

EXPLANATORY NOTE: We ask your forbearance on the rough edges this draft filing letter contains at this point. It has not yet been edited for consistent style, terminology, formatting, or correct cross-references and typographical and grammatical errors. It is the product of many contributors' hard work, but needs a lot of clean-up and smoothing out. We are posting it now to facilitate public review of the general conceptual content and structure. Also, we have made the line-spacing 1.5 lines (rather than double-spaced) for now to save paper.

Please direct your comments by the close of business on Monday, October 16 (5:00 p.m. Pacific Time) to Sarah Dennison-Leonard at sdleonard@earthlink.net.

[Cover page and table of contents to be inserted here]

[List of Section Headings]

EXECUTIVE SUMMARY

[To be developed after completion of the body of the filing letter. – suggested emphasis: (1) how the proposal meets Order 2000’s requirements; (2) how we are going to complete the steps necessary to submit the balance of the proposal elements for approval; and (3) the broad range of conditions that must be satisfied before the parties move forward toward full implementation. – must be limited to 5 pages]

II. INTRODUCTION

A. Identification of Parties Participating in Filing

This filing is submitted jointly by nine participants. The nine participants are Avista Corporation, the Bonneville Power Administration (“Bonneville”), Idaho Power Company, The Montana Power Company, Nevada Power Company, PacifiCorp, Portland General Electric Company, Puget Sound Energy, Inc., and Sierra Pacific Resources. These nine entities are referred to collectively in this filing as the “filing utilities.”

All of the filing utilities except the Bonneville Power Administration (“Bonneville”) are required to submit a filing to the Commission under the provisions of Order 2000. Bonneville is participating in this filing as a concurring party. The remaining eight filing utilities are acting as applicants before the Commission with respect to most of the items in this proposal for which a Commission declaratory order is requested. With respect to the attached forms of Transmission Operating Agreement and Agreement to Suspend Provisions of Pre-Existing Transmission Agreements, however, (as further detailed in Section VII.A below) only three of the filing utilities are requesting a Commission declaratory order at this time.

[NOTE: This identification of participants in this section and the differentiation of status before FERC could be expanded if other parties elected to join the filing.]

B. Nature of Filing

1. Summary of Filing Contents and Commission Action Requested

This filing is made by the filing utilities in compliance with the requirements of 18 CFR Part 35, (1) to describe the regional transmission organization arrangements they desire to implement; (2) to obtain a declaratory order approving the form of RTO West First Amended and Restated Articles of Incorporation and RTO West Bylaws submitted with this filing letter; (3) to obtain a declaratory order determining that the scope and configuration of RTO West as proposed in this filing satisfies applicable provisions of Order 2000; (4) to obtain a declaratory order approving the form of Agreement Limiting Liability Among RTO West Participants; (5) to provide the Commission with information concerning the status of development of the proposed

forms of Transmission Operating Agreement and Agreement to Suspend Provisions of Pre-Existing Transmission Agreements; and (6) to enable three of the filing utilities (Bonneville, Idaho Power Company, and PacifiCorp) to request that the Commission issue a declaration that the Transmission Operating Agreement and Agreement to Suspend Provisions of Pre-Existing Transmission Agreements are acceptable to the Commission and consistent with the requirements of Order 2000, subject to timing and procedures detailed in Section VII.A below.

The filing utilities intend to make a Stage 2 filing on or before [_____], for the purpose of obtaining approval of (1) the RTO West Tariff, (2) the forms of Paying Agent Agreement, Generation Integration Agreement, Load Integration Agreement, and Security Coordinator Agreement needed to implement the RTO West arrangements, (3) the schedule of Transfer Charges payable as a condition of RTO West service, as described in this filing, and (4) the allocation of Firm Transmission Rights by RTO West, as described in this filing. The above filing deadline assumes that the Commission is able to grant the declaratory orders requested in this filing by _____, so as to permit the filing utilities to confirm that their Stage 2 filing documents will be in compliance with the Commission's requirements as set out in the Commission's initial declaratory order.

This filing represents a definitive first step by the filing utilities, following an extensive public process, to create a regional transmission organization that complies with the requirements of the Commission's Order 2000. The proposed regional transmission organization would cover most of the geographic and population areas of the States of Oregon, Washington, Idaho, Montana, Utah, and Nevada, as well as parts of Wyoming. The filing utilities have also taken great care, in consultation with representatives from the Canadian provinces of British Columbia and Alberta, to create corporate and operating structures that will permit the inclusion of transmission facilities within British Columbia and Alberta when possible and as may be mutually agreed by affected Canadian and United States parties.

2. Important Conditions to Implementation

a. Conditions Applicable to All Filing Utilities

As can be expected with any effort so ambitious, a number of difficult hurdles must be cleared before the filing utilities proceed to implementation of the proposal. The filing utilities have identified the following:

1. The Commission's declaration approving the all RTO West proposal elements as submitted in the filing utilities' Stage 1 and Stage 2 filings.
2. Successful completion among the filing utilities of ongoing negotiations of a schedule of Transfer Charges and of Firm Transmission Rights implementation required to complete the RTO West Tariff.
3. The Commission's approval of subsequent applications under Section 203 of the Federal Power Act for approval of the RTO West contracts and under Section 205 for approval of the RTO West Tariff as filed.
4. The Commission's approval of subsequent applications submitted by participating transmission owners under Section 205 of the Federal Power Act for approval of their individual Company Rate tariffs, in a form acceptable to the participating transmission owner that submits the application.
5. Approval by each of the state retail regulatory agencies with authority over the transfer of control of transmission facilities covered by the Transmission Operating Agreement, as well as of various related accounting and other matters within state jurisdiction.
6. Concurrence by various state governmental entities with the conclusions of the filing utilities that RTO West's use of Bonneville's transmission facilities in the manner described in this filing will not cause the transmission facilities of Bonneville to be subject to state beneficial use taxes.
7. Agreement by the filing utilities on a means of assuring that RTO West is able to finance its substantial pre-operational costs, along with approval by appropriate regulatory bodies of a

means for the filing utilities to assure recovery of any such pre-operational costs that they must advance or guarantee.

The filing utilities intend to continue their diligent efforts to surmount the remaining hurdles to complete the filing and then complete the implementation to make RTO West fully operational. Because of the magnitude of the undertaking, the filing utilities may be unable to make RTO West fully operational by the December 15, 2001 date specified by the Commission. Assuming prompt action by the Commission and all regulatory bodies on the various regional transmission organization applications, there would remain much work and resulting time required to establish the RTO West Board of Trustees, hire the RTO West staff, procure a building, procure and install business systems, procure and install the operational systems that controls the transmission facilities and finally to test the operational system with the market participants. The filing utilities asked KEMA Consulting, RTO West Filing Program Manager, to evaluate the feasibility of meeting the operational data of December 15, 2001. KEMA Consultants, evaluating similar implementations in scope and functions, advised the filing utilities that development could not be completed by the Commission operational date of December 15, 2001. The filing utilities intend to work closely with the Commission's staff to determine whether an acceleration of the schedule proposed by KEMA Consulting is feasible.

b. Specific Conditions for Individual Filing Utilities

[To be added]

III. DESCRIPTION OF COLLABORATIVE PROCESS USED TO DEVELOP RTO PROPOSAL

A. Development of the RTO West Collaborative Process

The RTO West proposal is the result of an extensive collaborative process that engaged a broad spectrum of stakeholders and interested parties from the Northwestern United States, Canada (specifically the provinces of British Columbia and Alberta), and the western United States. In establishing the RTO West collaborative process, the filing utilities were guided by the Commission's statement in Section III of Order 2000: "We expect that parties in each region will work collaboratively to identify the appropriate RTO regions, identify all transmission

owners and facilities in each region, and develop a timely application in accordance with the Final Rule.” [Add specific cite here?] Several background activities helped establish the substantive foundation on which the RTO West collaborative process was built.

1. Background

- a. Independent Grid Operator (IndeGO)

Twenty-one utilities undertook an extensive two-year effort from 1996 to 1998 to develop an independent grid operator (called “IndeGO”) in the states of Washington, Oregon, Idaho, Montana, Wyoming, Utah, Nevada, and Colorado. IndeGO was to be formed as a new non-profit organization with an independent board that would act as the independent grid operator for the aggregated transmission systems of participating transmission owners. Under the proposal, IndeGO would not own any transmission facilities but would “control” each participating transmission owner’s transmission facilities in exchange for an annual payment that would cover the owner’s capital, operation, and maintenance costs.

IndeGO was a very complex arrangement that involved many contracts, organizational documents, a tariff, white papers, spreadsheets, and other documentation. These documents were developed in a public process by work groups in the areas of pricing, revenue requirements, legal issues, planning, operations, congestion management, facilities management, and finance. While the IndeGO proposal did not go forward to the Commission for approval, IndeGO contract documents, white papers, and other documents have provided extremely valuable background material to the RTO West collaborative process to develop this filing proposal. In many cases, the contract language developed for IndeGO was well-suited to form the basis of contract documents for RTO West. In addition, participation in the RTO West Collaborative Process by many former IndeGO representatives provided extremely valuable experience, history, and context to the RTO process.

- b. Northwest RTO Educational Workshops

A series of six Northwest RTO education workshops also helped lay the foundation for the RTO West collaborative process. Northwest utilities, public power entities, marketers, the

Bonneville Power Administration (BPA) and Canadian entities sponsored the workshops, which began shortly after the May 13, 1999 issuance of the Commission's Notice of Proposed Rule-Making on Regional Transmission Organizations. The last of these education workshops was held on February 14, 2000.

The purpose of the workshops was to provide background information on RTO developments from PJM, the Alliance Companies, the California ISO and others from around the country that could be useful in forming an RTO in the Northwest. The highlight of this educational program was a workshop on August 6, 1999 co-chaired by BPA Administrator Judi Johansen and Commission Chairman James Hoecker, with assistance from Commission staff members Patricia Alexander, Doug Smith, and Rick Miles. This workshop focused on some of the key substantive issues in RTO formation including transmission pricing, cost-shifting, and the fundamental RTO characteristics of independence, appropriate scope, operational authority, and short term-reliability.

c. Lawyers' Committee Reports

The creation in September 1999 of an *ad hoc* legal committee was a critical precursor to development of this filing proposal. Lawyers on this committee represented utilities, public power, independent power producers, and marketing interests. They defined RTO structural options that satisfied two basic criteria: (1) they would permit simultaneous participation of BPA, investor-owned utilities, and other potential participants in the region; and (2) they were viewed as able to be implemented within the time frame laid out in Order 2000. The legal committee completed an exhaustive review of all available options and incorporated their conclusions into two documents, an "ISO Matrix" and a "Transco Matrix," which were presented at the final Northwest RTO educational workshop on February 14, 2000. These matrices and the analyses of the legal work group clarified the viable structural options and helped expedite the collaborative process by narrowing the scope of possible RTO structures to those that were feasible in view of the expected participants and time constraints.

d. Filing Utilities' Consensus on Form, Structure, and Principles

On March 17, 2000, the filing utilities released two documents entitled "RTO Filing Utilities' Consensus Concerning RTO Form and Structure" and "RTO Filing Utilities' RTO Principles." (These documents are included with this filing as Attachments __ and ____.) These two documents reflected an important agreement among the filing utilities as to what they could support. The documents also delineated the sideboards for analysis of the various structural options and issues in the collaborative process that was being developed concurrently.

2. Defining the Elements of a Collaborative Process

The filing utilities and stakeholders worked together to define the elements of the RTO West collaborative process that began in April 2000. At the Commission-sponsored workshop in Las Vegas, Nevada on March 23 and 24, stakeholders and other regional parties conveyed their expectations to Commission staff with respect to their participation in a broad-based collaborative process. Commission staff and the filing utilities heard two over-riding messages: (1) the desire of regional parties to be "at the table" during RTO discussions, and (2) concern that filing utilities not advance "private agendas" that would not be shared in a public process.

In response to these messages and other guidance from Commission staff, the filing utilities, with assistance from public power and other stakeholder representatives, developed a proposal entitled "Northwest RTO Collaborative Process Plan – A Proposal by the Filing Utilities." (See Attachment ____). This proposed plan was introduced to the RTO West region at a workshop on April 12, 2000. The plan included five key elements: (1) an RTO Regional Representatives Group; (2) the RTO Filing Utilities group; (3) work groups with specific subject-area responsibility; (4) regional workshops; and (5) a Website (originally www.nwrto.org and now www.rtowest.org). Regional parties reached a consensus at the April 12, 2000 workshop that the plan was workable and should be implemented.

B. Implementation of the RTO West Collaborative Process Plan

1. Establishing the RTO West Regional Representatives Group

The first step in implementing the plan was to request participation of a broad range of regional parties and interests in the RTO West Regional Representatives Group (RRG). After extensive discussions with many stakeholder groups and individuals, the RRG was formed of representatives from the following interests:

- Public Generators
- Rural Co-ops
- Transmission Dependent Utilities/BPA Customers
- Non-BPA Transmission Dependent Utilities
- Transmission Scheduling Utilities
- Urban/Westside Transmission Dependent Utilities
- RTO Filing Utilities
- FERC-Jurisdictional Non-Investor Owned Utilities
- States' Representatives
- Residential Consumers
- Direct Service Industrial Customers of BPA
- Industrial Customers
- Environmental Community
- Renewable Resources
- Independent Power Producers
- Marketers
- Sovereign Tribes
- Canada (British Columbia and Alberta)

While principal and alternate representation on the RRG changed somewhat during the RTO West development process, the "Revised RTO West Regional Representatives Group (August 8, 2000)" lists individuals who participated consistently in RRG meetings, as well as the organizations these individuals represented. (Attachment _____)

2. RTO West Filing Utilities' Funding and Project Management Selections

In the collaborative process plan, the filing utilities indicated their commitment to participate fully in the collaborative process. They also committed to advance the funds necessary to retain the services of project managers and to document the filing. They retained KEMA Consulting Co. as the project manager for development of the filing and the law firm of Krogh & Leonard to serve as public process consultant. Both firms participated throughout the development of the filing proposal. The filing utilities incorporated RTO West as a private, non-profit corporation in Washington State, which served exclusively as the funding agent for the development of the RTO West filing proposal.

Because of their obligation to file the RTO West proposal within the Commission's timeline, the filing utilities retained the authority to establish workstreams and decision timelines, and in the absence of an RRG consensus, to resolve issues and propose resolutions to the Commission. To specifically address the concern that the filing utilities not advance a "private agenda" outside the public process, they arranged for a neutral note-taker to be present at all RTO Filing Utility representative meetings. Notes taken by the neutral note-taker were posted on the RTO West website throughout the development process.

3. Initiating the Technical Work Groups

After establishing the RRG, the next step was to establish the technical work groups and request recommendations for participants to serve on them. At the direction of the organizations represented on the RRG, knowledgeable individuals with expertise and background in all aspects of the filing proposal agreed to serve on the technical work groups. These work groups tracked the Order 2000 required characteristics and functions of an RTO. Work Groups were established to prepare recommendations on Pricing, Congestion Management, Planning, Market Monitoring, Ancillary Services, Seams and Implementation. To address the independence characteristic in Order 2000, a Governance Work Group was established under the auspices of the Legal Work Group. The Legal Work Group was given responsibility for drafting all contract documents for the filing proposal. Specific sub-groups of the Legal Work Group were assigned to develop the Transmission Operating Agreement, the Generation Integration Agreement, the Load Integration Agreement, the Security Coordination Agreement, Agreement Limiting Liability Among RTO

West Participants, and the Paying Agent Agreement. A more detailed listing of these Work Groups, their assignments, and the representatives who served on them can be found on the RTO West website.

4. RTO Regional Workshops

In addition to the meetings of the RRG, the plan envisioned holding occasional regional workshops, known as “Big Tent” meetings, to present the status of RTO development and receive input from a larger audience. Because so many of the region’s interested parties attended the RRG meetings, there was little need for “Big Tent” meetings during the development of the filing proposal. The RTO West filing utilities did, however, host a “big tent” public meeting on August 22, 2000 in Spokane, Washington to inform members of the general public, who had not actively followed either RRG or work group activities, about the progress toward forming an RTO in the Northwest.

The purpose of this meeting was to provide background information on Order 2000, the filing utilities’ principles for RTO development, consensus form and structure proposals, and a description of the regional collaborative process the filing utilities undertook to develop the RTO proposal.

At this meeting, the filing utilities hosted a panel discussion with representatives from existing independent system operators and other utility entities contemplating RTO development in other parts of the country. Filing utility representatives also discussed efforts to define costs and benefits of RTO formation for the Northwest. In addition, they presented draft proposals on RTO West scope and regional configuration, pricing, congestion, market monitoring and ancillary services models, and the consensus agreement on a governance structure.

5. Other Collaborative Efforts

To augment the regional collaborative process, Bonneville also sponsored two National Environmental Policy Act (NEPA) public meetings and several technical briefings with Tribal representatives. On August 22 and 25, Bonneville held public meetings to identify environmental concerns regarding its participation in the proposed RTO West. Bonneville representatives reviewed the Bonneville Business Plan Environmental Impact Statement (BPEIS) and outlined the steps it would take to assure NEPA compliance as it participated in RTO West development discussions.

Bonneville also held seven technical briefings throughout the summer for Tribal governments to discuss the impacts of RTO development in the region. These briefings resulted in one formal request for consultation with the Colville Tribe, which was held on October 10, 2000. In addition, Bonneville staff worked extensively with the Affiliated Tribes of Northwest Indians (ATNI) throughout the public process to assure appropriate Tribal input in the consensus building process of the RRG.

6. The Website

The RTO West website – www.rtowest.org - was established as the principal means for communicating to all interested parties on RTO progress and development. In the five months from the beginning of the collaborative process, the website has served as the primary method for giving notices, agendas and minutes of all RRG and work group meetings, for presenting the analytical work products of individuals and groups who are participating in the work groups and RRG meetings, for setting out contract documents, and for references to other sources for relevant information.

7. Functions of the RRG, the Work Groups and the Filing Utilities

To execute the collaborative process plan, it was necessary to set forth the specific roles, responsibilities, and processes to be used by the RRG and the Work Groups. (Attachment {RRG 05.23.00 Roles RRG and Work Groups}) This document states that the role of the RRG was “to serve as a high-level collaborative forum for discussion of RTO development issues with a goal of finding consensus on those issues and to provide advice to the filing utilities as they make

decisions on their RTO proposal for filing.” The RRG was not designed to serve as a vote-taking entity on the issues, but as a forum for achieving consensus wherever possible. In addition to researching and analyzing RTO technical issues, the Work Groups were also charged with reaching consensus on proposed recommendations wherever possible. If consensus could not be reached in the Work Groups, those issues were to be sent to the RRG for a further effort at consensus. Failing the reaching of consensus at the RRG level, the filing utilities were obligated to resolve the issue. For the most part, this process worked effectively throughout the RTO development period.

8. Canadian Participation in Collaborative Process

The Commission stated its belief in Order 2000 that involvement by Canadian entities in RTO formation and operation would be beneficial to both countries and it encouraged Canadian participation in RTO consultations. To accomplish this end, policy executives of British Columbia and Alberta transmission entities joined with their counterparts in the RTO Filing Utilities to form a Canadian-U.S. Adjunct Committee to explore the best ways of achieving Canadian participation in RTO West. In addition to Adjunct Committee involvement, there was very substantial participation by British Columbia and Alberta representatives in the RTO West RRG and the technical Work Groups on all aspects of RTO West formation. Through these efforts, the RTO West proposal has been structured to facilitate British Columbia and Alberta entities’ participation in RTO West.

C. Execution of the Collaborative Process Plan

A “Consensus Issues List” served as the primary means for executing the collaborative process plan. (Attachment____.) The Consensus Issues List focused the work of the technical Work Groups, the RRG, and the filing utilities. On May 26, the RRG reached consensus on a list of 24 fundamental issues that defined the scope of the tasks of the Work Groups. A description of these issues is provided in Attachment ____ {RRG 05.19.00 Issues Clean}. The 24 consensus issues included the following:

Recovery of fixed transmission costs

- Transmission losses
- Congestion pricing
- Price reciprocity and other seams issues
- RTO budgets
- Control area functions to be performed by the RTO
- Transmission planning
- Transmission Control Agreement and the RTO Governance
- RTO tariffs
- Generation Integration Agreement, Load Integration Agreement, and Service Agreements
- Paying Agent Agreement
- State tax issues
- Transmission congestion reservations and the suspension of existing transmission
- Contracts
- Ancillary Services
- Market power monitoring and mitigation
- Incentives for performance efficiency
- Participation by BPA, public, co-operative and municipal utilities under current laws
- Risk management – finance and insurance
- Independent (as defined in Order 2000 Characteristic #1) transmission owners
- Customer benefits
- Economic incentives to owners to join RTO
- Retail load access to RTO system
- Operations
- Canadian cross border

An issues database was constructed to enable the project manager to track progress on the issues assigned to the Work Groups. Some of the Work Groups conducted workshops to further develop background information on their issues. Each Work Group typically reported at each of the twelve RRG meetings during the development period. The notices, agendas, slides and documents related to each of the RRG meetings during the development period can be found on the RTO West website.

One of the principal responsibilities of the Work Groups was to prepare white papers on the various subjects assigned to them. After preparation by the Work Groups, these white papers were then presented to the RRG for discussion with the objective of reaching consensus. All of the white papers prepared by the Work Groups and discussed in the RRG are also available on the RTO website. The extraordinary quality of the technical analysis on the issues assigned to the Work Groups is readily apparent in these posted documents.

The filing utilities are very grateful for the time, effort, energy, and resources that were devoted to the collaborative process by all of the participating stakeholders. The RTO West

filing proposal has benefited tremendously from this concerted collaborative effort over the past few months.

Finally, the Commission's support for a collaborative process was indispensable to successful execution of the RTO West Collaborative Process Plan. As noted previously, the Commission-sponsored workshop held on March 23 and 24 in Las Vegas under the stewardship of senior Commission staff members Don Larkamp, Shelton Cannon and Kevin Kelly helped crystallize the necessary elements for the RTO West collaborative effort. Mike Coleman's ongoing participation in RTO West RRG meetings and the guidance he gave to RTO West on substantive issues and overcoming impediments helped tremendously in keeping RTO West discussions on course. It is important for the Commission to understand the great value RTO West has received in its development process from this major investment of time and energy by Mike Coleman, Jon Worthington, Jim Apperson and other Commission staff members. In addition, the two pre-filing conferences with senior Commission staff members in Washington, D.C. on June 8 and September 28 helped clarify RTO West's next steps in developing the filing proposal and ensure that the RTO West development adheres to Commission intent. RTO West is grateful for this partnership with the Commission in developing the proposal that is being submitted with this filing.

IV. KEY REGIONAL ISSUES

A. Allocation of Firm Rights and Maintenance of the Transfer Capability of the RTO West Controlled Transmission Facilities

As explained in Section IV.B.2, RTO West will manage transmission congestion efficiently through a flow-based physical rights model. Within this model, rights to use flowpaths will primarily be allocated through Firm Transmission Rights (“FTRs”), with additional transmission available on a day- and hour-ahead being allocated in the form of Recallable Transmission Rights (“RTRs”) and Non-Firm Transmission Rights (“NTRs”). These rights would be made available through RTO West auctions and also would be tradable on the secondary market.

In the RTO West public process, the RTO Filing Utilities, transmission-dependent utilities and state utility regulators all expressed vital interests in allocation of firm rights including FTRs to protect pre-RTO firm rights of use. In addition, the same stakeholders are interested in how customers that would be paying various Company Rates would be allocated revenues from the sale of FTRs associated with ownership and contract rights that are not needed to protect pre-RTO contracts and obligations. To accommodate the varying interests, this filing provides:

1. Suspension of Transmission Service Under Existing Transmission Agreements

The participating transmission owners will suspend transmission service and ancillary services under all of their transmission agreements with other participating transmission owners. On and after the commencement of RTO West transmission service, such services will be provided exclusively by RTO West. The agreements will be suspended, rather than terminated, to protect priority rights of the transmission customers in the event the transmission provider later terminates its Transmission Operating Agreement with RTO West.

2. Initial Allocation of Transmission Rights

Holders of preexisting ownership and contract rights will be provided rights on a comparable basis to use the RTO West transmission facilities as described in the Transmission

Operating Agreement (TOA). FTRs will be granted to the participating transmission owners (1) to replace their firm rights under the long-term transmission agreements they have agreed to suspend, (2) to serve the load service obligations of the participating transmission owners not covered by the suspended transmission agreements, (3) to serve obligations of the participating transmission owners under any pre-Order 888 bundled power sale, exchange, coordination or other obligations not covered by a transmission agreement. To satisfy obligations the participating transmission owners have under transmission agreements that the customer decides not to convert to RTO service, RTO West, under rules to be determined, shall either grant FTRs sufficient to meet such obligations or withhold transmission capacity sufficient for RTO West to accept schedules under the agreements. If during the initial allocation of rights it is determined that rights exceed flowpath capacity thus requiring a reduction of rights, FTRs and set-asides for non-converted rights will be treated equally.

By this allocation, neither the participating transmission owners nor loads dependent on these transmission owners will be put in jeopardy by the conversion to RTO West transmission service.

3. RTO West Auction of Remaining Transmission Capability

The transmission capability of the participating transmission owners not allocated in the initial allocation of FTRs will be marketed by RTO West auction. The allocation of the revenues from such auction is described in the Company Rate proposal below.

4. FTRs for Load Growth.

During the Company Rate Period (through December 14, 2011) additional FTRs will be made available without charge to each participating transmission owner, as needed to meet the following year's reasonable load growth projections, up to the amount of (1) the transmission owner's unencumbered transmission facility capability plus (2) any other participating transmission owners unencumbered transmission facility capability, as committed under pre-RTO transmission agreements between one transmission owner and another [***NOTE: TOA SHOULD BE CHANGED TO BE CONSISTENT***]. This load growth provision protects the transmission owner's own load service obligations plus any obligations arising under pre-RTO

transmission agreements with third parties that provide for load growth. This load growth protection is viewed as crucial to state utility regulators and to transmission-dependent utilities currently receiving Network Transmission Service. Absent this load growth feature, Network Transmission Customers would be unlikely to convert their existing Network Transmission Service Agreements to RTO West transmission service.

