

Brief Summary of Grid West RRG Meeting October 12-13, 2004

Introduction

This summary is intended to briefly describe the topics discussed during the October 12-13, 2004 meeting of the Grid West Regional Representatives Group (RRG). It is not intended to be a verbatim transcript of anyone's remarks, and it is not intended to suggest that any particular representative or entity at the RRG meeting agreed with or endorsed the views described in this summary.

Overview of October 12-13 Meeting

- An RRG meeting was held at the Doubletree Hotel in Portland, Oregon on Tuesday, October 12, from 8:30 a.m. to 4:20 p.m., and Wednesday, October 13, from 8:30 a.m. to 12:20 p.m. PDT.
- Approximately fifty people attended the RRG meeting, including twenty-eight designated RRG representatives. Three state representatives attended the meeting in person and three state representatives participated by phone.
- Two experts from the National Academy of Public Administration (NAPA) presented and discussed with the RRG NAPA's preliminary findings on the proposed governance structure of Grid West.
- The Bylaws Work Group presented recommendations on issues assigned to it by the RRG plus offered additional recommendations and points to consider. The RRG discussed each recommendation and gave feedback on whether it was acceptable or whether the recommendation needed to be refined and brought back again to the next RRG meeting. The Bylaws Work Group took back five proposals for further work.
- Reports were given to the RRG from groups working on class voting and allocation resolutions and from the mediation/facilitation group. Several members of the Risk Reward Study Group made a presentation to the RRG about ongoing activities, highlighting that a draft survey aimed at further delineating and quantifying problems and opportunities will soon be reviewed by the Risk Reward Study Group and then sent to regional entities.
- The RRG will meet on Tuesday, October 26, 2004, and Wednesday, October 27, 2004, to review and assess bylaws proposals from the Bylaws Work Group, hear an update on the activities of the mediation/facilitation group, and receive a report from the Transmission Services Liaison Group.
- The Transmission Services Liaison Group (TSLG) held a seminar on October 14, 2004. TSLG members and consultants provided an overview of the technical work completed to-date on the market and operational design for Grid West's Beginning State. About sixty-five people attended the seminar.

NAPA Presentation on Assessment of Grid West's Proposed Governance Structure

Thomas Stanton, National Academy of Public Administration (NAPA) panelist, and Kenneth Ryder, NAPA senior staff advisor, presented to the RRG the preliminary findings of NAPA on the characteristics of the proposed governance structure in the draft Operational Bylaws posted on July 7, 2004. They interviewed about forty people in the region and are still welcoming input and comments. The presentation was distributed at the meeting and the September 15 draft panel report is posted at <http://www.bpa.gov/corporate/business/restructuring/>. The final report is expected to be complete at the end of October.

NAPA was not asked to make judgments or make recommendations about Grid West functions or the need for Grid West, and emphasized that the assessment was not a cost benefit study. Mr. Stanton focused on key assessment questions and discussed NAPA's findings and recommendations or suggestions for strengthening accountability, workability, budget development and monitoring, and the governance structure. After answering clarifying questions and taking substantive comments, Mr. Stanton and Mr. Ryder stayed through the day's meeting to give feedback on the proposed disposition of each of the NAPA recommendations that were presented to the RRG from the Bylaws Work Group.

Report of the Bylaws Work Group

The recommendations of the Bylaws Work Group are posted at http://www.rtowest.com/Stage2RRG_Upcoming.htm. The Bylaws Work Group presented recommendations on items (from the BPA list of issues) that were assigned to the group at the September 23-24 RRG meeting. They also presented additional recommendations and noted points worth considering from the survey of RTOs and ISOs. Working out-of-order from the presentation, the recommendations from NAPA were discussed first.

Bylaws Work Group Recommendations on NAPA Recommendations/Suggestions:
Listed below, in the order discussed, are the recommendations from the Bylaws Work Group on whether to concur with recommendations from the NAPA report, or if not, alternative recommendations.

- Change "revolving door" restriction – page 7.
 - Retain 180-day prohibition on acquisition of financial interest in Market Participant or Member;
 - Adopt one-year prohibition on becoming owner, director, officer, employee, etc. of Market Participant or Member.
- ✓ RRG Okay, with some additional clarifying wording. NAPA advised to ensure that the Board can adjust these restrictions later without having to amend the Bylaws.
- Allow the Board to engage in limited, non-decisional deliberations in executive sessions (such as training, retreats, conferences, etc.) – page 8.
 - A quorum of Trustees may not deliberate or take action except at a meeting, which is noticed and open; training and conferences are generally excluded; strategic planning at a retreat would have to be noticed and open.
- ✓ RRG Okay.

