



SWAT RTTF Project Finance Subcommittee
Meeting No. 1
February 18, 2009

REVISED Minutes
(as of 3/5/2009)

Revisions are depicted as the following:

Deleted items are shown as strike-through
Added items are shown in *bold italics*

Attendees:

Albert, Brad	Cobb, Antoine	Smoldon, Russell
Bagley, Ken	Cole, Brian	Stahlhut, Jonathan
Bailey, Cindy	Estrada, Giancarlo	Tobin, Richard
Bantu, Ravi	Getts, David	Woodall, Laurie
Bernosky, Greg	Kondziolka, Robert	Wray, Tom (chairman)
Brandt, Jana	Ormond, Amanda	
Charter, James	Rasmussen, Brian	

Meeting Notes:

1) Introductions

All meeting attendees at APS Central Headquarters and on the conference line identified themselves and the organizations they represent.

2) Southwest Area Transmission (“SWAT”) Study Group and Renewable Transmission Task Force (“RTTF”) Overview

The chairman briefly described the purpose of SWAT and RTTF which are the parent groups of the Project Finance Subcommittee (“subcommittee”).

3) Review of Arizona Corporation Commission (“Commission”) Biennial Transmission Assessment (“BTA”) Order No. 70635

The subcommittee reviewed the Commission’s BTA Order No. 70635 since this document directed:

“...each Commission-regulated utility, either alone or in cooperation with other interested utilities, shall develop plans to identify future renewable transmission projects and develop plans and propose funding mechanisms to construct the top three renewable transmission projects.”
(Page 9; Lines 1-4).

At the RTTF meeting conducted on 1/8/2009, the subcommittee was created to investigate possible funding mechanisms for the three proposed renewable transmission projects expected to be identified by the utilities and filed with the Commission, no later than 10/31/2009.

4) Review of Project Finance Subcommittee:

a) Schedule

The subcommittee discussed the *Project Finance Subcommittee Timeline* (see Attachment A) that outlines Order-mandated deadlines as well as the target dates for subcommittee meetings and deliverables. The subcommittee will develop project financing recommendations and an interim report that will be provided to the RTTF by 4/1/2009. The project financing recommendations will be first drafted by the chairman and distributed among the subcommittee for their review and comment at the next subcommittee meeting, scheduled for 3/4/2009. The project financing recommendations and interim report will be available to the utilities conducting the Workshop during April:

“...Commission-regulated electric utilities shall, by April 30, 2009, conduct a joint workshop or series of planning meetings to develop ways in which new transmission projects can be identified, approved for construction, and financed in a manner that will support the growth of renewables in Arizona” (Page 8; Lines 20-23).

The RTTF will have the month of May to review and consider the results of the Workshop and make changes, as needed, to the subcommittee’s future scope of investigation. The chairman emphasized the need for, as part of the subcommittee’s work product, a draft “form of Order” describing how the Commission would treat both costs of development and earnings from renewable transmission projects (RTPs). Due to its importance, the subcommittee will set aside a two month period for review and refinement of such a draft form of Order during June and July. Following this review period, a Final Report and a recommended final form of Order will be issued to the RTTF for their review by 9/1/2009.

The subcommittee discussed how the RTTF, Arizona Renewable Resource Transmission Subcommittee (AARTIS), and the Project Finance Subcommittee will coordinate their activities.

b) Scope

The subcommittee reviewed possible RTP characteristics. This led to discussion of examples of transmission projects that amount to an ordinary course of business, as contrasted to projects whose primary purpose is for delivery of renewable energy generation projects. Such “ordinary” transmission projects include those whose primary function is to satisfy growth of jurisdictional peak load, mitigate service reliability problems, or provide an operational convenience on the grid. Projects may qualify for RTP status if they create access to renewable energy resources to accommodate the state’s Renewable Energy Standards (RES) or provide market export capacity for renewable energy resources.

The subcommittee reviewed New Mexico’s Renewable Energy Transmission Authority’s RTP definition as a facility that transmits “...at least thirty percent of the electric energy...” “...from renewable energy sources” (NMSA 1978 62-16A-2.D; RETA New Mexico). The chairman proposed two alternative working definitions for RTPs in Arizona as being projects that can demonstrate to the Commission that (1) at least 50% of the WECC-rated line capacity (in MWs) is used or will be used by bona fide renewable energy generators, or (2) the project would otherwise not have been proposed were it not for primarily providing transmission access to and delivery of bona fide renewable energy generation. The first proposed RTP definition prompted discussion among the subcommittee of how a project would maintain its RTP designation once placed in operation. The RTP would need a method to evidence compliance by measuring the percentage of capacity on the line that is designated for use by renewable energy generation, especially in the event future pro-forma Federal Energy Regulatory Commission (“FERC”) Order 888 interconnections come from non-renewable generation sources seeking such interconnection. Evidence might be provided by RTP owners in the form of transmission service agreements filed with the FERC. ~~There is clearly a need to create measurable protocols that establish initial and ongoing RTP status.~~ The form of Order should describe such protocols for the Commission’s consideration. The subcommittee preferred the second definition for an RTP, as it was deemed more workable and easier to administer. ***Brian Cole from APS pointed out the subcommittee raised concerns about each of the preliminary definitions that were laid out in the meeting’s presentation. The meeting did not conclude with consensus of a final RTP definition to use as the group considers financing mechanisms for RTPs. RTP definitions will be further discussed at subsequent meetings.***

The Commission might consider conducting a Notice of Proposed Rulemaking to establish the rules and procedures governing RTPs. Once RTP status is designated by an order of the Commission, the *purpose and need* of an RTP ought to be deemed as being established (i.e.: incontrovertible and irrecusable) and therefore, by operation of the order

itself, in the public interest. There was general consensus that further discussion of the working definition of an RTP is warranted.

