



SWAT RTTF Project Finance Subcommittee  
Meeting No. 2  
March 4, 2009

## Revised Minutes

### Attendees:

Albert, Brad  
Bailey, Cindy  
Belval, Ron  
Bernosky, Greg  
Brandt, Jana  
Charters, James

Cobb, Antoine  
Cole, Brian  
Groves, Jack  
Johnson, Jeffrey  
Kondziolka, Robert  
Rasmussen, Brian

Tobin, Richard  
Williamson, Ray  
Woodall, Laurie  
Wray, Tom (chairman)

### Meeting Notes:

#### 1) Introductions

All meeting attendees at the SRP PERA Club and on the conference line identified themselves and the organizations they represent.

#### 2) Discussion and Review of the Meeting No. 1 Draft Minutes (2/18/2009)

Brian Cole from APS via e-mail dated March 3, 2009<sup>1</sup> had provided the subcommittee with comments and proposed revisions to Section 4 (b) of the Draft Minutes for Meeting No. 1, and a proposed definition of “Renewable Transmission Project” (“RTP”).

The subcommittee discussed Mr. Cole’s comments and noted there were differing views regarding a definition of RTP and agreed with Mr. Cole’s comments that that a consensus for a RTP definition was not achieved at Meeting No. 1. There was also a discussion regarding the alternate definition of RTP proposed by Mr. Cole in his e-mail. The subcommittee did not reach consensus on Mr. Cole’s proposed alternate definition of RTP. The subcommittee agreed the Minutes of Meeting No. 1 would be modified to incorporate Mr. Cole’s requested revisions. The subcommittee also agreed that all Minutes will be included as an appendix to the Interim Report, which will be submitted to the chairman of SWAT and the chairman of the Renewable Transmission Task Force.

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<sup>1</sup> Attached to these minutes as Exhibit 1.

### 3) Discussion of Cost Recovery Methodologies

The subcommittee discussed the RTP development costs incurred by jurisdictional utilities that may be eligible for cost recovery. Brad Albert, from APS, raised the issue of long-lead time development costs that should be considered as expenditures eligible for cost recovery. The subcommittee discussed how the “chicken-and-egg” dilemma of transmission and renewable generator development might be addressed by cost recovery mechanisms and earnings incentives that address the financial risks utilities undertake in determining feasibility and implementing RTPs.

Greg Bernosky, from APS, noted the possible consequences RTP designation will have on establishing a project’s proposed “purpose and need.” Mr. Bernosky suggested that because RTPs encourage the development of renewable energy resources, the Arizona Corporation Commission and the Line Siting Committee may consider other factors regarding need than those considered previously. The subcommittee discussed the differing characteristics between a RTP and a more typical transmission project (“business-as-usual”):

a.) RTPs may have a greater “need” justification, and may be more in the public interest than business-as-usual transmission projects.

b.) RTPs are developed specifically to access the renewable energy needed to meet Arizona’s Renewable Energy Standard (“RES”) or to enable the state of Arizona to export renewables.

c.) RTPs vary from business-as-usual transmission projects in that they may encounter additional siting obstacles in order to access renewable resources because of the lack of existing corridors into remote areas and the need to establish new rights-of-way.

d.) Renewable energy resources are often remote and accessing them may require traversing environmentally-sensitive resource areas. Policy makers may need to consider trade offs between the need for access to a renewable area and impacts on environmentally sensitive lands.

Robert Kondziolka, from SRP, noted that an RTP specific “need” designation should not eliminate the need for environmental siting evaluations, statutory siting standards and mitigation strategies to be undertaken by transmission developers applying for a state certificate of environmental compatibility.

The chairman presented several ideas related to cost recovery by RTPs for subcommittee review and discussion:

a.) Investments in RTPs that meet the RES should be awarded full recovery of prudent costs, with a base ROE (the highest and most recent ROE granted in a rate case order by the Commission).

b.) Additional incentives for RTPs that deliver renewable energy in quantities that exceed the RES goals.

c.) RTPs which exceed the RES goals could be rewarded the same full prudent cost recovery, a base ROE and an incentive ROE determined by the “incremental renewable capacity” added above that necessary to meet a RES.

d.) Incremental renewable transmission capacity is calculated as a percentage of the posted total transfer capacity (“TTC”) of the RTP that exceeds the RES-mandated capacity. Such financial incentives might thereby encourage utilities to invest in RTPs that exceed Arizona’s RES.

Brad Albert raised the concern of how utilities will determine whether an RTP meets or exceeds the RES because utilities do not classify “RES Megawatt hours (“MWhs”)”, nor above “RES MWhs.”. Mr. Albert also expressed his support for the definition of RTP proposed by Mr. Cole.

There was a discussion relating to the definition of RTP and its effect on incentive rates and how incentive rate treatments can be effectively applied to qualifying RTPs. There was also a discussion regarding more work by the subcommittee in the area of applying base ROEs and incentive ROEs to encourage RTP development. Jack Groves noted that once incentive ROEs are set they should be a floor level value for at least “life of financing” or similar time period, so the pro forma financial models assure the long term performance of the asset to financial institutions, equity participants and regulators. There was also a discussion regarding a determination of incentive ROE eligibility, based upon a utility’s RES compliance, before the utility commits financial resources for development of an RTP.

