NARRATIVE DESCRIPTION OF RRG PLATFORM GROUP REGIONAL PROPOSAL

A. EXECUTIVE SUMMARY

Since mid-2003, regional parties from all sectors of the electric power industry, with the encouragement and active participation of state and provincial representatives, have been working together to define regional transmission problems and opportunities and to develop a framework for solutions that are workable, cost-effective, and responsive to the region's needs. This work, carried out through the RTO West Regional Representatives Group (RRG), builds on past regional efforts, including many elements of the RTO West "Stage 2" proposal, but it provides for thoughtful, staged implementation and a system of checks and balances to assure that the organization responsible for managing the region's transmission system is accountable to the region's stakeholders and regulators.

During November and December 2003, a small RRG work group (the Platform Group) worked to define the basic elements of a proposal (known as the "regional proposal") that a broad spectrum of regional parties could support and use as a basis for additional development work during 2004. The Platform Group was guided in its work by several important principles, chief among them the need for a proposal that: (1) provides clear improvements over current approaches to managing and using the regional transmission system, (2) is workable in each stage of its evolution, and (3) is sufficiently flexible to permit evolution over time to address remaining problems and respond to changing circumstances. The regional proposal also recognized the importance of continuing to honor all existing transmission rights and obligations, minimizing cost shifts, and supporting each participating transmission owner's on-going right to set its own revenue requirements for recovering its transmission investments.

Some key elements of the regional proposal are:

- Creation of an independent organization (the Independent Entity) to manage the region's transmission grid. (In this respect, the proposal contemplates an organization that is independent of market interests, not unaccountable or unresponsive to regional input. The Independent Entity will also be subject to applicable regulatory authority.)

- Staged implementation, beginning with approaches that improve the integration of transmission service across the region but build on the use of existing rights and scheduling processes. The proposal includes elements of a beginning state, interim state, and advanced target state, with the Independent Entity's services evolving as it and the region gain experience and reach points of readiness to make further beneficial transitions

- Additional voluntary features that supplement service under existing rights and scheduling processes (such as a day-ahead inc/dec market for willing buyers and sellers and voluntary control area consolidation for those transmission operators that wish to have the Independent Entity operate their control areas).

- Regional accountability and governance. Decisions that affect the fundamental scope of the independent entity are subject to heightened procedural and voting requirements (mandatory consultations with regional stakeholders and governmental representatives, voting by a balanced committee of regional stakeholder representatives, and ultimately the requirement that the Independent Entity's Board of Directors approve certain decisions by a higher margin (seven of nine total Board votes) if there is a strong negative response in the stakeholder vote).

The regional proposal is designed to be responsive to regional transmission problems and opportunities that have been identified through the RRG process since mid-2003. Because it provides for staged implementation and seeks to satisfy multiple objectives (such as minimizing cost shifts), the proposal may not address fully all identified problems and opportunities from the outset. Nevertheless, the proposal contemplates that the Independent Entity's beginning state will be a meaningful improvement over current practices in numerous respects. It also recognizes that it may take time, experience, and logical evolution of the Independent Entity before the full spectrum of expected benefits can be achieved.

Assuming that support for the regional proposal continues to be strong, the next stage of development activities will need to identify a process and timetable for further work. The nature of further work will also need to be defined, but in general this work will provide the foundation for implementing the proposal's beginning state. In addition to developing substantive details of the proposal, the process may encompass steps such as securing necessary state, provincial, and federal regulatory approvals, initiating the federal decision-making process that the Bonneville Power Administration will need to complete before joining the Independent Entity, and preparations to seat the Independent Entity's first Board of Directors.

B. INTRODUCTION AND BACKGROUND

During November and December 2003, a small RRG work group (the Platform Group) worked to define the basic elements of a proposal (known at the "regional proposal") that a broad spectrum of regional parties could support and use as a basis for additional development work during 2004. This paper describes, in general terms, the Platform Group's proposal for an independent regional transmission entity (the Independent Entity) to address the region's transmission problems and opportunities.

This paper complements the Platform Group's "Introduction to RRG Drafting Team Proposal" and "Development Staging Table," which provide an overview of a proposed framework for developing the Independent Entity and for assuring that the Independent Entity continues to be responsive and accountable to the region it serves.

Since mid-2003, regional parties from throughout the electric power industry, with the encouragement and active participation of state and provincial representatives, have been working together to define regional transmission problems and opportunities and to develop a framework for solutions that are workable, cost-effective, and responsive to the region's needs. This work has been carried out through the RTO West Regional Representatives Group (RRG),

which includes representatives of the RTO West filing utilities (Avista Corporation, the Bonneville Power Administration, the British Columbia Transmission Corporation, Idaho Power Company, Nevada Power Company and Sierra Pacific Power Company, NorthWestern Energy (formerly the Montana Power Company), PacifiCorp, Portland General Electric Company, and Puget Sound Energy, Inc.) In addition to the filing utilities, the RRG encompasses representatives of regional public power utilities, generators and power marketers, renewable and environmental interests, Native American tribes, end-use customers (including direct-service industries, large industrial customers, and state consumer representatives), as well as state and provincial regulatory representatives from across the region.

It is helpful to note that, as used in the regional proposal, the term "region" refers to the province of British Columbia, the states of Washington, Oregon, Idaho, Nevada, and Utah, and the portions of Wyoming and Montana that are served by one or more of the filing utilities. Representatives of the province of Alberta have participated actively in RRG meetings and work groups, and if Alberta's system operators decide that they wish to become part of the Independent Entity's scope, then the applicable region would encompass Alberta as well.

The regional proposal builds on past efforts to improve management of the region's transmission system and related wholesale markets, dating back to at least the mid-1990s. This work includes analyses and discussions under the auspices of the Pacific Northwest Utilities Conference Committee, collaborative work between 1996 and 1998 on a proposed independent system operator to be named "IndeGO," and more recent work on the RTO West "Stage 2" proposal. The regional proposal has benefited from much of the technical and legal work carried out through these previous efforts, but it has some unique features that the Platform Group believes are essential to creating a "center of gravity" among the regional parties that have participated in the RRG process. Among the most important of these features are provisions for logical, staged implementation of evolutionary steps toward an advanced target state, coupled with a system of checks and balances to assure that the Independent Entity is accountable and responsive to the system's users and to other regional stakeholders and regulators.

Section C below describes, at an overview level, the initial scope of the Independent Entity's activities – how it will provide services to fulfill existing transmission service rights and obligations, how it will provide services to those without pre-existing transmission rights, how fixed costs associated with use of the transmission system will be recovered, the Independent Entity's role as a control area operator for participating transmission owners that wish to consolidate their control area operations under the Independent Entity, and similar matters. Because this is an overview, many of the elements it describes are in preliminary form, and need further work.

Section D below describes, at an overview level, a governance approach for the Independent Entity that will provide regional accountability and responsiveness to the needs and preferences of the region's stakeholders and regulators. In particular, the regional proposal contemplates that certain types of decisions – those that would fundamentally change the scope of the Independent Entity – would be subject to mandatory regional consultations and governance "checks." While the Independent Entity's Board of Trustees (the "Board") would have the power to make final decisions concerning these transitions (subject to all applicable

regulatory and contractual requirements), the Board's decisions will be subject to clear procedural protections, including thorough deliberation and consultation with state and provincial regulators and representatives and regional stakeholders.

Section E below briefly describes the elements of the regional proposal that are not covered under sections C and D (such as planning and expansion, market monitoring, and regional dispute resolution).

As noted above, the regional proposal contemplates a staged process of implementation, encompassing beginning, interim, and advanced target states. While section C of this paper focuses on the commercial services the Independent Entity will provide in its beginning state, section F below briefly discusses the proposal's interim and advanced target states.

The Platform Group's work on the Independent Entity proposal centered on addressing the regional transmission problems and opportunities that have been identified by the RRG during the second half of 2003. Section G below explains briefly how the elements of the regional proposal relate to some of these specific problems and opportunities.

The overarching principles that have guided the Platform Group's work are:

(1) The proposed beginning state should be a clear improvement over the existing situation and respond to the problems identified by the RRG.

(2) Each stage of the proposal should be workable in itself. The stages should not create significant new problems at the same time they try to address old ones.

(3) Each stage should allow further evolution of solutions to remaining problems, as well as changes in circumstances, with some indication of the expected direction of that evolution today, and subject to review of the desirability of moving forward. Stages should not become obstacles to further steps that the region supports.

With these principles in mind, as well as other regionally supported objectives (such as continuing to honor all existing transmission rights and obligations and minimizing cost shifts), the Platform Group has attempted to create a framework that will enable parties throughout the region to move ahead together on a clear path to make our regional transmission system and the services it provides to the region better than they are today. Section H briefly outlines possible next steps to further develop the regional proposal, as well as examples of the types of contractual arrangements that might be needed to implement the proposal once it is fully developed.

