

ATTACHMENT B

RTO FILING UTILITIES' RTO PRINCIPLES

Given the brief time available for completing RTO negotiations and public collaboration processes, the RTO Filing Utilities¹ will need an efficient decision-making process that fully considers broad regional input. While the earlier IndeGO effort produced results that in a number of areas may require modification, many of the results of that effort, including the basic forms of governing documents and contracts, are useable. Accordingly, in order to proceed efficiently and to facilitate an effective public collaboration process, the RTO Filing Utilities shall work cooperatively (i) to receive public input concerning and to specify which portions of the previous work need to be revisited and (ii) to prepare a workplan to address the matters so identified. The goal of the public collaboration process is to produce a FERC filing that is broadly accepted in the region.

The RTO Filing Utilities have preliminarily identified the following issues that need to be addressed in creating a Northwest RTO.

1. Recovery of fixed transmission costs: A technical task force would be established to review the IndeGO net transmission cost calculation approach and to update the pricing model constructed for IndeGO. The Rocky Mountain utilities would be removed, and the participating transmission owners should agree on reasonable projections as to 2002 for each of the stand-alone systems. The model then would be re-run to determine the nature and amount of cost shifts. The negotiators would need to review the revised model results to decide if the various IndeGO choices as to company rates, area rates, rate caps and so forth, should be modified to address cost-shifting concerns.
2. Transmission losses: When all rate pancakes are eliminated, and power no longer is scheduled through specific utility systems, pancaked losses will not be reasonably determinable. The simplest (and possibly the only feasible) initial means of recovering transmission losses under the RTO would be on a postage stamp basis. If any other method were to be pursued for the initial RTO filing, work would need to commence immediately on such alternate method.
3. Congestion pricing: There has been a strong division of regional opinion as to whether a market-based congestion pricing method should be in place at the outset of RTO operations. This question should be resolved early. In addition, there has been a widespread concern that the approach to congestion management in the IndeGO proposal was too complex and too difficult to implement. An alternative might be commence RTO operations using contract paths and pre-existing firm rights, rather than to implement flow-based pricing and transmission congestion reservations immediately. The

¹ Avista, the Bonneville Power Administration, Idaho Power Company, The Montana Power Company, Nevada Power Company, PacifiCorp, Portland General Electric Company, Puget Sound Energy, Inc., and Sierra Pacific Power Company.

congestion management approach of creating firm tradeable transmission rights also should be considered.

4. Price reciprocity and other seams issues: FERC wants RTO proposals to address seams issues. A task force should (i) attempt to negotiate the reciprocal elimination of pancaked transmission charges between the Northwest RTO and the California ISO and any other RTOs that will operate in the WSCC, so as to permit pricing as if there were only one RTO and (ii) recommend any operational features in the Northwest RTO needed to reduce scheduling, congestion and other issues at the seams between the Northwest RTO and the California ISO.
5. Facilitation of needed construction of new transmission facilities: A task force should be charged with addressing this matter and with preparing a workable plan to assure that the RTO can obtain needed transmission additions and upgrades or can obtain economic alternatives to such additions and upgrades.
6. RTO budgets: A task force should review, revise, and where possible, reduce the size of the annual budget needed for the RTO. A task force also should review and update the study as to the economic benefits of an RTO.
7. Control area functions to be performed by the RTO: In IndeGO, concessions were made that reduced the ability to consolidate control area functions in the RTO. The negotiators should review whether such concessions remain appropriate.
8. Transmission planning: The negotiators should review the IndeGO Planning White Paper and should decide if the approach described still is desired. In addition, the desirability of the proposed agreement among participants concerning planning matters (the so-called “Entity Charter”) and of locking in the planning entities described therein should be reviewed.
9. Transmission Control Agreement and the RTO articles and bylaws: These documents need review and minor updates. The primary areas that need to be addressed are (i) the conflict of interest rules, (ii) the means of selecting independent directors or trustees for the RTO, (iii) addition of provisions related to the RTO’s market monitoring and interregional cooperation functions, (iv) any additional non-discriminatory standards needed to satisfy BPA’s statutory obligations, and (v) provisions giving the RTO sole control over interconnections.
10. RTO tariffs: The IndeGO tariffs were designed to implement the IndeGO agreements, while remaining as close to the FERC’s pro-forma tariff in substance as possible. The tariffs were the last documents prepared and probably need substantial scrubbing. The negotiators also need to consider whether the “island service” provided by the IndeGO tariff should be offered by the RTO.
11. Generation Integration Agreement, Load Integration Agreement, and Service Agreements: Most observers think that these agreements are already in good shape. The agreements should be reviewed by a task force, however, and should be (i) revised to reflect the RTO’s right to control transmission interconnections for transmission

reliability and for bulk power transmission purposes, and (ii) revised as needed to comply with all post-IndeGO WSCC and security coordinator negotiations related to transmission reliability.

12. Payment Agent Agreement: In order to deal with BPA's issues related to payment of nuclear plant debt, the participating transmission owners will need to create an agency agreement, to provide for the collection of transmission revenues and for payments to the RTO and the transmission owners. The agreement will need to be structured so as to facilitate the RTO's borrowing and credit requirements.
13. State tax issues: A risk has been identified that BPA's (or a municipal utility's) entering into a Transmission Control Agreement might trigger property taxation of now tax-exempt property. A legal team should consider how to avoid this problem, if possible, under current laws, or alternately should propose the legislation needed to avoid such additional taxation.
14. Transmission congestion reservations and the suspension of existing transmission contracts: Transmission congestion reservations and the treatment of existing contracts were spelled out in the IndeGO proposal, for contracts in effect as of mid-1998. This description needs to be updated to as close to the RTO filing date as is feasible.
15. Ancillary Services: The RTO's role in the provision of ancillary services needs to be further defined.
16. Market Monitoring: The market monitoring functions of the RTO need to be defined.
17. Incentives for Performance Efficiency: The ongoing incentives for RTO employees or for any third party management company employed by the RTO to manage the RTO reliably and efficiently must be implemented by the RTO's independent board. However, the RTO Filing Utilities intend to investigate and describe in their FERC filing forms of incentives that could be used effectively.
18. Participation by BPA Under Current Laws: One of the initial tasks of the RTO Filing Utilities will be to determine what, if any, RTO standards or provisions not already identified would be needed for BPA to execute a Transmission Control Agreement with the RTO without change in current federal legislation applicable to BPA. If such initial work indicates that the necessary standards or provisions would be inconsistent with RTO independence or with the principles of the RTO Filing Utilities, the necessary legislation to permit BPA's participation in a conforming RTO must be specified.
19. Liability Issues: The issues of potential liabilities of the RTO and of the participating transmission owners was explored extensively during the IndeGO effort. However, these issues need to be revisited in light of ongoing market development and in light of the development of enhanced transmission security arrangements, to determine if the previous resolutions remain adequate.

20. ITC Functions: Which RTO functions could be performed by an independent transmission company (“ITC”)? On or before April 5, 2000, ITC proponents shall identify with specificity any RTO functions that they propose be allocated to an ITC.