5. Roll-over of Pre-Existing Transmission Agreements

The current provisions of the Open Access Transmission Tariffs of the transmission owners present a challenge to the implementation of an effective congestion management proposal for RTO West. Holders of transmission agreements expect to be afforded the opportunity to exercise roll-over rights with respect to their long-term transmission agreements. Moreover, continuation of roll-over rights for transmission required for load service is not a problem. However, continuation of roll-over rights for RTO West through service and for wheeling among market points in RTO West after the commencement of RTO West transmission service would impair the RTO West congestion management plan. Very large amounts of transmission service requests for through transmission service of 2-year duration recently have been made, which if granted unlimited roll-over rights, would give the requestors a free option right to a first refusal over most of the valuable FTRs to be auctioned by RTO West. The RTO Filing Utilities believe that such large-scale option rights would greatly reduce or even eliminate FTRs available in the auction process, blocking nonincumbents from access, especially if exercise of such roll-over rights could be deferred until 60 days prior to the contract termination dates, as provided under the current Open Access Transmission Tariff.

The solution of the RTO Filing Utilities is (1) to afford continuing roll-over right for all transmission agreements needed to meet load obligations and (2) to provide all other transmission customers holding long-term transmission agreements or requests a roll-over option exercisable prior to the time RTO West commences providing transmission service. If the roll-over right is exercised prior to the commencement of RTO transmission service, the transmission customer will receive FTRs from RTO West for the roll-over period selected, in return for a fixed payment during such period equal to the current firm service rate for the transmission service to be provided. Thus, the customer could either (1) obtain roll-over FTRs priced on the

same basis as the “transfer charges” described below paid for conversion of all firm transmission contracts among the participating transmission owners, or (2) decide to rely on purchases of FTRs for such service through future RTO West auctions. The remaining unsold FTRs then could be offered at auction by RTO West, without any overhanging rights of first refusal.

6. Maintenance of the Transfer Capability of the RTO Controlled Transmission Facilities.

Numerous parties in the public process expressed concern that upon commencement of RTO West service, the transfer capability of the RTO Controlled Transmission Facilities would diminish. The concern arose because the current firm transfer capability substantially is supported by remedial action schemes and generation redispatch, supplementing the capacity of the existing transmission lines.

To address this concern, the Transmission Operating Agreement obligates each of the transmission owners to take steps needed to maintain the capability of its RTO Controlled Transmission Facilities at a level sufficient to meet the transmission owner’s pre-RTO level of firm transmission obligations. If the transmission owner fails to make a required restoration, RTO West will be entitled to take such actions as are needed to effect a restoration and to recover the costs of such actions as an additional charge imposed on the Company Loads of the applicable transmission owner.

B. The Company Rate Pricing Proposal

1. The Pricing Problem

As described above, the intended geographic scope of RTO West is the Northwest Power Pool area, plus the service territory of Nevada Power Company. The transmission costs of the various transmission owners in this geographic area vary greatly. In addition, the transmission system of one of the transmission owners, the Bonneville Power Administration, currently is divided into three separately priced segments. The former IndeGO effort to form an independent system operator failed in large part because of the failure of the IndeGO pricing proposal to avoid major cost shifts among the transmission owners. The transmission owners, transmission

customers and state utility regulators all have emphasized the importance of avoiding such cost shifts in the future.

Crafting a non-cost shifting solution was made easier by the fact that almost all (98% - 99%) of the transmission revenues of the transmission utilities in the Northwest Power Pool currently is provided either from such transmission owner's own uses of its transmission facilities or from use by other transmission owners (or their affiliates) located within the Northwest Power Pool area. Moreover, even though a large amount of power is wheeled into and out of the Northwest Power Pool area, historically the power has been purchased and sold at the borders of the power pool, with contracts for wheeling within the power pool area held by transmission owners (or their affiliates) located within the power pool area. Most of the remaining 1% to 2% of transmission revenues is related to short-term firm and non-firm transmission sold to power marketers and independent power producers for delivery of power within the Northwest Power Pool area; although these transmission customers will not be paying for similar use of uncongested transmission facilities under the RTO West pricing proposal, such customers under RTO West probably should be purchasing some level of replacement FTRs on congested paths and thereby should be providing some additional revenues in place of the short-term firm and non-firm service revenues formerly paid.

2. The Pricing Proposal

The RTO Filing Utilities propose to recover all costs of ownership and operation of their transmission facilities through a load-based access charge. In order to make this pricing proposal work, without unacceptable cost shifts among the transmission owners, a methodology is needed to capture as fixed charges the substantial transmission payments currently exchanged among the transmission owners within the Northwest Power Pool area (plus the Nevada Power service area). The methodology, which RTO West is required to follow at least through December 14, 2011, is:

a. Company Rate

Through December 14, 2011, the loads served by each of the RTO Filing Utilities will pay a load-based access charge for RTO West transmission service, equal to the transmission costs of such RTO Filing Utility, adjusted for the transfer charges, access charges, Lost Revenue Recovery Amounts and FTR revenue allocation as set forth in items b through g below.

b. Transfer Charge for Long-Term Transmission Agreements

All participating transmission owners will suspend transmission services under long-term transmission agreements, in return for FTRs of comparable value received from RTO West. A participating transmission owner that was a transmission customer under such agreements, in turn, would be obligated to pay transfer charges to the former transmission provider (and would receive FTR rights comparable to its pre-RTO firm transmission rights) for such portion of the Company Rate Period as the FTR rights would remain in effect. The transfer charges will be in an agreed amount comparable to the amounts estimated as payable under the suspended agreements absent RTO West. The agreed amounts will be specified in an exhibit filed as part of the Stage 2 filing. Comparable contract suspension arrangements will be offered to all third parties holding agreements for long-term transmission service.

c. Transfer Charge for Short-Term Firm and Non-Firm Transmission Service

Each participating transmission owner will owe during the Company Rate Period an additional transfer charge to each of the other participating transmission owners equal to the representative levels of pre-RTO short-term firm and non-firm transmission revenues paid by the participating transmission owner and its affiliates prior to RTO West's commencement of operations. The agreed amounts of such transfer charges will be specified in an exhibit filed as part of the filing utilities' Stage 2 filing.

The transfer charges paid for pre-RTO levels of short-term firm and non-firm transmission service (as distinguished from the transfer charges for long-term transmission service) will not be accompanied by the assignment of any FTR rights and will be made solely to avoid cost shifting among transmission owners under RTO West. Thus, as consideration for the continuation of such transfer charge payments, participating transmission owners paying such

transfer charges will given a priority entitlement to certain excess FTR auction revenues otherwise due the recipient of the transfer charge amounts (see section e. below).

d. Lost Revenue Recovery Amount

As noted above, the transfer charge payments described in items a and b above, plus amounts that each transmission owner formerly allocated to its own load service and merchant function uses, account for 98% to 99% of all pre-RTO transmission revenues received by transmission owners within the Northwest Power Pool area. However, because the remaining amount is not evenly distributed (being disproportionately revenue lost by the relatively small Montana Power Company system), the transmission owners propose that the Lost Revenue Recovery Amounts, in the specified amounts set out in an exhibit to be filed with the Stage 2 filing, be recoverable through the RTO West uplift charge that will be imposed on loads or on transactions throughout the RTO West area. The RTO West payment of Lost Revenue Recovery amounts to a participating transmission owner, in turn will be repaid to RTO West by such participating transmission owner, to the extent of any auction revenues received from the sale of such participating transmission owners excess FTRs. In addition, RTO West will be authorized to retain all RTR and NTR revenues as needed to offset RTO West's uplift charges.

e. Allocation of Excess FTR Revenues to Offset Lost Revenue Recovery and Certain Transfer Charges

Revenues from the sale of Firm Transmission Rights after the initial allocation of FTRs initially will be credited pro rata to each participating transmission owner holding the applicable FTRs, in proportion to the amount that the transmission facilities of such participating transmission owner contribute to the flowpath on which the FTRs are available. This initial credit, however, will then be allocated in the following manner:

- (1) First, to RTO West to offset any allocation made to the RTO West uplift charge for payment to the receiving transmission owner of its Lost Revenue Recovery Amount.
- (2) Next, pro-rata to:
 - (a) Return or offset to the amounts paid to the receiving transmission owner by other participating transmission owners as transfer charges short-term firm and non-

firm wheeling revenues,” with a corresponding adjustment to the Company Rate of the participating transmission owner receiving such offset; and

- (b) Compensate the receiving transmission owner for any loss of transfer charge revenues formerly paid for the suspension of long-term transmission agreements after such agreements terminate, with a corresponding adjustment to the receiving transmission owner’s company rate.
- (3) Then to the receiving transmission owner, with a corresponding reduction to the receiving transmission owner’s Company Rate.

f. Transfer Charge Adjustment

Transfer charges among the participating transmission owners generally are not adjustable for changes in loads, as most of the underlying contracts do not allow for an increase in FTR allocations for load growth. Transfer charges among participating transmission owners may be adjusted, however, to the extent there is language allowing for changes in the provisions of the pre-existing contract that gives rise the transfer payments. An example of this relates to transfer charges paid under suspended General Transfer Agreements. Additional FTRs will be provided for growth of loads served pursuant to these agreements.

A number of Bonneville customers also expressed concerned that the unit costs of Bonneville transmission might substantially increase during the Company Rate Period, without any provision for a responding increase in transfer charges. To allay such concerns, the Transmission Operating Agreement permits a participating transmission owner to make an initial election that its transfer charges increase or decrease if its unit transmission costs increase or decrease. For a participating transmission owner so electing, the adjustment (1) shall be made only upon a filing for a change in its Company Costs, (2) shall be based on actual transmission costs during a historical period and pursuant to a formula determined by RTO West and (3) shall apply only to transfer charges for pre-RTO agreements that had adjustable charges.

g. Access Charges

The proposal to shift to load-based access charges, without fixed import or export charges, meshes with the necessary goal of avoiding significant cost shifts, only if all transmission owners in the Northwest Power Pool area pay through Transmission Operating Agreements or otherwise, transfer charges for the representative pre-RTO levels of short-term firm and non-firm transmission use by themselves and their affiliates. However, if the pricing proposal imposed such transfer charges only on transmission owners within the Northwest Power Pool area that elected to execute Transmission Operating Agreements, a powerful economic incentive (and economic windfall) would be created for transmission owners that elected not to participate.

The RTO Filing Utilities thus propose that if a transmission owner refuses to make its transmission facilities available to RTO West, that such transmission owner still pay its transfer charge amount for representative levels of pre-RTO short-term firm and non-firm transmission payments as a fixed charge for access to Bonneville transmission facilities. The amount of such transfer or access charge will be set out in an exhibit filed in the Stage 2 filing. The sole purpose of the access charge will be to assure that each transmission owner continue for the Company Rate Period to make its historic level of contribution to the costs of the transmission facilities of the various participating transmission owners, thereby avoiding cost shifts.

C. Facilities Inclusion

An issue of particular significance in the collaborative process was what facilities would be controlled by RTO West and for what purposes (“facilities inclusion”). Generally, the intended parties to the Transmission Control Agreement (“Participating Transmission Owners” or “PTOs”) found it appropriate to give more weight to the function of a facility than to its voltage level. All parties agreed that PTO facilities that were necessary for the operation of the main grid should be controlled by RTO West. There was disagreement about how other facilities should be treated, especially those facilities also used for local service to retail customers. Transmission owners expressed concerns about state regulatory issues (especially given the number of states RTO West spans), pricing equity between retail and wholesale load, and

retaining local control. Prospective RTO West customers wanted assurances that there would be open and non-discriminatory access to RTO West services even if that access requires use of a PTO distribution system. In addition to the RTO West meetings, the Committee on Regional Electric Power Cooperation (a committee of western regulatory agencies and energy policy offices) hosted Commission staff and the RTO West Regional Representatives Group for a dialogue regarding the RTO West proposal, which included a discussion regarding facilities inclusion.

The filing utilities propose the following approach, which addresses the types of facilities that RTO West will control and the treatment of a PTO's facilities for purposes of access, pricing, planning, and operations. This approach provides sufficient flexibility to address state concerns while assuring open and non-discriminatory access to RTO West transmission service.

Access

Access for RTO West eligible customers to all transmission and distribution facilities will be available through RTO West. If the delivery point is a facility included in the RTO West tariff, then access will be provided exclusively under the RTO West tariff. If the delivery point is a facility not included in the RTO West tariff, then an additional arrangement for use of non-RTO West facilities will be required. The definition of an eligible customer in the RTO West tariff will allow utilities to preserve their pre-RTO West status quo relative to retail access.

For Scheduling: RTO West will provide all scheduling for wholesale deliveries. If an additional arrangement (e.g. a Distribution Access Tariff) is involved, the PTO will coordinate with RTO West in a manner that allows RTO West to provide scheduling.

For Integration and Interconnection: When RTO West service is being provided, the RTO West Load and Generation Integration Agreements will govern integration issues even if delivery is via non-RTO West facilities. The interconnection standards of the entity controlling the facility to which attachment is being made will be used. RTO West dispute resolution will be used for both integration and interconnection issues.

Operational Control

Operational control is primarily the authority to control when a facility may be switched in or out of service. At a minimum, RTO West must have operational control over the main grid facilities that have a material impact on:

- Transfer capabilities of RTO West-managed constrained paths between congestion management zones,

- Ability to transfer power within zones from one zone to another, or
- Ability to transfer power into or out of RTO West.

Generally, this means that if the presence or absence of a facility has a material impact on the Total Transmission Capability (TTC) of an RTO West-managed constrained path then the facility will be classified as a main grid facility and RTO West will be granted operational control.

Lines that are radial to load will not be classified as main grid facilities. Also, facilities that may parallel main grid facilities, but where power, under normal operating conditions, flows predominantly to the load without re-entering the main grid network at some other point and thereby not providing a bulk power transfer function need not be classified as main grid facilities. As a threshold for determining whether a line has a substantial parallel effect it was decided that lines that carry less than 10% of power transferred through parallel portions of the main grid system need not be classified as main grid facilities.

The low voltage side of a transformer will determine the classification of the transformer and substation facilities radial to the transformer will be classified the same as that of the transformer. Generator step-up transformers are not main grid facilities.

As discussed below, a PTO may seek exception to the above criteria for specific facilities. In case of a dispute over any such exception, or over whether the facilities meet these criteria, the dispute will be resolved at the Commission.

Pricing

Pricing for main grid facilities under the operational control of RTO West will be exclusively through the RTO West Tariff and will be based on a Company Rate (during the Company Rate Period). In addition, a PTO may place other transmission facilities under RTO West tariff pricing within their individual Company Rate. Pricing for all facilities not covered by the RTO West tariff (including distribution facilities) will be established in the Distribution Access Tariff of the PTO. A PTO may change its designation of which other transmission facilities are included in the RTO West tariff until the end of the Company Rate period.

Planning and Expansion

RTO West is ultimately responsible for the planning and expansion of main grid (RTO West-controlled) facilities, and PTO's are ultimately responsible for planning of facilities not

controlled by RTO West. Where necessary for reliability, RTO West may arrange for the expansion of RTO West-controlled facilities. A PTO can request that RTO West assume planning responsibility for other transmission facilities that are not under RTO West operational control. Further detail about the planning process is contained in this filing in Section V.B.7 below.

Exceptions to Facility Criteria

There are facilities in the RTO West region that would properly be classified as distribution in accordance with the Commission's seven-factor test but also meet the definition of main grid transmission facilities because the facilities may have secondary impacts on the transfer capability of some regional grid paths. While the facilities serve primarily a local purpose and there are not substantial flows on the facilities during normal operation, the facilities may provide an alternative path for bulk power flows and thus limit transfer capabilities in the event of a contingency on the bulk system.

Including such lower voltage facilities in RTO West has rate and operational consequences to the owner of the facilities and the customers served by such distribution facilities. In order to address these issues, the filing utilities have agreed that the distribution companies may retain ownership and control of this limited class of facilities, subject to the following conditions:

- RTO West will include such facilities in their planning processes along with other main grid facilities. If it is determined in the RTO West Planning Process that these excluded main grid facilities should be upgraded to improve reliability to the main grid, relieve congestion on the main grid (by creating additional transfer capability or make existing transfer capability more useful), the owner agrees to make these upgrades.
- If RTO West determines that upgrades to such excluded facilities are necessary to support or improve bulk transfer capability or for regional reliability, RTO West will allocate the cost of these upgrades to those parties who benefit from the improvement of bulk transfer capability and regional reliability (following the same process they would for any bulk system facility upgrade), taking into account at least the following considerations:
 - reliability improvements to systems that benefit
 - the impact on the value of other FTRs
 - those who wish to buy newly created FTRs
- RTO West will determine Total Transfer Capability of all commercial paths in the system given the facility ratings provided by their owners. These ratings will be based in part on these excluded main grid facilities.

The PTO that owns the facilities will:

- Plan these facilities for local load service and include any upgrades attributable to maintaining distribution functions in its company rates or otherwise charge these costs to the owner's distribution customers.
- Participate with RTO West in planning for the regional grid and transfer paths.
- Construct any facilities requested by RTO West to support or improve bulk transfer capability or regional reliability needs, subject to reimbursement by RTO West.
- Include these excluded main grid facilities in the RTO West Outage Coordination Process, which includes RTO West outage approval.
- Be responsible for switching these facilities.
- Provide visibility of these facilities to RTO West for determination of TTC in real-time.
- Provide the facility ratings to RTO West (RTO West will use these facility ratings to determine the path ratings).

D. Bonneville Participation

Bonneville has multiple statutory, treaty and other responsibilities applicable to the operation of the Federal Columbia River Transmission System (FCRTS). The Filing Utilities believe they have successfully addressed how these responsibilities will be fully implemented by RTO West and Bonneville after commencement of RTO West service.

Provision in the Transmission Operating Agreement assure that no directive from RTO West or provision of the Transmission Operating Agreement can require Bonneville to violate any of its obligations under applicable statutes or regulations.¹ Thus, for example, under this and other provisions in the Transmission Operating Agreement, Bonneville reserves its obligations under the National Environmental Policy Act (NEPA) with respect to construction and interconnection of FCRTS upgrades, expansions, new loads or resources. RTO West also has no authority to require Bonneville to expend Federal funds. The various provisions specifically added to the Transmission Operating Agreement to facilitate Bonneville's participation are identified within the agreement by italics.

¹ In addition, section ___ of the Bonneville Transmission Operating Agreement ensures that any statute or regulation enacted after execution of the Transmission Operating Agreement and applicable to the FCRTS would apply to operation of the FCRTS by RTO West.

Bonneville has a statutory obligation to make its excess transmission capacity available to others on a fair and nondiscriminatory basis.² This obligation is fully implemented by the Transmission Operating Agreement requirement that RTO West comply with all applicable Commission requirements with regard to access to Federal transmission capacity.³ The only exceptions in the Bonneville Transmission Operating Agreement to this approach are obligations imposed on RTO West to implement certain statutory priorities among competing transmission requests for Federal transmission capacity: (1) for power serving Northwest regional loads⁴; and (2) for certain resources under construction on the date of enactment of the Northwest Electric Power and Planning Act.⁵ In addition, the Bonneville Transmission Operating Agreement ensures the ability of the U.S. Entity to carry out its obligation to deliver the power to which Canada is entitled under the Columbia River Treaty.⁶ If any of these priorities must ever be implemented, the beneficiaries must still purchase the necessary Firm Transmission Rights and pay the applicable rate.

Section 5.11 also retains Bonneville's ability to operate its power and transmission system to meet its other environmental and fish and wildlife responsibilities. For example, in directing the implementation of Remedial Action Schemes or the redispach of generation in an emergency, RTO West cannot require Bonneville to operate its hydroelectric generation facilities inconsistently with fish-related and other non-power limitations or requirements.

To avoid any increase in risk to third party bondholders as the result of the establishment of RTO West, the filing utilities have incorporated a "lock box" mechanism. The filing utilities will establish through contract a Paying Agent to which transmission and ancillary service customers will send their payments. The Transmission Operating Agreement states explicitly that RTO West has no contractual or other right to these revenues except for the portion distributed to it by the Paying Agent pursuant to a pre-arranged formula.⁷ This arrangement avoids any possibility of the Filing Utilities losing access to any of the transmission revenues to which they are entitled regardless of the financial condition of RTO West. This is particularly

² For example, section 6 of the Federal Columbia River Transmission System Act, 16 U.S.C. §838d.

³ E.g., paragraph 5.7.1.

⁴ Section 5.5. This statutory obligation is found in the Energy Policy Act of 1992, 16 U.S.C. §824k(i)(5).

⁵ Ibid. This priority is found at 16 U.S.C. §839f(i)(3).

⁶ Ibid.

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important for Bonneville with its debt service obligations to Energy Northwest (formerly the Washington Public Power Supply System). This mechanism, in conjunction with the Company Rate approach for the first 10 years and the overall obligation of RTO West to raise sufficient revenues to cover each Participating Transmission Owner's transmission revenue requirement, will also avoid jeopardy to Bonneville's continuing ability to make its scheduled Treasury payments.

One of Bonneville's statutory requirements is to maintain a reliable transmission system.⁸ The establishment of RTO West, in and of itself, will improve the reliability of the entire Northwest transmission grid. But the Transmission Operating Agreement imposes specific reliability-related requirements on RTO West that implement Bonneville's statutory responsibility for a reliable system. RTO West is required to operate the RTO West system in accordance with WSCC and NERC reliability criteria⁹ and to assure that RTO West schedulers and dispatchers meet minimum NERC and WSCC training certification requirements.¹⁰ RTO West must also operate each Filing Utility's facilities according to that Filing Utility's operating criteria unless and until RTO West changes them. However, any such changes must comply with applicable NERC, WSCC or successor industry standards.¹¹

RTO West must contractually require generators connected to the RTO West system to comply to the extent practicable with curtailment and redispatch orders during system emergencies.¹² When system additions, upgrades or new interconnections with generators or loads occur, RTO West must require conformance with the particular Filing Utility's interconnection standards unless and until modified by RTO West.¹³ Any such modifications must meet applicable NERC, WSCC or successor industry reliability standards. Bonneville will also assure reliability of its facilities by retaining maintenance responsibilities for those facilities.¹⁴

⁸ 16 U.S.C. §838b(d).

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Bonneville also has certain statutory obligations related to its transmission rates. Bonneville's transmission system is a cost-based system.¹⁵ Therefore, the Transmission Operating Agreement prohibits RTO West from adding any charges to the Bonneville revenue requirement that would provide RTO West with a profit or return on Federal assets.¹⁶ Bonneville's obligation to recover its transmission costs¹⁷ will be met through the Company Rate approach during the first 10 years and thereafter by RTO West under its obligation to establish rates sufficient to meet the filing utilities' revenue requirements.¹⁸ Finally, the obligation for Bonneville to equitably allocate the costs of the Federal transmission system between Federal and non-Federal power utilizing the system¹⁹ will be met through the establishment of comparable and nondiscriminatory transmission rates, terms and conditions.

If RTO West does not comply with any of its obligations to Bonneville under the Transmission Operating Agreement, Bonneville reserves all of its possible remedies. Bonneville has explicitly negotiated the right to immediately terminate its participation in RTO West if the latter fails to comply with any of its obligations to Bonneville after a request for assurance is made and a reasonable time for compliance passes.²⁰ Bonneville may also petition a court for equitable relief, and in such event RTO West will not argue against the relief on the basis that monetary damages would be sufficient.²¹ With respect to the two explicit statutory priorities and the treaty priority described above, Bonneville may direct RTO West to make deliveries, and RTO West will carry out those directives.²² Bonneville will be subject to any damages to RTO West or to third parties to the extent that RTO West is later found to have been in compliance with its obligations under the Transmission Operating Agreement with Bonneville.

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¹⁶ Section 15.1

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E. ITC Participation

Six vertically-integrated, investor-owned public utilities²³ which have participated in the negotiations to form RTO West have decided to form an independent transmission company (ITC) that will own and operate the interstate transmission assets presently owned and operated by each of the ITC members. The ITC will in turn participate as a transmission owner within RTO West. The ITC members have submitted a separate filing explaining the ITC, their plans, and compliance with Order 2000.

The ITC will consist of two interrelated companies: TransConnect, LLC and TransConnect Corporate Manager, Inc. (collectively “ITC” or “TransConnect”). TransConnect, LLC will consist of “Members” who have contributed assets to TransConnect, with each Member’s share determined according to the value of the assets contributed; TransConnect Corporate Manager, Inc. will serve as the “Corporate Manager” of the combined transmission system, and will also hold a nominal membership interest in TransConnect, LLC.

TransConnect has been structured to ensure that it will be independent of any market participant, including its predecessor transmission owning, vertically integrated utilities. TransConnect will be governed by an independent, highly qualified Board of Directors and operated by independent officers and employees. That structure specifically provides that in performing their fiduciary duties, the members of the Board of Directors of the Corporate Manager shall not consider any interests that shareholders of TransConnect may have as participants in the electric market served by TransConnect.

Although ITC members’ systems are not contiguous, the ITC members believe their combined operation will result in significant efficiencies and the potential for future growth that will provide public benefits such as improved reliability and options for transmission customers. TransConnect will file for rates and plan new transmission facilities within the framework being established by RTO West. As TransConnect and RTO West evolve, there may be additional sharing of characteristics and/or functions, consistent with the Commission’s open architecture principles.

²³ The ITC members are: Avista Corporation, The Montana Power Company, Nevada Power Company, Portland General Electric Company, Puget Sound Energy, and Sierra Pacific Power Company.

ITC members will make the filings required by Sections 203 and 205 of the FPA as necessary to effectuate TransConnect no later than the commencement date of RTO West. In this regard, the ITC members intend to file a specific rate proposal or proposals to be effective by the start date of TransConnect and RTO West. The ITC members intend that the rate filing will be compatible with the company rate methodologies agreed to by the RTO West Filing Utilities.

As a stand-alone transmission company, TransConnect will not have distribution and generation functions. The RTO Transmission Operating Agreement as currently structured is written for the transmission systems of vertically integrated utilities, and includes rights and obligations pertaining to distribution and generation functions of those utilities. The Transmission Operating Agreement and related agreements must be structured to keep the filing utilities on an equal footing, to the extent appropriate, even though some of them will remain vertically integrated, and others will place their transmission assets into TransConnect, leaving their distribution and generation functions behind in their current company structures. To achieve this objective, the filing utilities anticipate that certain modifications to the Transmission Operating Agreement will be necessary, and that separate agreements will be needed to address the rights and obligations of the distribution and generation functions of TransConnect member. The rights and obligations of the TransConnect Members under such agreements will be independent of TransConnect. Among the rights and obligations that need to be addressed are the following: application of the Transmission Operating Agreement to facilities retained by the TransConnect Members; interconnection obligations for facilities retained by TransConnect Members; obligations with respect to provision of ancillary services; obligations and rights with respect to Pre-existing Transmission Agreements; rights to firm transmission rights for service to native load; rights to obtain recovery of stranded costs through an adder to RTO West rates, notwithstanding the transfer of ownership of transmission facilities to TransConnect and transfer of control of those facilities to RTO West; and obligations and rights with respect to liability and insurance issues.