C. THE INDEPENDENT ENTITY'S COMMERCIAL SERVICES IN THE BEGINNING STATE

Overview

The Independent Entity is intended to provide regional transmission services to system users in a more reliable and more efficient way than has been possible in the past. Existing system users have been constrained by a legacy system that tends to fragment service provision even though transactions cover an ever-wider regional and western market. This fragmentation has made it more difficult to provide long-distance transmission services reliably to customers because no single transmission provider is able to operate with a clear view of the status of the overall interconnected system.

The regional proposal creates a staged process with some significant initial steps the region would take to address commercial and reliability problems. At the same time, the proposal's governance approach maintains regional accountability for the overall pace and direction of change in the management of the regional transmission system.

The beginning state will create an Independent Entity that can integrate the commercial and reliability requirements of transmission service more closely. By so doing, the Independent Entity will be able both to address the reliability coordination requirements of NERC more fully and to enhance the ability of users of the transmission system to meet their commercial needs efficiently and with minimal disruption of existing commercial patterns. The Platform Group believes that for implementation of the beginning state to be practical, it will require the participation of at least the Bonneville Power Administration and two investor-owned utilities with transmission systems contiguous with Bonneville's.

The ability of the Independent Entity to see the overall power flow effects of all proposed transactions on the regional grid ahead of real time is central to the region's ability to enhance reliable operation of the system. The Independent Entity enhances reliability by centrally receiving and processing all proposed transmission schedules over the transmission systems of Independent Entity participants. After receiving the proposed schedules and running a redispatch market (as described below) the Independent Entity will pass the regional expected daily operating plan to the control area operators and to the Pacific Northwest Security Coordinator, which will operate and monitor, respectively, the system in real time, but with full knowledge of the flow effects of the expected transactions.

Pre-existing transmission rights remain in place under the regional proposal, while new commercial processes are put in place for obtaining new or additional transmission service. These processes will also rely heavily on the Independent Entity's ability to see the overall power flow effects of all proposed transactions on the regional grid. The role of the Independent Entity as the single processor of schedule requests, as well as medium and long-term service requests, will eliminate several of the areas where "transaction pancaking" hinders the efficiency of the market. The regional proposal will create new transparent, centralized short-term redispatch markets and a new medium-term transmission rights market. These will enable willing buyers and sellers to enhance the efficiency of their daily operations and the value of

their existing rights. These markets are also intended to allow the region's transmission users to become more familiar with the operation of these kinds of markets, so that further steps in the evolution of the Independent Entity's functions can be more fully informed – in particular, any conversion of today's rights. The success of these new, voluntary markets will be furthered by maximizing the number of potential participants. Therefore the Platform Group believes that it would be appropriate for parties to contracts with provisions that may limit participation in these markets to discuss how the contracts might be revisited to remove barriers to participation.

The remainder of this section describes the provision of transmission service in the beginning state of the regional proposal. There are three time periods for obtaining new transmission service: day ahead, medium term and long term. This narrative will describe at an overview level the main actors that are involved, the rights required to schedule, and how parties obtain those rights. It will, again at an overview level, describe the prices participants pay, how costs are recovered for the services, and the tariffs that apply. To the extent that discussions among interested transmission owners have fleshed out the concept of voluntary consolidation of control areas under the Independent Entity, this section will briefly describe the relationship of the Independent Entity to the consolidating transmission owners. Finally, where the Platform Group has not clarified major aspects of transmission service, the narrative will simply note them as items for further work. The Platform Group recognizes that there are significant credit-related issues that also would need to be addressed in the process of further defining the Independent Entity's services and responsibilities.

While the details of the transmission service approach for the regional proposal have yet to be developed, the general shape is expected to be consistent with the description below. The details of this proposal need to be worked out before it takes final form as a workable approach for the region. The Platform Group anticipates that this detailed work will take place over the next few months.

Fundamentals

The Independent Entity will initially provide service based on rights that need to be held in advance by those proposing balanced schedules, as is the case today. However, within this overall context, the proposal allows short term redispatch trades that do not require prearranged transmission rights. The Independent Entity will be the recipient and processor of all proposed schedules for those transmission owners that join. The Independent Entity will also facilitate new centralized redispatch markets that should (1) enhance availability of new service for durations greater than day ahead and (2) increase the economy with which transactions in the day-ahead market can be carried out. The subsections below describe how the Independent Entity will manage the day-ahead process, as well as how users without pre-existing rights may obtain them either through a medium-term auction process or a long-term transmission request. Appendices A and B, attached at the end of this document, provide diagrams that depict the process for using and obtaining transmission rights in the beginning state and how associated payments will flow among various participants.

Because it will receive and process proposed schedules in a centralized manner, the Independent Entity will also be able to see that security constraints are not violated for the day-

ahead operating plan. Its comprehensive view of the system and its scheduled transactions will also enable it to (1) provide better information for real time security operations to control areas (consolidated and existing) and (2) support more effective security coordination within the Independent Entity footprint than is possible now.

Day-Ahead Service

Existing rights holders (contract holders and transmission owners on behalf of native load) will submit balanced schedules, which, after a check for contract conformance, are converted to injections and withdrawals by the Independent Entity.[1] At the outset, the conformance check will be made by transmission owners (subject to spot-checking by the Independent Entity). Later, the Independent Entity will review the proposed schedules for compliance with existing contracts once it has completed an inventory of pre-existing rights. The physical feasibility of proposed schedules will be evaluated using the Independent Entity's power flow program to verify secure operation. The Independent Entity will need to account for rights that can (under their existing terms) be exercised closer to real time (often managed today by leaving open capacity on the system during the pre-schedule process). The result of this accounting will be carried forward into the inc/dec bidding acceptance process (described below), using a mechanism that has not yet been specified.

For redispatch purposes, generators and loads may offer inc and/or dec bids to the Independent Entity. These are not balanced schedules, but are offers to change generation dispatch or load consumption among willing parties. The result of the changes, however, is a balanced, security-constrained dispatch for the region.

The Independent Entity incorporates the inc/dec offers into its security constrained optimal power flow program with all non-bidding generators and loads (which were accepted in the previous scheduling step) accounted for at their pre-scheduled operating levels. The inc/dec redispatch market will create an auction to trade energy between willing buyers and sellers collectively, with the limitation that resulting transactions must be physically feasible (which the Independent Entity will verify through its optimal power flow program). The centralization of this market means that willing buyers and sellers do not have to be matched with each other on a one-for-one basis, but instead only that the resulting transactions balance out in the aggregate.

Because all load is covered by balanced schedules at initial schedule submission, the redispatch service provided is not "new transmission service" in the sense of a general right to schedule without previous acquisition of some form of transmission rights. In this sense it is quite different from the RTO West Stage 2 proposal.

[1] The Independent Entity's translation of schedules into injections and withdrawals may be in matched pairs (for example, a simple point-to-point transaction) or in multiples, where some set of injections matches, in the aggregate, a corresponding set of withdrawals (more similar to typical network service). In the latter case, it is not necessary that a schedule encompass injection and withdrawal quantities that can be matched on a one-point to one-point basis, but rather that the total submitted injections match the total submitted withdrawals.

However, there is "new service" to the extent that the operation of the inc/dec market can offer opportunities for cheaper ways to serve load and more efficient operation of the region's generators and transmission system within its physical limits (the latter by eliminating curtailments that might have been required otherwise). This service will be "new" in the sense that a generator's output level is not constrained by its pre-existing transmission contract rights. There can also be "new service" if a load chooses a new generation supply that is outside its existing contract rights for injection/withdrawal points. The equivalent of today's hourly non-firm service, and the payment for it, need to be clarified by further development work that will address the integration of the medium-term (or reconfiguration) auctions, submission of schedules, and operation of the short-term inc/dec market.

Because of the general requirement for balanced submissions within pre-existing transmission contract rights, those balanced schedules will be based on using transmission rights derived from existing transmission owner tariffs, while the short-term redispatch service will occur under the Independent Entity's tariff. Given that balanced schedules will provide the resources to cover load, most regional service will occur under tariff monthly or annual rates rather than hourly rates. The short-term inc/dec market will not, however, be subject to volumetric charges that can distort dispatch decisions, so the transactions arranged through the day-ahead inc/dec redispatch market are effectively de-pancaked. The rights used to submit schedules will be paid for as they are today, and to the extent that these rights cross multiple transmission owners' systems, the underlying annual or monthly charges for use of each system will continue. The payment of a "stack" of long-term rates to implement the Company Rate approach should not be confused with the absence of fixed-cost charges for use of the short-term inc/dec market, which results in de-pancaking of transaction fees for use of this day-ahead service.

The day-ahead market serves as a redispatch market, where accepted inc and dec bidders will be settled at the local market clearing price calculated for their offers. The hourly redispatch market, which is now subject to the distorting effects of potentially pancaked hourly volumetric charges, will not be subject to these charges once the Independent Entity begins the day-ahead inc/dec market. The net value created by the redispatch auction will serve to offset revenues that were previously collected through these hourly volumetric charges. These revenues would be allocated among participating transmission owners to cover losses they incur because they no longer collect tariff payments for short-term firm and non-firm transmission service.

The details of applying various tariffs, rates for service, and revenue distribution will need to be fleshed out in further work.

