



NATIONAL ACADEMY OF PUBLIC ADMINISTRATION

1100 New York Ave., N.W., Suite 1090E
Washington, DC 20005-3934

TEL (202) 347-3190 FAX (202) 393-0993
INTERNET: www.napawash.org

Celebrating the 20th Anniversary of Our Congressional Charter

GRID WEST GOVERNANCE STRUCTURE

TECHNICAL PROPOSAL

BACKGROUND

Grid West is a Washington non-profit membership corporation¹ created for the purpose of improving the efficiency and reliability of the Northwest high voltage transmission system and associated bulk transfer wholesale power markets by forming a independent regional transmission entity to centralize procedures and decision-making on a number of transmission-related issues. The entity would endeavor to capture efficiencies through a variety of methods, which could include creating markets in ancillary services, redispatch, imbalance energy, and related services, adopting common business practices, providing for one-stop internet shopping for transmission services, planning system transmission expansion from a system-wide perspective, consolidating existing control areas under the management of Grid West at the request of utilities wishing to consolidate, all in a manner that reduces the cost of delivered power to Northwest consumers.

Among the utilities considering joining Grid West are British Columbia Transmission Company, Bonneville Power Administration, PacifiCorp, Idaho Power Company, Avista, Puget Sound Energy, Portland General Electric, Northwestern Energy, Sierra Pacific, Nevada Power Company, Alberta, and various other transmission-owning utilities in the Pacific Northwest, including possibly publicly-owned utilities. Thus, the entity may include Federal agencies, Canadian crown corporations, publicly-owned utilities, and investor-owned utilities.

For a variety of reasons, Grid West would be an “independent” entity, meaning that its trustees are expected to act on behalf of the interests of the corporation and the region, not on behalf of individual transmission owners or market participants. For example, while elected by a trustee selection committee of stakeholders, the trustees are precluded from having an interest in a market participant. Thus, for example, no board member could hold a financial interest in any entity that buys, sells, or brokers power- or transmission-related services. Further, Grid West would be entrusted with broad powers to adopt policies that may have a significant financial impact on stakeholders. For

¹ It is likely Grid West will seek 501(c)(3) status as a charitable entity on the rationale that it “lessens the burden of government.”

example, Grid West may adopt common business practices, such as scheduling procedures, that all market participants must use to schedule bulk power transactions, despite personal preferences.

ISSUES AND CONCERNS

There is concern among some stakeholders that an independent entity will be less accountable to the region than the utilities currently operating transmission systems. By creating an independent entity governed by a board insulated from stakeholders, some regional stakeholders believe existing political and other mechanisms for ensuring regional accountability may be lost, and that Grid West will not act in the best interests of regional stakeholders. There is concern that Grid West will not perform its functions efficiently, meaning high value for dollar spent in performing its functions may not be achieved, in part because of fears its independence may separate its interests from those of regional stakeholders. This concern is based on the experience of other similar transmission entities that have seen their costs skyrocket. Further, because Grid West will engage in business activities regulated by the Federal Energy Regulatory Commission (FERC), there is concern that FERC will drive Grid West policy according to FERC-driven national goals, rather than addressing regional transmission problems.

To balance the competing interests of a board independent of market participants and subject to FERC jurisdiction, but accountable to the region, the proposed Grid West bylaws will contain a number of provisions designed to limit Grid West's ability to act without stakeholder review, but which allow Grid West to take actions over the objection of its member stakeholders. The proposal includes a number of other safeguards to help assure that Grid West acts in the interests of the region. These include limited authority to participate in the market, required member approval to move to operational status after an initial period of development, stakeholder election and removal of trustees by member representatives, a balanced allocation of voting strength among five member classes, stakeholder voting rights over certain significant policy changes (subject to a board override), rights of transmission owners to withdraw their systems from Grid West operation, among others. At the same time, Grid West must be able to respond to changing conditions by modifying its policies accordingly, and operate in a manner that provides value to the region in a cost-effective manner.

STATEMENT OF WORK

Because of the above issues and concerns, BPA is seeking to contract with an independent entity, with individuals having seasoned judgment and experience in evaluating non-profit organizations for the purpose of addressing the following questions:

1. Have we created a governance structure that is likely to achieve one of its desired objectives—regional accountability? How well have the bylaws balanced board independence from market participants, regional accountability, and FERC jurisdiction?

2. Have we created an organization that is workable? That is, as a practical matter, taking the proposal as a given, will the various limitations, process requirements, and constraints on policy formulation designed to create regional accountability make it unduly difficult for Grid West to succeed as an organization—i.e., to perform its functions at reasonable cost and respond to changing circumstances while remaining accountable to the region?
3. Have we included sufficient safeguards and incentives that enable Grid West to perform its functions efficiently—that is, keeping its costs reasonably low in light of its mission? Are there other ways to help assure that Grid West will be sensitive to stakeholder concerns that Grid West contain its costs, operate efficiently, improve operations, make timely decisions, and evolve as conditions warrant.
4. Are there success stories involving creating non-profit corporations for the purpose of implementing public policy, or operating a market, in a manner that reflects regional interests while responding to national policy? What were the keys to success? Are there notable examples where similar efforts failed? What lessons were learned?

