



Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

EXECUTIVE OFFICE

October 31, 2005

In reply refer to: R-3

Mr. Ted Williams, President
Grid West
5933 NE Win Sivers Drive, Suite 201
Portland, OR 97220

Re: BPA's Decision to Support the Integration Proposal at Decision Point 2

Dear Mr. Williams,

As you know, at the beginning of October, Bonneville (BPA) advised the Regional Representatives Group (RRG) that we would take an additional 30 days to explore the possibility of "converging" ideas from the Transmission Improvement Group (TIG) and from the Grid West proposal into an integrated approach that would capture the benefits of both proposals. To this end several parties from RRG and TIG have worked over the past month to help BPA develop a proposal, the "Integration Proposal for Near Term Services," to accomplish these objectives.

Our primary aim in taking the time to develop an Integration Proposal was to create a better proposal while seeking to gain additional regional support, particularly among members of public power. While we received mixed reaction at the October 28, 2005 meeting of the RRG, we believe the Integration Proposal is the better approach.

We believe this approach is the best way to give fruition to the extensive effort by the region over the past ten years to improve the region's approach to managing transmission. This approach, if supported by the region, could begin generating benefits within a year. We also believe it is the best way to get to Decision Point 4, at which time the region can decide whether to implement the Grid West Basic Features developed by the Transmission Services Liaison Group (TSLG Basic Features), which have the potential to generate significant additional benefits over the long run.

For these reasons, BPA has decided to support the Integration Proposal at Decision Point 2. As you know, this is not a final decision. The decision at hand is a decision whether to fund additional development under the direction of the new Development Board over the next few months. If the proposal is accepted, a decision to implement Near Term functions would be made after negotiating a near term Transmission Agreement with the Development Board to implement these functions.

As originally planned, a decision to implement TSLG Basic Features would not be made until Decision Point 4, after a long-term Transmission Agreement and corresponding tariff are negotiated, and then only if the region decides to implement some or all of the TSLG Basic Features.

The purpose of this letter is to advise you that BPA is prepared to provide its share of continuing funding for the Development Stage if:

1. Certain Developmental and Operational Bylaws changes are implemented. These changes would provide explicit authority and direction to the Corporation to engage in certain activities prior to the Operational Stage and provide additional board accountability mechanisms. These and related changes to the bylaws are described more fully in Attachment A.
2. The Development Board and Grid West members agree to implement certain additional activities during the Developmental Stage. These activities and accompanying timeline are described more fully in Attachment B.

I want to emphasize that BPA is willing to consider reasonable changes to the Integration Proposal to strengthen the proposal to gain additional regional support. Further, BPA is willing to engage in negotiations to make necessary modifications to the proposed Funding Agreement and to execute a funding arrangement by Thanksgiving or earlier.

We also recommend that an additional 30 days (beyond the period provided for in the Developmental Bylaws) be provided for processing of new Grid West member applications.

We hope that Grid West will find this general approach workable, and agree to commence negotiations of the agreements necessary to move forward.

Sincerely,

/s/ Stephen J. Wright, Oct. 31, 2005

Stephen J. Wright
Administrator & Chief Executive Officer

Attachments (2)

- Attachment A: Changes to the Developmental Bylaws
Changes to the Operational Bylaws
- Attachment B: Final Proposal for Near Term Services