Acquiring Rights Through the Medium-Term Auction Process

As used in the regional proposal, the references to "medium-term" rights are intended to identify those rights that are obtained through reconfiguration auctions held at various intervals before the pre-scheduling process. The particular durations of these rights is not specified here, but their distinguishing feature is that medium-term rights are supported by the existing system (whereas long-term rights require new facilities construction, except when there is Available Transmission Capacity (ATC) available on a long-term basis). Generally, medium-term rights

will be those that can be enabled by trading of existing rights or rights obtained from ATC. They could be daily, weekly, seasonal, annual or multi-year.

The access point for obtaining services managed by the Independent Entity will be a regional OASIS (which could be hosted by the Independent Entity or incorporated into a broader OASIS site encompassing other transmission organizations as well). Any ATC available will be offered through the OASIS on an injection/withdrawal basis, *i.e.*, the right to submit a schedule of generation at the injection point and load at the withdrawal point. Because ATC is currently calculated on a path basis, the Independent Entity will need to perform a kind of "translation" to characterize transactions as sets of injections and withdrawals. The Independent Entity will ultimately be the arbiter of available ATC. The regional proposal contemplates that the responsibility for calculating ATC will migrate from the transmission owners to the Independent Entity over a short period of time.

The Independent Entity will run periodic auctions (with the frequency and term of standard product offers based on interest expressed by the Independent Entity's customers) in which existing rights holders can voluntarily offer strips of their existing rights (as allowed by contracts) at a price that would ensure any accepted offer would yield them higher value. Any entities seeking new medium-term rights would bid to purchase new rights, defined by desired injection and withdrawal points and amounts. Parties with existing rights will be able to voluntarily offer those rights for sale in the medium-term auctions.

The Independent Entity will run the auction, based on security constrained power flow program technology, that will calculate the new rights that can be awarded, either from unsold ATC or from the old rights offered for sale or from some combination of the two (often across different injection/withdrawal pairs than originally offered), and the settlement prices for those transactions. The settlement prices would be based on the values calculated by the power flow auction program for the injection and withdrawal points requested, using maximization of net value between buyers and sellers as the objective function. At this point, it is likely that the Independent Entity will have to complete the inventory of the existing rights for use as data in this calculation, though it may be possible to proceed using the interim transmission owner validation of rights before completing the inventory.

The medium-term auction will provide an opportunity to reconfigure issued rights. For instance, offering a 50 MW transaction right from point A to point B could allow the sale of 75 MW from point C to point D, because they have the same impact on a constrained facility. Such a trade cannot be identified by the rights holders and potential purchasers without the operation of a central program that sees all issued rights and examines capabilities on a region-wide basis. To the extent that otherwise unusable ATC exists, the auctions are generally expected to yield a surplus of revenue (calculated as the difference between the clearing prices for purchases times the megawatts less the clearing prices for the sales times the appropriate megawatts).

If no ATC is sold – that is, if all reconfiguration involves a different use of existing rights – the auction would generally be revenue neutral to the Independent Entity. Because trades occur in a centralized optimization, there is no simple, obvious way to ascribe specific revenue gains to specific transmission owners in this process. This suggests that adoption of a Company

Rate approach to fixed cost recovery for new rights, which includes a method for allocating surpluses to cover transmission owners' loss of short-term and non-firm revenues, may simplify implementation of the day-ahead and medium-term auctions. Details of this need to be fleshed out in further work.

The sale of existing rights will be by specific points of injection and points of withdrawal. Those offering rights in the medium-term auction will receive the revenue from the sale to the extent allowed by contracts; none of this will flow back to the transmission owners that sold the rights in the first place, though they will continue to receive the revenue they were previously receiving for those rights.

The new rights will have to be recorded in the Independent Entity's inventory of rights. The Independent Entity will need a tariff to cover provision of this auction service.

Long-Term Rights

As used with respect to the regional proposal, "long-term" rights are those that (1) are enabled by construction of new facilities and would usually be equal in length to the life of the facilities, or (2) are made from the sale of existing ATC (when there is ATC available through the regional OASIS to respond to new long-term service requests.) Generally, the expectation is that new projects will be funded by willing participants (outside of the potential for chronic congestion and reliability backstop actions of the Independent Entity). Rights enabled by the new construction will be awarded to the sponsoring participants. Rights will be defined in terms of injections and withdrawals at specific points and in specific amounts. The construction need not be on any direct link between those injection and withdrawal points. Holders of newly issued rights will also be able to offer new capacity into reconfiguration auctions.

The Independent Entity carries out the regional planning function that will provide information that can lead to the service requests. The role of the Independent Entity in acquisition of new long-term rights is to facilitate a single service queue (with respect to both transmission service and generator interconnection requests), which will replace the current multiple queues for service requests that span multiple transmission owners. The Independent Entity will perform studies on a full system basis in conjunction with the affected transmission owners. The exact structure and personnel relationships are not yet fleshed out.

The Independent Entity will also be able, as part of the planning and request study processes, to view the aggregate effects of requests and facilitate the development of consortia with common interests in specific system expansions.

An Approach to Fixed Cost Recovery

The regional proposal anticipates effective "de-pancaking" of the regional transmission system in two respects. The first sense in which de-pancaking occurs is that requests for transmission service are received and processed by the Independent Entity to eliminate the need for multiple submissions to individual transmitters. The second form of de-pancaking is the elimination of fixed-cost-based, volumetric charges for short-term transactions. In the beginning

state, the Independent Entity sets up a short-term inc/dec redispatch market that establishes prices from voluntary inc/dec bids. In this market, the charge for the inherent use of transmission to enable redispatch transactions is based on the value of the transmission system to the market rather than on an administratively determined share of fixed (*i.e.*, sunk) costs.

The elimination of volumetric fixed cost charges for long-term transactions requires addressing fixed cost recovery on a comprehensive basis. The regional proposal accomplishes this by adopting what is called the "Company Rate approach" for the collection of fixed costs. The Company Rate approach as the term is used here encompasses more than just the "license plate" rate that was used for new and converted service under the RTO West Stage 2 proposal. While the implementation for the regional proposal would be similar to that of the Stage 2 proposal, there is a key difference: the shift to financial rights with contract conversion does not occur in the beginning state. (See Appendix C for description of revenue flows under the RTO West Stage 2 Company Rates approach.)

Because none of the pre-existing contracts are converted to financial rights in the beginning state, all the revenues arising from pre-existing transmission arrangements will continue to flow to the transmission provider as they have in the past. These sources will constitute the bulk of the revenues used to cover transmission owners' fixed costs. The differences from the RTO West Stage 2 proposal will occur in the portion of the revenue which would flow through a Paying Agent, established to address tax and bonding issues. In the beginning state of the regional proposal the differences from the Stage 2 proposal are:

(1) The surplus from the day-ahead inc/dec redispatch market and the medium-term transmission right market can take the place of the surplus from congestion management in Stage 2; and

(2) There are no revenues from contracts converted to a formal Company Rate as they would have been in Stage 2.

The revenues from "External Interface" fees are unchanged from Stage 2.

Because there are no converted contracts in the beginning state, there is no need to formally calculate the "Company Rate" at the outset, although the "Company Rate approach" is applied. Until financial rights are adopted in the advanced target state, conversion of contracts will not occur. However, in the advanced target state, the Company Rate or the appropriate Transfer Charge will be applied to voluntarily converted contracts. While this describes the general concept, there remain a number of questions to be considered in future detailed work.

Control Area Consolidation

Some of the existing control area operators are discussing voluntary consolidation of their respective control areas. The extent of this consolidation is not yet resolved. However, the Independent Entity is expected to be the control area operator for the consolidated control area to provide the necessary independence. This service will be provided in a way that does not impose the costs or risks of that service on other participants in the Independent Entity.

The consolidated control area will need a mechanism to provide imbalance services that had previously been provided by the affiliated merchant arms of the separate control area operators. It is expected that the Independent Entity will facilitate a new market for imbalance services for the consolidated control area as part of its role as control area operator. This market may be separate at the beginning from the redispatch markets operated by the Independent Entity for all of its participants.

The discussions among the potential consolidators have not progressed enough at this time for the Platform Group to make any further or more detailed proposals at this time about the relationship between the Independent Entity, acting on behalf of all transmission customers and as a contractor to the consolidated control area. The regional proposal does not contemplate that the Independent Entity would ever have the authority to mandate control area consolidation for any transmission owners that do not elect voluntarily to consolidate their control area operations. One way to assure that this limitation remains in place would be to include provisions in the Independent Entity's bylaws or operating agreements (or both) that prohibit mandating control area consolidation.

As noted above, significant details affecting all aspects of transmission service through the Independent Entity in the beginning state will need to be addressed in further work.

D. REGIONAL ACCOUNTABILITY AND GOVERNANCE

Regional consultation (with stakeholders and with governmental and/or regulatory representatives of states, provinces, and tribes with applicable jurisdiction) is the cornerstone of the proposal's approach to assuring regional accountability. The consultation is both informal and formal, but formal consultation on major changes is required with the Board Advisory Committee, the Trustees Selection Committee, and regional government representatives.