The subcommittee also discussed solicitation and subscription methods of RTP capacity through open season processes, requests for proposals, auctions, capacity options, bi-lateral contracts, and interconnection queues. There are also emerging trends at FERC the chairman will provide to the subcommittee for future review.

Financing mechanisms that could encourage utilities to engage in RTP development might come in the form of cost recovery methodologies and incentives that limit the investment risks undertaken by the utility. Utilities might receive pro-forma recovery of prudently-incurred costs invested to determine project feasibility. Such costs could include preliminary engineering and environmental costs, technical studies, surveying and mapping, preliminary right-of-way acquisition, project formation and other development activities. Project abandonment costs should also be addressed.

In addition, the Commission might consider awarding utilities an incentive return on equity (ROE) for investments in successful RTPs. Candidate RTPs eligible to receive ROE incentives would include projects that satisfy a utility's RES and projects creating transmission capacity for exporting or importing the state's renewable energy resources.

5) Description of Deliverables:

A preliminary Interim Report will be submitted to the RTTF by 4/1/2009 as input to the April Workshop. There was general consensus this was a reasonable deadline. The subcommittee will support the RTP Workshop(s) by recommending project financing mechanisms that can be discussed there.

A Final Report will be prepared and provided to the RTTF by 9/1/2009. A draft form of Order will be included with this report.

6) Next Steps:

At Meeting No. 2, the subcommittee will review and finalize the input for the April Workshop. The subcommittee will also review the subject outline and content of the Interim Report to the RTTF.

Project Finance Subcommittee Meeting No. 2:

Wednesday, March 4, 2009
10:00 AM – 12:00 PM
12:00 PM – 1:00 PM (lunch)

SRP PERA Club
1 E. Continental Drive
Tempe, AZ 85281-1053

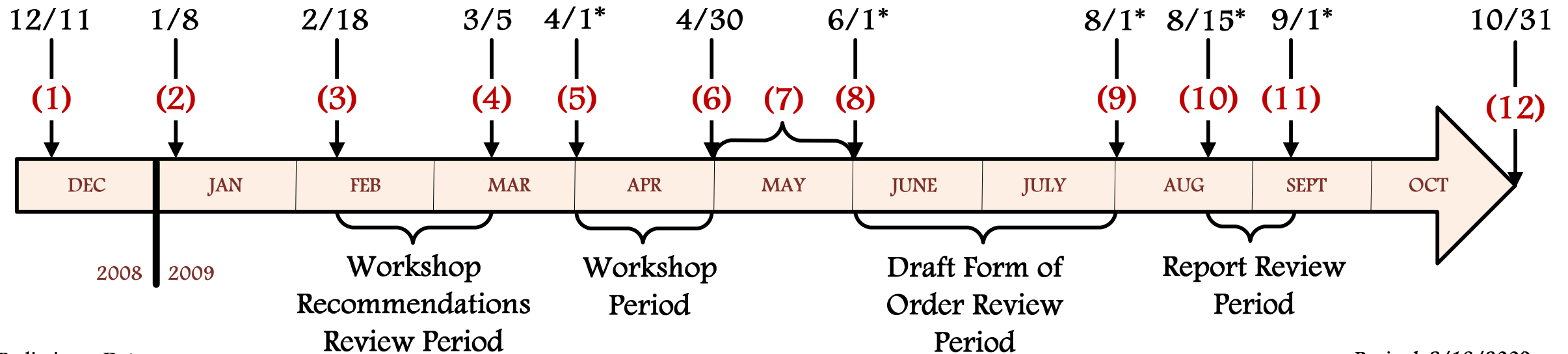
7) Adjourn: 3:56 PM

Attachment A: RTTF Project Finance Subcommittee Timeline

Attachment A

ACC Order No. 70635: RTTF Project Finance Subcommittee Timeline

- (1) 12/11/08 ACC issues Order No. 70635
- (2) 1/8/09 RTTF creates subcommittees: a) AARTIS b) Project Finance
- (3) 2/18/09 Meeting No. 1: Define Scope; Schedule; RTP Definition; Deliverables
- (4) 3/5/09 Meeting No. 2: Finalize Workshop Recommendations
- (5) 4/1/09* Submit Interim Report to RTTF
- (6) 4/30/09 End of Workshop Period per Order No. 70635
- (7) 5/09 Based on Workshop(s), RTTF reviews subcommittee scope of investigation
- (8) 6/1/09* Meeting No. 3: Discuss and develop Draft Form of Order
- (9) 8/1/09* Meeting No. 4: Conclude Review of Draft Form of Order
- (10) 8/15/09* Issue Draft Report to Subcommittee
- (11) 9/1/09* Issue Final Report to RTTF with recommended Form of Order
- (12) 10/31/09 Utilities respond to order No. 70635: "...funding mechanisms... shall be filed with the Commission no later than October 31, 2009..."



*Preliminary Dates