- Bylaws call for supermajority to amend bylaws; there is no distinction between technical and substantive changes – NAPA finding.
RRG and NAPA agreed it would be hard to devise a way to distinguish between technical and substantive changes, so supermajority vote for any amendment should be left unchanged.
- ✓ RRG Okay.
- Change the number of votes to elect or remove a Board member from 24 to 20 – page 3.
The Bylaws Work Group proposed some Trustees may be elected by less than 20 votes in run-off elections (discussed later).
- ✓ RRG Okay, except one member favored 24 votes, at least in initial election.
- Create a mechanism to force an election of Board members.
If Trustees are not being elected because candidates are rejected, NAPA suggested one mechanism to prevent stalemates is to allow the Board to elect Trustees to fill vacant seats. However, NAPA agreed that the Bylaws Work Group proposal for multiple voting rounds, reducing the number candidates in each round, and allowing the Member Representative Committee (MRC) to request the search firm to find more candidates would work equally well.
- ➔ The RRG discussed various aspects of the Bylaws Work Group proposal, including keeping all rounds of voting at 20 and being more prescriptive about a MRC request for more candidates. The Bylaws Work Group will discuss this mechanism further and bring a recommendation to the next RRG meeting.
- Trustees should serve until successors are elected – page 6.
Provision to avoid unnecessary Board vacancies.
- ✓ RRG Okay.
- Begin staggering Trustees' terms after three years – page 6.
Three-year staggered terms begin after expiration of the initial Trustees' terms. Three initial Trustees will have 2-year terms, three will have 3-year terms, and three will have 4-year terms. As these initial terms expire, next terms will be three years. NAPA agreed this was a good idea.
- ✓ RRG Okay.
- Allow any two members of the MRC to nominate incumbent Board members – page 5.
The Bylaws Work Group proposed that all willing incumbent Trustees whose terms are expiring will automatically be added to the list of names being considered for nomination by the MRC. NAPA commented that this proposal is an improvement.
- ✓ RRG Okay.
- Establish Budget Committee of Board and stakeholder representatives to recommend an annual budget – page 9.
The Bylaws Work Group recommends a Budget Committee be made up of two Trustees and three Member representatives appointed by the Board; Member representatives should be from different classes and be current or

former executives responsible for an organization's overall budget preparation or implementation.

Budget Committee is responsible for:

- (i) preparing an annual budget of expenditures and capital commitments for the next fiscal year and estimates for the next two years in the future;
- (ii) initiating, reviewing, and recommending any subsequent proposals for modification of adopted budget; and
- (iii) performing other functions the Board may delegate or direct.

The Bylaws Work Group noted that this approach involves the members in cost control without diminishing the role of the Board Advisory Committee.

→ The RRG discussed whether it was practicable to expect executive-level people to participate on the Budget Committee. Some RRG members stated that certain classes, e.g., end-users, should have a permanent representative on the Budget Committee. One RRG member stated the language as prepared "was perfect." The Bylaws Work Group will discuss the varying opinions on qualifications, and who and how many representatives should be on the Budget Committee and bring a recommendation to the next RRG meeting.

- Establish processes for Member participation in budget preparation – page 10.

The Bylaws Work Group proposed that the Budget Committee may establish its own procedures and process for Member participation in budget development.

✓ RRG Okay.

- Require the Board to prepare a financial plan covering at least five years and update it annually.

The Bylaws Work Group suggested that five years is too long into the future. As part of the Budget Committee proposal (above) the Work Group recommended that the Budget Committee be required to prepare, as part of the budget, an estimate of expenditures and capital costs for two years into the future. One RRG member stated that capital expenditures should be projected five years out.

→ The Bylaws Work Group will reconsider this as part of the overall Budget Committee and budget preparation recommendation.

- Establish a Governance Committee to focus on Board governance - page 10.

Because the Board has the ability to form its own committees at any time the Bylaws Work Group did not recommend establishing such a committee in the Bylaws.

→ The RRG discussed whether a Governance committee of the Board should be set in the Bylaws. Or, whether the Bylaws should specify that the Board will monitor its governance and be allowed to establish a mechanism, with member advice, on how to do it. The RRG also noted the importance of the management audit. The Bylaws Work Group will discuss modifying the approach and bring a recommendation to the next RRG meeting.