F. Accommodation of Public Power Entities

Public power entities own, or have ownership-like rights, to approximately ___% of the regional transmission facilities that would fall into the class of RTO Controlled Transmission Facilities under the Transmission Operating Agreement. The filing utilities have made major efforts and accommodations to enable the public power entities to place such transmission facilities under RTO West's operational control. The efforts have included the following:

1. Public Power Entity Provisions in Transmission Operating Agreement

Representatives of the public power entities participated in the extensive public process negotiations undertaken with respect to the proposed form of Transmission Operating Agreement, as well as respect to RTO West pricing, congestion management and other matters of importance to such public power entities. During this negotiation process, numerous changes to the form of Transmission Operating Agreement were made as requested by potential public power parties to such agreement.

2. Simplified Form of Transmission Operating Agreement

Representatives of public power entities have expressed sensitivity to any third party oversight of their rate decisions, as applied to the transmission facilities that they might place under RTO West control. The Company Rate proposal, as described in this filing, through December 15, 2011, would cause costs of the public power transmission owners (as well as of other participating transmission owners) to continue to be borne by the loads paying such costs today. Because under Company Rates, the costs of the public power participants thus would not be spread to other entities, for the Company Rate period, the filing utilities propose that the public power participants not be subject to the rate filing and reporting provisions as set forth in Sections 14 and 15 of the Transmission Operating Agreement.

3. Treatment of the Costs of Loss of Tax-Exempt Status of Existing Tax Exempt Bonds

As the Commission is aware, there remains some uncertainty over the status of the tax-exempt bonding of transmission facilities that are made fully available to a regional transmission organization. Because the percentage of transmission facilities in the RTO West area funded with tax-exempt bonds is so small, the economic risk on an RTO-wide basis of the loss of such tax-exempt status also is very small. However, the threat of such loss, if spread only over the public bodies contributing such transmission facilities, would be a substantial deterrent to participating in RTO West. Thus, the Transmission Operating Agreement provides for the sharing on an RTO-wide basis the risk of additional costs if the contributed transmission facilities of the public utilities must be refinanced with taxable bonds.

G. Accommodation of Canadian Participation

As described in Section III.B.8 above, the filing utilities worked closely with Canadian representatives from British Columbia and Alberta to develop the RTO West proposal so that transmission providers in these provinces will be able to participate. This collaborative effort produced an agreement between Canadian and U.S. entities on a general framework for moving forward with further discussions and preparation of agreements. A summary explanation setting out the basic elements of this proposed framework, which was prepared by counsel to B.C. Hydro, is included for information with this filing as Attachment_____.

H. Retail Access and Stranded Costs

RTO West will be built from the transmission facilities in eight different states. The statutes, regulations, and state commission policies with regard to the provision of retail electric service varies from state to state. Industry restructuring policies dealing with the initiation of retail access to competitive electric power markets and recovery of stranded costs is at different stages in each of these states as well. Recognizing this diversity, the filing utilities agree that the establishment of RTO West should not predetermine, hinder, promote, or influence changes in the law or policies of any state with respect to the provision of retail electric service which is solely within the jurisdiction of the state legislatures and regulatory commissions.

Some of the filing utilities intend to condition their participation in RTO West on Commission acceptance of a provision regarding retail access that will be contained in the Transmission Operating Agreement of these Filing Utilities.²⁴ See Section 24 of the RTO Transmission Operating Agreement. While not all Filing Utilities will include this provision in their Transmission Operating Agreements, importantly, no Filing Utilities object to the inclusion of this provision in the documents pertaining to the formation of RTO West.

In essence, these retail access provisions guarantee that RTO West will not use the Transmission Facilities of the Executing Transmission Owner to provide service to or on behalf of end use customers if the Commission would be prohibited from ordering under such service under Section 212(h) of the Federal Power Act. The provisions allows for three exceptions: (1) unbundled retail transmission access to such customer is required by the federal, state, provincial, local, or tribal authority of competent jurisdiction; (2) such end use customer is an “existing direct service industrial customer” of BPA as defined in section 5(d)(4)(A) of the Northwest Power Act (16 U.S.C. §839c(d)(4)(A)); or (3) unbundled retail transmission access to such customer has been agreed to by the retail utility that formerly served the end use customer. In other words, RTO West may not voluntarily grant transmission services to a retail customer unless one of these three exceptions applies.

These provisions are consistent with the Federal Power Act, Order No. 888, and Order 2000. As the Commission stated: “We do not believe that an RTO could interfere with a state’s decisions on whether and how fast to implement retail choice within its borders, either through

the RTO's Section 205 filing authority or otherwise through the RTO's jurisdictional obligation to provide non-discriminatory and non-preferential transmission service." Order 2000, at 31,208.

Similarly, the Filing Utilities have agreed that neither TransConnect nor RTO West should interfere in any way in an Executing Utility's recovery of stranded costs from both retail and wholesale customers. *See* [§ of Transmission Operating Agreement ; § of appropriate TransConnect agreement]. The Executing Transmission Owners expressly reserve the right to file rate schedules with the Commission or with any other entity with applicable jurisdiction for the recovery and collection of stranded costs under such rate schedules, as accepted for filing or approved by the entity with jurisdiction, with respect to wholesale or retail loads with access to and a sufficient nexus to the Executing Transmission Owner's Transmission Facilities. Indeed, RTO West will be required to enable the recovery and collection of stranded costs under such rate schedules, as accepted for filing or approved by the entity with jurisdiction. The RTO West Tariff shall contain an automatic adjustment clause or other provision that provides for the recovery of such stranded costs as a surcharge for transmission service to such loads, and RTO West shall pay to the Executing Transmission Owner or Participants the amounts of stranded cost so collected.

As noted elsewhere, several of the Filing Utilities will not be participating directly in RTO West, and will instead transfer ownership of their transmission facilities to an Independent Transmission Company that will join RTO West. Those utilities should not be prejudiced in their ability to seek stranded costs by the transfer of ownership to their transmission facilities to an ITC. Thus the Members of the ITC reserve their reserve their right to seek stranded costs as if they had not transferred ownership and control of those facilities [*cite sentence in Section __ of the Transmission Operating Agreement.*] The participation of the members of the ITC in RTO West is conditioned on Commission acceptance of this reservation.

While Orders 2000 and 2000-A did not deal with this issue, these provisions providing for the recovery of stranded costs are entirely consistent with Order No. 888. Order No. 888, at 31,788-91. In Order No. 888, the Commission specifically found that the recovery of legitimate, prudent and verifiable stranded costs attributable to customer through a non-bypassable

²⁴ Those utilities include Puget Sound Energy, Inc. and Avista Corporation.

surcharge on transmission is appropriate. *Id.* at 31,797-99. Compliance with Order 2000 cannot properly be read or interpreted to Executing Transmission Owners' waiver of their rights to recover stranded costs properly recoverable under Order No. 888. Consequently, to effectuate Order No. 888's provisions regarding the recovery of stranded costs through a non-bypassable surcharge on RTO West's transmission system, RTO West must be enabled and required to recover stranded costs and return such payments to the utility entitled to such payments.

G. Pacific Northwest Coordination Agreement; Hourly Coordination Agreement

The filing utilities, with the exception of Idaho Power Company, Nevada Power Company, and Sierra Pacific Power, are each parties to the Pacific Northwest Coordination Agreement. PacifiCorp, Puget Sound Energy, Avista Corporation, Portland General Electric Company, and the Bonneville Power Administration are among the parties to the Mid-Columbia Hourly Coordination Agreement. These agreements are key regional agreements for the optimization of hydroelectric generation after achieving full compliance with all non-power constraints. Filings are pending before the Commission seeking a declaration that these agreements are outside the scope of Order 888 or alternatively for a waiver to permit their continued performance.

The Pacific Northwest Coordination Agreement filing was made in Docket No. OA97-21, and the Mid-Columbia Hourly Coordination Agreement filing was made in Docket No. OA97-20. The method of dealing with these agreements after transition to RTO West was not fully addressed in the public process for discussion of RTO West this past summer, and work remains for the parties to identify a proposal in this regard. It is noted here, however, that these agreements are fundamental agreements to most of the filing utilities and they expect that the benefits of these agreements for the public will be preserved in any transition to a regional transmission organization.

V. DESCRIPTION OF RTO PROPOSAL AND HOW IT MEETS ORDER 2000 REQUIREMENTS

A. Fulfillment of Minimum Characteristics

1. Independence

RTO West will fully comply with the independence conditions enumerated in Order 2000. First, RTO West, its employees, and its directors will not have any financial interest in market participants. The provisions necessary to maintain this independence are included in the Bylaws for RTO West and the Codes of Conduct attached to the Bylaws. Second, RTO West will have a decision-making process that is independent of control by any market participant or class of participants. Finally, RTO West will have the exclusive and independent authority to file changes to its transmission tariff with the Commission under Section 205 of the FPA (except the during the Company Rate Period RTO West will not have the right to change provisions concerning the Company Rate design). The complete text of the proposed Bylaws for RTO West is included with this filing as Exhibit _____. In addition, an outline of the key features of RTO West's Bylaws to maintain independence and allow all interested parties and stakeholder fair opportunity to have input into RTO West's decision-making process is attached as Exhibit _____.

2. Scope and Regional Configuration

RTO West as proposed in this filing satisfies Order 2000 requirements concerning scope and regional configuration. RTO West will encompass the vast majority of the transmission facilities in the entire United State portion of the Northwest Power Pool, as well as facilities of Nevada Power. RTO West has also been designed to readily accommodate the participation of Canadian entities in British Columbia and Alberta.

Given its vast scope, RTO West will compass a highly interconnected area and will internalize a majority of the constrained paths that affect transfer within its region. Its configuration will correspond to many natural existing boundaries for operational integration and trading patterns. According to filing utility analyses, 99% of the transmission service on facilities that will become part of RTO West it provided to parties who are within the control area boundaries of RTO West. RTO West's scope and configuration will enable it to effectively

perform its required functions, and to support efficient and non-discriminatory power markets in the West.

For more detailed information concerning RTO West's scope and regional configuration, please see Exhibit II, *Scope and Regional Configuration*.

3. Operational Authority

RTO West derives the necessary operational authority to operate RTO facilities through the Transmission Operating Agreement, which sets out key rights and obligations of RTO West and each major transmission owner that has elected to join RTO West. Under this agreement, RTO West has the exclusive right to operate and control main grid bulk transfer facilities of each transmission owner. RTO West will serve as the NERC-certified control area operator for the RTO West geographic area, schedule power over the system, coordinate planned outages and maintenance plans for the transmission system under its control, manage congestion, maintain an ancillary services market, manage a single OASIS site, and otherwise exercise the authority necessary to meet the requirements of Order 2000 with respect to operations.

RTO West has the authority to contract to obtain ancillary services to maintain reliability. In order to assure RTO West is able to maintain reliability and be the ancillary services provider of last resort, RTO West has the authority to require each transmission owner to provide bids for available ancillary services should RTO West otherwise be unable to obtain necessary services to maintain reliability.

Under the various agreements signed by each participating transmission owner, RTO West is assigned control over main grid facilities, which are defined as facilities that have a material impact on (1) the ability to transfer electric power and energy between congestion zones, (2) the ability to transfer power within a congestion zone, or (3) the ability to transfer power into or out of RTO West's geographic territory. Main grid facilities do not include facilities that carry less than 10% of the power transferred through parallel paths within a congestion zone. Similarly, some facilities that would otherwise meet the definition of main grid

facilities will continue to be operated as distribution facilities by the local transmission owner in the Puget Sound area and not as main grid facilities under the control of RTO West.

Through the above-described provisions of the Transmission Operating Agreement, together with provisions in the Generation Integration Agreement and Load Integration Agreement (which have not yet been completed) concerning operation of generation or load-serving facilities connected to the RTO West transmission system, RTO West will exercise the operational authority necessary to full Order 2000's requirements.

4. Short-Term Reliability

a. General Authority to Maintain Reliability

To a large extent, RTO West will have the means to maintain reliability through its general operational authority (described in Section V.B.3 above). In addition, RTO West has the authority to designate any facilities that it deems critical to reliability as "Critical Control Facilities" and exercise direct operational control over those facilities. This authority is supplemented by emergency redispatch authority RTO West will have under its Generation Integration Agreements. In addition, where system conditions warrant implementation of security coordination measures, RTO West will rely on its security coordination function to protect system reliability.

b. Security Coordination

There is currently one security coordinator for the entire Northwest Power Pool area (both United States and Canadian portions). The security coordinator is a separate Washington nonprofit corporation named Pacific Northwest Security Coordinator, or "PNSC." PNSC serves a number of additional control areas in the Northwestern United States and in Canada that are not expected to become Participating Transmission Owners by the time RTO West begin to provide transmission service.

The control area operators PNSC now serves value the integration of PNSC services across all of the Northwest Power Pool area. For this reason the filing utilities intend for RTO

West to contract, at least initially, with PNSC to perform RTO West's security coordination function.

PNSC it is not operated or controlled by any of the filing utilities or any other control area operator PNSC serves. PNSC's board of directors consists of members appointed by participating control area operators, but board members may not be associated with any merchant function (including the merchant function of the appointing control area operator). PNSC's sole purpose is to provide security coordination services. It is not a transmission provider or a market participant in any respect and therefore has no incentive to favor or disfavor any transmission provider or any market participant when it performs security coordination functions. PNSC evaluates system conditions from a purely technical standpoint and determines what actions should be taken on the same basis.

PNSC is funded through a security coordination funding agreement with the WSCC, which derives all of its funds from membership dues. All of the control area operators PNSC serves are WSCC members and contribute to these dues. PNSC has the right, at any time on 90 days' written notice and without cause, to terminate its security coordination funding agreement with the WSCC.

Order 2000 specifically contemplates that security coordination (among other functions) may be performed by an RTO indirectly by contract with another independent party [*insert cite to Order 2000 here*]. The filing utilities believe that contracting with PNSC to provide security coordination services for RTO West satisfies this requirement because: (1) PNSC's sole purpose is to provide security coordination; it does not own or operate any transmission or generation facilities and therefore is not itself a market participant; (2) PNSC's board members are appointed on the basis of their expertise concerning transmission operations and are not affiliated with any merchant functions; (3) PNSC's funding relationship with the WSCC allows for WSCC oversight of its activities (including specific provision in the security coordination funding agreement obligating PNSC to carry out the WSCC Regional Security Plan); (4) PNSC could terminate its funding relationship with the WSCC, and if needed secure funding directly through RTO West, if the WSCC's rights under the security coordination funding agreement were exercised in a manner that undermined PNSC's independence from market participants; and (5) RTO West would have the ability to specify in its contract with PNSC any requirements it

might deem appropriate to assure that PNSC's actions and policies conform to Commission policy concerning RTO independence.

RTO West's general operational authority, together with the security coordination services to be provided through PNSC, will enable RTO West to fully satisfy Order 2000 requirements concerning short-term reliability.

B. Fulfillment of Minimum Functions

1. Tariff Administration and Design

RTO West will administer its own tariff as required by Order 2000. Although the filing utilities will submit a proposed tariff for RTO West as part of their Stage 2 filing, RTO West will have the right to change its tariff provisions as it sees fit (with the exception of the Company Rate design, which RTO West cannot unilaterally change until after the end of the ten-year initial Company Rate Period). RTO West will have absolute discretion to set its own rate with respect to uplift charges, congestion management fees, and losses. A complete description of RTO West's initial tariff design, along with a proposed form of transmission tariff, will be submitted to the Commission as part of the filing utilities Stage 2 filing.

2. Congestion Management

To meet the requirements of Order 2000, RTO West proposes a "flow-based physical rights" congestion management model. RTO West will manage congestion on flowpaths, which are RTO grid facilities that are expected to have commercially significant amounts of congestion. On these flowpaths, RTO West will manage congestion primarily by the issuance of transmission rights. The filing utilities have identified an initial candidate list of flowpaths. The initial flowpaths will be listed in the tariff along with initial transmission rights allocations and procedures for adding or removing flowpaths as changes are warranted.

RTO West will determine the Total Transfer Capability (TTC) for each flowpath and the amount of transmission rights to issue. Customers who wish to schedule across flowpaths will be required to have transmission rights (Firm Transmission Rights or "FTRs" primarily, or other

transmission rights such as RTRs, NTRs, and non-converted rights set-aside described in Exhibit III, *Congestion Management Model*) before the schedule is accepted. Congestion is therefore mostly self-limited by the need to acquire FTRs.

Most of the congestion costs associated with the flowpath are borne by the path users through the costs to purchase transmission rights and through the curtailment of these rights under certain circumstances, such as extended outages of RTO grid facilities. Any other congestion (“residual congestion”) is managed by the RTO through the RTO’s redispatch of resources, repurchase of rights, and/or as a final resort, curtailment of schedules.

RTO West proposes a “flow-based” model in which Flow Distribution Factors (FDFs) will be used to determine how schedules are deemed to flow between Congestion Zone source and sinks on flowpaths (thereby requiring transmission rights). Many preexisting ownership and contract rights are defined on a contract path basis. Prior to the tariff filing, these rights will be translated (mapped) from their now existing contract paths onto flowpaths. If the filing utilities find that translation to flowpaths seriously impairs the ability of rights holders to utilize or be compensated for their existing transmission rights, the initial tariff filing will include a transition period to move from the contract path to the flow-based congestion management model.

This congestion management system will align well with those operating or proposed in other ISOs and RTOs in the Western Interconnection. Any residual difference will be addressed through RTO West’s activities in the area of interregional coordination (described generally in Section V.B.8 below)..

For more details regarding the RTO West Congestion Management proposal, see Exhibit III, *Congestion Management Model*.

3. Parallel Path Flow

Parallel Path Flow or “Loop Flow” has been an issue requiring coordination and resolution in WSCC for many years (although not between the West and eastern regional because the Western Interconnection is currently connected to eastern Regions only by DC ties). Because of the West’s demographics and location of diverse resource types, the transmission grid has evolved with clearly identifiable parallel path flow patterns. To mitigate most of the negative effects of these parallel path flow problems within the West, WSCC members have developed tailored regional Path Rating Methods and Procedures, and the WSCC Unscheduled Flow Mitigation Procedure using coordinated phase shifter operation. When it becomes operational, RTO West will participate in these programs as the filing utilities have in the past.

To further satisfy Commission requirements regarding parallel path flows, RTO West will adopt uniform flow based scheduling procedures. RTO West will accept incremental flow based schedules over congested paths only if the schedules include Firm Transmission Rights on all flowpaths over which the power incrementally flows between the schedule’s source and sink. The RTO will manage and schedule the entire RTO West grid system. Competing parallel transaction paths therefore will not be a factor.

RTO West will be only one of at least four RTOs operating in the Western Interconnection. RTO West will therefore comply not only with the WSCC Unscheduled Flow Mitigation Plan, but will carry out interregional coordination at the RTO seams relative to phase shifter operation, scheduling protocols and procedures, and scheduling using FTRs. Reliability and market interface issues between Western Interconnection RTOs including parallel path flows will be coordinated via the Western Interconnection Organization (WIO), which is expected to evolve from the Western Systems Coordinating Council (WSCC), Western Interconnection Coordinating Forum (WICF), Western Market Interface Committee (WMIC), western Regional Transmission Associations, and other involved organizations.

Regarding the timing of implementation of parallel path measures, the Commission states in Order 2000: “We will adopt our proposal in the NOPR that the RTO have measures in place

to address parallel path issues in its region on the date of initial operation. We also adopt three years as an adequate time period for implementation of measures to address parallel path flow issues between regions.” [Add cite to Order 2000 here? – RM99-2-00, page 392] RTO West intends to implement a flow-based model upon initial operation as well as the other measures discussed above effecting parallel path flow. This implementation may involve several steps as the physical model (flowpaths, zone areas, Flow Distribution Factors, Firm Transmission Right allocations and mapping) evolves and is refined. Negotiations will begin with the other sub-regional RTOs and areas within the Western Interconnection and will include parallel path issues. It is expected that these will be concluded well within a three-year time period from initiation of RTO West operations.

4. Ancillary Services

RTO West will offer a broad range of ancillary services, including regulation, load-following, spinning reserve, non-spinning reserve, replacement reserve, congestion redispatch, balancing energy, voltage support, black start, and scheduling and dispatch. As required by Order 2000, RTO West will serve as the provider of last resort of all ancillary services required under Order 888 (as supplemented). RTO West will also actively work to foster external competitive markets through which RTO West and RTO West transmission customers can procure ancillary services on a bilateral transaction basis, on both long- and short-term bases. To the extent the development of competitive external ancillary services markets is delayed or does not occur, RTO West has the right under the Transmission Operating Agreement to require participating transmission owners to provide necessary ancillary services under pre-existing contracts or FERC-approved tariffs.

To allow the greatest degree of flexibility and cost exposure management, RTO West will also have procedures in place to allow those transmission customers that elect to do so to either: (1) make resources available to RTO West for RTO West to use in carrying out its provider-of-last-resort obligations (referred to RTO West Ancillary Services Work Group documents as “self-provision”; and (2) directly provide certain ancillary services necessary to support their own specific transactions (referred to RTO West Ancillary Services Work Group documents as “self-tracking”).

Like other regional transmission entities that operate in states where retail access has been implemented, RTO West will rely on scheduling coordinators to perform all scheduling tasks relating to transmission service and ancillary services. Transmission customers will either have to obtain certification from RTO West to act as scheduling coordinators, or they will need to arrange for third parties to act as their scheduling coordinators.

In this respect, Bonneville serves many small, rural, publicly-owned utilities and consumer-owned cooperatives, most of which buy all of their power from Bonneville. They are known as full or partial requirements customers. These small utilities do not maintain transmission staff needed to transact business with RTO West as a scheduling coordinator. They have also expressed concern about the complexity of operating in an RTO environment and have asked for relief from such impacts. These customers have asked Bonneville to perform scheduling coordinator functions on their behalf. In response, Bonneville has agreed to provide scheduling coordinator services, at a minimum, for its full requirements and some partial requirements customers.

For more details regarding the RTO West Ancillary Services proposal, see Exhibit IV, *Ancillary Services*.

5. OASIS, Total Transfer Capability, Available Transfer Capability

As required by Order 2000, RTO West will maintain and administer its own OASIS site and will be responsible for calculation of TTC and ATC.

6. Market Monitoring

The RTO West Market Monitoring Unit (“MMU”) will objectively monitor RTO West markets, specifically, markets relating to Congestion Management, Ancillary Services, and Firm Transmission Rights. The MMU will collect, assemble, disseminate and evaluate market information and, if the MMU detects market performance that is inconsistent with a competitive market, it will investigate further to determine the cause of such performance. As a result of its

activities, the MMU, together with the rest of the RTO staff and subject to Commission approval, will be in a position to identify and remedy market design flaws and opportunities for efficiency improvements. With respect to market performance that appears to be inconsistent with a competitive market, the MMU will report the results of its monitoring and investigation to the RTO West Board. The Board will decide whether to report such market performance to the Commission or other appropriate regulatory or enforcement agencies. RTO West will not suggest proposed solutions, and all matters relating to enforcement activities will be left to the Commission and other appropriate regulatory and enforcement agencies. (Tariff compliance issues will be dealt with by the RTO West tariff compliance office.)

The MMU will assess and report annually on the state of the Western markets highlighting the impacts of these non-RTO markets on RTO operations and vice versa. Further, the RTO has the discretion to expand the scope and level of its monitoring of non-RTO markets as it finds appropriate.

When RTO West files its Market Monitoring Plan with the Commission, it will contain more detail regarding how information will be collected and maintained (including confidentiality provisions), how non-RTO markets will be periodically assessed, the specifics of MMU dissemination of information, and examples of when the RTO Board, based upon the results of a MMU investigation, would report market performance to the Commission or other appropriate regulatory or enforcement agencies.

For more details regarding the RTO West Market Monitoring proposal, see Exhibit V, *Market Monitoring*.

7. Planning and Expansion

The RTO West planning and expansion proposal (detailed in Exhibit VI, *RTO West Planning and Expansion*) resulted from a regional effort to design a framework that satisfies Order 2000 requirements, takes into account existing institutions and physical characteristics of

the Northwest, and is acceptable to the region. Although the filing utilities intend to develop further detail to be presented to the Commission in the RTO West Tariff, the existing framework balances the region's need for open, coordinated, efficient regional planning with the need to encourage market-motivated actions for congestion relief.

RTO West is responsible for the operational planning of all facilities under RTO West control and expects that operational planning will be in place at the commencement of RTO service. RTO West is also responsible for the long-range planning for the facilities it controls and will develop a non-discriminatory process that allows for significant input from all users of the system and considers non-transmission solutions.

RTO West has the discretion to determine how to fulfill its planning responsibilities. RTO will determine what information it needs from a PTO, what use to make of such input, and whether the RTO or the PTOs (or some combination thereof) will perform studies. The filing utilities anticipate that RTO West's approach will evolve over time.

a. Expansion for Reliability of Service to Load

PTOs are obligated to maintain the "day one" transfer capability of the facilities they have turned over to RTO West as directed by RTO West (with certain exceptions). PTOs are further obligated to expand and modify their systems in order for RTO West to provide the services requested under its open-access tariff. Should a PTO fail to satisfy its obligations, RTO West has the backstop authority to cause the construction of transmission facilities that ensure that the PTO's "day one" transfer capability is maintained at an appropriate level and that the facilities under RTO West's control are adequate for load service purposes. RTO West will assess the current and projected five-year capability of all facilities under its control, evaluate the transmission adequacy of such facilities for load service purposes, identify paths that are experiencing congestion, identify opportunities for improvements to RTO West-controlled transmission system, and communicate all of this information to interested parties. The PTOs and other transmission system users will participate in the RTO West planning process. RTO West will also, at the request of a project sponsor, determine the benefits of a proposed project and allocate costs proportionally to benefited load.

b. Expansion to Relieve Congestion

RTO West is committed to implementing a market-driven expansion mechanism for purposes of congestion relief expansion. The RTO West congestion management system is designed to provide accurate pricing signals to market participants. Based upon these pricing signals, a market participant will be able to make prudent economic decisions regarding transmission expansion for congestion relief. Such participants will sponsor the costs of new facilities in exchange for FTRs.

While the fundamental pieces of the market-driven mechanism have been agreed to, more work is necessary to work out all the specific details.

c. Relationship of RTO West and State Siting Authorities

The RTO West planning and expansion framework does not alter the existing relationship of the PTOs with their state regulators or energy offices and RTGs, with the exception that it is assumed that the RTO will participate, in some capacity, in siting and approval decisions. The framework is sufficiently flexible to accommodate any changes necessitated by state regulatory commissions entering into multi-state agreements or RTG program modifications. The filing utilities anticipate that RTO West will assist the state regulatory commissions and siting authorities in developing multi-state agreements for review and approval of new transmission facilities.