The proposal's approach to governance builds on the proposed Bylaws for RTO West that were submitted to FERC as part of the RTO West Stage 2 filing, including provisions for Board member election and removal and for stakeholder notification and consultation. Under the Stage 2 Bylaws, a candidate for Board membership cannot be elected without the affirmative votes of 24 out of the 30 members of the Trustee Selection Committee. Given the composition of the Trustee Selection Committee (five classes with six votes each), this means that a Board candidate would need, at a minimum, either the affirmative vote of every member of four classes, or an average of almost five votes from each of the five classes to be elected. In other words, it will take a high degree of support from a broad spectrum of regional interests for any person to be seated as a member of the Independent Entity's Board. The Trustee Selection Committee also has the on-going power to remove Board members with whom it is dissatisfied (20 votes to remove for cause; 24 votes to remove without cause).

The Stage 2 Bylaws also provide that any member of the RTO West corporation may designate a representative to the Board Advisory Committee. The Board of RTO West has clearly defined obligations to regularly meet with and consider input from the Board Advisory Committee. In addition, the Board has an obligation to provide advance notice and receive and

consider advice from the Board Advisory Committee before making any final decision (except in emergency circumstances) with respect to:

(1) any proposed amendment or modification to the RTO West Tariff (including any proposed amendment or modification to the Corporation's rates or revenue requirements);

(2) any proposed amendment or modification to the forms of the Transmission Operating Agreement, Generation Integration Agreement, Load Integration Agreement or Scheduling Coordinator Agreement;

(3) RTO West Transmission System planning matters;

(4) the annual budget of the Corporation (including potential budget reductions and financial controls when a proposed budget materially exceeds the expenses for the prior audited fiscal year); and

(5) any proposed measures to implement market power or price mitigation.[2]

The Platform Group's governance proposal retains these requirements, but also expands them so that the Board's obligation to consult and receive advice applies not only to the Board Advisory Committee, but also to state and provincial regulators and/or representatives (and tribes with applicable regulatory jurisdiction). Governmental consultation could be done through a standing committee or board of governmental representatives or through some other mechanism. The Platform Group's expectation is that the Independent Entity's Board would be responsive to the preferences of the affected governmental bodies on how to structure the consultation process. For purposes of describing the additional elements of the governance proposal, this paper will use the term "Governmental Committee" to refer to the body with which the Independent Entity would consult.

The Platform Group also believes that it is appropriate for the Board to continually inform itself about the region's views on any decisions that have significant consequences for system users or other stakeholders (without regard to whether these changes are covered by the provisions of section 7.5.3 of the Bylaws or by the Special Issues List). Likewise, the Board should make sure that all regional parties have access to full information about its activities and potential changes to existing practices, as well an opportunity to provide input to the Board about them. The Platform Group envisions that the Board will have a policy of on-going consultations with the Board Advisory Committee, the Governmental Committee, and other interested parties to further these objectives.

As noted in the introduction to this paper, the Platform Group has proposed other governance elements (beyond those provided in the Stage 2 Bylaws) to strengthen regional accountability with respect to specific future decisions the Board might make that fundamentally change the scope of the Independent Entity's activities. The Platform Group refers to these

[2] *See* section 7.5.3 of the RTO West Stage 2 Bylaws.

decisions as the "Special Issues List." The items on the Special Issues List (each of which will be described in more detail below) are:

(1) Authorization to exercise "backstop" measures with respect to "chronic, significant, commercial congestion";

(2) Departure from using the Company Rate approach to recover fixed costs of transmission service;

(3) Authorization for the Independent Entity to convert the transmission rights of the transmission owners to financial rights and to issue new financial rights;

(4) Authorization for the Independent Entity's market monitor to impose penalties or actively intervene in markets; and

(5) Authorization for the Independent Entity to adopt and enforce a loss methodology that overrides individual company loss methodologies.

If, after the Independent Entity has begun commercial operations,[3] the Board wishes to gain the authority to implement the foregoing changes in the Independent Entity's scope of activities, there are heightened consultation and procedural requirements with which it must first comply, which are summarized below.

The Platform Group believes that, as a general matter, it would be appropriate for the Independent Entity's Board to continue to be guided (in all decisions, regardless of whether they fall within the Special Issues List), by the same principles that the Platform Group used to shape its proposal. These include the commitment to honor existing contracts, treaties, and other legal obligations; the objective of minimizing cost shifts; and the recognition that workability should always be a fundamental element of all Independent Entity activities and evolutionary steps.

The Platform Group also recognizes that the Stage 2 Bylaws envisioned a limited role for the Trustee Selection Committee (as well as a more restricted scope of responsibilities for the Board members they elect). This limited role shaped how the Stage 2 Bylaws allocated power within member classes to elect members of the Trustee Selection Committee. Given the Trustee Selection Committee's expanded roles under the regional proposal, the Platform Group recognizes that some prospective members of the various member classes may wish to revisit the representation structure within the member classes under the Stage 2 Bylaws (including power to elect Trustee Selection Committee members) in the next stage of development activities. While the Platform Group has significant reservations about re-opening discussions on this topic, the Platform Group has not taken the position that further discussions should be precluded. It is the Platform Group's view, however, that there should be some ground rules governing any efforts to modify member class voting structures. These are outlined below under the subheading "Submission of Proposal to Trustee Selection Committee Vote."

[3] The Platform Group believes this date should be measured by the first day on which the Independent Entity accepts transmission schedules.

Requirements Triggered by the Special Issues List

(1) Necessary Findings.

Before making a decision on a proposal that falls within the Special Issues List, state law and the RTO West Stage 2 Bylaws would require the Board to conclude, in its independent judgment, that implementing the decision would be in the best interests of the Independent Entity and its members.[4] This is true for any Board decision. Furthermore, to the extent that preliminary Board decisions related to the Special Issues List (decisions the Board makes before reaching the formal proposal stage) involve matters that are covered by consultation provisions in the Stage 2 Bylaws, the Board would need to comply with these provisions even though there would be further procedural and voting requirements once the Board makes a formal proposal.

In the case of one category on the Special Issues List, the Platform Group's proposal includes some guidance for the Board in considering the matter. With respect to the third issue (authorization for the Independent Entity to convert the transmission rights of the transmission owners to financial rights and to issue new financial rights), the Platform Group believes that the Board could not make the necessary initial judgment to propose this step unless it found that the transition was both feasible and made sense for the region. Part of this analysis would include evaluating whether the markets necessary to support financial transmission rights (such as voluntary bidding to redispatch generators or dispatchable loads) were in place, thoroughly tested, and functioning well at the time of the proposed transition, and whether both the Independent Entity and system users had sufficient experience with the markets to understand how they worked and how to use them.

(2) Mandatory Consultation.

Once the Board makes an initial decision to move forward with a proposal that falls within the Special Issue List (which it can do by the same simple majority vote that would typically apply to any other Board decision), the Board would need to complete a mandatory consultation process with respect to the proposal. In addition to any consultation with the Board Advisory Committee that might be required by section 7.5.3 of the RTO West Bylaws, the Board would have to consult with the Governmental Committee and with the Trustee Selection Committee.

The Trustee Selection Committee consists of 30 voting members. The 30-person total is made up of five member classes, each of which has six representatives. The five member classes are those specified in the RTO West Stage 2 Bylaws: (1) the Major Transmitting Utilities Class; (2) the Transmission-Dependent Utilities Class; (3) the Nonutility Entities Class; (4) the Retail

[4] The members of the corporation include transmission owners, transmission dependent utilities, independent power producers and marketers, end users, various other stakeholders (such as public interest groups), and state, provincial, and tribal representatives.

Customers Class; and (5) the State and Provincial Energy Authorities/Tribal Utility Regulatory Authorities/Unaligned Entities Class.[5]

(3) Submission of Proposal to Trustee Selection Committee Vote.

After completing the mandatory consultation process described above, the Board would be required to submit its Special Issues List proposal to the Trustee Selection Committee for a vote.[6] The Trustee Selection Committee would vote on whether it supported the Board proposal. If there are adequate Trustee Selection Committee votes to support the Board's proposal, the Board would be free to implement the proposal without further governance requirements (although any further steps required from a legal or regulatory perspective would remain to be completed).

There are two ways in which the Trustee Selection Committee vote could compel the Board to revisit a Special Issues List proposal before implementing it. The first way is by having at least 20 of the 30 Trustee Selection Committee members vote against the Board's proposal (a "20-vote remand"). The required threshold for a 20-vote remand is 20 negative votes even if fewer than all 30 Trustee Selection Committee members vote. The second way is for at least 16 Trustee Selection Committee members to vote against the Board proposal, with at least one member class casting all of its votes against the proposal ("unanimous member class remand"). As with the 20-vote remand, the minimum thresholds for the unanimous member class remand (minimum 16 negative votes total with at least one member class submitting a unanimous negative vote) apply without regard to how many of the 30 Trustee Selection Committee members participate in the vote.

