



DesertLink, LLC

2022 Annual Update Stakeholder Meeting

August 5, 2022

Outline

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- 2021 True-up
 - True-up vs. Projection
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Background

Company, Project, and Formula Rate

Background – General

Overview of the Company and the Project

- DesertLink is a transmission-only company initially formed to develop, own, and operate the Harry Allen to Eldorado 500 kV Transmission Line Project in Nevada.
- The Project consists of a newly constructed 500 kV transmission line (between the existing Harry Allen and Eldorado substations, located northeast and southeast, respectively, of Las Vegas) along with series compensation
- This Project is subject to certain cost cap, ROE, and equity capital structure commitments per DesertLink's Approved Project Sponsor Agreement (APSA) with CAISO.
- More information is available at desertlinktransmission.com

Background – Regulatory

Selected Regulatory Filings and Orders

- August 19, 2016 – FERC approves certain transmission rate incentives requested by DesertLink in its May 2016 petition in Docket No. EL16-68:
 1. Regulatory asset incentive and accrual of carrying charges;
 2. 100% recovery of prudently-incurred costs associated with abandonment of the Project;
 3. 50 bps RTO participation adder (subject to 9.8% maximum ROE);
 4. Hypothetical capital structure (50% debt/50% equity) prior to commercial operation, then a 50% equity cap.
- October 18, 2016 – DesertLink files a transmission owner tariff (TO Tariff) in Docket No. ER17-135 to be applicable upon becoming a participating transmission owner in CAISO.
 - October 31, 2017 – the Commission sets proposed formula rate, protocols, and ROE for hearing and settlement procedures.
 - April 18, 2018 – Parties reach settlement agreement
 - May 24, 2018 – Commission approval of settlement agreement
- March 21, 2022 – FERC accepts formula revisions submitted April 16, 2020, and amended December 23, 2021, to comply with FERC Order No. 864 (ADIT) in Docket No. ER20-1573.
- May 2, 2022 – FERC accepts formula revisions submitted April 16, 2022, and amended March 16, 2022, to enable recovery of gross receipts taxes in Docket No. ER22-1050.

Background – Cost Commitments

Key Provisions

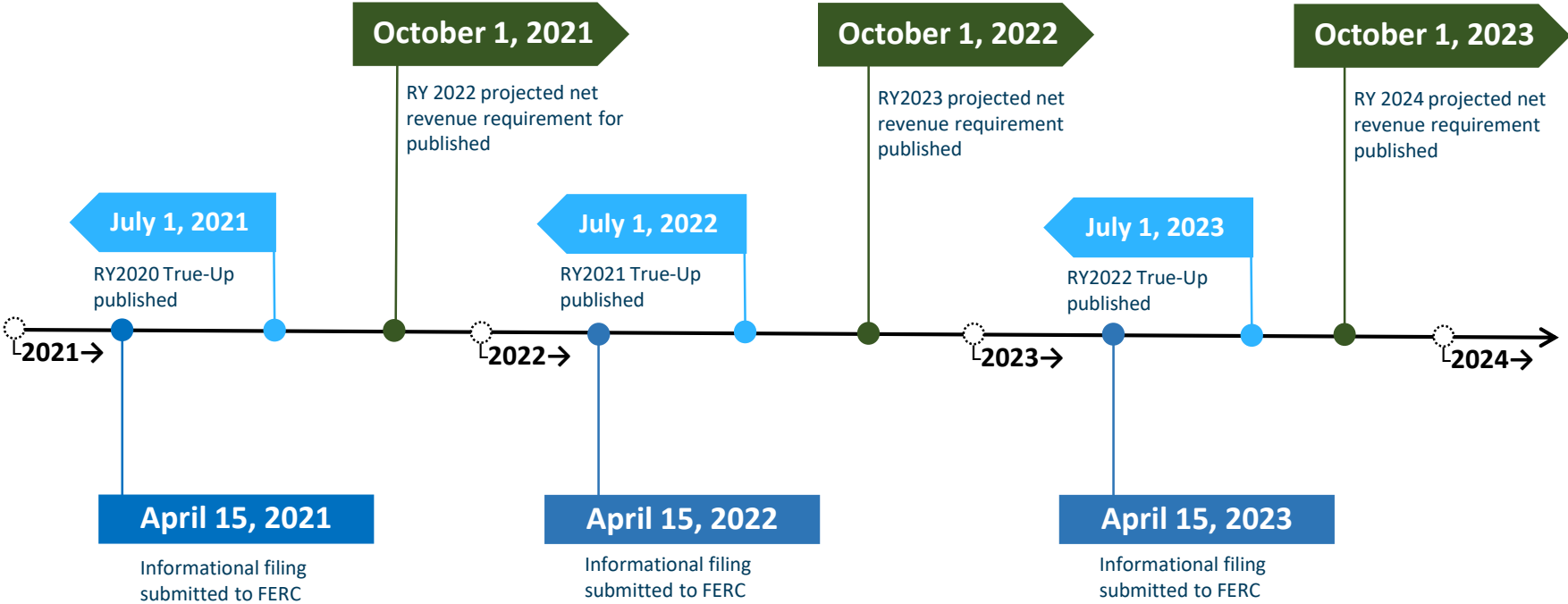
DesertLink made certain cost commitments for the Harry Allen to Eldorado Project

