



Western Area Power Administration

Transmission Infrastructure Program Update

Presented to: BTA Workshop



TIP PROGRAM OVERVIEW

Implement Title III Hoover Power Plant Act 1984
(under American Recovery and Reinvestment Act)

Borrowing authority of \$3.25 billion

Identify, prioritize and participate in the study, facilitation, financing, planning, operating, maintaining, and construction of new or upgraded transmission facilities

TIP MILESTONES

- Feb 2009: Western receives TIP borrowing authority from congress
- March 2009: Western published a “Notice of Availability of Request for Interest” in Federal Register
- April 2009: Western chartered a Sr Mgt and Transmission Planning team to evaluate over 200 statements of interest from potential project sponsors.
- Oct 2009: TIP names Program Manager and begins staffing
- TIP is transitioning from start up phase to permanent phase
- TIP remains open to new solicitations from Project developers.

TIP PROGRAM PRINCIPLES

- Projects must have one terminus within area served by Western
- Deliver, or facilitate the delivery of, power generated by renewable energy resources to be constructed or reasonably expected to be constructed
- Encourage broad-based participation
- Uses Project revenue as the only source of revenue for:
 - Repayment of loan for project
 - Payment of ancillary service and O&M expenses
- Maintain controls for accounting and repayment - projects under this authority are separate and distinct
- Ensure project beneficiaries repay project cost
- Must be in the Public Interest
- Must not impair system reliability or statutory obligations
- Have reasonable expectation of repayment of principal and interest of Treasury loan and associated project costs on a stand alone basis – costs cannot be integrated into existing projects
- Use a public process to set rates for new facilities
- Must independently obtain and arrange for the delivery of generation-related ancillary services

PROJECT SELECTION CRITERIA

Projects under consideration for TIP funding must:

- Facilitate the delivery to market of power generated by renewable resources constructed or reasonably expected to be constructed.
- Have at least one terminus located within Western's service territory.

In addition, project evaluation includes feasibility of developing a project that meets the following criteria:

- Provides economic developmental benefits, including an estimate of how many, the type, how fast, and where in the country jobs are created.
- Gives priority to projects that satisfy Western's Open Access Transmission Tariff (OATT) or related requests.
- Addresses the technical merits and feasibility of a project.
- Financial stability and capability of all potential project partners.
- Project readiness (e.g., permitting, local, state and/or regional approval).
- Project partners' participation in a region-wide interconnection-wide planning group or forum.