The votes required with respect to proposals covered by the Special Issues List are, with a single exception (described below), one-time votes. This provision is based on the view that the Independent Entity should not undertake major changes in the scope of its activities without adequate input from regional stakeholders and the representatives of the Governmental Committee. In other words, once the Board has completed the necessary procedural steps to enable it to exercise a particular form of authority identified in the Special Issues List, the heightened procedural protections would not apply to further actions resulting from the exercise of that authority. Consultation provisions contained in section 7.5.3 of the RTO West Stage 2 Bylaws (as expanded to include Governmental Committee consultation as well) and the right to intervene and participate in any FERC filing would continue to apply by their own terms. Members of the Trustee Selection Committee could participate in this process through the Board Advisory Committee if they wished to do so.

In developing its governance proposal, the Platform Group received comments asking it to consider whether, for purposes of voting on matters covered by the Special Issues List, the

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[5] *See* section 4.2.1 of the RTO West Stage 2 Bylaws.

[6] If the Board opted to modify its original proposal based on the feedback it received during the mandatory consultation process, the Board could hold another vote (which would require only a simple majority) to approve the final form of proposal it would resubmit for a Trustee Selection Committee vote.

structure of the Trustee Selection Committee (which under the RTO West Stage 2 Bylaws has few responsibilities other than electing and removing Board members) seems appropriate. The Platform Group expressed reservations about re-opening the subject of member class voting structure because of how difficult and contentious efforts to develop the original provisions in the Stage 2 Bylaws had been.

The Platform Group does not believe that further discussions of this issue should be precluded, but it does recommend that further discussions address only the allocation of voting power within member classes, and not the number or definition of the member classes themselves. Furthermore, the Platform Group believes that certain recognized principles should guide these discussions. In particular, discussions concerning the representational structure within a given class should be among the expected members of the class. There should be a mechanism to assure fairness (for example, class members that others perceive to hold an unfair advantage should not be able to preclude consideration of changes to make the structure more equitable). Also, any changes to the current provisions in the Stage 2 Bylaws should be for the purpose of more fairly balancing voting power within a given member class. This means that no one member or subset of members should wield a disproportionately large share of the voting power, but also that those members with the most at stake (economically or otherwise) should not find themselves unreasonably vulnerable to the dictates of others with less at stake.

The Platform Group recommends that if there is consensus among the expected members of a given class concerning how to change the allocation of voting power within the class, the consensus changes should be incorporated into the Stage 2 Bylaws. If the affected parties are unable to reach consensus, however, the Platform Group believes that the matter should be brought back to the RRG to consider.

(4) Final Board Vote Following Trustee Selection Committee Vote.

As explained above, if the Trustee Selection Committee vote does not result in either a 20-vote remand or a unanimous member class remand, a Board proposal covered by the Special Issues List could be implemented without need for the Board to take further governance steps. If, however, the Trustee Selection Committee vote resulted in either form of remand, the Board would be required to vote again on the proposal.

If, despite a remand vote from the Trustee Selection Committee, the Board's judgment is that it continues to be in the best interests of the Independent Entity and its members to move forward with the Board's proposal, the Board could do so but only by an affirmative vote of at least seven of the nine Board members.

Further Explanation of Special Issues List and Associated Timelines

(1) Authorization to exercise "backstop" measures with respect to "chronic, significant, commercial congestion."

Under the RTO West Stage 2 planning and expansion proposal, RTO West had the ability to exercise "backstop" measures when the market monitoring unit for RTO West demonstrates

that chronic, significant, commercial congestion has not been mitigated due to market failure. Consistent with the Stage 2 planning proposal, demonstration of market failure would have to be based on substantial evidence on the record developed through the Independent Entity's public planning process. If these requirements are satisfied (and associated FERC approvals are obtained), RTO West's backstop authority would enable it to arrange for necessary upgrades or expansions (after following its public planning process to identify the appropriate solutions). RTO West itself cannot own transmission facilities.

The change to this process in the Platform Group's governance proposal is that the Board will not be able to exercise this backstop authority until it has completed the consultation and voting process associated with the Special Issues List. In the view of the Platform Group, there are some practical limitations with respect to the backstop issue as well. Under the staged implementation of the regional proposal, the Independent Entity's beginning state does not include a full market-based congestion management system with financial rights. The Platform Group believes, however, that a certain level of knowledge about where the transmission system is congested, what the congestion is costing users, and potential alternatives to address the congestion will be necessary before the market monitor will be able to assess whether there has been market failure with respect to mitigating chronic, significant, commercial congestion. For this reason, the Platform Group believes that the Board should not be able to consider invoking its backstop authority with respect to chronic, significant, commercial congestion until there is sufficient pricing transparency in the Independent Entity's operations to provide the necessary information. Recognizing the need for a certain degree of pricing transparency is not intended to imply, however, that the Independent Entity will have to complete a transition to full financial-rights-based congestion management before the Board can make appropriate assessments related to chronic, significant, commercial congestion.

(2) Departure from using Company Rate approach to recover fixed costs.

The regional proposal's approach to recovering fixed transmission system costs is described in section C above under the subheading "An Approach to Fixed Cost Recovery."

For purposes of the regional proposal on governance, a significant aspect of the Company Rate structure is that the RTO West Stage 2 filing included the assurance that the Company Rate approach would not be changed for at least eight years following the initiation of RTO West's commercial operations. The regional proposal maintains the minimum eight-year Company Rate period. Therefore the Special Issues List category for shifting away from the Company Rate approach provides that the Board may not seek authority to propose a departure from this approach until after the end of the eight-year period.

(3) Authorization for the Independent Entity to convert the transmission rights of the transmission owners to financial rights and to issue new financial rights.

The Platform Group recognizes that there are diverse views within the region about the timing and benefits of shifting from the current system of allocating transmission capacity (physical capacity on "contract paths" awarded on a first-come, first-served basis) to a market-

based system that provides for financial transmission rights to offset locationally derived congestion charges.

This is one of the reasons why in the beginning state the Independent Entity will generally manage service for existing transmission rights and obligations through current practices. At the same time, it will introduce voluntary markets to facilitate additional uses of available transmission capacity without compromising fulfillment of existing commitments.

At the same time, there is broad recognition within the region that there are numerous drawbacks to the contract path methodology. Many stress the importance of moving toward broader access and greater efficiency.

As described above under the "Necessary Findings" heading of the "Requirements Triggered by the Special Issues List" section of this paper, the regional proposal provides that the Board could pursue a transition to a full financial rights approach to congestion management only after determining that the transition is both feasible and makes sense for the region. In addition to assessing feasibility from the perspective of market operations and user readiness, the Board would need to confirm that the Independent Entity had completed certain other steps that the Platform Group believes would be necessary for the transition.

For example, the Independent Entity would need to have completed its inventory of pre-existing claims on the regional transmission system (pre-existing transmission rights and obligations). The regional proposal requires the Independent Entity to complete this process within two years following the date of its initial operations (the date the Independent Entity first begins to accept schedules). In addition, within three years after the Independent Entity's operational start-up, the Board must complete an evaluation of whether it is feasible and it makes sense to transition to financial-rights-based congestion management. If the Board concludes that the transition is feasible and makes sense, it must propose to make the transition (which triggers the Special Issues List processes) within six months after completing its evaluation. If the Board concludes that it is not feasible or does not make sense (or both) at the time of its initial evaluation, it will not propose the transition, but the Board must revisit its decision every two years thereafter.

(4) Authorization for the Independent Entity's market monitor to impose penalties or actively intervene in markets.

In the Platform Group's view, there seems to be regional support for the general approach to market monitoring that was included in the RTO West Stage 2 filing. For this reason, the regional proposal does not attempt to provide any significant additional information in this area.

One of the major elements of the Stage 2 market monitoring proposal is that the market monitoring unit does not have authority to impose penalties (or take other enforcement measures) at its own discretion, or to otherwise intervene in markets. While the market monitoring unit is charged with monitoring for and identifying behavior or market performance that is inconsistent with a competitive market, the market monitor will have to rely on remedies

in the RTO West tariff or regulatory mechanisms to address any problems, rather than an ability to impose its own remedies.

Recognizing the importance many regional parties place on this limitation on the market monitor's authority, the Platform Group included on the Special Issues List any proposal to grant the market monitor independent enforcement or mitigation powers. The Platform Group did not propose a timeline for when the Board could or could not propose this kind of change in the market monitor's authority.

(5) Authorization for the Independent Entity to adopt and enforce a loss methodology that overrides individual company loss methodologies.

A number of regional stakeholders have cautioned that the method of transmission loss recovery carries with it potentially enormous economic consequences. Consistent with the objective to minimize cost shifts, the regional proposal contemplates that provisions for loss recovery that currently apply under pre-existing transmission service rights and obligations would remain in place at the beginning state of the Independent Entity.

At the same time, the RRG's identification of regional transmission problems and opportunities has recognized that current methodologies do not create a good match between loss collection mechanisms and actual loss effects on the transmission system. This mismatch results in economic inefficiency. While there does not appear to be current agreement on how existing approaches should be improved, there seems to be general recognition within the region that it would be worthwhile to move to a better system.

For this reason, the regional proposal provides that the Board is expected to address this issue no later than three years after the Independent Entity begins operations.