THE ACADEMY

The Academy is an independent, nonprofit organization chartered by Congress to identify emerging issues of governance and to help federal, state, and local governments improve their performance. It exists solely to help government achieve excellence. The Foundation is the operating arm of the Academy for conducting studies and analyses.

The unique source of the Academy's expertise is its membership, which includes more than 500 current and former Cabinet officers, members of Congress, governors, mayors, legislators, jurists, business executives, public managers, and scholars who are elected as Fellows because of their distinguished contribution to the field of public administration through scholarship, civic activism, or government service. Participation in the Academy's work is a requisite of membership, and the Fellows offer their experience and knowledge on a voluntary basis.

The Academy maintains a core professional staff that is regularly augmented by study teams recruited for their superior qualifications to contribute to specific projects. Panels composed of Fellows and invited experts from science, business, labor, and other relevant fields direct project and study activities. The business and leadership functions of the Academy are guided by an elected Board of Directors. The President of the Academy is appointed by the Board to direct operations.

Since its establishment in 1967, the Academy has responded to a multitude of requests for assistance from various agencies and has undertaken numerous studies on issues of particular interest to Congress. In addition, the Academy has conducted projects for

private foundations, states and other governments and has begun to develop some private sector partnerships.

APPROACH AND METHODOLOGY

To respond to the first three questions, the Academy will appoint a Project Panel of five Academy Fellows with expertise in the areas of non-profit governance, organization, and management. This Panel will be chaired by Tom Stanton, who is the Chair of the Academy's Standing Panel on Government Organization and Management. The Project Panel will meet three times during the study. Two members of the Panel—Tom Stanton and Alan Dean will perform the primary review and analysis work. They will initially review all background material, as well as the proposed governance structure, by-laws and other related relevant documents. They will prepare the materials for the Panel to review at its meetings and, together with the Panel, they will identify related work that needs to be performed, carry out and review the results of that work, and develop a draft and final report to Grid West.

A portion of the additional work that would be performed would include two visits to the Pacific Northwest area. The first would be to meet with BPA and Grid West officials, and interview a variety of stakeholders in the Grid West initiative. The second would be to deliver the report and to provide a briefing (most likely with power point slides) to stakeholders on the results of the study.

With respect to the fourth question, the Project Panel will review and analyze similar non-profit initiatives that they become aware of or those that Grid West officials supply, and include information on the attributes of success or failure of such initiatives as part of the report. However, at the request of BPA the Academy does not envision doing original research to identify and analyze similar initiatives. Such work would require additional resources.

PANEL AND STUDY TEAM

The Academy will establish a Panel and a study team composed of individuals knowledgeable in public administration, non-profit governance, organization, and management. The Panel will have five Academy Fellows as members. Two of the Panel members will also be part of the study team. The remaining study team members will be assembled using a combination of experienced Academy staff and/or independent contractors. The key study team members for this project will be J. William Gadsby, Vice President for Academy Studies, Thomas Stanton, Academy Fellow and Alan Dean, Academy Fellow. Brief biographies of each are shown below.

- **J. William Gadsby** – Vice President for Academy Studies, National Academy of Public Administration. Former Director of Management Studies, NAPA; Senior Executive Service; Director, Government Business Operations Issues, Federal Management Issues and Intergovernmental Issues, General Accounting Office;

Assistant Director, Financial Management Branch, Office of Management and Budget.

- **Thomas H. Stanton** — Attorney at Law. Fellow, Center for the Study of American Government, Johns Hopkins University; Chair, Standing Panel on Executive Organization and Management, NAPA. Former Partner, Wellford, Wegman, and Hoff; Associate General Counsel, Federal National Mortgage Association; Acting Director and Deputy Director, Office of Policy and Planning, U.S. Federal Trade Commission.
- **Alan L. Dean**—Consultant. Former Vice President for Administration, U.S. Railway Association; Deputy Assistant Director, U.S. Office of Management and Budget; Assistant Secretary for Administration, U.S. Department of Transportation; Associate Administrator for Administration, Federal Aviation Agency.

PROJECT SCHEDULE

The Academy contemplates a contract being signed and initiating work on this project by June 22, 2004. We estimate that the project will take about 15 weeks. Therefore, if that start time is accomplished, the Academy will deliver a draft report by September 1, 2004 (10 weeks) and a final report by September 30, 2004 (15 weeks). Delays beyond that start time would cause corresponding delays in completion.

BUDGET

The Academy will complete this project for a fixed price of \$105,000.