For more information about RTO West's proposed planning and expansion processes, please see Exhibit VI, *RTO West Planning and Expansion*.

8. Interregional Coordination

Order 2000 states that “[t]he Regional Transmission Organization must ensure the integration of reliability practices within an interconnection and market interface practices among regions.” [insert cite to Order 2000 here?] Order 2000 also requires an RTO to develop mechanisms to coordinate its activities with other regions whether or not an RTO yet exists in these regions. While practices do not have to be uniform, they must be compatible, especially at

the seams. The filing utilities have taken numerous steps during the RTO West proposal development process to meet these requirements, and they anticipate that RTO West will build on these efforts as soon as it becomes operational.

Even before the RTO West process began, the WSCC region was at the forefront of coordination between its various control areas. During mid- to late-1990's the region had several active Commercial Practice Committees that operated under the auspices of the three Regional Transmission Associations in the Western Interconnection.

In 1999 these committees consolidated their activities into the Western Market Interface Committee (WMIC) co-sponsored by the three Regional Transmission Associations and the WSCC. Before the Commission issued Order 2000, CREPC (Committee on Regional Electric Power Cooperation) had requested the WMIC to commence in addressing a variety of seams related issues. The main focus of WMIC is to assure that the business practices adopted by transmission providers do not negatively impact the market and that the market practices do not negatively impact the reliability of the grid.

RTO West formed a work group to address the seam issues and immediately coordinated its activities with that of the WMIC for the sake of efficiency. The activities of the coordinated group focused the Commission's requirements that include addressing reciprocal elimination of pancake transmission charges between RTO West, California ISO, Desert Star and other RTOs that may operate in the Western Interconnection. Price reciprocity is expected to minimize the impact of cost shifts among RTOs. Operational compatibility in the RTO West for scheduling, congestion management, and other processes at the seams with other RTOs, Canadian entities, and with transmission-owning utilities that are within the RTO but not a part of it.

In addition, RTO West and the California Independent System Operator agreed to create a technical group to work on interregional coordination issues together. The technical team met on August 14, 2000 to begin scoping issues and has agreed to another meeting. Identified issues needing interregional coordination included:

- a) Congestion management and FTRs at the seams;
- b) Coordination of maintenance scheduling and real-time curtailments;
- c) Business practices and settlements at the seams;
- d) Coordination of changes that affect the seams; and

e) Price reciprocity.

Attendees shared information on the status of RTO development for each entity with a particularly strong focus on their congestion management models including principles for collective California-Oregon Intertie congestion management processes. Additional issues discussed included the need to address the following areas in a physical scheduling rights model: dependence on a robust secondary market, usability by small and large participants, and ongoing monitoring to address gaming/hoarding opportunities.

The representative for RTO West and the California Independent System Operator who met on August 14 agreed to the following next steps:

- 1) Schedule further meetings as previously described to further explore seams issues such as congestion management, scheduling timelines, and ancillary services.

- 2) Continue to work toward developing a bilateral agreement (possibly a Memorandum of Understanding) between CAISO and RTO West outlining a commitment to work together to resolve seams issues.

In addition, representatives of Desert STAR and RTO West met on September 26, 2000. Physical interfaces were identified. Scheduling timelines were reviewed, along with central area configurations. The Desert STAR control area will handle all transactions from the RTO West control area. Transmission pricing models, cost shifting, and the existence of export charges were also discussed. Some differences are apparent in the areas of congestion management FTR allocation and treatment of parallel flow by flowbased versus contract path models. More meetings will be held following further development of detailed congestion management and pricing models.

With respect to coordination and integration with Canadian entities, as described above in Section III.B.8, filing utilities and Canadian entity representatives have worked closely throughout the development of the RTO West proposal. British Columbia Hydro and Power Authority and West Kootenay Power have expressed their desire to participate in RTO West

implementation. While jurisdictional issues prevent them from filing as direct participants in RTO West, they propose a framework for achieving the essence of Canadian participation in a way that meets the requirements of Order 2000.

Briefly, this framework would consist of the development of an Independent Grid Operator in British Columbia (“BC IGO”) in parallel with the formation of RTO West. BC IGO would meet the independence standards of Order No. 2000, although it would be under the jurisdiction of the British Columbia Utilities Commission (“BCUC”). The business practices for RTO West and BC IGO would be uniform and include a single OASIS site operated by RTO West. RTO West would operate a uniform congestion management procedure across all facilities controlled by RTO West and BC IGO, and would also act as provider of last resort for ancillary services in the greater region. A single Security Coordinator would cover both RTO West and BC IGO and electronic data communication between the RTO and IGO control centers would allow them to efficiently operate in tandem.

In practice, it is expected that this framework will present to all transmission customers an essentially seamless grid with standardized business practices and closely coordinated system operation. This proposal is the result of consensus between all of the participating Canadian entities and the filing utilities.

C. RTO West Contract Structure

RTO West would be implemented through tariffs and agreements, many of which are listed and briefly described below. Following each description, there is a notation indicating whether the document is included with the instant filing (Stage 1) or will be submitted as part of the Stage 2 filing, except that the participating transmission owner tariffs will be timely submitted after the Commission has approved the documents included in the filing utilities’ Stage 2 submission.

1. RTO West First Amended Restated Articles of Incorporation and Bylaws. These documents create a nonprofit corporation that will be an independent transmission system operator form of Regional System Operator. RTO West will be governed by an independent board of directors. A board advisory committee will present recommendations to the RTO West board of directors, but will have no governing authority. (Included in Stage 1 filing.)

2. RTO West Tariff: This tariff, as initially filed or later amended by RTO West, would govern the provision of transmission services in the RTO West area. For the reasons set out in the discussion of the Paying Agent Agreement, amounts specified under the RTO West Tariff for use of the transmission facilities participating transmission owners would be collected by RTO West as agent for the various participating transmission owners. (To be included in Stage 2 filing.)

3. Tariffs of Participating Transmission Owners: Commission-jurisdictional participating transmission owners would file with the Commission tariffs for the use of their transmission systems by RTO West. These tariffs, as accepted or approved by the Commission, would provide RTO West with the Company Costs and the Company Billing Determinants to be used by RTO West in setting load-based access charges for transmission during the Company Rate period (through December 15, 2011). Subject to the Commission's acceptance or approval, these tariffs could include incentive or performance-based rate features. Canadian participating transmission owners would file their tariffs with the appropriate Canadian regulatory authority. For the Company Rate Period, public power entities that are not Commission-jurisdictional would not be required to file their transmission facility rates with any outside entity.

4. Transmission Operating Agreement: Each participating transmission owner would execute a Transmission Operating Agreement with RTO West. The Transmission Operating Agreement sets out the key rights of RTO West and of the participating transmission owner that will govern the regional transmission organization relationship. (Included in Stage 1 filing; in addition, Exhibit I contains a summary of the Transmission Operating Agreement.)

5. Agreement to Suspend Provisions of Pre-Existing Transmission Agreements. The filing utilities intend to suspend the transmission service provisions of all Pre-Existing Transmission Agreements among themselves. With minor exceptions, payments required by such agreements also would be suspended. Exceptions would include circumstances such as where one party to a Pre-Existing Transmission Agreement has agreed to maintain jointly-owned transmission facilities, and the other party or parties have agreed to pay specified percentages of the actual

maintenance costs. In exchange for the firm transmission rights held under the Pre-Existing Transmission Agreements, the participating transmission owners will receive comparable Firm Transmission Rights, entitling them to avoid RTO West congestion charges. In exchange for suspending charges under the Pre-Existing Transmission Agreements, the participating transmission owners would be compensated according to a negotiated schedule of transfer charges.

The agreements are suspended, rather than terminated, to protect other participating transmission owners in the event that one of the participating transmission owners were allowed or were for any reason forced to terminate its Transmission Operating Agreement. In such circumstances, the withdrawing transmission owner would continue to be required to take its transmission service from RTO West. However, the remaining participating transmission owners need to be assured that they had not lost their pre-RTO West transmission rights over the transmission facilities of the withdrawing transmission owner.

The Transmission Operating Agreement also requires that the participating transmission owners (1) not enter into any new transmission agreements unless RTO West has the right to suspend such agreements, for transfer charges and for a granting of firm transmission rights comparable to those received by the participating transmission owners for similar contracts and (2) must offer to suspend each of its Pre-Existing Transmission Agreements with entities other than other participating transmission owners, in exchange for a payment of transfer charges and a grant of firm transmission rights comparable to those received by the participating transmission owners for similar contracts. The filing utilities intend to the maximum extent feasible, without violating the terms of their third party transmission agreements, to convert all of the transmission service under such agreements to service pursuant to RTO West transmission service agreements. (Included in Stage 1 filing; in addition, Exhibit ___ contains a summary of the Agreement to Suspend Provisions of Pre-Existing Transmission Agreements.)

6. Paying Agent Agreement: The Paying Agent Agreement sets out a method for the direct payment to a paying agent of amounts due each participating transmission owner. Bonneville requires such an agreement because of special legal problems caused by various “Net-Billing Agreements,” whereby Bonneville’s transmission system revenues act as a financial backstop for

amounts owed investors in bonds issued to construct three nuclear generation facilities in the State of Washington. Bonneville cannot take actions that would impair the security of those bonds, and thus needs to ensure that revenues for the use of its transmission facilities cannot become subject to creditors of RTO West in the event of insolvency or bankruptcy of RTO West. Because allowing Bonneville alone to enter into such an agreement to protect its revenues from RTO West creditors would expose the remaining participating transmission owners, who are entitled to approximately one-half of the payments for use of transmission facilities, to bear one-hundred percent of the RTO West credit risk, all participants have elected to enter into a multi-party Paying Agent Agreement. (Included in Stage 1 filing for informational purposes only; will be included in Stage 2 filing for approval. In addition, Exhibit ___ contains a summary of the Paying Agent Agreement.)

The filing utilities expect the Paying Agent Agreement to serve another critical function. Bonneville, as an agency of the United States Government, is not subject to taxation on its transmission facilities by state governments. However, various northwest states have acted aggressively to impose “beneficial use taxes” on any non-governmental entity deemed to be a beneficial user of federal transmission facilities. If such a beneficial use tax were imposed on RTO West for its operation of the Bonneville transmission facilities, the cost to Bonneville’s customers could be tens of millions of dollars, and Bonneville would be disabled from participating in RTO West. The filing utilities believe the structure created, which denies RTO West any rights to moneys from use of the Bonneville transmission facilities, other than RTO West’s own operating costs, combined with an express prohibition from RTO West’s earning any profit or return on the Bonneville transmission facilities, will prevent imposition of beneficial use taxes on RTO West and will thus allow Bonneville’s participation.

7. Agreement Limiting Liability Among RTO West Participants: The Transmission Operating Agreement includes a provision, Section 17, which requires parties executing a Transmission Operating Agreement to also execute a multiparty Agreement Limiting Liability Among RTO West Participants (“Liability Agreement”). The Liability Agreement is attached to the Transmission Operating Agreement as Exhibit ___.

The Liability Agreement is intended to limit the liability of parties to RTO West to manageable and insurable levels. It is contemplated that the parties signing Generation Integration Agreements and Load Integration Agreements would be similarly required to become signatories to the multiparty agreement limiting liability, and this understanding is central to the overall plan to manage RTO West risk exposure. (Included in Stage 1 filing; in addition, Exhibit ___ contains a summary of the Liability Agreement and an explanation of its importance to the RTO West participants.)

8. Generation Integration Agreement and Load Integration Agreement: All RTO West participating transmission owners will be required to execute Generation Integration and Load Integration Agreements in the same form as required from all other generation owners and parties with load service facilities interconnected with the RTO West transmission system. The Generation Integration Agreement will specify the basic interconnection and operational obligations (such as metering, communications, protective systems, voltage response, etc.) that apply to generation facilities that operate within the RTO West control area boundaries. The Load Integration Agreement will have analogous specifications applicable to facilities interconnected with the RTO West transmission system for delivering energy to load. (To be included in Stage 2 filing.)

9. Security Coordinator Agreement: This is the agreement under which RTO West would contract with the security coordinator that currently serves the RTO West region (Pacific Northwest Security Coordinator) to carry out RTO West's security coordination function. (To be included in Stage 2 filing.)

D. RTO West Implementation Overview

The filing utilities have prepared a preliminary assessment of staffing, organization, and facilities needs to fulfill Order 2000 required characteristics and functions. These are summarized in Exhibit VI, *RTO West Implementation Overview*. Implementation of RTO West will require selection and development of "brownfield" facilities for both primary and back-up control center locations. Hardware and software systems required to support RTO West

functions will need to be specified, procured and installed. In addition to the physical facilities, RTO West Board Members and staff must be selected and hired. Existing control center facilities will remain in operation until RTO West implementation is complete. While this process will begin shortly after final approval of RTO West is obtained from the appropriate regulators, it is not likely that RTO West will be able to assume control of facilities by December 15, 2001. The filing utilities will address this issue further in RTO West's Stage 2 filing.

VI. COMPLETION OF FILING: PROPOSED TIMELINE TO SUBMIT SECOND STAGE FILING ELEMENTS

The filing utilities intend to submit all additional documents needed to complete their RTO proposal with their Stage 2 filing submittal. The filing utilities anticipate that they will complete Stage 2 before _____.

VII. REQUESTED COMMISSION ACTION

A. Request for Declaratory Order

1. The filing utilities respectfully request the Commission to issue a declaratory order pursuant to 18 C.F.R. Section 35.34 (c)(3) that:

- a. The proposed governance structure of RTO West as set forth in its Articles of Incorporation and Bylaws satisfy the independence characteristic of a regional transmission organization as set forth in 18 C.F.R. Section 35.34 (j)(1), and that the proposed Articles of Incorporation and Bylaws of RTO West otherwise meet the Commission's regional transmission organization policy.
- b. The proposed scope and configuration of RTO West as set forth in this application would satisfy the scope and regional configuration characteristic of a regional transmission organization as set forth in 18 C.F.R. Section 35.34 (j)(2).
- c. The proposed liability and insurance structure as set forth in the Agreement Limiting Liability Among RTO West Participants would be appropriate as part of arrangements otherwise acceptable to the Commission for creating RTO West and is consistent with the requirements of Order 2000.

2. In addition, the filing utilities submit to the Commission a form of Transmission Operating Agreement and a form of Agreement to Suspend Provisions of Pre-Existing Transmission Agreements. None of the filing utilities will be able to give their final approval to either of these agreements until all of the material components of RTO West are resolved.

The following filing utilities are generally satisfied with the form of the Transmission Operating Agreement and the form of the Agreement to Suspend Provisions of Pre-Existing Transmission Agreements:

The Bonneville Power Administration
Idaho Power Company
PacifiCorp

Other filing utilities, including Avista Corporation, The Montana Power Company, Nevada Power Company, Portland General Electric Company, Puget Sound Energy, Inc., and Sierra Pacific Resources, are not at this time asking for the Commission's review of the Transmission Operating Agreement and Agreement to Suspend Provisions of Pre-Existing Transmission Agreements. These companies have actively participated in the negotiation of these documents, and believe that the documents represent substantial progress in reaching agreement among the filing utilities. However, because of the impact the agreements will have on them and their customers, these companies require additional time to complete their review. They will continue their work with the hope of communicating to the Commission the agreement of all nine filing utilities to these agreements as initially submitted or as amended by December 1, 2000.

If based on further review by the filing utilities, any amendments are deemed appropriate to either of these agreements, amended agreements will be filed with the Commission for further consideration on or before December 1, 2000. The filing utilities request that the Commission defer its order on the Transmission Operating Agreement and the form of the Agreement to Suspend Provisions of Pre-Existing Transmission Agreements until after the aforementioned opportunity to review and amend those agreements has occurred. If amended agreements are submitted, the filing utilities request that the Commission re-notice the amended agreements for a 30-day public comment period, and make its decision on the amended agreements rather than the originally filed agreements.

The Bonneville Power Administration, Idaho Power Company, and PacifiCorp request a declaration that the provisions of the Transmission Operating Agreement and the Agreement to Suspend Provisions of Pre-Existing Transmission Agreements (along with any amendments as may be submitted and in accordance with the agreed procedures described above) are appropriate as part of arrangements otherwise acceptable to the Commission for creating RTO West and are consistent with the requirements of Order 2000.

B. Elements for Which Deferral Is Requested Until Second Stage Filing

[To be developed]

Exhibits – List of Exhibits

[Approval Items: Draft First Amended and Restated Articles of Incorporation and Bylaws for RTO West and Related Exhibits

Form of Transmission Operating Agreement and Related Exhibits

Form of Agreement to Suspend Provisions of Pre-Existing Transmission Agreements and Related Exhibits

Form of Agreement Limiting Liability Among RTO West Participants

Informational Exhibits: Collaborative Process Attachments

Scope and Regional Configuration Detailed Description

Outline of Bylaws for RTO West

Outline of Transmission Operating Agreement

Outline of Agreement to Suspend Provisions of Pre-Existing Transmission Agreements and Related Exhibits

Outline of Agreement Limiting Liability Among RTO West Participants

Congestion Management Detailed Description

Ancillary Services Detailed Description

Market Monitoring Detailed Description

Planning and Expansion Detailed Description

Implementation Plan and Overview

Interregional Coordination

Form of Agreement Among RTO West and Transmission Owners to Use Paying Agent]

Attachments: “RTO Filing Utilities’ Consensus Concerning RTO Form and Structure”

“RTO Filing Utilities’ RTO Principles”

“Northwest RTO Collaborative Process Plan – A Proposal by the Filing Utilities”

“Revised RTO West Regional Representatives Group (August 8, 2000)”

“{RRG 05.23.00 Roles RRG and Work Groups}”

Summary explanation prepared by counsel to B.C. Hydro

“Consensus Issues List”

“{RRG 05.19.00 Issues Clean}”

Exhibit [Ia]

RTO Member Classes

- Member Classes
 - The five RTO member classes are 1) Major Transmitting Utilities, 2) Transmission-Dependent Utilities, 3) Nonutility Entities, 4) Retail Customers and 5) State and Provincial Energy Authorities and Utility Commissions/Tribal Utility Regulatory Authorities/Unaligned Entities.
 - In order to be accepted as a member of the RTO, a person or entity will be required to submit an application demonstrating that such person or entity satisfies the membership criteria for a membership class, and will be required to pay an annual membership fee of \$1,000. Such fee would be waived for States, Provinces and Tribes.
 - Any single legal entity, and affiliated entities under common control, would be entitled to be a member of the RTO in only one class. However, “affiliate” is defined in such a way as not to (i) prevent any entity that owns an interest in an Independent Transmission Company, as determined by the Commission, in also participating in the Transmission Dependent Utilities class, (ii) preclude BPA and WAPA from each having one membership in the RTO, (iii) prevent tribal utilities or tribal commercial entities from becoming members of the RTO simply because the tribe owning the applicable utility or commercial entity also has a utilities regulatory body that is a member of the RTO in the State and Provincial Energy Authorities and Utilities Commissions/Tribal Utility Regulatory Authorities/Unaligned Entities Class or (iv) prevent provincial crown-owned utilities from becoming members of the RTO simply because the crown owning the applicable utility also has a utilities regulatory

body that is a member of the RTO in the State and Provincial Energy Authorities and Utilities Commissions/Tribal Utility Regulatory Authorities/Unaligned Entities Class.

- The RTO Bylaws contain a requirement that the Board revisit the appropriateness of the structure and composition of the RTO member classes not less than once every five years, and propose to the RTO members for approval any changes that the Board deems to be appropriate.
- Member Voting Rights; Trustees Selection Committee
 - Members would have the exclusive right and power to (i) elect the members of the Trustees Selection Committee, (ii) be members of the Board Advisory Committee, (iii) amend specified provisions of the RTO Articles of Incorporation and Bylaws (such as provisions relating to RTO member voting rights) and (iv) approve the dissolution of the RTO.
 - The RTO members will not elect (or remove) members of the Board of Trustees directly. The election (and removal) of the members of the Board of Trustees will instead be carried out by a stakeholder Trustees Selection Committee, as described below. This committee is not the same as the stakeholder Board Advisory Committee, which is also described below. There is no prohibition against a member of the Board Advisory Committee simultaneously serving as a member of the Trustees Selection Committee.
 - Each member class, voting by class (or, where applicable, by sub-class, as described below), is entitled to elect six principal and six alternate representatives to the Trustees Selection Committee. Thus the Trustees Selection Committee consists of 30 members.

- The voting rights with respect to the election of members of the Trustees Selection Committee is allocated among the members of each RTO member class as follows:
 - Major Transmitting Utilities Class: Each member of this class would be entitled to vote for each of the six members of the Trustees Selection Committee that this class is entitled to elect.
 - Transmission-Dependent Utilities Class: Members in this class will elect two members of the Trustees Selection Committee based on a weighted voting mechanism in proportion to such member's load within such class. Each member of this class would be entitled to vote for the remaining four members of the Trustees Selection Committee that this class is entitled to elect.
 - Nonutility Entities Class: If there are any members in this class aside from IPPs, QFs and FERC-jurisdictional power marketers, such members will elect one member of the Trustees Selection Committee; the IPP, QF and FERC-jurisdictional power marketer members of the class will elect all other Trustees Selection Committee members that this class is entitled to elect (although such IPP, QF and power marketer members could determine to create their own separate sub-classes among which to apportion the member votes).
 - Retail Customers Class: Retail Customers having an aggregate load within the RTO West Geographic Area less than five MW will be entitled to elect two members of the Trustees Selection Committee (with residential customers alone entitled to elect one such member), and Retail Customers having an aggregate load within the RTO West Geographic Area greater than or equal to five MW would be entitled to elect the remaining four members of the Trustees Selection Committee that this class is entitled to elect (with Retail Customers that are RTO-qualified scheduling coordinators entitled to elect one of such four members).

- State and Provincial Energy Authorities and Utilities Commissions/Tribal Utility Regulatory Authorities/Unaligned Entities Class: State and Provincial Energy Authorities and Utilities Commissions members will be entitled to elect four out of the six Trustees Selection Committee members that this class is entitled to elect. Tribal Utility Regulatory Authorities and Unaligned Entities are each entitled to elect one of the remaining two such Committee members.
- The Trustees Selection Committee members elected by each RTO member class (or, as applicable, by each sub-class within a member class) will consist of those nominees receiving the highest majority vote in such member class (or sub-class, as the case may be), up to the number of vacancies to be filled in the applicable election. Each member in each member class (or sub-class, as the case may be) will have one vote for each vacancy on the Trustees Selection Committee with respect to which such member was entitled to vote, but no member would be permitted to cast more than one vote for any given candidate (i.e., members would not be permitted to cumulate votes).
- The members of the Trustees Selection Committee would serve staggered terms of three years each (except in the case of the initial Committee members, who by drawing straws would divide into three initial classes, with one class serving a one-year term, one class serving a two-year term and one class serving a three-year term). Thus one third of the members would be up for election every year. There would be no limit on the number of terms for which a Trustees Selection Committee member could be re-elected.
- Notwithstanding that the members of the Trustees Selection Committee are elected by individual classes, the members of RTO West will endeavor to select individuals who

are committed to elect those Trustees who will best accomplish the overall purposes of RTO West.

RTO Board of Trustees

- Board Responsibilities, Composition, and Size
 - The RTO West Board of Trustees is an independent, non-stakeholder Board. No owner, director, officer, employee, partner, principal or similar individual of a market participant, RTO West member, or scheduling coordinator is permitted to serve on the Board.
 - The RTO West Board of Trustees will be responsible for the management of the RTO. The Board will delegate specific management authority to the officers of the RTO, and in so doing will establish appropriate limits on such authority. The Board will be entitled to appoint standing or ad hoc committees to assist it in performing its functions. The Board would be required to meet not less than six times a year.
 - The Board consists of nine members. Each Trustee will serve a term of three years (except in the case of the members of the initial Board of Trustees, who serve terms of either one, two or three years as determined by the drawing of lots at the first meeting of the Board of Trustees), and will be entitled to be re-elected for an unlimited number of additional terms. One third of the Trustees will be up for election each year.
 - The Board will develop and implement policies, designed to ensure independence, regarding the ownership of securities of suppliers of RTO West or of other financial interest in RTO West, by Trustees, officers, and employees of RTO West (including related persons of Trustees, officers, and employees). In connection with the

foregoing, RTO West will retain an independent compliance auditor and cause the independent compliance auditor to obtain all information necessary to determine whether each Trustee is in compliance with such policies and provisions and to determine whether the officers and employees of RTO West are in compliance with RTO West's Code of Conduct. Each Trustee, officer, and other employees of RTO West as may be designated pursuant to policies established by the Board of Trustees will file an annual compliance affidavit with the independent compliance auditor. The independent compliance auditor will report to the Audit Committee of the Board of Trustees any facts and circumstances that lead it to believe that any Trustee, officer, or employee of RTO West is not in compliance with RTO West's Bylaws. With the exception of any such report to the Audit Committee and any action taken by the Audit Committee as a consequence thereof, the independent compliance auditor will hold in strict confidence all of the information it obtains and compiles.

- Board Member Qualifications

- The Trustees Selection Committee will endeavor to elect Board members possessing, collectively, a broad range of relevant experience in commodities markets (including commodities trading risk management), electric bulk power transmission in the Western Interconnection, utilities management, law, finance, economics, accounting, information technology, engineering, regulation, and public policy. The candidates for the Board will be screened by and delivered to the Trustees Selection Committee by one of three nationally recognized executive search firms.
- There are not designated seats reserved on the Board for individuals possessing experience in a specific area (i.e., there would not be a specific seat on the Board for an accountant, a lawyer, a person with utilities experience, etc.).
- The RTO Bylaws do not express any preference that Board members come from within the RTO West Geographic Area (although members of the Trustees Selection

Committee would not be precluded from exercising such a preference in voting for Trustees), or that the Chairman of the Board of Trustees have electric utilities experience.

- Not less than two-thirds of the Board candidates are required to have held positions of significant responsibility (either as a director, chief executive officer, or chief operating officer) with one or more substantial organizations, such as a publicly held corporation or major regional or national not-for-profit entity with revenues or an annual operating budget equal to 5% of the gross book value of the assets operated by RTO West. (The filing utilities anticipate that this formula will result in a required figure of annual revenues or operating budgets of approximately \$250 million.)
- Election of Trustees
 - As noted above, the members of the Trustees Selection Committee will elect the members of the Board of Trustees.
 - Before each election, a reputable executive search firm would develop a slate of qualified candidates. For the first election of Trustees, the search firm will be required to assemble a slate of 12-15 candidates. For any future elections of Trustees, the search firm will be required to assemble a slate numbering 200 percent of the number of Board vacancies to be filled in the applicable election (less any vacancies for which the incumbent Trustees were running for re-election). Thus, there will always be two candidates for each vacancy on the Board after the initial election – either two new candidates or the incumbent Trustee plus another new candidate.
 - In any election of Trustees, each member of the Trustees Selection Committee will be required to cast one vote for each vacancy to be filled on the Board of Trustees, but no member of the committee is permitted to cast more than one vote for any given

Trustee position (i.e., committee members would not be permitted to cumulate votes). Members of the Trustees Selection Committee will not vote by class.