Implementation of the Special Issues List

The Platform Group proposes that the Special Issues List and its associated consultation and procedural requirements would be incorporated into the Bylaws for the Independent Entity. To provide the region with strong assurance that the accountability and governance "checks" that come with the Special Issues Lists are not abandoned or circumvented, the Platform Group also proposes that these provisions in the Bylaws could not be amended or removed without high affirmative votes of both the Independent Entity's Board and its membership. The specific details governing these votes need to be addressed in further work.

RRG Members' Suggested Changes to Governance Proposal and Platform Group Recommendations

After the Platform Group presented its initial draft of the regional proposal to the RRG on November 19, 2003, some members of the RRG submitted questions and comments to the Platform Group. In some cases, comments included proposals to modify certain aspects of the regional proposal. This section describes major categories of RRG member comments that suggested changes to the regional accountability and governance elements of the regional

proposal, together with the Platform Group's recommendations in response to the suggested changes.

Suggested Change: Change the Board vote required to move ahead with a proposal covered by the Special Issues List after a Trustee Selection Committee remand from seven out of nine to six out of nine.

Platform Group Recommendation: The Platform Group's view is that the seven-Board-member vote represents a "center of gravity" that the region as a whole can support. After considering arguments on both sides of this issue (to lower the threshold and to raise it), the Platform Group felt it was best to retain the seven-vote threshold. Some commenters observed that there seemed to be an inconsistency between the voting threshold for a Special Issues List matter and the vote required under the RTO West Stage 2 Bylaws to dissolve the corporation (two-thirds of the nine-member Board, or six votes). The Platform Group discovered that the RTO West Articles of Incorporation submitted in the Stage 1 FERC filing require a 75% vote to dissolved the corporation, which would translate into a seven-member vote. The controlling provisions are not inconsistent after all. The Platform Group also recognizes that future work should include a general review of both the RTO West Articles of Incorporation and Bylaws for consistency with the regional proposal.

Suggested Change: Include additional matters on the Special Issues List.

Platform Group Recommendation: The Platform Group was guided by the principle that the Special Issues List should be limited to major changes in the scope of the Independent Entity's activities; that is, avoiding "scope creep" that is not responsive to regional needs and preferences. The Platform Group also felt that there is a strong interrelationship between the number and nature of items on the Special Issues List and the Trustee Selection Committee and Board votes they trigger. This is another area in which the Platform Group believes that the original proposal had arrived at a center of gravity among regional parties, so that it could not be altered to better suit some stakeholders without undermining the support of others.

WPAG proposed that a shift to a single tariff for the Independent Entity be added to the Special Issues List. The Platform Group's view is that if the concern underlying this suggestion is potential cost shifts, then the protections related to Company Rates (issue 2) and financial rights transition (issue 3) are intended to address them. If the concern relates to changes in terms and conditions, the Platform Group's view is that there are a number of on-going procedural protections that would apply. These would include the mandatory consultation process under section 7.5.3 of the RTO West Stage 2 Bylaws (which applies to any proposed tariff change), BPA processes concerning its rate-setting activities, the FERC process associated with initial approval of the creation of the Independent Entity, and the FERC process applicable to any subsequent tariff changes.

PGP proposed adding three issues to the Special Issues List: (1) authorization for the Independent Entity to take positions in spot or forward energy or capacity markets, whether on behalf of a third party or on the Independent Entity's own account; (2) authorization for the Independent Entity to sell services on a bilateral basis, except through a separate corporation or

subsidiary that completely shields those not purchasing such services from the costs and risks of such sales; and (3) authorization for the Independent Entity to change conditions on the self-supply of ancillary services.

On the first issue, the Platform Group observed that FERC rules require that a transmission provider act as the provider-of-last-resort for ancillary services needed by transmission customers. The role of the Independent Entity as a transmission provider and the relationship of its tariff to the tariffs of the transmission owners will need to be developed in additional work. The extent of the Independent Entity's duties as a transmission provider will be established in its beginning state tariff. The Platform Group does not believe that this issue should be added to the Special Issues because it will be addressed in the beginning state proposal as part of the Independent Entity's initial scope. The Platform Group also recognizes that further details in this area will need to be taken up in the next stage of developing the regional proposal.

The Platform Group has a similar view with respect to the second issue – that selling services on a bilateral basis to subsets of participating transmission owners (with costs to be borne by the participants receiving the services) is part of the basic construct for the beginning state of the Independent Entity. As a consequence, there would be no major change in the scope of the Independent Entity's activities. The Platform Group did not think it should be added to the Special Issues List.

Modifications in the conditions applicable to the self-supply of ancillary services (the third PGP suggestion) are subject to the consultation process under section 7.5.3 of the RTO West Bylaws (and applicable FERC procedures) because they would necessitate tariff changes. The Platform Group did not view changes in terms governing self-supply of ancillary services as major changes in the scope of the Independent Entity's activities.

Suggested Change: Adopt specific criteria that the Board must consider before making significant changes to the Independent Entity's practices, and require the Board to make explicit findings with respect to these criteria before proposing any changes that would be covered by the Special Issues List.

Platform Group Recommendation: The Platform Group believes that the concepts embodied in the proposed criteria are covered by the principles enumerated on pages 4 and 14 of this document and under the subheading "Necessary Findings" on page 15. Among other things, these principles provide that changes in the Independent Entity's practices should be clear improvements over current practices, should be workable and minimize cost-shifts, and should enable affected parties to continue to honor existing contracts, settlements, and other legal obligations. The Platform Group views these principles as guidance to the Board, however, because the Platform Group believes that bright-line tests would be unworkable.

Suggested Change: If a proposal from the Board on the Special Issues List is remanded and fails to achieve the required supermajority at the Board, the Board should be required to wait for two years before making another proposal to the Trustee Selection Committee on such an issue.

Platform Group Recommendation: The Platform Group thought that there may be good reasons for the Board to make a proposal again sooner than two years, such as a technical flaw in the way the proposal was made or a significant change in circumstances. The Platform Group did not feel the Board should be required to wait two years before renewing a proposal that it did not previously adopt.

Suggested Change: The Board should not continue to revisit its decision on transitioning to a financial-rights-based congestion management system (issue 3) every two years if it does not approve the transition the first time it evaluates whether the transition is feasible and makes sense.

Platform Group Recommendation: The Platform Group did not think this provision should be changed because the two-year review was part of the basic compromise that made the regional proposal acceptable to a wide range of stakeholders.

Some commenters have also raised the question of who decides whether a Board proposal triggers the need to comply with the Special Issues List consultation and voting procedures. The Platform Group believes that this is a judgment that is properly within the Board's responsibilities. There are many provisions in the RTO West Stage 2 Bylaws (and additional features of the regional proposal) that give members tools to be aware of and provide their input to the Board concerning its decisions. If a member of the Independent Entity believes that the Board has failed to comply with the Special Issues List in a manner that is contrary to the Bylaws, the remedies available to nonprofit corporation members to enforce compliance with the corporation's Bylaws (as well as the power to remove Board members with or without cause) would apply.

E. OTHER ELEMENTS OF REGIONAL PROPOSAL

Planning and Expansion

The Platform Group's sense is that most regional parties support the general approach to planning and expansion set forth in the RTO West Stage 2 filing. The regional proposal builds on this approach. It contemplates that the Independent Entity would begin producing annual transmission plans once it becomes operational, expanding on then-existing cooperative regional planning processes.

With respect to expansion, the Independent Entity would begin with the ability to determine the injection/withdrawal rights created by new transmission system construction, and it would also have "backstop" authority to assure that reliability standards and total transmission capacity requirements are met. As described above, the ability of the Independent Entity to exercise "backstop" authority with respect to "chronic, significant, commercial congestion" is subject to the Special Issues List process.

Market Monitoring

As with planning and expansion, the Platform Group believes that the region does not perceive a compelling need to improve upon the market monitoring approach developed for the RTO West Stage 2 filing, and does not suggest significant changes for the regional proposal. Because there will be limited markets administered by the Independent Entity at its beginning state, the regional proposal provides for the market monitor to begin its activities based on available data. As the Independent Entity develops into its interim and advanced target states, the scope of the market monitor's activities will broaden to cover new and expanded markets. At the advanced target state, the market monitor will carry out full monitoring of the energy and capacity markets associated with the Independent Entity's operations.

Regional Alternative Dispute Resolution

The Platform Group views alternative dispute resolution as an integral part of the regional proposal, offering the benefit of resolving disputes within the region whenever possible. Tailoring alternative dispute resolution provisions that best suit the regional proposal will require further work in the next stage of its development. The Platform Group believes that in general provisions governing dispute resolution for the Independent Entity should not be applied retroactively to existing contracts and legal obligations unless all of the affected parties agree to apply them.

Regional Data Repository

The Platform Group believes that the Independent Entity's independence from market interests will enable it to become a trusted repository for regional data related to planning, operations, and transmission auctions (such as bids in the voluntary inc/dec market) at its beginning state. As the scope of its activities and markets evolve, the breadth and usefulness of the data it collects, and its access to the full range of information needed for effective market monitoring, should advance as well. The regional proposal contemplates that by the time the Independent Entity completes its beginning state implementation, it will be a comprehensive repository for data related to market monitoring, planning, and operations.

