



Mr. Tim Meeks,
Administrator
Western Area Power Administration,
P.O. Box 281213,
Lakewood, CO,
80228 -8213

May 7, 2010

Dear Mr. Meeks,

The Wyoming Collector System

The Western Area Power Administration (Western) actively encouraged formation of the Wyoming Collector System Task Force, in May 2009, with the goal of developing a high voltage network to connect planned new wind generation in the State with planned new inter-state transmission lines. The initial motivation was recognition that the alternative would be multiple 138kV (or 230kV) generator tie lines, built by individual generators, at higher aggregate cost and with higher losses, using multiple corridors approached through less efficient permitting processes, all of which is contrary to the public interest.

It is evident, however, that additional benefits will accrue from a centrally organized collector system. These include providing generators with access to more than one export hub; an ability to design in redundancy; a more robust and secure backbone transmission system; improved connections between different wind resources; and, potentially, access to natural gas fired generation as a balancing resource.

Even greater benefits can arise from a well organized approach. The project significantly improves the opportunity to cooperate with the Wyoming utilities (PacifiCorp, Black Hills and Western) in such areas as the co-building or re-building of transmission infrastructure, shared operational expenses, and the balancing of wind energy; it will also help build public support in Wyoming and the customer States that the new wind industry is being developed on a rational, environmentally responsible basis.

The few precedents for wind collector systems have occurred in jurisdictions where the generation and end customers and both within the same regulatory jurisdiction (such as in California and Texas). The Western Renewable Energy Zone Phase I Report establishes, however, that some of the most promising renewable energy resources are located in states, such as Wyoming, which are remote from load centers and lack a common rate base. This raises significant additional business issues and the Wyoming Collector System will be the first such network to address these challenges. The solutions adopted in Wyoming will therefore clearly serve as a model for other remote renewable energy concentrations.

This absence of a rate base solution means that the Wyoming Collector System will need to look upstream, to the income derived from end customer Power Purchase Agreements, to support financing. The challenge, however, is that both the wind generation developers and the interstate transmission

developers are also looking to the same income stream. Furthermore, the design of the collector system will need to respond to decisions made by individual generators and transmission developers, rather than dictate or control events. For both reasons, while the Wyoming Collector System is critical to a well organized and environmentally responsible development of renewable energy in the West, it would be a very difficult project for the private sector to implement on its own.

RetCo believes that the only viable way forward is a public private partnership, with Western in a leadership role, building on the example of Western's contribution to the Path 15 project in California. The private sector participation would be selected on a non-discriminatory basis, with two tranches of equity made available through an open season process, with one tranche reserved for the Wyoming independent generation developers and the other for the independent transmission developers. There would be a re-balancing mechanism, should one tranche be over and the other under subscribed and there would be a second round should Wyoming developers not take up all of the first round equity.

RetCo's role would be as project developer, taking responsibility for the full (outreach, engineering, permitting, regulatory, legal, financing, business, construction and operational) implementation of the project, under the supervision of a board nominated by both the public and private sector investors. RetCo's role is therefore very delicate, needing to make progress, and prudently manage significant expenditure, while maintaining the confidence of a wide range of potentially competing interests. A key strength of this proposal, therefore, is RetCo's unique sector competence and its independence.

The recommendation is that these business arrangements are announced and put in place as swiftly as possible, in order to remove the current market uncertainty, as there is otherwise a significant risk that individual generation projects will feel the need to commence development of their own generator ties.

Western's primary role, therefore, would be to give momentum to the concept of a collector system and, thereafter, to progressively shift the focus of the project over to the private sector. The request, therefore, is for Western to provide all of the year one development equity (\$4m); 50% of the balance of development equity (\$16m); and 50% of the construction equity for the first (core) network circuits (\$431m), or a total of \$451m. Should Western not be able to participate to this level, it is requested that Western participates as fully as is possible, given a series of compelling public interest considerations.

Should it prove possible, assistance with the \$863m of debt funding for the core network and/or the \$1,035m of debt funding for the balance of the network would also significantly facilitate the project.

The compelling public interest considerations that argue for Westerns involvement include:

1. There is broad consensus that a centrally organized collector system is the rational way to proceed but it requires a single party to build momentum for that approach and it would be difficult for the existing Wyoming (transmission or generation) developers to undertake such a role. It is only Western, with its Congressional authority, transmission expertise, and large geographic footprint that has the capacity and impartiality to provide the required leadership for the collector system.
2. The Wyoming Infrastructure Authority (WIA) has funded 100% of the early development costs of the project (with technical support from Western, PacifiCorp, TWE, TransCanada and LS Power). It is self evident, however, that this is a development of regional significance, with a scale of investment and a level of commitment beyond the capacity or appetite of Wyoming, or individual developers, alone.

3. The challenges of developing remote renewable energy all come together in the collector system. These include avoiding the unnecessary duplication of transmission lines and the permitting inefficiencies of individual connections; the economics of renewable energy; the inter-connection of different wind areas; the question of balancing wind resources; and how to finance infrastructure with multiple ownership components. It is where "the rubber hits the road" and where the federal government can most positively facilitate remote renewable energy developments.
4. Wyoming is the first state to address these challenges but other resource rich, remote, states will soon need to address similar issues. A significant benefit of Western providing leadership in Wyoming is that it will help provide a model for other remote renewable energy regions. By providing this template, public investment in the Wyoming Collector System will be leveraged to facilitate the efficient development of renewable energy resources across the entire West.
5. Wyoming is fortunate in having attracted major private companies to develop generation and inter-state transmission projects but not, however, the collector system. It is clear that it is viewed as having a less attractive risk / reward profile than the other projects and as too difficult for the private sector to develop alone. For the project to progress it clearly needs public sector assistance.
6. Nearly a decade ago, Western demonstrated extraordinary leadership in making the Path 15 project a reality - a project once viewed as too difficult for any party to take forward. The Wyoming Collector System is clearly an even greater challenge, requiring an even greater level of support.
7. An even better approach would be for Wyoming and/or the WIA to participate alongside Western in providing public sector leadership to the Project and RetCo has encouraged their participation. This could either take the form of (i) a non-financial commitment, providing assistance and participating in the governance of the Project or (ii) potentially, a financial commitment alongside Western.

The proposed way forward is to build on the conceptual designs of the February 2010 ICF report "Wyoming Collector System Conceptual Design, Final Report", commissioned by the Task Force. Accompanying this letter is the formal Statement Of Interest for RetCo's interest in the Project.

Climate change is the challenge of our lifetime, and yet we have barely begun to make substantial progress in tackling power sector emissions. Wyoming's wind potential is so significant that it logically has to be part of any regional solution. It is hoped that Western will view this proposal as a constructive and viable way forward for the West, Wyoming, the industry and the Wyoming Collector System.

RetCo looks forward to responding to any questions you may have on this proposal.

Sincerely,

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Stephen Burnage
President, RetCo

C.C. Steve Ellenbecker, Executive Director, WIA

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