- To be elected as a Trustee, a candidate will be required to receive not less than 24 out of the 30 total votes of Trustee Selection Committee members. If fewer than the requisite number of candidates receives sufficient votes, a runoff election will be held (and the Board is entitled to require that the executive search firm locate new candidates as part of any runoff election process).
- The Trustees Selection Committee has the power to remove any Trustee without cause. Both the Trustee Selection Committee and the Board of Trustees have the right to remove any Trustee for cause. Not less than 24 out of the 30 total votes of the Trustee Selection Committee are required to remove a Trustee without cause. To remove a Trustee for cause (as defined in RTO West's Bylaws), members of the Trustee Selection Committee must cast 20 of their 30 total votes in favor of removal.

RTO Board Advisory Committee

- Committee Membership

- Membership on the Board Advisory Committee is open to any member of the RTO. Thus the Board Advisory Committee will have no fixed size, and could at any time include all or any portion of the full membership of the RTO. There are no fixed terms of membership on the Board Advisory Committee, and any person is entitled to be a member of the Board Advisory Committee for as long as that person (or the entity represented by that person) is a member of the RTO.
- The Board Advisory Committee performs a purely advisory function. The members of the committee will not vote on any issue. Except in case of emergency, the Board

Advisory Committee has the opportunity to advise the Board of Trustees on key specified RTO West matters. Committee members can provide advice to the Board in the form of one or more position papers reflecting the consensus view of committee members where consensus had been reached on issue, or reflecting any and all divergent views of committee members where such consensus had not been achieved (in each case each such position paper will be signed by each and every committee member who supported the positions advocated in such paper).

- Authority and Procedures

- The purpose of the Board Advisory Committee is to provide advice to the Board, promote input on Board decisions, and provide a focal point for dissemination of information relevant to the RTO.
- Committee procedures will ensure adequate opportunity for all RTO members to propose any issue to the committee for consideration and adequate notice of and opportunity to comment on any issue under consideration by the committee (without regard to whether the issue had been referred to the committee by an RTO member, the Board of Trustees, or any other source).
- The Board Advisory Committee will not, however, perform a gatekeeper function, and the committee would in no way limit the authority of the Board to consider any matter the Board deems appropriate.
- In the event that the Board wished to encourage further consideration of, or further efforts to develop a consensus on, any issue referred from the Board Advisory Committee, the Board will be entitled to appoint an ad hoc committee or take any other action which it deemed appropriate.

- Committee procedures will ensure an adequate and appropriate structure for conduct of committee business in an effective and timely manner.
- The Board Advisory Committee will be entitled to establish standing and ad hoc subcommittees to assist it in carrying out its responsibilities. Such subcommittees will be open to membership and participation by any interested member of the RTO.
- The Board Advisory Committee's operating procedures will require public notice of all matters coming before the committee or any subcommittee, and an opportunity for any interested party to be heard on any such matter.
- Members of the Board Advisory Committee will have authority to refer matters to the RTO staff for study and investigation (subject to the imposition by RTO West's Chief Executive Officer and Board of Trustees of reasonable controls on the use of staff time and resources).

As described above, RTO West's governance mechanisms ensure participation by all members and independent decision-making by a well-qualified Board.

RTO West Formation Plan

A Washington nonprofit corporation has already been organized under the name "RTO West" for the purpose of organizing and facilitating the development of a coordinated filing by the filing utilities pursuant to Order 2000. All of the filing utilities except the Bonneville Power Administration have made appointments to the Board of Directors for RTO West. After Commission approval of the proposed First Amended and Restated Articles of Incorporation and Bylaws providing for the governance of RTO West, the current RTO West Board will amend the current Articles of Incorporation and adopt the Bylaws to conform to those in this application. There will be an Interim Board of Directors under Section 8 of Article XI of the Bylaws. The

Interim Board will appoint an interim Secretary of the Corporation who will provide notice to potential Members of RTO West and accept applications for membership over a 30-day period. Applications will be processed as provided in Section 3 of Article IV of the Bylaws. Not later than 90 days after the adoption of the Bylaws and a determination by an affirmative vote of not less than 80 percent of the Members of the Major Transmitting Utilities Class, the Interim Board will convene a meeting of the Members of RTO West for the purpose of electing the first full Trustees Selection Committee. The Interim Board of Directors will serve only until such time as the nine members of the first full Board of Trustees have been elected and qualified in accordance with the requirements of the bylaws. Not later than 30 days after the election of the first Trustees Selection Committee, the Interim Board of Directors will then schedule a meeting of the Trustees Selection Committee for the election of the first full Board of Trustees.

Exhibit I

Summary of RTO West Transmission Operating Agreement

October 12, 2000

Summary of RTO West Transmission Operating Agreement (TOA)

(This document is intended only as a general summary and guide and is not intended to be used in any way for legal interpretation of the TOA.)

1. Effective Date and Termination

- TOA is effective only after the executed copy is approved by FERC without change unacceptable to either party. It shall terminate:
 - upon mutual agreement of all parties to TOAs;
 - upon withdrawal by the Participating Transmission Owner (PTO) after two years notice; or
 - immediately upon notice from the PTO if RTO West fails , after a request for assurance and passage of a reasonable amount of time, to comply with any of its obligations to the PTO .
- Withdrawing PTO must provide replacement interconnection agreements to generators and loads interconnected with its system comparable to the agreements such loads and generators had with RTO West.

2. Facilities Inclusion

- PTO must include in RTO West Transmission System at least those facilities which meet the definition of RTO West Controlled Transmission Facilities (see attached definitions). PTO shall be allowed to (1) include any additional facilities, except for generation-integration facilities, and (2) from time to time remove any such additional facilities.
- New facilities meeting the definition of RTO West Controlled Transmission Facilities which are constructed or acquired by the PTO shall be incorporated into the RTO West Transmission System upon request of RTO West.
- Any facilities which the PTO is requested by RTO West or ordered by FERC to construct or acquire may be incorporated into the RTO West Transmission System at the PTO's request, and RTO West shall not object to the inclusion of the reasonable costs thereof.
- Nothing is intended to restrict the right of the PTO to obtain revenue recovery, pursuant to applicable orders authorizing such revenue recovery, for any other transmission facilities, except generation-integration transmission facilities, added to the RTO West Transmission System.
- Public utilities which have transferred transmission facilities to an Independent Transmission Company would execute agreements with RTO West to, among other things, (1) have the TOA apply to any transmission facilities retained by the public utility and which meet the definition of RTO Controlled Transmission Facilities; (2) provide Ancillary Services to RTO West; (3) execute a Generation Integration Agreement and Load Integration Agreement with RTO West; (4) apply to the public utility's distribution facilities the obligations of the TOA

relating to new and existing physical interconnections with electric utilities and generators ; and (5) take RTO West service to serve any Non-Converted Transmission Agreements retained by the utility.

3. RTO West Provision of Transmission Service

- After the Transmission Service Commencement Date (December 15, 2001 or later), RTO West shall have the exclusive right and obligation to provide to eligible customers, on an open and nondiscriminatory basis, all transmission services and ancillary services over the RTO West Transmission System.
 - For Federal Columbia River Transmission System facilities of the Bonneville Power Administration, the statutory transmission priorities under Northwest Power Act section 9(i)(3) for particular resources and under the Energy Policy Act of 1992 for Northwest load shall apply.
 - To comply with the above named priorities and any treaty obligations to deliver power, the BPA Administrator may direct RTO West to make certain deliveries. BPA shall be responsible for any resulting damages to RTO West or to third parties if RTO West had been in compliance with its obligations to BPA under the TOA.
- The PTO must provide in any transmission agreement executed after September 30, 2001 but before the Transmission Service Commencement Date a right, exercisable by either party or by RTO West, to convert the service to RTO West service . Such conversion would require (1) the customer to pay to the PTO a transfer charge or the Company Rate, as appropriate, and (2) RTO West to provide Firm Transmission Rights (FTRs) to the customer comparable to those granted to holders of other converted transmission agreements.
- The PTO shall petition FERC for a change to its open access transmission tariff to eliminate roll-over rights for existing contracts which (1) rely on such tariff for their existence and (2) are not necessary to provide adequate power supply for the customer's loads. A one-time opportunity to extend the term of such contracts, subject to available transmission capacity, shall be offered as a substitute for the eliminated roll-over rights.
- The PTO shall not enter into any transmission agreements for service over the RTO West Transmission System after the Transmission Service Commencement Date unless ordered to do so by FERC or a court.
- RTO West is authorized to provide transmission services over facilities of the PTO which are not part of the RTO West Transmission System to transmit power (1) to the RTO West Transmission System from generators not connected directly to the RTO West Transmission System and (2) from the RTO West Transmission System to Electric Utilities not connected directly to the RTO West Transmission System.

4. Ancillary Services.

- RTO West shall be the provider of last resort for Ancillary Services.
- The PTO shall be obligated to continue to provide to all loads and generation connected to its system each Ancillary Service it was required to provide prior to the Transmission Service Commencement Date until either (1) FERC determines a competitive market exists for such

Ancillary Service for loads and generation connected to the PTO's system or (2) FERC approves a PTO tariff which limits such obligation.

- RTO West shall arrange, on a day-ahead or hour-ahead basis only, for the provision of Ancillary Services requested from RTO West (except that all transmission scheduling shall be conducted by RTO West on a prescheduled basis and black start and voltage support service may be provided on other than a day-ahead or hour-ahead basis).
- RTO West shall solicit bids for Ancillary Services. If insufficient bids are received to meet its obligations, RTO West shall direct the PTO to submit a bid, and the PTO shall submit a bid to the extent it is capable of providing such Ancillary Service. To the extent practicable, RTO West shall require the submission of bids from PTO's on a not unduly discriminatory or preferential basis.
- The PTO reserves the right to self-provide or to provide to third parties any Ancillary Services that the PTO is permitted by FERC to provide.
- RTO West shall facilitate the establishment of an external mechanism or mechanisms for the marketing of Ancillary Services and shall certify mechanisms which meet specified criteria, including a requirement that market participants are allowed to buy, sell and trade Ancillary Services for periods longer than one year.

5. Control and Operation of Transmission Facilities

- RTO West shall assume Operational Control of the existing control areas of the PTO's and shall have the right to operate them as a single RTO West Control Area.
- On and after the Transmission Service Commencement Date, RTO West shall exercise Operational Control over the RTO West Controlled Transmission Facilities.
- In operating the RTO West Control Area and the RTO West Controlled Transmission System, RTO West shall comply with (1) Good Utility Practice; (2) all applicable standards of NERC and WSCC; (3) all applicable requirements of regulatory agencies with authority over operations; and (4) the PTO's operating reliability criteria, dispatch standing orders and operating bulletins unless and until modified by RTO West, provided that any such modifications comply, at a minimum, with applicable NERC and WSCC standards.
 - RTO West shall engage sufficient staff who are adequately trained and qualified in a manner consistent with Good Utility Practice and the requirements of WSCC and NERC.
 - RTO West shall have the right to direct automatic or manual control over RTO West Critical Control Facilities.
 - To the extent an RTO West Critical Control Facility is comprised of contractual rights of the PTO to interrupt power supplies to third parties or to require third parties to interrupt generation, RTO West shall pay to the PTO or to the third party any contractual charges for the reservation or exercise of such rights, including any contractual liquidated damages, as specified in the applicable agreement.
 - RTO West shall coordinate maintenance outage schedules on RTO West Critical Control Facilities.
 - The PTO shall make good faith efforts to maintain for three years from the Transmission Service Commencement Date (1) its contractual rights and obligations with third parties for Remedial Action Schemes and (2) Remedial Action Schemes provided by the PTO which are necessary to maintain the transmission path ratings in the 1998 WSCC Path Rating Catalogue.

- RTO West shall approve or reject proposed maintenance outages on the RTO West Controlled Transmission Facilities and the RTO West Critical Control Facilities. RTO West shall pay to the PTO any costs incurred by the PTO as the result of any RTO West directive to change the timing of scheduled outages which had been previously approved by RTO West.
- RTO West shall develop and implement on an annual basis performance standards for operation, management and financial control of RTO West.
- RTO West shall keep such records as are necessary for the efficient operation of the RTO West Transmission System and, except as necessary to protect confidential information, shall make such records available upon request for inspection by the PTO.
- On and after the Transmission Service Commencement Date, RTO West shall, directly or by contract with the Pacific Northwest Security Coordinator, perform all functions required of a Security Coordinator.
- The PTO shall continue to operate, or contract with another entity to operate, a fully equipped control center staffed by qualified operating personnel responsible for carrying out the following functions under RTO West's direction, coordination and supervision:
 - Switching orders and clearances. The PTO reserves the right to conform to its safety practices and standards when responding to RTO West directions.
 - Log maintenance
 - Provide to RTO West information for monitoring and analysis functions.
 - Monitor and evaluate power and reactive flows and voltage levels and take action to maintain security of the RTO West Transmission System.
 - Restore the RTO West Transmission System after interruptions.
 - Coordinate transmission facility maintenance outages with RTO West.
 - Execute actions required by the Security Coordinator, subject to applicable contractual, statutory and environmental limitations.
 - Carry out all other operating functions not assumed by RTO West.
 - Assure that its personnel performing the duties specified above (1) comply with the information access requirements of the FERC Code of Conduct and (2) give no undue preference to any market participant.
- A PTO may unilaterally request approval from FERC to perform RTO functions. To the extent such request is approved by FERC, the TOA, the RTO West Tariff and other governing documents shall be amended accordingly.

6. Expansions, Upgrades and Physical Interconnections.

- The PTO shall maintain sufficient transfer capability on its RTO West Controlled Transmission Facilities to satisfy firm rights it has granted and which still exist on the Transmission Service Commencement Date; provided that if a reduction in transfer capability results from events outside the PTO's control, the PTO's obligation shall be determined by the terms of the pre-existing contracts. In the event a reduction in transfer capability of the PTO's RTO West Controlled Transmission Facilities existing as of the Transmission Service Commencement Date affects other transmission service commitments, RTO West shall determine the extent to which restoration is needed, and the PTO shall restore such reduced transfer capability as determined by RTO West. If the PTO fails to

restore transfer capability within a commercially reasonable period, RTO West may take such actions as needed to maintain such transfer capability and shall be entitled to recover the costs of such actions as an additional charge on the PTO's Company Loads.

- The PTO must permit new physical interconnections with its facilities to serve new or existing loads or new or existing generating facilities subject only to (1) reasonable terms and conditions related to such physical interconnection; (2) receipt of necessary regulatory approvals; and (3) compliance with applicable environmental assessment, planning and reliability requirements.
 - If the interconnecting parties are unable to reach agreement within 60 days (or such extended period as may be agreed or is necessary to comply with applicable environmental requirements), RTO West may compel the PTO to participate in expedited dispute resolution. The arbitrator shall be instructed to accept the PTO's proposed interconnection agreement terms if they are either (1) (i) reasonable, (ii) not contrary to FERC requirements, (iii) do not conflict with a GIA or LIA that the interconnecting party will execute with RTO West, (iv) are not in conflict with interconnection standards adopted by RTO West and (v) are not unreasonably discriminatory or preferential with respect to the PTO's other comparable interconnection agreements or (2) are required pursuant to the interconnection standards adopted by RTO West. Arbitration decisions may be appealed to FERC.
 - The PTO's interconnection standards shall apply to the PTO's facilities, but RTO West may modify the PTO's standards as they apply to the PTO's RTO West Controlled Transmission Facilities, provided that any such modifications comply with applicable NERC and WSCC reliability and safety requirements.
 - RTO West agrees to take necessary actions to protect the PTO's facilities in the event of failure of the interconnecting party to comply with any such requirements.
- In support of RTO West-approved upgrades and expansions to its transmission facilities which are included in the RTO West Transmission System, the PTO must, consistent with applicable law:
 - Permit the installation and interconnection of such upgrades and expansions. The PTO's interconnection standards shall apply unless and until modified by RTO West, provided that any such modifications comply with applicable NERC and WSCC reliability and safety requirements.
 - Cooperate with RTO West, to the extent permitted under applicable law, to obtain necessary siting and other permits and licenses, to obtain necessary federal or non-federal rights-of-way, and with the planning and construction of the upgrade or expansion.
 - Subject to the exception below, take necessary and appropriate steps, to the extent permitted under applicable law, to exercise its eminent domain authority, take appropriate regulatory and judicial actions to condemn necessary rights-of-way and, if necessary, acquire legal ownership of such upgrades.
 - If the PTO may not take such actions under applicable law, RTO West reserves its right to file a request for construction of facilities pursuant to section 211 of the Federal Power Act.
 - The PTO shall not be obligated to incur or assume any of the costs of such cooperation, exercise of eminent domain authority, regulatory or judicial actions or legal ownership except as provided in rates charged pursuant to an RTO West Tariff.

7. Transmission Owner Generation and Loads. PTO must integrate its electric generation units, loads and other transmission and distribution facilities to the RTO West Transmission System under the standard form Generation Integration and Load Integration Agreements.

8. Pre-Existing Third Party Generation Interconnections. Generators interconnected with the PTO's system under pre-existing agreements may either (1) request the PTO to negotiate so as to allow replacement of the integration provisions of such agreements with an RTO West Generation Integration Agreement or (2) request the PTO to negotiate instructions, consistent with the pre-existing agreement, to govern access to the RTO West Transmission System.

- If the parties are unable to agree on instructions under (2) above, RTO West may compel arbitration.

9. Pre-Existing Transmission Agreements

- Each PTO shall suspend through a separate Suspension Agreement the transmission service and ancillary service provisions in its pre-existing transmission agreements with other PTOs. The transmission charges associated with the suspended services will be converted to transfer charges among the PTOs.
- RTO West shall provide to the Executing Transmission Owner all transmission services necessary to satisfy its obligations under pre-existing and nonconverted transmission agreements with non-PTO customers. The PTO shall provide for the scheduling of such service under such pre-existing agreements directly with RTO West.
- The PTO shall make a good faith offer to third parties holding existing transmission agreements to suspend or terminate such agreement in return for FTRs and payment to the PTO of transfer charges or the Company Rate, as appropriate. If the offer is declined, the PTO shall attempt to negotiate appropriate modifications to procedures in the existing agreement to be consistent with RTO West operating procedures, deadlines, and other protocols.

10. Firm Transmission Rights (FTRs).

- Each PTO shall receive FTRs on the RTO West Controlled Transmission System to (1) replace its firm rights under pre-existing transmission agreements; (2) serve its obligations to loads connected to its transmission system and not covered by a pre-existing transmission agreement; (3) serve obligations under bundled power sale, exchange, coordination or other obligations not covered by a pre-existing transmission agreement; (4) satisfy its obligations under non-converted transmission agreements with parties that are not PTOs; and (5) replace ownership and contract rights to firm transmission capability for which there are no conflicting firm rights of use pursuant to an pre-existing contract.
 - RTO West shall market the FTRs for the last category above and shall allocate the revenues to the PTO.
- FTRs comparable to the firm rights held under pre-existing contracts shall also be granted to any other entity agreeing to suspend transmission service rights under pre-existing contracts.
- Each year during the Company Rate Period, the PTO shall submit load growth projections for the following year for (1) its obligations to serve loads connected to its system and (2) its non-converted transmission agreements providing for service to load growth of third parties.

Prior to the annual FTR auction, RTO West shall allocate any unencumbered firm transmission capacity allocated to the PTO on the RTO West Transmission System as needed and without additional charge to meet the PTO's reasonable load growth projections.

- FTRs shall be extended beyond the initial term of a pre-existing contract if the contract contains explicit roll-over rights which do not depend on the PTO's open access transmission tariff for their existence and the transmission rights holder so elects. Any pre-existing transmission agreement for delivery of power to meet loads shall be deemed to include roll-over rights.
- FTRs shall be based on two feasible dispatches (on-peak and off-peak) for each month.
- If the initial allocation of FTRs or other rights including set-asides for nonconverted rights exceeds the capability of a flowpath after compliance by all PTOs with their obligations to maintain transfer capability, the capability shall be allocated pro rata.

11. Protection of PTO's Obligations and Responsibilities. The PTO shall not be required to take actions that would violate NERC or WSCC requirements, its FERC licenses, other FERC requirements, its NRC licenses or NRC requirements, applicable governmental laws or regulations, applicable non-power requirements with which the PTO is obligated to comply (including without limitation environmental laws, regulations, court and administrative orders, or biological opinions) or its safety rules.

12. Maintenance Performance Plan. RTO West and the PTO shall negotiate a performance plan for maintenance of RTO West Controlled Transmission Facilities that specifies reasonable minimum reliability and availability requirements. If a performance plan has not been jointly developed within one year of the Transmission Service Commencement Date, either party may invoke dispute resolution to resolve any disputes as to the minimum elements of an appropriate performance plan.

13. Planning. Except as stated below, RTO West shall assume primary responsibility for planning of the RTO West Controlled Transmission Facilities and shall have the right to review proposals for additions or modifications to all such facilities.

- PTO's which have been found by FERC to be independent from control of market participants or are otherwise entitled to exercise such authority may plan their Transmission Facilities and make additions, modifications and expansions thereto, except that RTO West shall have primary planning responsibility and final decision making authority with respect to RTO West Controlled Transmission Facilities. If the additions or modifications or expansions to such facilities do not impair reliability or bulk transmission capability of the RTO West Transmission System, RTO West shall not unreasonably delay or withhold the requested approval.
- In planning the RTO West Transmission System, RTO West shall comply with (1) Good Utility Practice; (2) all applicable standards of NERC and WSCC; and (3) all applicable requirements of regulatory agencies with authority over planning.

14. Rates.

- Each PTO shall establish rates to charge RTO West for use of its transmission facilities pursuant to its own ratemaking requirements.

- Each PTO shall establish Company Costs and Company Billing Determinants during the Company Rate Period.
- RTO West Tariff shall specify that Company Rates are to be billed by RTO West as a billing agent for the PTO and that all applicable bills shall provide for payment of the Company Rate portion directly to a payment agent designated by the PTO.
- During the Company Rate Period, RTO West's charges for use of the RTO West Transmission System shall be comprised of (1) Company Rate charges; (2) transfer charges for use of BPA's facilities and imposed on utilities listed in Exhibit H which do not become PTOs; (3) compensation to RTO West for its costs of operations; and (4) any stranded costs.
- RTO West shall compensate the PTO for its lost revenues related to pre-RTO levels of short-term firm and non-firm wheeling which cannot be recovered through transfer charges. These payments shall be repayable by the PTO from revenues from the sale of FTRs.
- After the Company Rate Period, RTO West shall set rates to recover revenues (i) adequate to recover the PTO's annual revenue requirement and (ii) that continue to be collected in a manner that satisfies all obligations applicable to debt of Energy Northwest that is guaranteed through arrangements with BPA.
- The PTO retains the right to unilaterally file with FERC for performance-based rates and other incentive-oriented rate recovery mechanisms if FERC determines that the PTO is independent from control of market participants or otherwise entitled to exercise such authority.
- Nothing in the TOA is intended to create, modify or extinguish any right or obligation of either party regarding recovery by the PTO through transmission charges of its Stranded Costs.
- The PTO reserves the right to file rate schedules with FERC for the recovery of Stranded Costs and to collect Stranded Costs with respect to wholesale and retail loads with access to the PTO's transmission facilities. Any load shall be deemed to access such facilities if and to the extent (1) the point(s) of interconnection of such load with the RTO West Transmission System are or were with such transmission facilities or (2) such load is not directly connected to the transmission facilities but would have had insufficient transmission interconnections with transmission providers other than the PTO to receive the power being wheeled to such load.
- The RTO West tariff shall contain an automatic adjustment clause or other provision that provides for the recovery of such Stranded Costs as a surcharge for transmission service to such loads.
- By June 1 of each year, the PTO shall report to RTO West its costs in the most recent calendar or fiscal year for those items which are the basis of the rates to RTO West in the PTO's rate schedule, including rate base, expenses, and transmission facilities constructed or retired during the reporting period.
- RTO West shall not add any charges to BPA's revenue requirement that would provide RTO West with a profit or return on Federal assets.
- With respect to PTOs whose rates are not required to be accepted for filing or approved by FERC, any costs of such PTOs which would not be allowed under FERC standards, adapted as necessary to recognize relevant differences between such PTOs and public utilities, shall be recoverable only from loads taking transmission service at points of delivery on the PTO's system.

- Any costs, losses, liabilities or penalties incurred by a PTO in conjunction with the loss of tax-exempt status of any of its bonds resulting from transfer of Operational Control of the PTO's Transmission Facilities to RTO West, or the use of any capacity on any of such facilities pursuant to any such transfer, shall be recoverable only from loads taking transmission service at points of delivery on the PTO's system.
- Costs reasonably incurred by a PTO in connection with issuance of bonds in replacement of tax-exempt bonds allocable to transmission facilities included in the RTO West Transmission System and the costs of any increased debt service shall be recoverable from RTO West.

15. Liability. Each PTO must execute an Agreement Limiting Liability Among RTO West Participants.

16. Dispute Resolution.

- A dispute resolution mechanism is available to resolve any dispute arising under the Agreement except disputes relating to rates charged by RTO West or the PTO.
 - May be used to resolve disputes over which provisions of a transmission agreement between Executing Transmission Owners should be suspended.
- Dispute resolution mechanism involves:
 - Reasonable efforts to informally settle;
 - Appointment of a facilitator;
 - If not resolved within 30 days after first meeting with facilitator, any disputing party may commence an arbitration process.
 - Notice of arbitration shall be posted on the RTO Website
 - Parties select an arbitrator through mutual agreement or by striking names from a list of ten qualified individuals
 - Three member arbitration panel option is available to either party if it commits to paying the costs of the two additional arbitrators.
 - Arbitrator determines discovery procedures, intervention rights, procedures for taking evidence, what written submittals may be made, and other procedural matters.
 - Unless the parties otherwise agree, all intervenors must agree to be bound by the provisions which apply to the disputing parties.
 - Within 115 days of his/her selection, the arbitrator shall select the proposed award of one of the parties or intervenors (baseball arbitration) unless the Agreement provides otherwise for a particular type of dispute.
 - Unless appealed, no award shall be considered precedential in any other arbitration related to a different dispute.
 - Arbitration costs shall be borne by the party or parties whose proposed award was not selected, except that the parties shall bear their own costs associated with attorney and witness fees.
 - Any party may appeal the arbitrator's decision to FERC, or to a court where FERC has no jurisdiction, within 30 days of its issuance.
 - Similar Canadian dispute resolution mechanisms exist for disputes involving transmission facilities within Canada or interconnection or transmission service provided

through such facilities, except that appeals go to the appropriate Canadian Regulatory Authority or Canadian court.