Coordination (Inter-Regional and Intra-Regional)

The Platform Group believes that the Seams Steering Group-Western Interconnection (SSG-WI) will provide a means for the Independent Entity to address interregional coordination issues (the external interfaces between the Independent Entity and other regional transmission organizations in the West). A workable approach to intra-regional coordination (addressing the interfaces between the Independent Entity and other utilities within the region that are not within the Independent Entity's boundaries) will need to be addressed in the next stage of developing the regional proposal.

F. INTERIM AND ADVANCED TARGET STATES

As noted in the introductory section of this paper, the regional proposal contemplates an evolution from the Independent Entity's beginning state to interim and advanced target states. Not all aspects of the Independent Entity's activities will necessarily evolve in unison. It is important to many regional parties, however, that there be a clearly defined path to progress from the beginning state to more advanced, comprehensive solutions (subject to regional checks and balances that provide accountability). Others have stressed that decisions concerning major transitions in the Independent Entity's scope should be made with the assurance the region will be ready for, and will benefit from, these transitions.

In many respects, the regional proposal builds on and benefits from the collaborative work that has been carried out through previous regional efforts, including the RTO West Stage 2 process. This is true not only of the proposal's approach to governance, market monitoring, fixed cost recovery, and transmission planning and expansion, but also in the advanced target state's integration of reliability coordination with operations, Independent Entity-administered process for interconnection requests, single Independent Entity tariff rather than individual transmission owner tariffs, backstop for chronic commercial congestion, integrated capacity/energy markets, and system of congestion management, which relies on voluntary bid-based markets with locational prices and financial transmission rights.

The regional proposal's path for moving the Independent Entity from its beginning state toward the advanced target state is intended to provide clear direction to the Board that can guide its decisions about if, when, and how the Independent Entity should make significant transitions in its scope of activities. Final decisions on these matters are the Board's responsibility, based on its independent judgment about what is in the best interests of the organization and its members. These judgments will be informed by clearly defined mechanisms that assure regional parties that they will be consulted, and their views will be thoroughly considered, before the Board makes its final decisions.

G. REGIONAL TRANSMISSION PROBLEMS AND OPPORTUNITIES THAT THE REGIONAL PROPOSAL ADDRESSES

The Staging Development Table that accompanies this narrative includes a column that is intended to indicate, in abbreviated form, regionally identified transmission problems and opportunities that various aspects of the regional proposal address. For example, there are a number of planning and operational problems that arise from the inability of multiple system operators to manage the system on an integrated, "big-picture" basis. From its beginning state, the Independent Entity will offer significant improvements in this area. The same is true with respect to analyzing and processing transmission service requests that require the use of more than one transmission provider's system. Because the Independent Entity will evaluate the impact of transmission schedules based on actual flows on the system (rather than using only a traditional "contract path" approach), it will allow increased utilization of the existing transmission system without compromising reliability. Inability to access unused capacity (and

reliability problems that can result from mismatches between scheduled and actual flows) are among the problems about which many regional parties have expressed concern.

With the evolution of the electric industry from integrated utility operations to a model that relies more on competitive supply of wholesale energy by independent providers (as well as competitive retail access for some customers served by the regional system), it has become harder for system operators to obtain complete information needed for reliable operations and effective planning (both because of logistical problems and because of concerns about the commercial sensitivity of much of this information). As a neutral operator that is independent of market interests, the Independent Entity will be able to act as a central repository for comprehensive and much needed information, without triggering many of the competitive concerns that create obstacles under current approaches.

These are examples of some of the types of improvements that the Independent Entity will bring from the beginning of its operations. In some areas, comprehensive resolution of existing transmission problems and opportunities may not fully develop until the Independent Entity has evolved beyond its beginning state (subject to appropriate regional consultation). The Development Staging Table is a good source for summary information about the full spectrum of regional transmission problems and opportunities the regional proposal is intended to address.

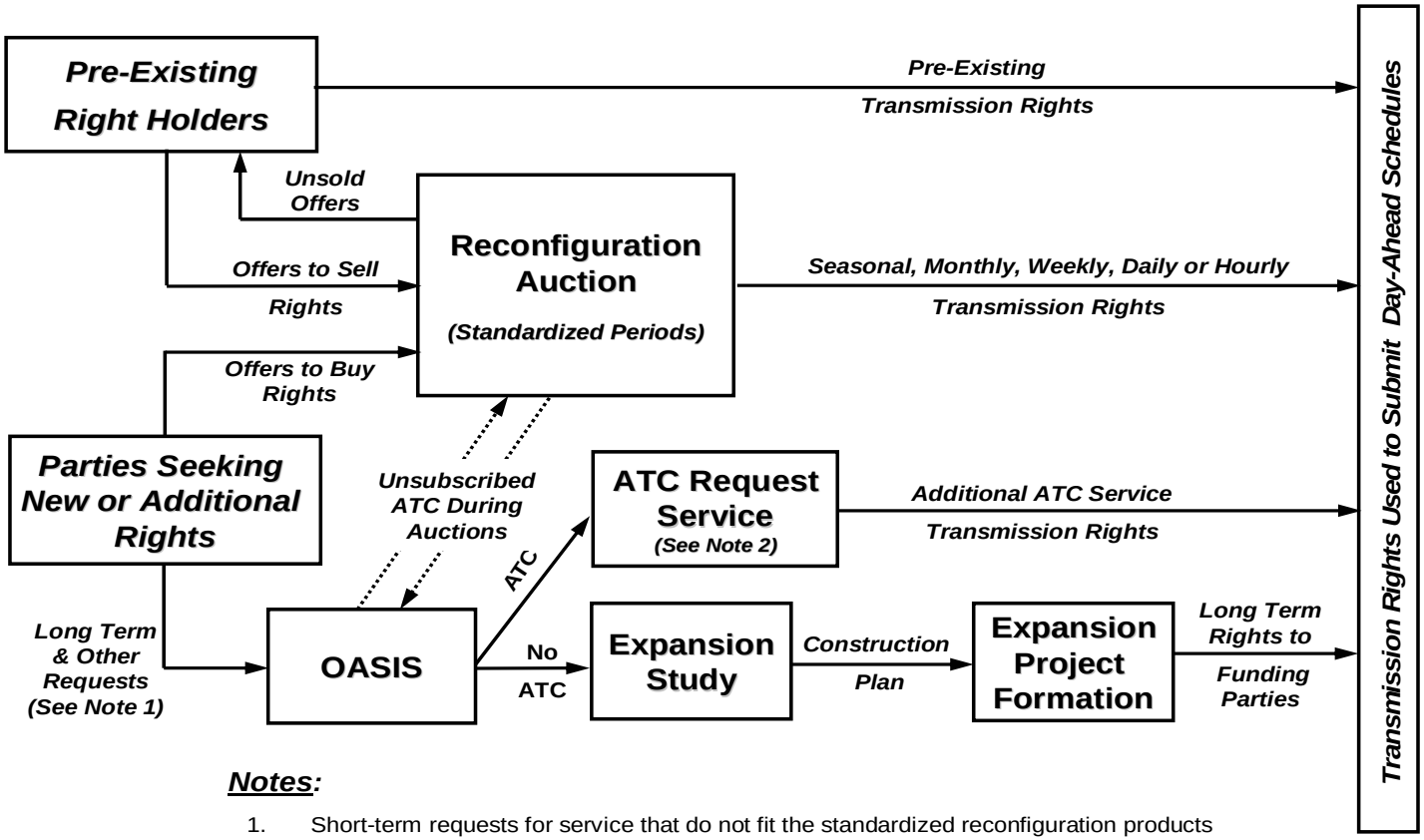
H. NEXT STEPS; POSSIBLE CONTRACTUAL ELEMENTS

Assuming that support for the regional proposal continues to be strong, the next stage of development activities will need to identify a process and timetable for further work. The nature of further work will also need to be defined, but in general this work will provide the foundation for implementing the proposal's beginning state. In addition to developing substantive details of the proposal, the process may encompass steps such as securing necessary state, provincial, and federal regulatory approvals, initiating the federal decision-making process that the Bonneville Power Administration will need to complete before joining the Independent Entity, and preparations to seat the Independent Entity's first Board of Directors.

The Platform Group recognizes that a comprehensive contractual structure will need to be in place before the Independent Entity can begin commercial operations. While the regional proposal has not yet identified the specific elements of this structure, examples of the types of agreements that might be needed include: operating agreements between participating transmission owners and the Independent Entity, operating agreements among consolidated and non-consolidated control area operators if needed, revised transmission owner tariffs (to assure consistency with each other and with additional features of the Independent Entity's service scope), and a tariff covering services provided by the Independent Entity.

