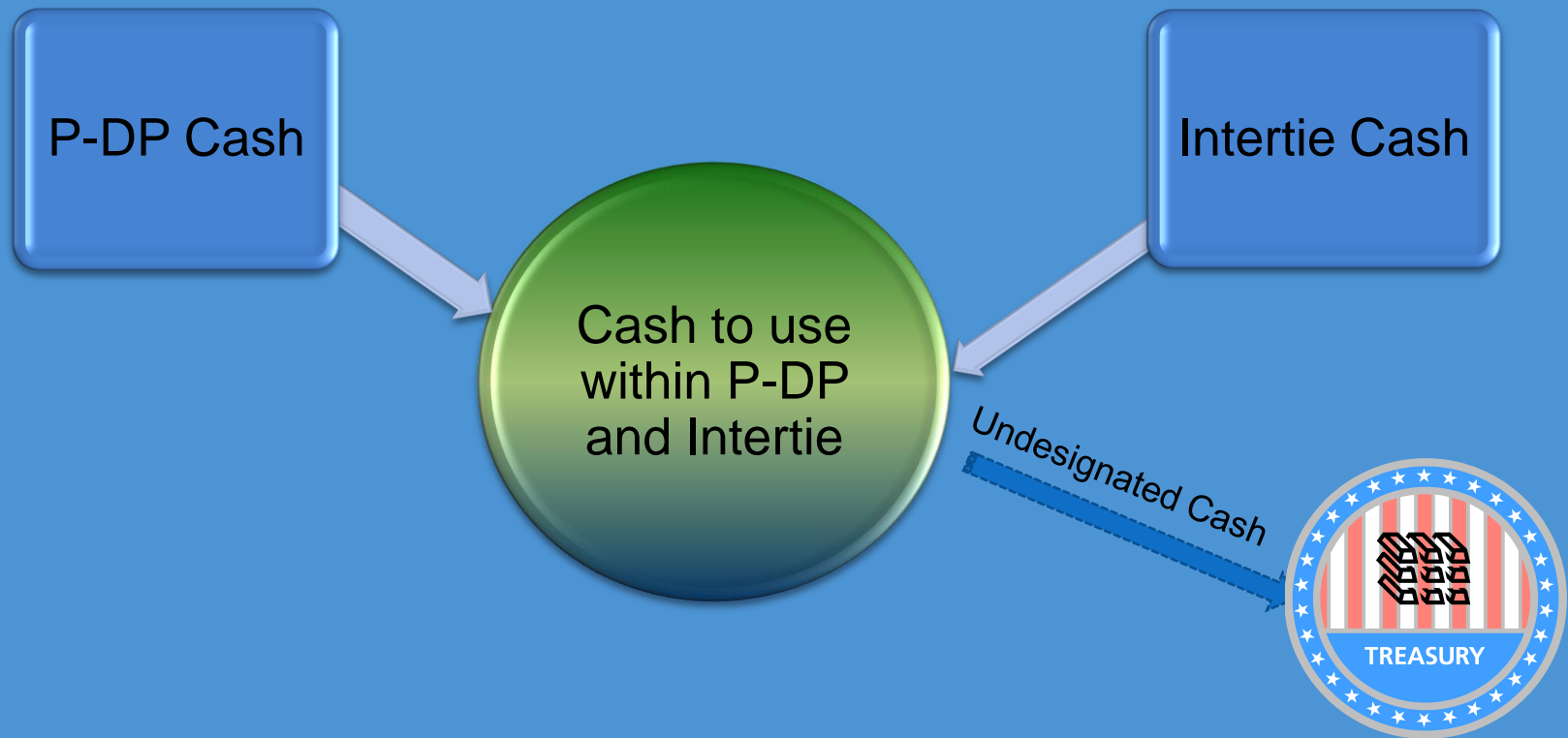
Impacts to Financial Statements

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- Income Statement: No change from current process; revenue and expenses flow directly to the PRS
- Balance Sheet: Minimal change from current process; use of prepayment cash rather than appropriated cash for construction work (Credit to Prepayment Cash, Debit to CWIP)

When the facilities are energized, the assets are transferred from CWIP to Plant-in-Service. When this occurs, the capitalized costs go into the PRS (investments) for the applicable Power System.

Use of Cash Across Projects



- Power system repayment tracked in separate studies
- Measurement of repayment is entirely revenue based
- Capital repayment (P&I) performed by applying revenues towards investments—NOT cash sent to Treasury

Cash generated by Prepayments has not and will not be moved outside DSW except to go to Treasury

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

Oversight Framework

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Based on Customer Feedback, Oversight Should:

- 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.
 - Western can seek other methods to fund said project

Western believes it is reasonable to build a framework that addresses each of these themes.

DSW's Initial Thoughts

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- DSW wants to ensure appropriate oversight without creating an overly complex, burdensome, time-consuming or costly process – simple is better
 - Significant increase in workload would require new FTE*
- Provide flexibility for DSW to manage its O&M and Construction Programs as our mission mandates
- Equal voice — “One entity one vote”
- Leverages off the TYP process
- Documented

Proposed Enhanced Oversight Framework

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- JPA – Retain annual meeting
 - Conduct additional JPA meetings and address topics as requested by the customers
- TYP – Retain Annual Meeting
 - Conduct additional meeting(s) to ensure adequate oversight. Start process in July after JPA to jointly work on TYP development
 - Improve collaboration to prioritize and finalize TYP projects
 - Follow up meeting to vote on whether to fund TYP projects using prepayments. This meeting shall focus on funding as TYP should be agreed to and finalized in earlier meetings.
- Rates – Retain annual meeting and use new TYP agreed to by customers

FY10 Use of Prepayments

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Confirmation:

- At the February meeting, customers indicated that it was appropriate for DSW to use the available funds rather than to send to Treasury.
- If Construction identifies a “test” project that is appropriate to start incurring costs in FY10 prior to formalizing this procedure, should DSW start to make use of funds in FY10?

(Likely be a South of Phoenix or a piece of the SPPR project)

Group Discussion

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- Solicit group feedback on three facets of oversight:
 - Prioritizing projects
 - Customer vote/participation
 - Binding

- Record feedback received and discuss with group

- Utilize feedback to draft beginnings of an “oversight document”

Next Steps

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- Complete draft document using input from today. Will give us a good start of where to start next discussions
- Distribute to P-DP and Intertie Customers for feedback, comments, and concerns
- Request feedback by particular date (May 5 or May 12?)
- SPPR customer coordination continues on parallel track as required to accommodate customer timelines
- Plan is to implement agreement beginning in FY 2011

Contact for Information

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- POC Contact Information:

Brian Young, Byoung@wapa.gov, 602-605-2594 (Contracts)

Jack Murray, Jmurray@wapa.gov, 602-605-2442 (Rates/Prepayments)

Beth Kozik, Kozik@wapa.gov, 602-605-2835 (Accounting)

Debby Emler, Emler@wapa.gov, 602-605-2555 (Project Manager)

- Web link:

<http://www.wapa.gov/dsw/pwrmt/PrepaymentFunding/Main.htm>

- FPP Email address:

DSWFPP@wapa.gov (This email address is checked frequently)