17. Miscellaneous.

- If (1) the PTO withdraws from RTO West and (2) other Executing Transmission Owners whose facilities serve loads that would provide one-half or more of RTO West's remaining revenues also give notice of their intent to withdraw within one year before or after the PTO's withdrawal notice, the PTO shall be responsible for a share of RTO West's net costs, if any, of terminating its operations and winding up its corporate existence.
 - The PTO's share shall equal the ratio of to the Company Costs or other rates, charges or fees established by the PTO for use of its transmission facilities to the total of such Company Rates or other rates, charges or fees so established by all Executing Transmission Owners from whom RTO West is able to collect payments assessed for its costs of terminating operations and winding up.
- Nothing in the TOA shall be interpreted to supersede the requirements of any existing agreement unless otherwise expressly stated in the TOA.
- Each PTO may elect to include in its TOA with RTO West a provision by which RTO West agrees not to use the PTO's Transmission Facilities to deliver service to or on behalf of end use customer if FERC would be prohibited from ordering such service under Section 212(h) of the Federal Power Act unless (1) such service is required by authority of competent jurisdiction; (2) the end use customer is a direct service industrial customer as defined in the Northwest Power Act; or (3) such service has been agreed to by the retail utility that formerly served the end use customer.

Definitions

"Company Billing Determinants" means those billing determinants for calculating the Company Loads to which Company Rates will apply, in such amount and calculated in such manner as proposed by the Executing Transmission Owner and accepted for filing or approved by the FERC.

"Company Costs" means the costs of the Executing Transmission Owner incurred in connection with the ownership and operation of the Transmission Facilities, including any applicable performance or incentive payments, as the Executing Transmission Owner may propose and the FERC may accept for filing or approve. Company Costs shall not include (1) any Transfer Payments to be made or to be received by the Executing Transmission Owner or (2) any payment or receipt of Transmission Facility Cost Sharing Payments that have been allocated under the RTO West Tariff. Company Costs shall be reduced by any Lost Revenue Amounts applicable to the Executing Transmission Owner.

"Company Loads" means, if the Executing Transmission Owner is the Bonneville Power Administration or a "public utility" as defined by the Federal Power Act, those loads interconnected with the Electric System of the Executing Transmission Owner; provided that loads served under General Transfer Agreements (including loads served through new delivery points, but not loads served in additional service territories annexed after the date of this Agreement) shall be deemed the Company Loads of the Executing Transmission Owner taking service for such loads under the applicable General Transfer Agreement

"Company Rate Period" means the period commencing on the Transmission Service Commencement Date and extending through December 14, 2011.

"Firm Transmission Right" means the right to schedule, on a firm basis, one megawatt of electric power and energy over a particular Flowpath in one direction for a particular hour.

"Flowpath" means one or more RTO West Controlled Transmission System facilities for which transmission use is managed through requiring Firm Transmission Rights in order to schedule in a particular direction.

"Operational Control" means the rights of RTO West under this Agreement and under the applicable RTO West tariff to direct the Executing Transmission Owner to operate the Transmission Facilities and other electric plant affecting the reliability of the RTO West Transmission System for the purpose of affording comparable non-discriminatory transmission access and meeting applicable reliability criteria for the RTO West Transmission System.

"RTO West Controlled Transmission Facilities" means those Transmission Facilities over which RTO West shall exercise Operational Control. Unless the FERC approves an exception, these shall include all Transmission Facilities that have a material impact on (1) transfer capabilities of

RTO West managed constraint paths between its Congestion Management Zones, (2) the ability to transfer electric power and energy within Congestion Management Zones and (3) the ability to transfer electric power and energy into or out of the RTO West Transmission System. A Transmission Facility shall be deemed to have a material impact on transfer capabilities between Congestion Management Zones or into or out of the RTO West Transmission System if such transfer capabilities would change if the Transmission Facility were removed. A Transmission Facility shall be deemed to have a material impact on transfer capabilities within Congestion Management Zones if such Transmission Facilities carry ten percent (10%) or more of the electric power and energy transferred through parallel paths through a Congestion Management Zone. The classification of the low-voltage side of a transformer will determine whether such transformer must be included and substation facilities radial to a transformer must be included if the transformer is included. The Executing Transmission Owner shall not be required to include those Transmission Facilities that are radial to load.

“RTO West Critical Control Facilities” means those facilities, protective relay systems and Remedial Action Schemes for which RTO West requires more direct control than as otherwise provided herein through the Operational Control of RTO West Controlled Transmission Facilities. Such more direct control may include automatic control, supervision control or other forms of control, including the ability to provided control direction by voice.

“Stranded Costs” means any amounts charged by a Participating Transmission Owner to RTO West (1) for the recovery of power costs that the Participating Transmission Owner is unable to fully recover through its revenues for the sale of power or (2) for the recovery of any costs the Executing Transmission Owner is allowed by the FERC to charge loads that reduce or eliminate the purchase of power from the Executing Transmission Owner or that reduce or eliminate their contributions to paying for any portion of the Electric System of the Executing Transmission Owner.

“Transmission Service Commencement Date” means the date that RTO West commences its provision of Transmission Services and Operational Control over the RTO West Transmission System.

COMPANY RATES

The Company Rate to be included in RTO West's charges to the Executing Transmission Owner's Company Loads shall be calculated pursuant to the following formula:

Company Rate = (Company Costs +/- Transfer Charges +/- Transmission Facility Cost Sharing Payments - FTR Revenue Allocation) / (Company Billing Determinants);

provided that, FTR Revenue Sharing shall mean an allocation of the revenue from the sale of Firm Transmission Rights allocated to the Executing Transmission Owner to replace ownership and contract rights to firm transmission capability for which there are no firm right pursuant to Pre-Existing Transmission Agreements. The revenues from the sale of such Firm Transmission Rights, if sold prior to the pre-schedule day, initially shall be credited pro rata to each Participating Transmission Owner holding the applicable Firm Transmission Rights, in proportion to the amount that the Transmission Facilities of such Participating Transmission Owner contributes to the subject flowpath. Each Participating Transmission Owner's revenues then will be applied in the following manner:

- (4) First pro-rata to offset any allocation made to the RTO West uplift charge pursuant to section 15.5 to compensate the Participating Transmission Owner receiving the revenues for lost pre-RTO levels of short-term and non-firm revenues (up to amounts as listed in Exhibit H.)
- (5) Next, pro-rata to:
 - (c) Return or offset to the payer amounts of Transfer Charges listed in Exhibit H under the heading "Short-Term Firm and Non-Firm Wheeling Revenues" for any Participating Transmission Owner, with a corresponding adjustment to the payer's Company Rate; and
 - (d) Compensate a Participating Transmission Owner holder of the Firm Transmission Rights for any loss of Transfer Charge revenues listed in Exhibit H under the heading "Long-Term Wheeling Revenues," with a corresponding adjustment to the holder's Company Rate.
- (6) Then to the Participating Transmission Owner initially allocated such revenues, with a corresponding reduction to the recipient's Company Rate.

The revenues from the sale of such Firm Transmission Rights by RTO West on and after the pre-schedule day, whether sold as Firm Transmission Rights, recallable rights, non-firm rights or otherwise, will be applied in the following manner:

- (1) First pro-rata to offset any allocation made to the RTO West uplift charge pursuant to section 15.5 to compensate the Participating Transmission Owner receiving the revenues for lost pre-RTO levels of short-term and non-firm revenues (up to amounts as listed in Exhibit H.)
- (2) Next, pro-rata to:

- (a) Return or offset to the payer amounts of Transfer Charges listed in Exhibit H under the heading “Short-Term Firm and Non-Firm Wheeling Revenues” for any Participating Transmission Owner, with a corresponding adjustment to the payer’s Company Rate; and
 - (b) Compensate a Participating Transmission Owner holder of the Firm Transmission Rights for any loss of Transfer Charge revenues listed in Exhibit H under the heading “Long-Term Wheeling Revenues,” with a corresponding adjustment to the holder’s Company Rate.
- (3) Then to RTO West, to be applied against its costs of operations.

RTO West, through the RTO West Tariff, shall determine whether the various Transfer Charges and FTR Revenue Sharing Amounts shall be applied to Company rates on a current, on an estimated and adjusted or on a lagged basis. Any deferred payment of Transfer Charge and FTR Revenue Sharing amounts shall include application of all earnings thereon.

ANNUAL TRANSFER CHARGE AMOUNTS

Electric Utility -- Bonneville Power Administration

A. Transfer Charges payable to:

- (1) Utility A
 - (a) Long-Term Wheeling Agreements
(list agreement, duration and amount)
 - (b) Short-Term Firm and Non-Firm Wheeling
(list amount)
 - (2) Utility B, etc.
- B. Lost Revenue Recovery Amount:
(list amount)

[Repeat the same listings for every potential Participating Transmission Owner with Transfer Charge rights or obligations, including Canadian entities and Electric Utilities served under Company Rates of Participating Transmission Owners.]
[Note: In Section 16 of BPA's form of this Agreement, all amounts due to any Participating Transmission Owner by an Electric Utility listed in Exhibit H, if such Electric Utility fails to become a Participating Transmission Owner (either directly or through an independent grid operator), shall be collected as an additional Access Charge for use of BPA's Transmission Facilities and shall be paid to BPA. The Agreement to Suspend Provisions of Pre-Existing Transmission Agreements shall provide, in turn, that the amount of any such Transfer Charges owed to a Participating Transmission Owner other than BPA shall be paid to such other Participating Transmission Owner by BPA.]

Transfer Charge adjustment: If a Participating Transmission Owner has elected not to apply the Transfer Charge adjustment, its Transfer Charge entitlements as shown above shall throughout the Company Rate Period shall be the amounts as stated in this Exhibit H. If a Participating Transmission Owner has elected to apply the Transfer Charge adjustment, upon any filing of a Company Cost change (subsequent to the initial Company Cost filing), RTO West shall determine the increase or decrease in such Participating Transmission Owner's unit transmission costs, based on such Participating Transmission Owner's actual transmission costs during an historical period and pursuant to a formula to be determined by RTO West and to be specified in an amendment to the RTO West Tariff. Such unit cost percentage increase or decrease shall be applied to adjust all Transfer Charges specified in this Exhibit H as owed to such Participating Transmission Owner, other than those Transfer Charges identified above as non-adjustable under applicable Pre-Existing Transmission Agreements.

Exhibit II

Scope and Regional Configuration

RTO West Scope and Regional Configuration

The RTO shall cover the transmission systems of all transmission owners willing to participate and located within the United States portion of the Northwest Power Pool. In addition, the RTO is designed to reasonably accommodate the addition of facilities of other transmission owners within the Western Systems Coordinating Council (WSCC) area. (See Attached Geographic Scope map).

The proposed boundaries of RTO West encompass a significant single contiguous geographic region ranging from the United State - Canadian border to the southern tip of the state of Nevada. The proposal covers approximately _____ square miles across seven states. It covers the transmission facilities (reference to facilities inclusion list?) of the following utilities and power marketing administration:

- Avista Corporation
- Bonneville Power Administration
- Idaho Power Company
- Montana Power Company
- Nevada Power Company
- PacifiCorp
- Portland General Electric
- Puget Sound Energy
- Sierra Pacific Resources

Inclusion of these transmission facilities under the operational control of RTO West encompasses the vast majority of interconnected facilities in the U.S. portion of the Northwest Power Pool. It encompasses transmission facilities of the Filing Utilities at the major energy trading hubs at the California-Oregon border (COB), Nevada-Oregon border (NOB), mid-Columbia (Mid-C) trading hub and interfaces at the Canadian border and the Mead/Four Corners area of the Southwest Power Pool. Through consolidation of the control area function of the entities listed above, RTO West will operate more than 90% of the existing high voltage transmission facilities within its proposed geographic scope.

RTO West will encompass the major existing control areas within the 7-state region. It will:

- Provide Total Transfer Capacity (TTC) and Available Transfer Capacity (ATC) determinations for all paths under its control.
- Be the sole entity to manage transmission congestion through the proposed physical rights model discussed in the filing.
- Eliminate transmission rate pancakes through the administration of the pricing proposal included in this filing.
- Possess the control authority to effectively address loop flow issues within its boundaries.
- Improve operation of the transmission grid under its control by consolidating control area operator functions of the Filing Utilities. We will be moving toward the creation of a single NERC-certified control area operator for the region under RTO West.
- RTO West will have a transmission planning back stop role for meeting load service obligations. It will identify reliability problems within its geographic scope and work with affected transmission owners to remedy the situation.

In addition to directly controlling facilities within the proposed geographic area, RTO West Filing Utilities have worked actively with other utilities throughout the region and with Canadian entities to create an RTO that covers the widest geographic area possible.

In conclusion, the proponents of this filing believe we have effectively satisfied the scope and configuration characteristic of the Final Rule. We respectfully request Commission approval on the regional scope and configuration of the RTO West Filing.

Exhibit III

Congestion Management Model

RTO West Congestion Management Proposal - Overview

To meet the requirements of Order 2000, RTO West proposes a “flow-based physical rights” congestion management model. RTO West will manage congestion on flowpaths, which are RTO grid facilities that are expected to have commercially significant amounts of congestion. A candidate list of flowpaths has been identified. The initial flowpaths will be listed in the tariff along with procedures for adding or removing flowpaths as changes are warranted.

RTO West will determine the Total Transfer Capability (TTC) for each flowpath and the amount of transmission rights to issue. On these flowpaths, RTO West will manage congestion primarily by the issuance of transmission rights. Customers who wish to schedule across flowpaths will be required to have transmission rights such as Firm Transmission Rights (FTRs) primarily, Recallable Transmission Rights (RTRs), Non Firm Transmission Rights (NTRs), and non-converted rights set-aside described below before the schedule is accepted. Congestion is therefore mostly self-limited by the need to acquire FTRs.

Most of the congestion costs associated with the flowpath are borne by the path users through the costs to purchase transmission rights and through the curtailment of these rights under certain circumstances, such as extended outages of RTO grid facilities. Any other congestion (“residual congestion”) is managed by the RTO through the RTO’s redispatch of resources, repurchase of rights, and/or as a final resort, curtailment of schedules.

RTO West proposes a “flow-based” model in which Flow Distribution Factors (FDFs) will be used to determine how schedules are deemed to flow between Congestion Zone source and sinks on flowpaths thereby requiring transmission rights. Many preexisting ownership and contract rights are defined on a contract path basis. Prior to the tariff filing, these rights will be translated (mapped) from their now existing contract paths onto flowpaths. If the filing utilities find that translation to flowpaths seriously impairs the ability of rights holders to utilize or be compensated for their existing transmission rights, the initial tariff filing will include a transition period to move from the contract path to the flow-based congestion management model.

This congestion management system will align well with those operating or proposed in other ISOs and RTOs in the Western Interconnection, although interregional coordination will be required to manage some differences.

Transmission Rights

A Firm Transmission Right (FTR) is an entitlement to schedule one megawatt of electric power and energy on a flowpath in a particular direction for a particular hour. In order to meet the characteristics described above, FTRs will be clearly identified and tradable. All FTRs provide the same class of service.

Initially, rights to use the RTO West grid will be granted to holders of preexisting contracts and load service obligations as described below (Preexisting Rights section). Remaining FTRs will be auctioned by RTO West on an annual, seasonal, monthly and daily basis as conditions allow. FTRs may be traded bilaterally or via non-affiliated exchanges. Attributes of FTRs on each flowpath will be described on a Term Sheet, including factors such as major planned outages for the upcoming year and historical frequency and duration of reductions to the flowpath capacity.

Recallable Transmission Rights (RTRs) are associated with FTRs that were not scheduled during the day-ahead scheduling process, and are auctioned daily. RTRs may be recalled up to some point (perhaps 120 minutes) before delivery hour. After that point, FTRs and RTRs are identical.

Non-Firm Transmission Rights (NTRs) are created by the release of unused capacity associated with non-converted contracts, capacity scheduled for the delivery of operating reserves, and capacity associated with counterflows during the day-ahead scheduling process. NTRs may be recalled at any time by the RTO should the underlying capacity become unavailable.

For monthly and sub-monthly FTR auctions and all RTR and NTR auctions, a single round, market clearing price auction will be used, with the market clearing price defined as the highest losing bid. For FTR releases longer than a month, several auction methods are still being studied including a multiple round discrete, market clearing price auction and a single round market clearing price auction. The proposed method will be described in the Tariff.

Preexisting Rights

Holders of preexisting ownership and contract rights will be provided rights on a comparable basis to use the RTO West transmission facilities as described in the Transmission Operating Agreement (TOA). FTRs will be granted to the participating transmission owners (1) to replace their firm rights under the long-term transmission agreements they have agreed to suspend, (2) to serve the load service obligations of the participating transmission owners not covered by the suspended transmission agreements and (3) to serve obligations of the participating transmission owners under any pre-Order 888 bundled power sale, exchange, coordination or other obligations not covered by a transmission agreement. To satisfy obligations the participating transmission owners have under transmission agreements that the customer decides not to convert to RTO service, RTO West, under rules to be determined, shall either grant FTRs sufficient to meet such obligations or withhold transmission capacity sufficient for RTO West to accept schedules under the agreements (non-converted rights set-aside).

Any remaining capacity will be auctioned by the RTO with the proceeds assigned to reduce transfer payments, costs shifts and Company Rates as described in the Company Rates proposal.

Rights for Load Service Obligations and for nonconverted transmission agreements providing for service to loads are determined based on non-coincidental peak and off-peak loads from 1998-2000. During the Company Rate Period (through December 14, 2011) additional FTRs will be

made available without charge to each participating transmission owner, as needed to meet the following year's reasonable load growth projections, up to the amount of (1) the transmission owner's unencumbered transmission facility capability plus (2) any other participating transmission owners unencumbered transmission facility capability, as committed under pre-RTO transmission agreements.

In order to achieve reasonable comparability with preexisting rights, FTRs will be based on two feasible dispatches (peak and off-peak) for each month. Additional dispatches will be used where preexisting rights provide for use in both directions on a flowpath.

An initial listing of transmission rights, including FTRs and non-converted rights set-aside or granted on each initial flowpath to holders of pre existing contracts and load service obligations will be included in the tariff filing. If during the initial allocation of rights it is determined that rights exceed flowpath capacity thus requiring a reduction of rights, FTR's and set-asides for non-converted rights will be treated equally.

Transmission customers of the Participating Transmission Owners who choose to suspend their agreements and take service from RTO West will be granted rights on terms comparable to those described above.

Scheduling

The RTO West scheduling process is designed to maximize opportunities for efficient decentralized decision making, both access and pricing, by market participants while providing for a secure and reliable grid. RTO scheduling protocols accommodate continuous secondary markets operating as close to real time as possible.

Scheduling Coordinators (SCs) are the single point of contact between RTO West and its eligible customers (wholesale loads, direct access retail loads and generators that use the grid). Every eligible customer who wishes to use the RTO grid must have an SC (one and only one SC per meter). Any eligible customer can become a SC or can designate an SC to represent the eligible customer. SCs must be certified by the RTO and meet technical and financial requirements.

SCs must submit balanced schedules – specifying injections, withdrawals, transmission rights, types and quantities of Ancillary Services to be self-provided, and other information – to the RTO in order to gain access to the RTO Grid. SCs may also submit Proposed Schedules – schedules that do not include all of the transmission rights (FTRs and RTRs) – to the RTO for consideration pursuant to the rules described below.

Several scheduling processes and settlement will take place:

1. One and Two Day ahead Scheduling Process (Pre-Schedules)
2. Post Day Ahead – Schedule Adjustment Period
3. Real Time – Operating Hour
4. Settlement

1. Day-Ahead Scheduling Activities

The Day-Ahead Scheduling Process (DASP) is the primary process through which all uses of the grid – including the scheduling of energy, capacity, transmission rights and Ancillary Services – takes place.

SCs holding FTRs initially submit an intent to schedule their FTRs. Any unused FTRs are auctioned by the RTO as RTRs. SCs then submit schedules to the RTO. An SC may, at its option, submit its schedule in two parts: a Balanced Schedule and a Proposed Schedule. A Proposed Schedule is deemed to be a bid for NTRs at a stated price (in the absence of a submitted bid dollar value, the RTO will deem the SC's bid price to be zero dollars). This allows for a schedule to be submitted without transmission rights if the customer believes there will be no congestion on a flowpath.

The RTO will not become involved in the process of allocating or brokering transmission rights to SCs. If the sum of the NTRs that the RTO can make available after Balanced Schedules have been submitted is less than the sum of the NTRs required by SCs who submitted Proposed Schedules, the RTO will reject the Proposed Schedules. The RTO will allow those SCs whose Proposed Schedules were rejected to acquire the necessary rights or alter those schedules and resubmit them as Balanced Schedules.

2. Post Day Ahead – Schedule Adjustment Process

The Schedule Adjustment Process (SAP) is an ongoing, continuous process, within which the RTO shall process SCs' requests for schedule changes as they are received by the RTO, on a first-come, first-served basis. This process begins at the close of the Day-Ahead Scheduling Process and continues until a reasonable time prior to the start of the Delivery Hour. During this period the SCs may adjust their portfolios (demands, supply and trades) and submit schedule changes (incremental schedules) with accompanying transmission rights to the RTO.

Throughout the Schedule Adjustment Process, the RTO will do such duties as:

- a. continuously update load forecasts and grid ancillary services requirements,
- b. receive and validate Balanced Schedules from SCs,
- c. calculate loading on flowpaths and other grid facilities,
- d. release unused capacity (as RTRs and NTRs),
- e. determine if any residual congestion exists and eliminate such congestion through the use of redispatch bids and/or buyback of FTRs,
- f. develop the Operating Plan for the upcoming day (including determining the resource stacks for Balancing Energy and Operating Reserves).

An SC's request to change generating unit output levels, to re-designate resources which provide Ancillary Services, or to change import or export schedules will be subject to RTO approval, which shall be granted provided that: (i) there is sufficient time for the RTO to evaluate the impacts of the proposed change; and (ii) the proposed change would neither increase congestion

nor otherwise create a grid security problem. The RTO will receive, validate and incorporate continuous adjustments to schedules submitted by SCs as long as no new congestion is created, update the RTO's operational models and operating plans, respond to contingencies which result in decreases in transfer capability or otherwise create congestion, and procure any additional Ancillary Services.

3. Real Time – Operating Hour

SCs that have been selected to provide Ancillary Services will respond to control signals from the RTO. SCs may make arrangements, bilaterally or through market exchanges, for real-time changes to schedules and submit them to the RTO for approval.

The RTO will receive, validate and incorporate continuous adjustments to schedules submitted by SCs as long as no new congestion or operational problems are created, receive real-time metering data and respond to energy needs through dispatch of the Balancing Energy stacks, and clear congestion using redispatch procedures, including the dispatch of resources in the Balancing Energy stacks.

At Operating Hour, all NTRs will be placed in a single stack regardless of when they were acquired. If NTRs need to be recalled by the RTO, the RTO will recall them in the order of lowest bid price to highest bid price. Through this mechanism, the RTO will have established a queue for recall – rather than a requirement to cut all NTRs pro rata – and SCs will have obtained the ability to establish NTRs of higher and lower recall quality.

4. Settlement Activities

The RTO will receive validated settlement-quality data, including metered injections and withdrawals, and transmission and generation availability. The RTO will calculate zonal Balancing Energy prices based on the marginal bid for delivery of energy dispatched by the RTO in the zone, determine each SC's energy imbalances for each Congestion Zone, send preliminary imbalance account statements to each SC, and settle with each SC for final net Balancing Energy payments and for ancillary services. The RTO will also accumulate costs for resolving residual congestion for future use in updating flowpaths.

SCs are responsible to provide validated settlement-quality meter data to the RTO. SCs will receive imbalance accounting information from the RTO, trade their imbalances with other Market Participants, pay the RTO for any net energy deficiencies (or receive payment for excess energy provided to the RTO), and pay for ancillary services obligations that were not met through self-provision.

Exhibit IV

Ancillary Services

In compliance with FERC Order 2000, RTO West will: (1) serve as the provider of last resort of all Ancillary Services required under FERC Order 888, as supplemented, (2) ensure that adequate arrangements are put into place to ensure the development of a competitive market for Ancillary Services and (3) encourage market participants to self-provide their respective obligations of Ancillary Services.

RTO WEST ANCILLARY SERVICES

Regulation

The coordinated adjustment by RTO West of generation capacity on a second-by-second basis in real-time in order to continuously balance generation and Demand within the RTO West Control Area, thereby maintaining Area Control Error, system frequency and interchange with non-RTO West Control Areas within acceptable limits.

Load Following Up

The coordinated adjustment by the RTO West of resources on a minute-by-minute basis in real-time in response to net decreases in demand in the RTO West Control Area.

Load Following Down

The provision by an SC to RTO West of generation or demand-side capacity that can be dispatched by RTO West in real time on a minute-by-minute basis to respond to net decreases in demand in the RTO West control area.

Spinning Reserve

The coordinated adjustment by the RTO West of synchronized resources in real-time in response to loss-of-resource contingencies on the RTO West transmission facilities.

Non-Spinning Reserve

The coordinated adjustment by the RTO West of resources, that may or may not have been synchronized to the RTO West transmission facilities prior to RTO West's dispatch instructions,

in real-time in response to loss-of-resource contingencies on the RTO West transmission facilities.

Replacement Reserve

The coordinated adjustment by the RTO West of generation or demand-side capacity that can be made available to the RTO West on sixty-minute notice, to enable the RTO West to maintain adequate capacity in the RTO West's Balancing Energy stack.

Congestion Redispatch

The scheduling by the RTO West of dispatchable blocks of energy from generation or demand-side resources during RTO West's Day-Ahead Scheduling Process or RTO West's Schedule Adjustment Process to enable the RTO West to eliminate residual congestion prior to real-time.

Balancing Energy

RTO West's coordinated use of Regulation, Load Following Up, Load Following Down, Replacement Reserve and Supplemental Energy resources and, to a limited extent, Spinning Reserve and Non-Spinning Reserve resources (for the period of time during which these two types of resources are dispatched in response to a contingency) – in real-time to deliver energy to, or acquire energy from, each SC's account in order to balance each SC's account on a periodic (ten-minute) basis and to enable the RTO West to comply with NERC and WSCC control area performance standards.