At this point one RRG member stated that the proposals for a Budget Committee did not go far enough – members need a say in the Grid West budget. This topic was discussed in more depth later in the meeting.

Add preference for Trustees who are residents of the Pacific Northwest – page 3.

The Bylaws Work Group did not recommend making such a change. The Bylaws already state that qualified candidates should have experience with the Northwest power system.

✓ RRG Okay with not accepting this recommendation.

- Require at least one Trustee to have experience with the concerns of TDUs – page 3.

The Bylaws Work Group did not recommend this suggestion because utility experience, including TDU experience, is already listed as a desirable qualification for Trustees. Trustees should not have to feel obligated to represent the views of a particular class of membership. NAPA agreed.

✓ RRG Okay with not accepting this recommendation.

- Establish other Member Committees, such as Finance, Rates, Planning Congestion Management, etc. – page 11

The Bylaws Work Group did not recommend these particular committees, but recommended a Tariff Advisory Committee, an Operations Advisory Committee, and a Planning Committee. These would not be standing committees and the Board can continue or disband them. The committees would be comprised of knowledgeable representatives appointed by the Board and would report to the Board and consult with the Board Advisory Committee.

➔ RRG discussed the need for Board input. These committees would be expected to be where the work gets done. RRG had concerns about the role of the committees in relation to the BAC and the staff; views about representation on the committees; and whether these were the right types of committees to establish. The RRG generally said the committees were a good approach, but the Bylaws Work Group should work on further details related to formation of the committees and bring a recommendation back to the next RRG meeting.

Bylaws Work Group Recommendations on Other Issues. E.2. – E.7.

Listed below, in the order discussed, are recommendations from the Bylaws Work Group:

- Allow any five members to form a User Group that would have a right to bring an issue to the Board, which the Board would have to consider - page 12, E.3.

The Bylaws Work Group did not recommend this suggestion. There are multiple ways to access the Board, e.g., Board Advisory Committee and Member rights to address the Board and technical committees.

✓ RRG Okay with not accepting this recommendation.

- Change quorum rules for Board from five to eight – page 8

The Bylaws Work Group did not recommend this suggestion. The Bylaws require an affirmative vote of at least a majority of directors in office to take action (usually five), which is adequate protection.

✓ RRG Okay with not accepting this recommendation.

- Members should have the right to see the overall consolidated control area package plan prior to voting on whether Grid West should forward - page 12, E.3
Parties involved in control area consolidation have agreed that a consolidation proposal will be made available prior to voting on whether Grid West should go forward (operational).
- ✓ RRG Okay.
- Include a mechanism by which Grid West can be dissolve in the event FERC issues an order requiring Grid West to take an action determined to be adverse to the interests of the region. – page 13, E.4.
The Bylaws Work Group did not come up with a way to address this issue. The RRG discussed how to go about providing such a protection, and how to determine whether an action is “adverse to the interests of the region.”
- ➔ The Bylaws Work Group will discuss this mechanism further and bring a recommendation to the next RRG meeting.
- Require Member approval of mergers and sale of significant assets - page 13, E.5
Definition of mergers and sale of significant assets will incorporate Washington State statute language.
- ✓ RRG Okay.
- Change MRC into a more active representative committee, with more frequent regular meetings, to address all issues that concern Members - page 13, E.6
The Bylaws Work Group did not recommend this suggestion. The proposed committees would provide more opportunities.
- ✓ RRG Okay with not accepting this recommendation.
- Add to Bylaws a reference that existing contracts include other BPA contracts, such as coordination agreements, etc. - page 14, E.7
The Bylaws Work Group recommended adding to the guidance to the Board, about types of contracts the Board must consider for consistency, “third party agreements for coordination of generating resources.”
- ✓ RRG Okay.

Additional recommendations of the Bylaws Work Group:

- 1) Eliminate the requirement for a Human Resources Committee; and
- 2) Eliminate authority of the Board Advisory Committee to establish committees – the BAC can formulate its own rules.

- ✓ RRG Okay.

Issues the Bylaws Work Group is to Reconsider and Bring Back to RRG

The Bylaws Group will further consider five issues (indicated above with an ➔) and bring back a recommendation to the RRG’s next meeting. These issues are:

- ➔ Multiple-round voting mechanism to force an election of Trustees to the Board.
- ➔ Proposals for a Budget Committee, including who and how many should be on the committee and details of budget preparation.
- ➔ Approach for monitoring Board governance.