#### **4) Discussion of RTP Subscription Methodologies and Developing Policy**

The chairman presented various RTP subscription methodologies for the subcommittee's review and discussion:

1.) Bilateral contracts were discussed as a suitable subscription methodology for RTPs.

2.) An anchor tenant model may also be useful to RTP development because it may provide both utilities and merchants with assurances of an adequate customer base that makes the project financeable.

The chairman also presented the recent FERC Chinook-Zephyr Order for the subcommittee's review and discussion whether the order may affect RTP development in Arizona. The applicants for these projects were granted the ability to reserve 50% of their transmission capacity for bilateral anchor tenants. The Tallgrass and Prairie Wind projects were also discussed as examples of incentive ROEs granted, at the federal level, to transmission projects accessing wind energy generation inside the Southwest Power Pool region.

The chairman provided a written presentation for the subcommittee's review. It included an excerpt from FERC Commissioner Kelly's comments in her dissent to FERC Order No. 697-A:

*"...the most compelling case for incentive ROEs are new projects that present special risks or challenges, **not routine investments made in the ordinary course.**"*

The subcommittee then discussed the need to create a distinction between what is considered routine investments versus investments deserving financial incentives intended to promote RTP development in Arizona.

#### **5) Discussion of RTP Working Definition**

Senator Harry Reid's Bill (S. 2076 "Clean Renewable Energy and Economic Development Incentives Act"; 9/20/2007) was discussed as this bill provides a potential RTP definition being considered at the Congressional level. A "renewable energy trunkline" is defined in the bill as a transmission facility designed to access remotely located Renewable Energy Zones, foster additional renewable energy generation development, has at least one executed renewable energy generation interconnection

agreement, and 75% of the line is to be used by renewable energy resources in order to qualify for federal loan guarantees.

The subcommittee did not reach consensus on a definition of an RTP.

#### **6) Interim Report: Outline Contents**

The subcommittee discussed the Interim Report that is due by 4/1/2009. The chairman proposed the contents of the Interim Report to include the following:

1. Introduction
2. Executive Summary
3. Summary of Subcommittee Work to date
4. Proposed Work Plan for May through August 2009
5. Appendices
  - a. Agendas
  - b. Minutes
  - c. Presentations
  - d. Rosters

The subcommittee subsequently approved the Interim Report outline with the exception of item (4) as a proposed work plan should be developed by the subcommittee after the conclusion of the April Workshop(s).

#### **7) Next Steps and Meeting Schedule**

The chairman proposed a schedule to complete the Interim Report as follows:

1. 3/18/2009 Circulate draft for comments
2. 3/25/2009 Comment deadline
3. 3/27/2009 Circulate revised draft for comments
4. 4/1/2009 Issue Interim Report to the Chairmen of RTTF and SWAT

The subcommittee approved this schedule and agreed it allowed adequate time to prepare, circulate, and finalize the Interim Report by the final submittal deadline to the chairmen of both the RTTF and SWAT.

#### **Project Finance Subcommittee Meeting No. 3:**

To be Determined following the April Workshop(s)

#### **8) Adjourn: 1:12 PM**

## Exhibit 1

I have a couple of comments to the draft Minutes from the first meeting...as well as some thoughts about the definition of a Renewable Transmission Project.

Section 4 (b) (Scope) of the draft Minutes discusses the definition of a Renewable Transmission Project (RTP). There were several comments related to concern about each of the definitions that were laid out as part of the presentation...that fact should be clearly stated in the minutes. You did appropriately say that the general consensus was that further discussion of the definition was warranted - as it is. Several people pointed out issues related to any definition that required repeated "analysis after-the-fact" to see if a transmission project was still appropriately designated as an RTP - this would be a difficult situation since the future use of a project would not necessarily be controlled by the owners of the line due to Open Access Transmission Tariff requirements and the obligation of Transmission Providers to provide non-discriminatory open access to their transmission systems. This would make any economic analysis of a project difficult and uncertain.

Also in the draft Minutes, I don't believe that there was any consensus of the statement that: "There is clearly a need to create measurable protocols that establish initial and ongoing RTP status." and as such, it should be removed from the Minutes.

Generally, I don't think the definition needs to be so explicit. Recall that the purpose of the Order is aimed at the development of transmission "...that will support the growth of renewables in Arizona". Our overarching goal here should be to provide ways to support the building of transmission projects that will support that growth in renewables in Arizona...because of that goal, we should make the definition fit that goal - not constrain it.

Having said that, in order to create further discussion on the subject, here is a possible proposed definition for renewable transmission:

Renewable Transmission Project" (RTP) shall be defined as a transmission project that is either new transmission line or group of lines or an upgrade of an existing line or group of lines that fulfills at least one of the following:

- Provides additional direct transmission infrastructure access to renewable resource areas within the state of Arizona that have either already identified renewable energy resources or those likely to contain renewable energy resources\*
- Provides additional delivery of a renewable resource located and/or gathered in the State of Arizona to a load center (Note: these projects may not directly connect the renewable resources to the transmission system but are needed to move the resource to the load centers [where such load centers are either within Arizona or outside of Arizona])\*

\* Each of these requirements must show that the potential amount of renewable resources available to utilize increases transmission capacity is at least as great as the expected increased capacity to move resources on the RTP - through queues/ NREL data/Studies/Etc. This classification is determined up front and is not dependent on future actual use of the line(s)