APPENDIX A

Figure A-1
Conceptual Approach to Obtaining Transmission Rights

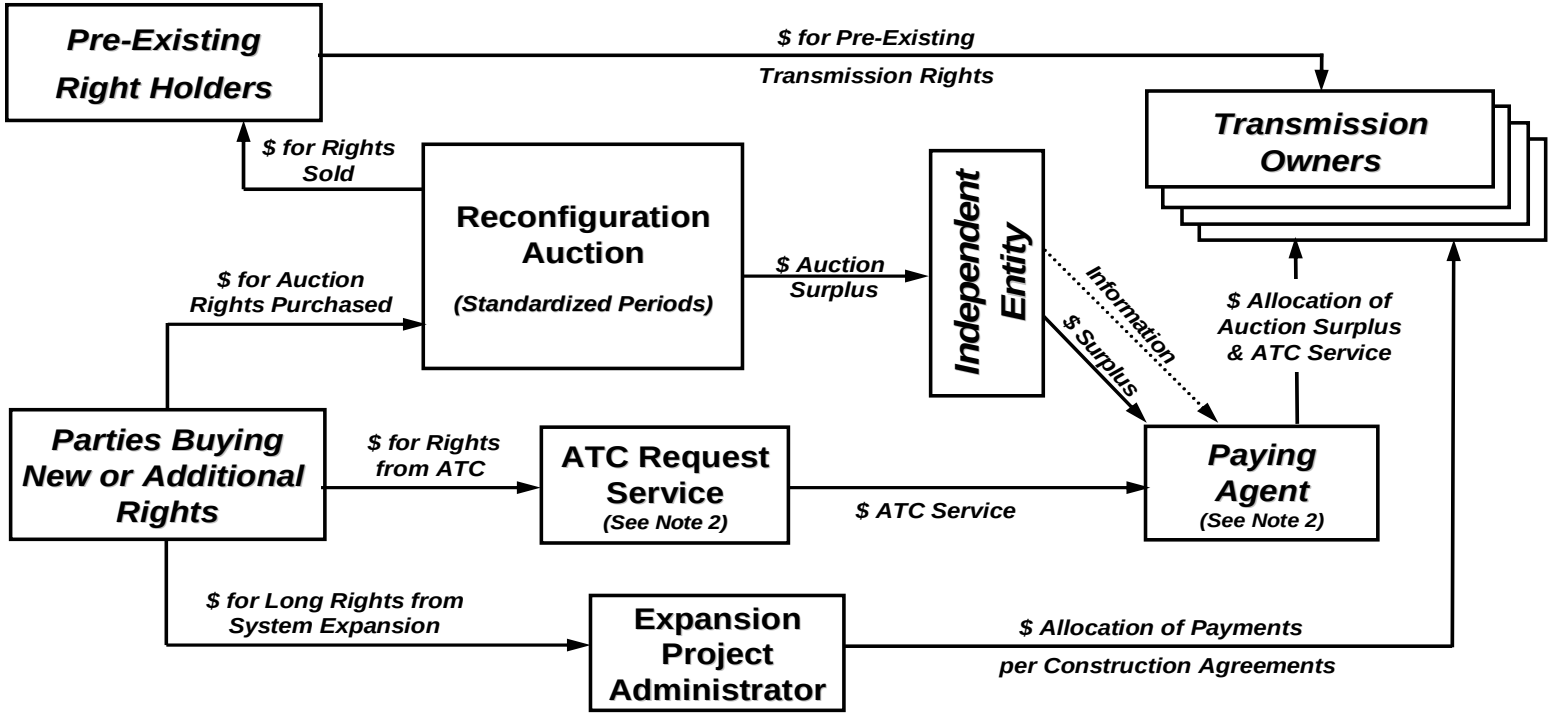


Notes:

1. Short-term requests for service that do not fit the standardized reconfiguration products may be submitted and evaluated through OASIS.
2. The details of providing new service through the independent entity under individual transmission owner tariffs have yet to be determined. That procedure will be developed when further work is done on the platform proposal.

APPENDIX B

Figure B-1
Conceptual Form for Transmission Right Payments



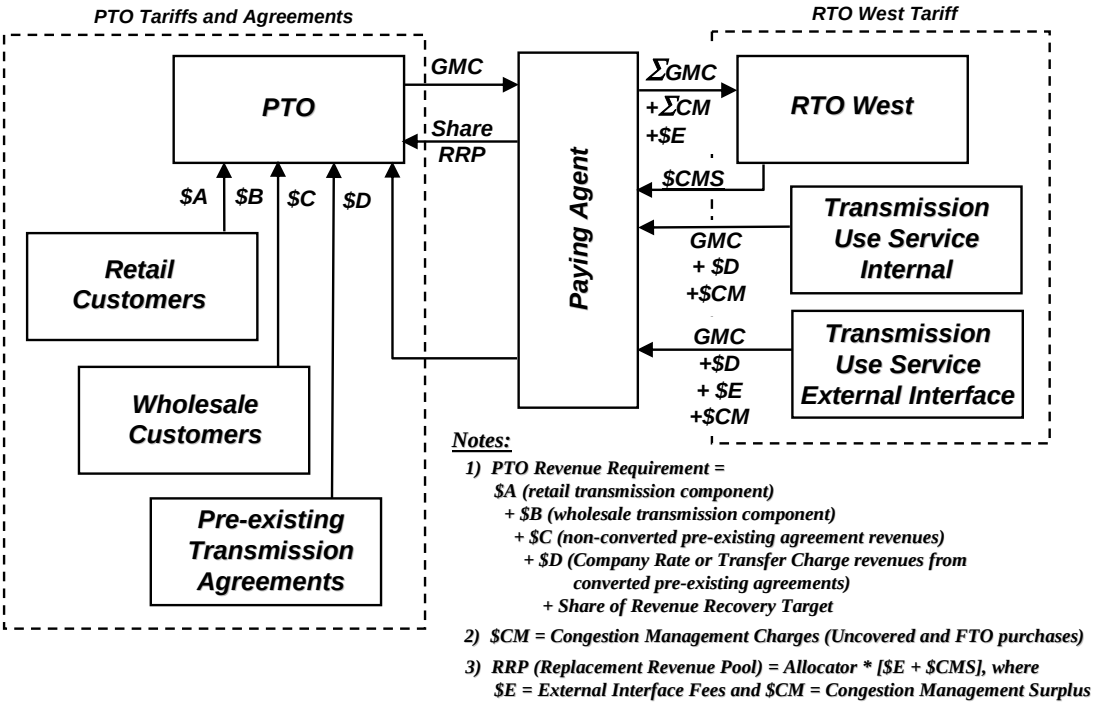
Notes:

1. Details of providing service through individual transmission owner tariffs have not been determined and must be developed during further work on the platform. The possibility of collecting revenue for new ATC Tariff Service through the paying agent is suggested here for future discussion.
2. The Paying agent receives share information from independent entity for both tariff sales of ATC and surplus from reconfiguration auctions.

APPENDIX C

Use of a Company Rate Approach for Fixed Cost Recovery In the RTO West Stage 2 Proposal and for The RRG Regional Proposal

Figure C-1
Stage 2 Collection of Revenue Requirements



In the RTO West Stage 2 proposal, the movement of funds to RTO West and back to transmission owners was minimized by leaving existing collection mechanisms in place for unconverted contracts. As shown in Figure 1 above, the three primary sources of funds to cover fixed costs for a transmission owner were: (1) transmission charges built into the retail rates of native load customers, (2) transmission charges in bundled wholesale contracts, and (3) revenues from pre-existing transmission contracts. What these three sources do not cover are revenue streams from current non-firm and short-term firm service. These revenues are lost when short-term volumetric charges are eliminated. In the Stage 2 proposal these revenues were replaced by a combination of sources, which flowed to the owners through a Paying Agent. The Paying Agent was established to avoid tax and bond covenant difficulties. The Paying Agent received three sources of funds, which it in turn distributed to transmission owners:

(1) The surplus from the congestion management system ($CM & $CMS)

(2) The revenues from converted transmission contracts ($D) and

(3) The revenues from "External Interface" (i.e. export) fees ($E).

The converted contracts either were charged a Transfer Charge (e.g. for converted pre-Order 888 point-to-point agreements) or the Company Rate. The formula for this Company Rate was based on the transmission costs of a company adjusted for non-converted contracts, transfer charge payments received, and so on. The revenue from unconverted contracts, whether between transmission owners or between transmission owners and transmission service customers, continued to be paid directly to the transmission service provider.

When the regional proposal is developed, the RTO West Stage 2 proposal will require some changes, primarily on the revenues flowing through the Paying Agent. In the beginning state there will be no converted contracts charged the Company Rate while the surplus revenues from the congestion management system ($D) will be replaced by the surpluses of the day-ahead redispatch market and the medium-term transmission right auction. A number of other issues will also have to be addressed, including the following:

(1) What tariff rate will apply to sales of ATC in response to transmission service requests satisfied outside an auction, when multiple systems are involved, and how are revenues distributed when the ATC is sold on an injection/withdrawal basis rather than a path basis?

(2) Will the stream of surplus auction revenues be an adequate substitute for the loss of today's non-firm and short-term revenues?

(3) Will an adjustment mechanism be needed to keep transmission owners whole, such as the Replacement Revenue Pool provisions of the Stage 2 proposal?