- Establishing committees, such as the Tariff Advisory Committee, an Operations Advisory Committee, and a Planning Committee.
- Mechanism for Grid West to dissolve if FERC issues an order requiring Grid West to take action that is determined to be adverse to interests of the region.

The RRG discussed the position of the PGP, the PPC, and several other RRG participants that members in Grid West need “ultimate control of the budget.” Members should approve or disapprove the budget because it affects the costs of end-use consumers, and especially members should have a say regarding major acquisitions. If the budget is disapproved then it should go back to the Budget Committee. While some voiced concerns that this makes the budget process stakeholder driven, proponents of this member influence on the budget did not think this made the Board a stakeholder Board. One suggestion was for an advisory vote of the members on the budget. A number of RRG members did not think providing for a member vote on the budget was a good idea.

As a way to explore a compromise, proponents of the idea said they would like to have a list of all the budget controls that are included in the Bylaws.

Points Worth Considering from the Survey of RTOs and ISOs

The Bylaws Work Group listed with its presentation, on page 16, eight points they learned from surveying other RTOs and ISOs that are worth considering. These points would also be the kind of guidance that should be discussed with Trustees once they are on board.

Proposed ICNU / IPP/Marketer Compromise – Operational Bylaws

RRG members from ICNU and the IPP/Marketers presented a compromise that would include a new sub-class for large generating end-users in the renamed “Generators, Power Marketers, and Large Generating End-Use Consumers Class.” The proposal did not address membership for those in the “other” subclass of this class. This needs to be explored and refined. The individuals working on the compromise said they would bring fine-tuned language to the next RRG meeting.

TDU and MTU Class Allocation and Voting Provisions

Representatives for the potential members of the Transmission Dependent Utility class said they have met, discussed options, and have a proposal that is being studied by potential members. They will hold another meeting and likely could bring a proposal to the next RRG meeting.

Major Transmission Utilities are still working on a resolution to class allocation and voting.

Risk Reward Study Group

Members of the Risk Reward Study Group reported on objectives and work-to-date in the areas of 1) reviewing existing cost/benefit models, such as the TCA study, for information that can be brought forward; 2) further delineating and quantifying problems and opportunities; and 3) reviewing probable cost of Grid West implementation. An effort is underway to develop a survey questionnaire to collect information to quantify problems

and opportunities. After the draft survey is reviewed and refined by the Risk Reward Study Group it will be sent to regional entities. The group will accompany the survey with interviews to clarify questions and answers. Sample survey questions were listed for the RRG. A Risk Reward Study Group meeting is being planned for the end of the month.

Mediation/Facilitation Small Group Working on Major Issues

Jim Baggs, Wally Gibson, and Terry Mundorf, with support from Sarah Dennison-Leonard, are working on items on BPA's issues list that were not assigned to the Bylaws Work Group. Mr. Baggs said the group is attempting to contact a number of people to explore one-on-one two major issue categories – 1) move to financial rights, more advanced state; and 2) implications of voting issues on accountability versus independence of Grid West. They are hoping that clear communication about these issues can lead to good ideas for resolution. The goal is to articulate recommended concepts and draft language, if possible.

States Request for Five Votes in Their Class

LouAnn Westerfield requested, on behalf of state representatives, that states have five votes in the State and Provincial Energy Authorities/Tribes/Certain Public Interest Groups Member Class. Of six votes, increasing state and provincial votes from four to five, leaves one vote for tribes and no votes for public interest groups. Steve Weiss said he would follow up on how this request may possibly be accommodated with small end-users.

RRG Meetings

- RRG Meeting at the Holiday Inn Portland Airport (only location found to be available)
Tuesday, October 26, from 8:30 a.m. to 5:00 p.m. PDT
Wednesday, October 27, from 8:30 a.m. to 12:00 p.m. PDT
 - Review and assess bylaws proposals from the Bylaws Work Group, hear an update from the mediation/facilitation group, and a report and update from the TSLG; plan for final assessment and recommendation on bylaws.
- RRG Meeting at the Portland Airport Sheraton Hotel
Wednesday, November 3, from 10:00 a.m. to 5:30 p.m. PDT
Thursday, November 4, from 8:30 a.m. to 4:00 p.m. PDT
 - RRG assessment of bylaws; seek a consensus on a recommendation regarding adoption of bylaws.