



April 8, 2004

Mr. Stephen J. Wright
Administrator
Bonneville Power Administration
P.O. Box 3621
Portland, OR 97208-3621

Dear Steve,

The PNGC Power Board met Wednesday and discussed its position on RTO West and the Regional Platform proposal which is now being developed through a collaborative process. We are concerned about the problems facing us as users of the regional transmission grid and as buyers and sellers of power. We believe these problems must be addressed now in a pro-active manner. In our judgment, the Regional Platform Proposal is the best vehicle to evaluate how to address the problems we see facing the region and, more particularly, facing us as transmission dependent utilities operating in multiple control areas. Furthermore, we believe that the many decision points in the process and protections built into the Proposal are adequate to insure that any implementation of the Proposal will not be detrimental to BPA's Customers.

Current System Challenges

Many fundamentals of the utility industry have changed over the past 20 years. On the power side, we have moved from a regulated monopoly to a market system. On the transmission side of the business, open access principles of comparability and non-discrimination have changed the underlying economics of operating and building transmission. Yet our transmission operation structure has remained largely unchanged. It is time for a much more comprehensive reform to transmission operation, pricing, and expansion in order to maintain a viable, dynamic and reliable grid into the future.

Scheduling is an area that has undergone enormous change. Most BPA customers are not responsible for scheduling their power or transmission, and so have no direct experience with the problems developing in the grid. PNGC Power is a scheduling customer and we have seen the increasing complexity of scheduling, including the difficulty in dealing with multiple control areas, tagging, reduction of availability of nonfirm, short-term and long-term ATC (available transmission capacity), and difficulty in settling imbalance accounts.

As we look to our options for power supply in the future, we are very concerned about getting power to our member utilities. Whether this power is federal or non-federal, new or existing sources, moving power on the grid is increasingly difficult. Requests for use of long-term ATC are regularly denied by BPA and other transmission providers. BPA has just declared that its short-term ATC after June 30, 2004 is zero. BPA has proposed zonal scheduling as a method to address increasing congestion on its grid. These measures are bandaids which could make a systematic solution more difficult. These issues need to be addressed on a regionwide basis.

The need for additional transmission assets calls for a regional approach and some authority to allocate costs across beneficiaries. We are making progress as an interconnection of more highly coordinated planning, however, RTOs are necessary for this progress to be fully implemented. Short of this, we see BPA customers picking up a disproportionate share of new transmission construction in the region, or needed transmission assets not being built in a timely manner resulting in a less reliable grid, more constrained power markets, and higher costs for customers.

Another area of concern is the current system for requesting new interconnections or transmission service; this FERC proscribed system is far from optimal. The queues for requests for new generation interconnection and for new transmission service requests are established on a utility-by-utility basis, not a system-wide basis. This makes for very high transactions and study costs and precludes some resources and transactions which could go forward given a single queue and a regionwide look at available transmission capacity.

As the August 14, 2003 outage highlighted, the ability to see a significant area of the grid and have the authority to order changes for security purposes is crucial to grid reliability. We need to continue to press forward with changes needed to insure the continued reliability of the Western Interconnection.

The Regional Proposal

The Beginning State described by the Regional Proposal addresses all of these issues. The details are still in the process of being worked out by regional participants. PNGC Power is committed to help develop the details of a Beginning State proposal so we can evaluate its worth. The decision process adopted by the RTO West RRG provides a carefully crafted, stepped process. There are four separate and distinct decision points before the Beginning State is reached. Input is sought in the development of and at each decision point.

Assuming that an RTO can be formed and the Beginning State is implemented, there are protections and criteria for moving to the next steps, including the Advanced State which calls for a full financial rights market. We at PNGC have had serious reservations about a full financial rights market but believe that the protections of an independent board at RTO West, a more stringent Board voting requirement for moving to the Advanced State with required input from the Trustee Selection Committee, and the phased approach with demonstrated benefits at each step are adequate protections in order to enable us to move

forward on development of the proposal today. If the Beginning State adequately solves most of the problems experienced today, there would be no reason to move to the Advanced State. On the other hand, if problems persist, the phased approach will give us time to evaluate the efficacy of moving to financial rights. At this time it would be imprudent to object to the entire proposal over fear of a possible outcome.

We believe that the Filing Utilities have been responsive to regional input in taking a fresh look at the problems and possible solutions. The Regional Proposal is a phased approach. The Beginning State is far short of the market described in RTO West Stage 2. The governance has been revised to insure meaningful regional input while at the same time protecting the advantages which an independent Board brings. We believe that we must address the pressing transmission issues and the Proposal is the best way to do that.

Conclusion

We urge BPA to fully engage in the development of the Beginning State. We also urge BPA not to undertake approaches to its current problems, such as zonal scheduling, that are antithetical to the direction that RTO West is going. If BPA really wants to bring about a more rational approach to regionwide transmission operation and planning, it should not undertake incremental steps on its own system that make regionwide reform even more difficult.

We appreciate BPA's willingness to devote resources to this important process. It could pay large dividends in the long run. Long-term vision is needed in order to rise above the current debate. We appreciate your perseverance on these difficult but critical issues.

Sincerely,



Pat Reiten
CEO, PNGC Power

CC:

John Saven – NRU
Susan Ackerman - NRU
Ron Williams – ICUA
Allen Burns – BPA
Syd Berwager - BPA
Bud Krogh – Grid West
Bill Drummond – WMG&T
Lon Peters – PGP

Terry Mundorf – WPAG
Sandy Flicker – ORECA
Tom O'Connor – OMEU
Dave Clinton – WRECA
Steve Johnson – WPUDA
Jerry Leone – PPC
PNGC Board