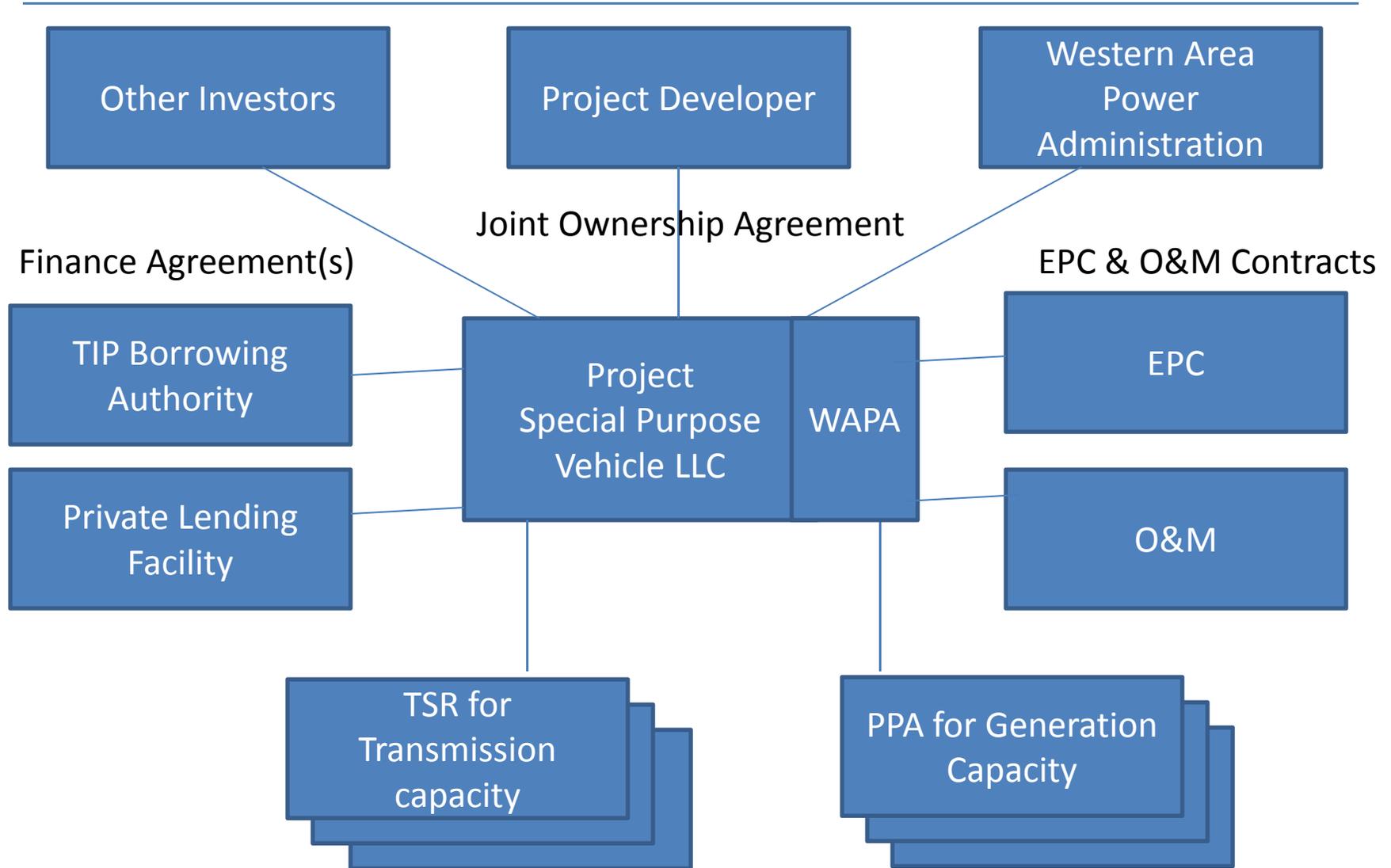
TIP PROJECT MODELS

- Financier model
 - Construction financing
 - Construction – Long-term financing
 - Western owns capacity
 - Example Project – Montana Alberta Tie Limited (MATL)
- Public-Private Partnership model
 - Partnership with Merchant Transmission Developer
 - Western uses borrowing authority to finance ownership in Project
 - Example Project - TransWest Express Transmission Project (TWE)
- Western internal transmission projects
 - Partnership with Western Regional office to add or upgrade needed transmission identified typically through 10-year planning process.
 - Example Project - Electrical District 5-Palo Verde Hub Project (ED5-PVH)

NEGOTIATING WITH DEVELOPERS

- Upon selection of SOI, Project Developers favoring Advanced Funding Agreements.
- TIP brings the following to the transaction:
 - Siting, Scoping and Permitting expertise for Environmental process approvals
 - WECC path rating expertise in terms of managing studies and process
 - Experience with Interconnection Agreements
 - Design expertise for transmission lines and sub-stations
 - Construction management and Quality Assurance for EPC
 - Financial structuring and project financing
 - Operations and maintenance capability
 - TIP Borrowing authority
 - Experience with Regulatory issues

EXAMPLE OF TRANSACTION STRUCTURE



UNDERWRITING REQUIREMENTS

- A solid business plan and Project operating plan
- Financing and commercially-sound project producing adequate cash-flow to:
 - Pay all operational costs
 - Service all debt
 - Provide owners with reasonable rate of return
- Track record of success on similar projects

TIP PROJECT RATES

For TIP owned transmission capacity:

- Use a public process to set rates for new facilities.
- Rate Process(es) for transmission rates for transmission capacity controlled by Western will be developed in a public process pursuant to 10 CFR part 903.

For transmission capacity owned by Western Region; funded by through TIP's borrowing authority:

- Accounting and repayment must be separate and distinct from existing Western transmission projects; creates opportunity for repayment methods within current transmission rate structures.

TIP PROJECT RATES

All transmission project developed using borrowing authority will be offered under Western's OATT.

Annual Transmission Revenue requirements, and subsequent transmission rates, will be developed using cost-based methodology. Western does not have authority to collect return on equity.

Cost-Based rate development formula:

$$\frac{\text{Annual Costs} + \text{Debt Service} + \text{Interest} - \text{Revenue Credits}}{\text{Transmission Usage}}$$

WESTERN CERTIFICATION

Finally, Western's Administrator must certify, prior to borrowing funds from Treasury, that each project:

- Public interest nexus
- No adverse impact to system reliability or operations, or other statutory obligations.
- Reasonable expectation that the project will generate enough transmission service revenue to repay the principal investment; all operating costs, including overhead; and the accrued interest by the end of the project's service life.

Western Contacts

Craig Knoell, TIP Manager

E-mail: knoell@wapa.gov

Phone: 720-962-7710

**Kaicheng Chen, System Planning
Engineer**

E-mail: chen@wapa.gov

Phone: 720-962-7713