Voltage Support

Then coordinated scheduling by the RTO West of generation resources to maintain transmission voltages within acceptable limits throughout the RTO West transmission facilities.

Black Start

The procurement by the RTO West and emergency dispatch by the RTO West pursuant to emergency restoration plans, of generation resources that are capable of self-starting without support from the RTO West in the event of a blackout, in order to restore the RTO West transmission facilities to a secure operating state.

Scheduling and Dispatch

RTO West's (1) receipt, validation, coordination, adjustment and acceptance of scheduling information from Scheduling Coordinators (SCs), in order to develop a secure RTO West transmission facility and (2) monitoring, control and redispatch of transmission and generation resources to operate the Grid within Applicable Reliability Criteria.

SELF PROVISION OF ANCILLARY SERVICE

Scheduling Coordinators are encouraged to satisfy their Ancillary Services obligations by self-providing resources capable of meeting RTO West's Ancillary Services requirements.

- A. "Self provision" is the satisfaction of all or a part of an SC's Ancillary Service obligation by the SC's provision to RTO West of suitable control over the capacity and/or the energy output of SC-designated resources, thereby enabling the RTO West to reduce the amount of Ancillary Service resources that the RTO West would otherwise be required to acquire through RTO West's Ancillary Service procurement process.
- B. An SC may self-provide Ancillary Services using resources for which the SC is the Scheduling Coordinator, or using resources provided by another SC through an inter-SC trade of Ancillary Services. Such resources must have previously been certified by RTO West as capable of providing the designated Ancillary Service(s).

RTO WEST AS PROVIDER OF LAST RESORT

The RTO shall, as a provider of last resort, make the following Ancillary Services available to all users of the Grid:

- 1) Regulation Service
- 2) Load Following Up Service
- 3) Load Following Down Service
- 4) Spinning Reserve Service
- 5) Non-Spinning Reserve Service
- 6) Replacement Reserve Service
- 7) Congestion Redispatch Service
- 8) Supplemental Energy Service
- 9) Voltage Support Service

10) Black Start Service

Each SC shall pay RTO West for that portion of the SC's allocated share of each of the Ancillary Service obligations that the SC does not meet through self-provision. RTO West shall bill each SC for the SC's net obligations in two stages:

- 1) In the first stage, the SC shall be charged based on estimated data, using the schedule information submitted by the SC, as part of the daily settlement process.
- 2) In the second stage, RTO West shall settle with SCs based on actual meter data, as part of the monthly settlement process.

The RTO shall not discriminate, in technical qualification criteria, scheduling, dispatch, compliance monitoring or any other way, between resources on the basis of whether they have been self-provided or procured directly by RTO West.

INITIAL RTO WEST OPERATIONS

Commencing with the Transmission Service Commencement Date, and absent a FERC approved tariff of the Executing Transmission Owner otherwise providing, the Executing Transmission Owner shall continue to be obligated to provide, pursuant to FERC- approved tariffs for all loads and generation connected to the Executing Transmission Owners Electric System each Ancillary Service that the FERC requires such Executing Transmission Owner to provide immediately prior to the Transmission Service Commencement Date. Such Ancillary Services must be provided within the geographical area of the Executing Transmission Owner and until such time as the FERC has determined that a competitive market exists.

If a competitive market for Ancillary Services does not exist prior to the Transmission Service Commencement Date, RTO West shall issue a Request for Proposal (RFP) to create an Ancillary Services Market. RTO West will enter into a contract with a third-party committed to meet the requirements set forth in the RFP. The RFP will be bid on a competitive basis and to the extent required re-issued every 1-3 years to ensure RTO West can meet its obligations to provide Ancillary Services at a reasonable cost.

POST COMPETITIVE MARKET OPERATIONS

At such time as a competitive market exists for Ancillary Services, RTO West will meet its obligations as provider of last resort by acquiring, at a minimum, Regulation, Load Following, Spinning Reserves and Non-Spinning Reserves Ancillary Services in the day-ahead and hour-ahead markets.

With the exception of the Initial RTO West Operational Period and for the procurement of Voltage Control and Black Start capability Ancillary Services, RTO West shall not procure Ancillary Services on a forward basis.

RTO West will be the sole provider of Scheduling and Dispatch Services

Exhibit V

Market Monitoring

Organization

- 1) Market Monitoring Unit (“MMU”) is part of the RTO organization
 - a) Board appoints, supervises, evaluates, disciplines the MMU Executive
 - b) MMU Executive hires, supervises, evaluates, disciplines the MMU staff
- 2) MMU coordinates with RTO CEO but, in some instances, reports directly to the Board (see D below)
- 3) Institutional safeguards will be designed to ensure appropriate level of independence of the MMU, especially in instances where the RTO is market participant and procedural safeguards will be designed to protect all participants

B. Markets to be Monitored

- 1) MMU will monitor RTO Markets, including Ancillary Services, Congestion Management, Firm Transmission Rights
- 2) MMU will assess and report annually on the state of the Western markets highlighting the impacts of these non-RTO markets on RTO operations and vice versa (not the same level of analysis as with RTO Markets); further, the RTO will be given the discretion to expand the scope/level of its monitoring of non-RTO markets as it finds appropriate

C. Scope of Activity of MMU²⁵

MMU²⁶ will:

- 1) Collect information as part of the regular course of RTO business
- 2) Assemble such information (in a manner to be developed as part of the “MMU process”)
- 3) Disseminate (as provided in the yet-to-be developed “MMU process”) non-confidential information; provided that sensitive bid data shall be disseminated in compliance with current FERC standards/policies (6 month lag time, masked identities)
- 4) Evaluate the information
- 5) Make recommendations to correct design flaws and improve efficiencies
- 6) If MMU detects market performance that is inconsistent with competitive market, the MMU will further investigate to determine the cause of the inconsistent performance
- 7) Consider operational behavior in response to a submitted complaint
- 8) Prepare report (including recommendations) for Board

²⁶ Tariff compliance issues will be addressed as set out in the RTO Tariff (or by a RTO Tariff Compliance Office).

- a) Board makes decision whether to report to the appropriate regulatory or enforcement entities that MMU has detected and investigated the cause of market performance that is inconsistent with competitive markets
- b) The regulatory or enforcement entity will determine how to deal with conduct issues

D. Scope of Authority

- 1) With regard to its general monitoring responsibilities, including dealing with design flaws and efficiency improvements:
 - a) MMU coordinates with appropriate RTO staff members and attempts to address matters at staff level
 - b) If the MMU believes that staff is not cooperating, the MMU has recourse up the chain of command
 - (i) Chief Operating Officer,
 - (ii) Chief Executive Officer, and
 - (iii) As forum of last resort, Board
 - c) If issues are raised to the Board, the Board can bring whatever resources to bear that it finds appropriate, including the use of outside consultants
- 2) If the MMU detects market performance that is inconsistent with competitive market and investigates to determine its cause:
 - a) MMU coordinates with appropriate RTO staff members and brings issue to the CEO's attention but, as detailed below, the Board must ultimately decide whether to report the market performance to the appropriate regulatory agency
 - (i) When the MMU and the CEO (or designee) agree to recommend reporting, the CEO brings recommendation to Board
 - (ii) When the MMU recommends reporting but the CEO (or designee) disagrees, the MMU can bring directly to Board
 - (iii) When the CEO (or designee) recommends reporting but the MMU disagrees, the COE (or designee) can bring directly to Board
 - (iv) When the MMU is put on notice of market performance issues, but both the MMU and the CEO (or designee) agree it should not be reported to a regulatory agency, the CEO reports about the situation to the Board

E. Specifics of Market Monitoring Mechanism

The process must:

- 1) Achieve work group goals
- 2) Afford procedural protections to all participants
- 3) When data alerts the MMU of market performance inconsistent with a competitive market, as part of the follow-up investigation, if individual conduct is evaluated, the process should, at a minimum, specify when and how a party should be notified, address confidentiality issues, and set a standard for how the RTO decides when to report to regulatory agency

- 4) Accommodate differing jurisdictional requirements for market participants and transmission owners (in particular with respect to Canadian participants)
- 5) Provide more specifics regarding the information that will be collected and maintained by the MMU (at this time it is assumed that the needed information will already be provided to the RTO in the ordinary course of business)
- 6) Provide more specifics regarding the annual report regarding non-RTO markets
- 7) Provide specifics regarding maintenance and dissemination of information (provided, sensitive bid data will only be released in conformance with current FERC standards/policy)
- 8) Provide guidance on how the MMU professional staff will objectively evaluate market performance to identify performance that is inconsistent with a competitive market and investigate the causes of such performance (industry standards should be described or identified that could be considered by the MMU staff to aid their professional judgment)
- 9) Provide that the RTO does not have superior access to work product of the MMU to avoid conflict of interest issues
- 10) Provide the Board the ability (after it has complied with procedural safeguards) to act quickly (and with FERC approval) to change the RTO's rules and market design as appropriate after consideration of the MMU/staff recommendations regarding design flaws or market inefficiencies, especially in the first few years of the RTO's existence
- 11) Establish communication protocols among MMU and other units of the RTO staff
- 12) Not distinguish between the RTO and other market participants for purposes of the process (the RTO gets the same treatment as others)
- 13) Provide for an annual evaluation of the RTO's design's impact on the market
- 14) Be timely and cost effective

F. Staff

The MMU will have the following areas of expertise represented on its staff: economics, business/commercial (e.g., risk management, commodities, electric power system operation and markets), finance, engineering, statistics, data management, and legal. These will not all be full-time positions. In addition, the MMU will have the ability to retain outside consultants.

Exhibit VI

RTO West Planning and Expansion

- A. Operational Planning. RTO West is responsible for the operational planning of the facilities it controls beginning on its service commencement date.
- B. Long-Range Planning. RTO West is responsible for the long-range planning of the facilities that it controls and will develop a non-discriminatory process that allows for significant input from all users of the system. The RTO has the discretion to determine how to fulfill its planning responsibilities. In other words, the RTO will determine what information it needs from Participating Transmission Owners (“PTO”), what use to make of such input, and whether the RTO or the PTOs (or some combination thereof) will perform studies. The PTOs anticipate that the RTO’s approach will evolve over time.
- 1) Facilities Under the Control of RTO West. RTO West’s planning responsibilities for facilities under its control include the following:
- a) Determining the capability of all paths (TTC/OTC/ATC) on an on-going and five-year projected basis
 - b) Identifying paths that are experiencing congestion and the current/historical specifics (price, duration, etc.)
 - c) Identifying opportunities for improvements (in a general way, not through detailed studies)
 - d) Assessing the ability of the facilities controlled by the RTO to deliver requested power, without regard to the cost of the power being delivered (“transmission adequacy”)
 - e) Modifying, if appropriate, and enforcing interconnection standards
 - f) Providing the information developed above to the market, including communicating opportunities for improvements and offering to facilitate discussion of whether the opportunities should be acted upon
 - g) Coordinating compliance studies and system base cases
 - h)
- 2) PTO Facilities Not Under Control of the RTO. RTO West’s only role with respect to PTO facilities not under its control is to any analyze new or modified facilities to

determine their impact on the transfer capability of facilities under RTO control and ensure that the project sponsor has appropriately mitigated any negative impacts. Conversely, if the new facilities have created transfer capability on facilities under the control of the RTO, the PTO will be given any corresponding FTRs.

C. Expansion Decisions Regarding Facilities under the Control of the RTO (Who Decides/Who Pays)

Purpose	Decision-Maker/Who Pays
<p><u>Category I</u></p> <p>Maintaining Sufficient Transfer Capability to Satisfy the Converted Pre-Existing Contracts and Load Service Obligations (Including Load Growth)</p>	<p>The PTO is obligated (1) to maintain the transfer capability that exists on Day One that is needed to satisfy converted pre-existing rights or obligations or (2) to address a degradation of needed transfer capability to the satisfaction of the right-holders through another approach, including non-transmission solutions (e.g., buy-back of long-term firm rights).</p> <p><i>Exception.</i> When the degradation results from the following causes there is not an automatic obligation to maintain transfer capability, and the affected parties should look to the terms of pre-existing contracts to determine the appropriate action and, if there is not a contract (or a contract with relevant provisions), the RTO should facilitate a discussion to determine how the degradation should be addressed:</p> <ul style="list-style-type: none"> * RAS, to extent it is system-wide RAS that is being provided by the RTO * Something outside of the control of the PTO (for example, (NERC changing criteria, changing load or generation, line/path derating, operations of other RTOs) <p><i>Backstop.</i> If a PTO fails to maintain transfer capability as required above, the RTO has the authority to require the PTO to restore the transfer capability. Alternative dispute resolution (“ADR”) will be available for parties that disagree with the RTO’s decisions. The PTO’s costs for maintaining transfer capability will be recovered through its Company Rate.</p>
<p><u>Category II</u></p> <p>Maintaining the Initial Transfer Capability of the Class A Facilities to the Extent such Transfer Capability Exists Beyond What is Needed to Satisfy Category I Rights and Obligations</p>	<p>Through its planning process, the RTO will assess the adequacy of the Class A Facilities and determine, based upon established criteria, whether and when the transfer capability of existing facilities should be maintained to serve the RTO’s on-going commitments (other than FTRs relating to pre-existing contracts and load serving obligations). While the general approach will be to maintain the transfer capability, in some instances it might be appropriate to allow degradation. To allow this,</p>

<p>(For example, the transfer capability of a path that does not have FTRs might be heavily used or will be needed for future use)</p>	<p>prior to RTO formation, criteria will developed with the goal of ensuring that reasoned and sound economic decisions are made. (For example, it may be appropriate to allow degradation on a path that is not heavily used.) If the RTO has determined that transfer capability should be maintained, an PTO is required to undertake any necessary replacements, reinforcements, or non-transmission solutions. The costs of such replacements, reinforcements, and non-transmission solutions will be recovered through the PTO's Company Rates.</p>
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Purpose	Decision-Maker/Who Pays
<p style="text-align: center;"><u>Category III</u></p> <p>Transmission Adequacy: Load Service (Including Load Growth) On All Paths</p> <p><i>“Keeping the Lights On”</i></p>	<p>Requests for load service will be made to the RTO. The RTO will analyze such requests and determine which PTO(s) could be affected by the requests. The RTO will then forward the request to the appropriate PTO(s), which is responsible for ensuring that sufficient facilities are available to provide secure service. The PTO(s) will determine what action to take pursuant to an open process that considers non-transmission alternatives. After such planning process, the PTO(s) will submit its proposed plan to the RTO. In an open process, the RTO shall determine whether the PTO’s proposed plan provides transmission adequacy. If it determines that it does, the PTO will implement its plan and the costs of such facilities will be recovered in the Company Rate of those PTOs whose load benefits from the expansion.</p> <p>If multiple PTOs need to be involved in order to meet the load service request, the RTO should coordinate the PTOs’ determination of a plan of service and their respective obligations within a set timeframe. If the PTOs cannot reach agreement, the RTO has the authority to decide what should be done and to allocate the costs of such action to the PTOs.</p> <p>As part of their responsibilities under this category, PTOs are required to prepare adequacy assessments and provide them to the RTO. This is required (1) after a service request has been forwarded to a PTO and (2) on a periodic basis in the regular course of business. Regional criteria will be established for the PTO(s) and the RTO to apply to determine adequacy.</p> <p><i>Backstop.</i> If a PTO fails to develop a plan that the RTO determines assures the transmission adequacy of the Class A Facilities, the RTO has the authority to remedy the problem. First, the RTO will develop, in an open process, a transmission solution. The PTO will have an opportunity to present alternatives (including non-transmission solutions) to the RTO’s proposed transmission solution. In the event that the RTO does not accept any of the PTO’s alternatives, the RTO has the authority to fix the transmission deficiency by causing the construction of necessary transmission facilities. (RTO West cannot cause generation to be built.) ADR will be available for parties that disagree with the RTO’s decisions. The costs of such facilities will be recovered through the Company Rates of those PTOs whose load benefit.</p>

Purpose	Decision-Maker/Who Pays
<p style="text-align: center;"><u>Category IV</u></p> <p>Congestion Relief/ Market-Driven Mechanism</p>	<p>Transmission project sponsor makes decision and bears the costs of transmission expansion for rights obtained. (Transmission project sponsor could be PTO, load serving entity, or other market participant)</p> <p>The specifics of the market-driven mechanism need to be developed. Such details should ensure that the market-driven mechanism has the highest probability of success. A number of proposals have been developed that attempt to treat transmission like generation. For example, one proposal creates value by allowing a transmission project sponsor to withhold the FTRs for a time, another suggests that a reserve price should be set for the auction of those FTRs.</p> <p>Other proposals address:</p> <ul style="list-style-type: none"> • How to handle a situation where a state regulatory body requires that a congestion relief project be expanded “for the public good” (the RTO would set a reserve price for the “extra” FTRs created from the expansion of the original proposal); • Specifics of soliciting interested sponsors; • What to do when too many transmission project sponsors come forward; and • How to handle competing project proposals.

D. Allocation of Benefits and Costs. At the request of a Category I, II, or III project sponsor, the RTO will determine the benefits of the project and proportionally allocate its costs to the Company Rate of the PTO(s) of the benefiting loads. (PTOs will determine how to collect the allocated costs of such project in their individual rate proceedings.) The PTOs will develop objective criteria for the RTO to apply and the other details of the allocation process prior to RTO formation. A Category IV project sponsor can ask the RTO for an allocation to load that receive a reliability benefit; however, the RTO will not allocate costs to parties that benefit from congestion relief. In all of the above cases, if additional transfer capability is added that results in the creation of Firm Transmission Rights (“FTR”), the parties that paid for the additional transfer capability will receive the corresponding FTRs. This should provide incentives for both transmission and non-transmission solutions. Challenges to the RTO’s allocation can be raised in RTO ADR.

E. Analyzing Impacts of Interconnections. RTO West will perform system impact studies to analyze proposed interconnections of new transmission facilities, new generation and new load and will determine what action is appropriate, if any, to mitigate negative impacts on the operational transfer capability of all Class A Facilities. If transfer capability is added and FTRs result, the party interconnecting will receive such FTRs.

- F. Further Development of Planning and Expansion Specifics. After formation, the RTO, in consultation with the PTOs, will develop its general planning process. The following will be developed prior to RTO formation: (1) criteria to be applied by the RTO in determining the level of transfer capability that should be maintained from existing facilities, (2) transmission adequacy standards, (3) further definition of the market-driven mechanism, (4) the allocation procedure, including objective criteria, (5) interconnection standards, and (6) the details of the relationship/participation of RTO West with appropriate interconnection-wide and regional reliability organizations.

Exhibit VII

Implementation

RTO West Implementation Overview

RTO West Implementation formally starts with Commission approval of all elements of the RTO West proposal as filed. This approval initiates formation of an independent board, hiring of RTO West management and leadership, development and staffing of the organization, and the procurement or lease of facilities and systems. The implementation ends with the validation that systems, processes, RTO West personnel and Market Participants perform to the Tariff and Operation standards of the RTO.

1.0 RTO West Implementation Meets the FERC Characteristics:

1. Independence Principle – All transmission facilities under RTO West control will be operated by an independent entity, RTO West. An independent board of directors will govern RTO West, and its independence will be established as defined in the Governance documentation.
2. Scope and Regional Configuration – The RTO West controlled transmission system will consist of a large portion of the Northwest Power Pool, and will be operated as a single control area with the RTO performing all control areas functions. RTO West will schedule the transmission system under its control according to its tariff and applicable reliability practices. RTO West will comply with the WSCC Minimum Operating Reliability Criteria (MORC) and NERC Policies relating to reliable system operation
3. Operational Authority - The RTO will operate the transmission system through direct control by RTO employees, contractual agreements with other entities (e.g., transmission owners and Security Coordinator) and by a hierarchical control structure involving a combination of direct and functional control. Under these arrangements, the personnel of existing control centers either become employees of the RTO or remain employees of the control center owner.
4. Short-Term Reliability - RTO West will manage congestion in both the pre-schedule market and in real-time. RTO West will have full authority to administer all schedules on all paths in the RTO West jurisdiction. RTO West will have exclusive authority for receiving, confirming and implementing all interchange schedules.

RTO West has full responsibility for security of the transmission system under its jurisdiction. It has the responsibility of a Security Coordinator as outlined in NERC security process recommendations, though the function may be initially contracted to the Pacific NW Security Coordinator.

RTO West operates the transmission system to facilitate the maximum safe utilization of the grid, and to allow the competitive generation market transparent and non-discriminatory access. There will be (an) integration agreement(s) between RTO West and each entity connecting to RTO West facilities. This (these) agreement(s) will specify the terms and conditions for interconnection.

RTO West will be the provider of last resort for ancillary services to comply with Order 2000 for transmission providers. These services will be purchased using a competitive bidding process. The requirements to provide such services and the compensation for these services will be specified in the individual control agreements between RTO West and each party, in FERC tariff(s), or both.

RTO West will acquire services and perform its functions economically and in a non-discriminatory manner.

RTO West will not operate a Power Exchange. It plans to use market mechanisms run by third parties wherever possible to facilitate competition for the provision, purchase or sale of power products and services. However, RTO West may implement market mechanisms to run real-time markets to meet its ancillary service and balancing energy needs.

In an emergency, RTO West will have the authority to require all connected loads and generators to take whatever actions are required to maintain system reliability. The requirements to provide such services and the compensation to be given for these services will be specified in the individual control agreements between RTO West and each party.

RTO West will have the authority to approve and disapprove requests for scheduled outages of transmission facilities operated by RTO West to ensure that the outages can be accommodated within established reliability standards. RTO West will coordinate outages to maximize the overall transfer capability of the grid. RTO West will work together with transmission owners to coordinate performance of all required maintenance and facility upgrades in a timely manner within established State, regional and national reliability standards.

2.0 Staffing, Organizational and Facilities Overview

Staffing, organization and facilities needs were generated by analyzing the technology and data requirements and functionality of the RTO to fulfill Order 2000 required characteristics and functions. With the requirements and functionality defined, an assessment of necessary facilities, equipment, systems, staffing and budgets was completed. Interviews with other ISO's were conducted to validate that the scope of the assessment was in-line with comparable implementations and to ensure a comprehensive list of functions, staff and infrastructures was identified. Finally the budget estimates were finalized and presented to the Regional Representatives Group (an open forum representing all regional interests). It is estimated a startup budget of approximately \$120 Million and annual operating budget of approximately \$50 Million will be required to implement RTO West.

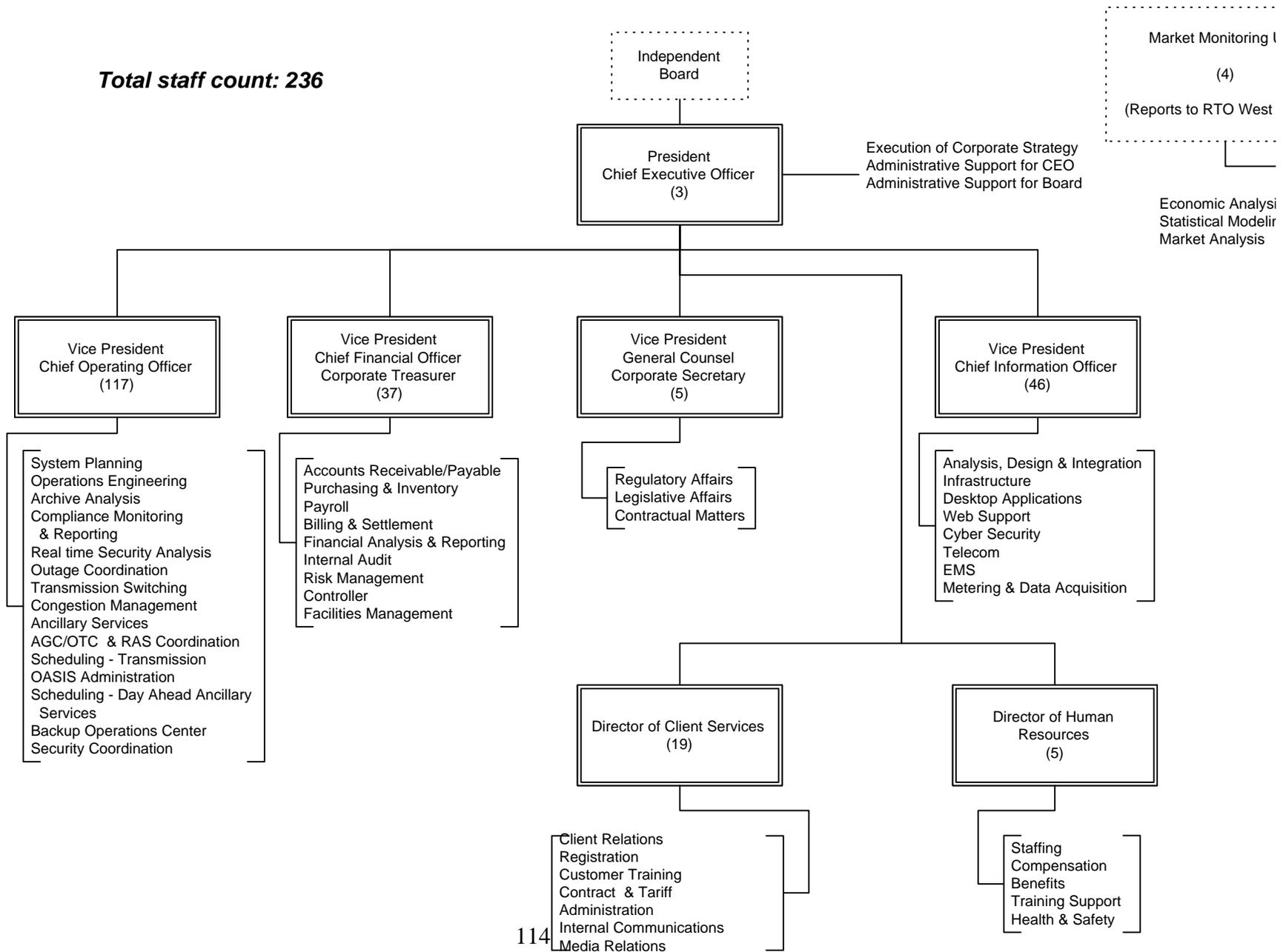
2.1 RTO West Organizations and Staffing

In order to carry out its responsibilities, RTO West requires a dedicated staff of employees at both a primary and a backup center. Both the fully functioning primary center, and the backup center, with limited functions, are staffed and operated on a 24x7 continuous basis. Technology and staffing estimates are based on "light" implementations of all functions except for a mid-range implementation of congestion management and planning. Some functions may be outsourced, such as physical security, reprographics, IT support, additional legal and HR support, market monitoring, and/or security coordination.

