



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

DRAFT 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) Review Meeting No. 1 Draft Minutes (2/18/2009)

Prior to Meeting No. 2, Brian Cole from APS provided the subcommittee with comments and revisions to Section 4 (b) of the Draft Minutes for Meeting No. 1. The subcommittee agreed that a consensus for a Renewable Transmission Project (RTP) definition was not achieved at Meeting No. 1. His comments and suggested revisions were incorporated into the Revised Minutes of Meeting No. 1 (and subsequently re-issued on 3/6/2009). The subcommittee decided, later in the meeting, that all Minutes will be submitted to the RTTF and SWAT chairmen as an appendix to the Interim Report (see section 6 of these minutes).

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 can be solved 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 “need.” Since RTPs encourage the development of renewable energy resources, RTPs may have more “need”, and are more in the public interest than business-as-usual transmission projects. For example, RTPs are developed specifically to access the renewable energy needed to meet Arizona’s Renewable Energy Standard (RES) or enables the state to export renewables. RTPs also vary from business-as-usual projects in that they may encounter additional siting obstacles to access renewable resources considering the lack of existing corridors and the need to establish new rights-of-way. Renewable energy resources are often remote and accessing them may require traversing environmentally-sensitive areas. Robert Kondziolka, from SRP, noted that RTP “need” designation should not undermine environmental siting evaluations, statutory siting standards and mitigation strategies undertaken by transmission developers applying for a state certificate of environmental compatibility.

Investments in RTPs that meet the RES should be awarded full prudent cost recovery, with a base ROE (the highest and most recent ROE granted in a rate case order by the Commission). The subcommittee discussed additional incentives for RTPs that deliver renewable energy in quantities that exceed the RES goals. Such RTPs could be rewarded 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. Incremental renewable transmission capacity is calculated as a percentage of the posted TTC of the RTP that exceeds the RES-mandated capacity. Such incentives might thereby encourage utilities to invest in RTPs that exceed Arizona’s RES.

Brad Albert raised the practical concern of how utilities will determine whether an RTP meets or exceeds the RES. This will affect how incentive rate treatments can be effectively applied to qualifying RTPs. More work by the subcommittee will be needed in the area of applying base ROEs and incentive ROEs to encourage RTP development.

4) RTP Subscription Methodologies and Developing Policy

The subcommittee reviewed various RTP subscription methodologies. Bilateral contracts were discussed as a suitable subscription methodology for RTPs. 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 subcommittee reviewed the recent FERC Chinook-Zephyr Order to discuss the rulemaking as it 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.

In the meeting's presentation, the chairman provided an excerpt from FERC Commissioner Kelly's comments 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.**"*

This led to a discussion of 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) RTP Working Definition Discussion

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 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.

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