- **Cost Cap**¹ – DesertLink’s Project costs may not exceed the binding cost cap of \$145.5M, subject to certain exclusions.
- **ROE Cap**¹ – During the depreciable life of the Project, DesertLink may not recover more than 9.8%, inclusive of adders.
- **Equity Cap**¹ – The Project is subject to an equity percentage cap of 50%.

¹ As defined in and subject to the terms of the APSA between DesertLink and CAISO.
Refer to Attachment A included in the Annual Update package for additional details.

Formula Rate Timeline

General Update Process



Formula Rate Timeline

Selected milestones

- December 31, 2021 – Informational update submitted in TRBAA Docket No. ER22-221
- April 14, 2022 – Informational filing submitted to FERC in Docket No. ER22-1636
- April 15, 2022 – 2020 FERC Form No. 1 submitted to FERC
- July 1, 2022 – 2021 True-up published
- August 5, 2022 – Annual True-up meeting
- October 1, 2022 – Publication of 2023 Projection
- TBA – Stakeholder meeting for 2023 Projection
- November 1, 2022 – TRBAA filing
- December 1, 2022 – Last day to incorporate corrections into 2023 Projection
- January 1, 2023 – Scheduled end of information request period

Annual Update (True-up)

2021 Rate Year

True-up vs. Projection

Comparison of Revenue Requirement Components

Appendix III Item	2021 True-up	2021 Projection	Difference ¹ (True-up minus Projection)	
Average Rate Base	\$199,108,201	\$195,280,188	+\$3,828,012	+2.0%
Rate of Return ²	6.36%	6.21%	+14 bps	
Return on Rate Base	\$12,660,018	\$12,138,137	+\$521,881	 +4.3%
Income Taxes	\$3,878,385	\$3,812,160	+\$66,224	+1.7%
Total Return & Taxes	\$16,538,403	\$15,950,297	+\$588,105	 +3.7%
Operating Expenses:				
O&M and A&G Expenses	\$2,386,155	\$1,670,754	+\$715,401	+42.8%
Depreciation Expenses	\$3,876,723	\$3,868,034	+\$8,689	+0.2%
Non-income taxes	\$1,328,894	\$1,396,696	-67,802	-4.9%
Total Operating Expenses	\$7,591,772	\$6,935,484	+\$656,288	 +9.5%
Gross Revenue Requirement	\$24,130,175	\$22,885,782	+\$1,244,393	 +5.4%
Less: Revenue Credits	\$0	\$0	-	
Net Revenue Requirement	\$24,130,175	\$22,885,782	+\$1,244,393	 +5.4%

¹ For more detail, refer to Summary and Explanation of Variances included with published Annual Update materials.