The President/CEO will report to the RTO West Board of Trustees. The President/CEO will lead the RTO West organization that will include the following functions: Chief Operating

Officer, Chief Accounting Officer, General Counsel, Chief Information Office, Client Services, Human Resources, and a Market Monitoring Unit. A preliminary staffing estimate is approximately 236 full time employees. The following organization chart depicts allocation of responsibility and planned organization size for each of the functions of a fully staffed “second year” RTO West organization.

Total staff count: 236



2.2 RTO West Facilities

The RTO West physical facilities will include a primary control center and a backup control center. The primary control center for RTO West will contain both the operation center and related supporting business systems. A second facility is needed to provide a backup center in case the primary control center is made inoperable.

Selection criteria for the primary control center included availability of experienced personnel, preferred location to attract key personnel, availability of building for lease or purchase, and access to existing communication infrastructure that interconnects to existing control centers. Several sites were evaluated. The Portland, OR / Vancouver, WA area was selected for the primary control center site. The backup site has not yet been selected. Other considerations for the facilities are identified below.

Primary Control Center

Existing control centers, “brownfield” (lease or purchase existing facility) and “greenfield” (ground-up new facility) sites were evaluated as candidates for the facility. The driving criteria for a facility were to minimize the time to become operational and the capital expenditure.

It was determined the cost to locate RTO West at one of the existing control center locations was comparable to the development of a “brownfield” site in the Vancouver/Portland area (leased office space). The preferred solution is a “brownfield” site and the next step is to identify and evaluate possible sites in the Portland/Vancouver area.

Backup Control Center

The backup center will operate as a “hot” backup with 24X7 dispatch coverage, and will perform a limited subset of RTO West functions. The facility will use a non-federal “brownfield” or “greenfield” site remotely located from the primary control center.

Redundant Systems

Both centers will use redundant systems for building HVAC and AC electrical. Both will be equipped with UPS capacity exceeding 30 minutes and backup generator(s) for UPS and emergency power needs.

It is expected that all critical systems and software will be duplicated at each site with identical data. This will include all near-term systems such as the OASIS/scheduling/tagging systems, EMS systems (substation data and automatic generation control), etc.

Control Centers Infrastructure

Control center infrastructure captures hardware and software systems needed by the RTO. It includes all components for the RTO except the building shell with its primary HVAC and building infrastructure. In addition to systems that support the transmission commercial business, communications, networks, work areas, computer hardware and software to support personnel and financial systems will have to be planned and procured.

Systems will accommodate seamless workflow (data that is used in various, different systems will automatically move through those systems with reliable outcomes and minimum manual interaction). Databases to be used by multiple systems will be integrated to the maximum extent possible. Commercially available, open systems will be used to the maximum extent possible.

3.0 Implementation Timeline

RTO West implementation plan is for a ground-up development. Assuming prompt action by the Commission and all regulatory bodies on the various regional transmission organization applications, there is much work and resulting time to establish the Board of Directors, hire the RTO West staff, procure a building, procure and install business systems, procure and install the operational systems that controls the transmission facilities and finally to

test the operational system with the market participants. The filing utilities ask KEMA Consulting, RTO West Filing Program Manager, to evaluate the feasibility of meeting the operational data of December 15, 2001. KEMA Consultants, evaluating similar implementations in scope and functions, advised the filing utilities that development could not be completed by the Commission operational date of December 15, 2001.

To minimize the delay beyond December 15, 2001 to get RTO West operational, certain activities need to proceed in parallel to Commission approval of governance and the development the Tariff. One possible approach is to select a group of people to begin certain implementation tasks as soon as possible. This Transition Team could consist of loaned utility personnel, contractors and consultants who have the skills desired to successfully perform RTO West implementation activities.

Certain work associated with establishing a Governing Board and supporting infrastructure (regardless of its purpose) must be accomplished before the organization can begin to function. The Transition Team will begin these activities plus early action on those RTO specific activities that the Tariff requires to be in place when the RTO begins operation.

In any case, no meaningful work will be accomplished until sufficient funds have been set aside and either an interim Managing Director is selected by the filing utilities or the board hires the President/CEO. Although it is possible to determine how long the transition process may take, actions will not be effective until a single person responsible for the success of the transition and authorized to make decisions and expend funds has been appointed.

RTO West Implementation Staff

The RTO West Implementation staff would include those responsible for major implementation activities during startup. The following tasks have been identified for this functional area:

- Administer RTO West implementation;
- Work closely with transmission owners/control areas to define requirements, interfaces, and data models;
- Define processes and procedures;
- Review and approve specifications for the communications and control systems infrastructure;

- Enter into contracts for the communications and control systems infrastructure;
- Enter into contracts for RTO West primary and backup facility construction/remodel activities;
- Participate in factory and field acceptance testing;
- Conduct field trials in preparation for RTO West commissioning.

Human Resource Consulting

Human resources development will play a key role during startup. An outside HR consulting firm may be used to assist RTO West HR personnel in the following:

- Executive search;
- Relocation;
- Performance incentive program;
- Job development;
- Performance measurement system development;
- Human resource policies and procedures;
- New employee training.

Other Staffing Requirements

Consultants and/or contractors may be required to provide specialized knowledge or expertise to assist the RTO West staff during project implementation. Consultants and/or contractors may be required to:

- Provide project management;
- Prepare process diagrams;
- Prepare procedure manuals;
- Prepare and conduct training programs for RTO West employees and/or transmission customers;
- Prepare databases;
- Provide IT support;
- Perform administrative functions.

Exhibit VIII

Interregional Coordination

Interregional Coordination is one of the RTO functions required in Order 2000. The WSCC region has been in the forefront of coordination between its various Control Areas for some time. During mid to late 1990's the region had several active Commercial Practice Committees that operated under the auspices of the three Regional Transmission Associations. In 1999 these committees consolidated their activities into the Western Market Interface Committee (WMIC) co-sponsored by the three regional transmission associations and WSCC. The main focus of the group is to coordinate the commercial aspects of the power market in the West. Before the Commission issued Order 2000, CREPC (Committee on Regional Electric Power Cooperation) had requested the WMIC to commence in addressing a variety of seams related issues.

RTO West formed a work group to address the seam issues and immediately coordinated its activities with that of the WMIC for the sake of efficiency. The activities of the coordinated group focused on the Commission's requirements that include addressing (i) reciprocal elimination of pancake transmission charges between RTO West, California ISO, Desert Star and other RTOs that may operate in the WSCC region. Price reciprocity is expected to minimize the impact of cost shifts among RTOs. (ii) Operational features in the RTO West needed to reduce scheduling, congestion and other issues at the seams with other RTO's. Also to address integration and coordination with Canadian entities and with transmission-owning utilities that are within the RTO but not a part of it.

After extensive input from regional participants on a wide range of related topics RTO West selected to limit its scope of activities to the following issues as summarized below:

1. Major Loop Flow
2. Congestion Management and Firm Transmission Rights (FTR) at the Seams
3. Curtailment Procedures
4. Coordination of Commercial Practices
5. Coordination of Changing Commercial Practices
6. Coordinated Outage Planning
7. Price Reciprocity
 8. Agreements with Adjacent Control Areas (internal and external)
 9. Roles/Responsibilities

Seams Workshops

In coordination with WMIC, RTO West held a two-day workshop in Salt Lake City on June 20 and 21, 2000. Commission representatives attended both days of the workshop. The

workshop was very well attended and resulted in attendees having a higher level of understanding of the issues and potential solutions.

The first day of the workshop focused on the discussion of issues on a WSCC wide basis. Representatives from the California ISO, Canada, DSTAR RTO, Rocky Mountain RTO, Mountain West ISA, and an individual experienced with market operations in the eastern ISO regions participated in a panel session describing issues and approaches to resolve seams issues.

The second day of the workshop focused on the four highest priority seams issues that the RTO West Seams Work Group identified a day earlier. The four highest priority issues were:

Congestion Management at the Seams
Coordinating the Development/Modification of Commercial Scheduling and Settlement Practices

Curtailed Practices at the Seams
Price Reciprocity

The workshop sessions focused on potential solutions to these issues.

During July 2000 senior representatives from the RTO West Filing utilities arranged a meeting with several high level operational directors from the CAISO to initiate bilateral discussions regarding anticipated activity at the seams. The discussions identified several high priority areas; a meeting date was set to initiate the work. On August 14, 2000 a meeting was held between a subset of the RTO West work group and representatives of the CAISO to begin the seams dialog. The majority of the discussion focused on the state of development of RTO West market designs, in particular the approach to congestion management.

The following principles were discussed for the collective California Oregon Interface (COI) congestion management process:

- Firm Transmission Rights (FTRs) should be available in a secondary market prior to the day ahead scheduling process to allow market participants to effectively use these forms of rights across the seams.
- Alignment of similar activities across the seams will benefit market participants and increase market efficiency. For example, align the timing for the daily process for the recallable and non-firm transmission rights.
- Also, align to the extent possible congestion process with energy market activities and timelines.
- Provide for transmission market closure before time to perform control area checkout. This may not be the final closure if the scheduling process has iteration. However, this facilitates timely schedule checkout across the COI interface.
- The process is used at the COI seam may have to be augmented/customized provided doing so does not create new Seams issues as a result.

Following this meeting, the group felt it would be useful to have a follow-up discussion to better understand the scheduling timelines in existence, and those that are being considered to see how the above principles might be applied. Such a group would include individuals familiar with the ISO's current practices and planned changes (i.e. introduction of recallable rights) and those knowledgeable in the RTO West congestion management and ancillary service areas. Such a discussion should be scheduled in the near future once RTO West has reached consensus on an overall approach to congestion management.

Finally, the group agreed to recommend the following next steps:

- 1) Schedule further meetings as previously described to explore the issues related to congestion management at the seams.
- 2) Develop a bilateral agreement (possibly an MOU) between CAISO and RTO West outlining a commitment to working together to resolve seams issues.

Canadian Participation

Initially, a seam (RTO boundary) was assumed to exist at the US – Canadian border based upon the expectation that Canadian transmission owners would not be joining the RTO at its inception. Following formation of the US-Canadian Adjunct Committee, whose goal was to pursue Canadian participation in RTO West from its inception, the northern RTO West seam was assumed to be at the BC to Alberta border. This assumption was made on the basis that British Columbia expressed plans to join the RTO at the time it is formed and Alberta's plans reflected the potential for joining at a later date.

At this time the US – British Columbia “seam” is considered to be an internal seam issue and will be treated as such unless B.C. Hydro will not be part of RTO West at formation. To our knowledge this will be the first instance in any RTO where seams issues at the US – Canadian border have been internalized.

Even though the seam issues at the US-Canada are internalized at this stage due deference will be given as a result of the differences in the two countries in regulatory and/or legal jurisdiction. For example in implementing the single control area approach adopted for the RTO, some implementation differences will exist to meet British Columbia's statutory requirements, however these differences will be implemented in a way that supports the ancillary services policy of developing RTO wide markets, deployment and settlements (unless precluded by BC regulation).

DSTAR

A meeting was held on September 26, 2000 between representatives from DSTAR and RTO West. Due to other meetings being held throughout the WSCC, the attendance at this meeting was limited and therefore the discussions were also somewhat limited in certain areas.

The group discussion detailed and listed several physical interfaces between the proposed RTO's. The group also concluded that a discussion meetings should be held between all interested parties on the interfaces in the southern Nevada area due to the size of the interface, the number of RTO's/control areas and the importance of the Hoover generation to the region.

The group briefly reviewed the DSTAR and RTO West documents concerning the scheduling process. It was noted that there were slight differences in the times that certain actions or information was accomplished, but that generally the processes and information were consistent. Differences in approach to control area operations were highlighted. DSTAR representatives stated that they would initially have a tiered control area system with some participants wanting a single control area as soon as possible. Any transactions from an RTO West participant in or through DSTAR would only deal with DSTAR control area. RTO West participants explained that they would have a single control area.

On congestion management there is a major difference between the RTO models. RTO West is pursuing a flow-based system while DSTAR, basically because of its system topology, is flow based but is about the same as a rated contract based system. There is a need to pursue how the two RTO's and the CALISO would interact using the two or more systems.

The RTO West in cooperation with the WMIC plans to continue discussions with the neighboring entities past the October 16, 2000 Commission-required filing date. The discussions will include the California ISO, DSTAR and others as time permits to accomplish the following by the projected RTO operations date:

1. Establish a process to deal with seams issues with neighboring entities.
2. Establish a business relationship (similar to an interconnection agreement) that, at a minimum, would address reliability standards, monetizing settlements at the seams (internal and external) and dispute resolution procedures.

RTO West Commitment to Regional Coordination

As part of the recommendation to the Regional Representatives Group (RRG) a draft CAISO/RTO West a draft agreement committing RTOs to work together on regional reliability and market efficiency was developed. The draft agreement was written shortly before this filing. Due the limited time it was not shared for input with the CAISO and DSTAR. The MOU will be pursued after the filing.

Exhibit __

Paying Agent Agreement

(Billing and Payment Arrangements)

[Similarly, this will need to be numbered and inserted at the appropriate point]

RTO West will be providing to Customers the coordinated use of the respective transmission owners' transmission systems. The owners prefer that their respective streams of revenues be protected in the unlikely event of insolvency or bankruptcy by another owner or RTO West. The filing parties expect to establish through one or more contracts a flow of funds that will assure that each transmission owner will have financially insulated, individual streams of revenue from amounts derived under the RTO West tariffs. Revenues derived under the RTO West tariffs will in great part be derived *on behalf* of the transmission owners in their own names, rather than on behalf of the RTO in its own name. Thus, RTO West will have no claim on revenues derived under the RTO West Tariffs apart from charges and revenues specifically defined to be RTO West's. These would primarily include RTO West "uplift" charge.

To this end, it is expected that Owners and RTO West will employ a Paying Agent who will receive amounts under the RTO tariffs and distribute funds, in each case on behalf the individual owners and RTO West. A common Paying Agent will reduce the number of separate payments that transmission users taking service under the RTO West tariffs would otherwise have to make.

Revenues and funds under the RTO tariffs are expected to derive from several distinct activities or obligations. For instance, the transmission owners expect to employ load-based "company rates," to use transfer payments among transmission owners, and to receive funds in respect of facilities jointly developed by two or more transmission owners. In addition, it is anticipated that proceeds will be derived from the sale of certain transmission rights. Each of these particular activities will require detailed protocols for the allocation and distribution of funds. The draft paying agent agreements do not attempt to develop these particular formulas or protocols. They will be developed in concert with the initial tariffs and the final documentation leading to the startup of RTO West.

Similarly, the transmission owners expect to employ RTO West as a common billing agent who will compute the bills for Customers that take service under the RTO West tariffs, and for certain obligations between and among transmission owners arising from the combined operations of their systems. As noted above, there are several distinct payment components that will require separate billing protocols and formulas. Again, the detailed billing protocols are forthcoming.

Included below are two draft agreements that attempt to spell out the conceptual framework for the use of a Paying Agent and a Billing Agent. The draft agreements are illustrative and provided as background information only.

Draft Agreement to Use Paying Agent

The principal draft agreement (Agreement to Use a Paying Agent) would have the transmission owners and RTO West commit to using a Paying Agent to assure individualized flows of funds to each party, while using a common payment facility.

Woven into the Agreement to Use Paying Agent are some billing provisions under which the parties would agree to employ the RTO as a common billing facility to prepare and submit billings under the RTO West tariffs, notwithstanding that there are several individual rights to payment and revenues streams.

Draft Paying Agent Agreement

Attached to the “Agreement to Use a Paying Agent” is the form of a draft Paying Agent Agreement that attempts to express the payment services that the owners and RTO West would seek to obtain with a bank or other financial institution. The draft Paying Agent Agreement will ultimately be the product of negotiation involving a bank, so provisions about fees, indemnity, the clearing time for transfers of funds and other features will not be determinable until the time the bank becomes involved

The draft Paying Agent Agreement refers to several exhibits not yet drafted. As noted above, there are several activities that establish distinct payment obligations, such as transfer payments, transmission rights proceeds, and joint construction. The corresponding billings by RTO West as the billing agent, and the allocation and distribution by the Paying Agent of such revenues to the various parties, will require detailed revenue allocation protocols that have not been developed.

Attachment _____

(Description of Canadian Participation)

The British Columbia Hydro and Power Authority (“BC Hydro”) and West Kootenay Power Ltd. (“WKP”) have actively participated in the RTO West negotiations.¹ The Filing Utilities, BC Hydro and WKP have reached consensus on a framework that would provide consistent RTO transmission service over the RTO West transmission system and the transmission system in British Columbia, while recognizing Canadian sovereignty and the differing regulatory structures in Canada and the United States. This framework is a major step towards achieving a “natural transmission region” in the Pacific Northwest that does not stop at the U.S.-Canada border.²

The basic elements of this framework, developed as a model by the Adjunct Committee Technical Work Group,³ are as follows:

- (1) An independent grid operator would be formed in British Columbia (“BC IGO”), that would meet the independence standards of Order No. 2000. The BC IGO would be a public utility regulated by the British Columbia Utilities Commission (“BCUC”);
- (2) RTO West and BC IGO would act in a coordinated fashion to provide RTO service to the Pacific Northwest region, including British Columbia;

¹ EAL (the Alberta Transmission Administrator) and the Alberta Power Pool also participated in these discussions.

² The Commission has recognized that its transmission jurisdiction under the Federal Power Act stops at the international border. *See* Order No. 2000 at 31,085.

³ This Group included U.S. and Canadian representatives from the Implementation, Ancillary Services and Congestion Management Work Groups of the RTO West collaboration process.

- (3) BC Hydro and WKP would transfer operational control over their transmission systems to BC IGO, under Transmission Operating Agreements (“TOA”) that parallel the TOA between RTO West and its U.S. participating transmission owners;
- (4) The BC IGO, as a regulated utility in British Columbia, would ultimately be accountable to the BCUC for tariff administration and the reliability of the transmission grid within British Columbia, consistent with principles of Canadian sovereignty and Provincial regulatory requirements. The functional relationship between BC IGO and RTO West would be defined in an Operating Facilities and Services Agreement (“OFSA”) to be negotiated between the two entities and filed with the Commission and the BCUC. It is contemplated that the OFSA would adopt the following principles intended to further seamless wholesale transmission services in the region:
 - (A) RTO West and BC IGO would file for regulatory approvals of a single, uniform wholesale transmission tariff covering both their transmission systems;⁴
 - (B) A single set of business practices would be applied on a regional basis;
 - (C) A single regional Ancillary Services market would be developed;
 - (D) One Internet web-site for transmission capacity reservations would be used in the region, to be operated by RTO West;
 - (E) There would be one Security Coordinator for the region; and

⁴RTO West would file the tariff with the Commission, and BC IGO would file the tariff with the BCUC.

- (F) A single regional Congestion Management Mechanism would be employed;
- (5) RTO West and BC IGO will together perform a control area operator function for the Pacific Northwest, including British Columbia. BC IGO will provide control area operator functions within British Columbia. (This approach will be described in greater detail in documents to be submitted as part of the filing utilities' Stage 2 submission.) Inadvertent power flow with neighboring control areas and RTOs would be handled by RTO West; and
- (6) Electronic links between RTO West and BC IGO will be established to communicate the real time status of the RTO West Operating Plan and to deploy resources through RTO West.

The Filing Utilities, BC Hydro and WKP believe that this framework for coordinating the functions of RTO West and BC IGO advances the Commission's concept of a "dotted line boundary at the international border" for purposes of RTO formation.⁵ The framework is designed to further the objective of seamless wholesale transmission services throughout the Pacific Northwest, and to ensure that the region encompassed by the RTO is of the broadest possible scope.

BC Hydro has represented to the Filing Utilities that BC IGO will be structured to meet the Commission's requirements in Order No. 2000 that such an entity be independent from control by any market participant, including participating transmission owners. The functions reserved for BC IGO within the RTO recognize Canadian sovereignty, regulatory and tax requirements, and are well within the parameters the Commission found acceptable in a U.S. context in *Commonwealth Edison Company, et al.*, 90 FERC & 61,192, *reh'g denied*, 91 FERC & 61,178 (2000).

⁵Order No. 2000 at 31,085.

The Filing Utilities, BC Hydro and WKP intend to work within this framework to negotiate definitive agreements and tariffs, and to resolve the other open issues between the U.S. and British Columbia entities. If closure on these issues can be reached, the Filing Utilities, BC Hydro and WKP would seek to obtain all necessary approvals for these arrangements from the appropriate governmental and other authorities in their respective jurisdictions.

EXHIBIT ____

Summary of Agreement Limiting Liability Among RTO West Participants and Explanation of Its Importance.

1. Summary of Agreement

[To be added]

2. Explanation of Importance of Agreement

The concept of a multiparty agreement limiting liability reflects a consensus of parties to the regional process, to the extent that there were no unresolved issues remaining after conclusion of the process on August 30, 2000. Because the Regional Representatives Group recommendation for a multiparty agreement limiting liability was only reported late in the process, there was at that time no draft of an agreement for parties to review. The concepts accepted by the Legal Work Group were as follows:

A. For contact with lines or equipment of a transmission, generation or distribution owner, the party that operates or maintains the system would hold other parties harmless from bodily injury claims.

B. For property damage, economic loss and consequential damages of end use customers, RTO West would maintain \$150 million of general liability insurance, and \$150 million of errors and omission insurance, provided that the region would seek to obtain continuity of service tariff limitations in RTO West tariffs to attempt to keep this liability exposure within a manageable range.

C. With limited exceptions, first party property damage between RTO West participants would be released, and each party would undertake to insure and protect its own property.

D. Consequential damages among RTO West participants arising from participation in RTO West would be generally waived.

E. Replacement power costs and defined opportunity costs would be recoverable from RTO West in the event that a wrongful dispatch order was issued by RTO West and was followed by a damaged party, provided that no party would be required to follow an unauthorized dispatch order.

Drafting occurred at meetings of the filing utilities on September 25 and September 26, to which all parties previously participating in the Liability and Insurance Legal Work Group subgroup were invited, however, attendance at these meetings was comprised primarily of filing utilities risk managers and attorneys. Consequently, many parties to the public process will be seeing this draft for the first time as a part of this filing process. For example, the discussion and decision to make participation mandatory did not take place until the meetings of September 25 and 26.

The need for an agreement limiting liability arises from a combination of the need to deal with the existing agreement among Northwest parties limiting liability, known as the Agreement Limiting Liability Among Western Interconnected Systems (“WIS Agreement”) executed in 1972, together with the need to address the potential that RTO West could be found to have assumed a duty to manage and operate the transmission system subject to its control for the purpose of preventing interruption of retail service due to transmission failures. Presently, under the WIS Agreement and WSCC Agreement and Bylaws, electric systems specifically do not assume such a duty toward other electric systems. Vestiges of sovereign immunity protect governmental entities (composing over 80% of the electric systems in the Northwest) and investor-owned systems have the benefit of state tariffs limiting liability as a condition of approved rates.

Absent the adoption of similar measures as a condition of Commission-approved transmission rates, RTO West, as a nonprofit corporation, will neither have the benefit of sovereign immunity presently available to governmental entity participants in the region, nor have the benefit of tariff protections limiting liability presently in existence for investor owned

participants under state approved tariff rate structures existing in the region. The WIS Agreement has also worked well for the region for over thirty years.

The limitation of liability model adopted by RTO West attempts to preserve the status quo existing in the rate structure of Northwest utilities by continuing voluntary limitations of liability among participants presently existing under terms of the WIS Agreement, and by providing for limitations of liability under a continuity of service tariff similar to what presently exists for investor-owned transmission utilities operating under tariffs approved by respective state commissions in the region. The filing utilities contemplate that RTO West would purchase general liability, errors and omission, directors and officers liability, and other insurance customary in the industry, as a cost of doing business. However, preservation of terms of the WIS Agreement and approval of tariff limitations of liability as a condition of rates approved by the Commission are deemed essential to maintaining the reasonableness of rates within the region, while assuring the continuing availability of insurance and avoiding the potential for catastrophic liability with the event of a major transmission outage.

EXHIBIT ____

Summary of Agreement To Suspend Provisions of Pre-Existing Transmission Agreements

(This summary is provided only as a summary and guide and is not intended to be used in any way for legal interpretation of the agreement.)

1. This agreement is a multi-party agreement among the Initial Participating Transmission Owners. It is intended to specify (1) which specific rights and obligations under each pre-existing transmission agreement among the parties shall be suspended, (2) the terms and conditions related to the suspensions and (3) the transfer payments to be paid by each party in lieu of payments suspended with respect to the pre-existing transmission agreements.
2. Each party agrees to suspend, as of the Transmission Service Commencement Date, rights and obligations with respect to transmission services under each of the pre-existing transmission agreements set forth in Exhibit C to the Transmission Operating Agreement (TOA). The specific rights and obligations to be suspended will be listed in Exhibit A to this Suspension Agreement.
3. During the Company Rate Period, the parties agree to pay each other transfer payments in lieu of payments previously required under the suspended agreements and in lieu of agreed representative levels of payments for short-term firm and non-firm transmission service paid prior to the Transmission Service Commencement Date.
4. During the Company Rate Period, the parties agree that such transfer payments shall be allocated to the parties' Company Loads. Certain short-term firm and non-firm wheeling payments owed to an Initial Participating Transmission Owner other than BPA and payable by or on behalf of an entity not a party to a Suspension Agreement shall be deemed owed by BPA to the identified recipients. [RTO West shall include add such charges to such entities' bills for use of BPA's facilities.]
5. To address the problems of continuing transmission service resulting from a PTO withdrawal from RTO West, each suspended agreement shall continue to be suspended for a term ending the earlier of (1) the termination of the FTRs granted with respect to the suspended agreement; or (2) the end of the term of suspended agreement. If the PTO withdraws from RTO West after the end of the term of the suspended agreement but before the termination of the FTRs, the terms of the suspended agreement shall be available for 90 days after the PTO withdraws.
6. If any Initial Participating Transmission Owner terminates its TOA, (1) all rights and obligations of the terminating party as a provider of service and all rights and obligations of the other Initial Participating Transmission Owners entitled to receive such service under the suspended pre-existing transmission agreements shall recommence; (2) all transfer payments owed to the terminating party shall cease; and (3) the terminating party shall continue to receive and pay for services from RTO West in lieu of services under suspended agreements with the other Initial Participating Transmission Owners.

7. The ability of the Initial Participating Transmission Owners to recover stranded costs shall not be affected by suspension of the pre-existing transmission agreements.

8. Disputes related to the suspension of rights and obligations shall be resolved by dispute resolution.