² Weighted Average Cost of Capital (WACC) calculation for projection provided in a separate slide.

True-up Adjustment

Error and Correction

The Annual Update published July 1, inadvertently included a Workpaper 4 which introduced a 'revenue received' value into the Attachment 6 True-up Adjustment calculation rather than the required 2021 projected revenue requirement value.

For CAISO PTOs, revenue true-up is achieved separately through the TRBA Adjustment mechanism.

DesertLink will publish a revised Annual Update before the 2023 Projection is due.

In the new version, the revenue requirement value from the 2021 Projection is used in Attachment 6 to correctly calculate True-up and interest. This does not affect calculation of 2021 actual net revenue requirement.

True-Up Adjustment and Interest Calculation ¹	Original July 1, 2022	Revised To be published
Actual 2021 Net Annual Revenue Requirement (Appendix III, Page 1, Line 9)	\$ 24,130,175	\$ 24,130,175
Projected 2021 Net Annual Revenue Requirement (Projection Appendix III: Page 1, Line 1 minus Page 1, Line 6)	\$ 23,478,012	\$ 22,885,782
Under/(Over) Recovery of Revenue Requirement	\$ 652,163	\$ 1,244,393
Monthly Interest Rate	0.271%	0.271%
Interest For 24 Months	\$ 45,172	\$ 86,192
Total Under/(Over) Recovery Including Interest	\$ 697,334	\$ 1,330,585

Revised adjustment to be incorporated into 2023 Projection

¹Refer to Work Paper No. 4 (Attachment 6 Support), Attachment 6 (Interest on True-up), and Attachment 6a (Interest Rate) in the published Annual Update for more detail.

Appendix – WACC

Weighted Average Cost of Capital Calculation

WACC Element	Weight	Cost	Weighted	
Long Term Debt	50%	2.92%	1.46%	
Preferred Stock	-	-	-	
Common Stock	50%	9.80%	4.90%	
Total			6.36%	= Return

Refer to Attachment 5 (Return on Rate Base worksheet) in the published 2022 Annual Projection for more detail.

Discussion

Formula rate materials are posted online:

desertlinktransmission.com/documents

Direct inquiries, information requests, and challenges to:

DesertLinkRates@desertlinktransmission.com

Disclaimer

Notwithstanding requirements and terms defined in DesertLink, LLC's (DesertLink) formula rate implementation protocols and terms commonly used in FERC ratemaking (e.g., 'projected', 'projection'), this document and any related discussions may contain certain statements that describe DesertLink management's beliefs concerning future financial performance, future business conditions and prospects, growth opportunities and the outlook for the electric transmission industry based upon information currently available. Such statements are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts, and are often identified by words such as "anticipates", "believes", "intends", "estimates", "expects", "projects", "projected", "shall", "will", "should", "could", "may" and similar phrases. Such forward-looking statements are based upon assumptions management believes are reasonable. Such forward-looking statements are subject to important risks, uncertainties and other factors which could cause actual results, performance and achievements to differ materially from those expressed in, or implied by, these statements. These important risks, uncertainties and other factors include: future economic conditions in regional, national and international markets and their effects on prices, costs and availability of required goods and services; market perception of the energy industry and DesertLink; changes in business strategy, operations or development plans; the outcome of contract negotiations for goods and services; effects of current or proposed state and federal legislative and regulatory actions or developments, including deregulation, re-regulation and restructuring of the electric utility industry; decisions of regulators regarding rates that DesertLink may charge; adverse changes in applicable laws, regulations, rules, principles or practices governing tax, accounting and environmental matters; financial market conditions and performance, including changes in interest rates and credit spreads and in availability and cost of capital; impairments of long-lived assets or goodwill; credit ratings; inflation rates; effectiveness of risk management policies and procedures and the ability of counterparties to satisfy their contractual commitments; impact of terrorist acts, including cyber terrorism; and weather conditions, including weather-related damage. Given these uncertainties, you should not rely on forward-looking information.