

INTRODUCTORY NOTE: This document contains proposed revisions to the July 7, 2004 “Good Enough” draft of the Grid West Operational Bylaws with respect to the “Special Issues List.” Comments from RRG members suggested that it might be helpful to provide more detailed language describing when a “Special Issues List” vote would be triggered. The following provisions, which have been developed by the Bylaws Work Group, include revisions to Section 7.16 (the Special Issues List section of the Operational Bylaws) that are intended to respond to the RRG members’ feedback. Section 7.12 is also included because in revising Section 7.16, the Bylaws Work Group proposed accompanying new language for Section 7.12. The redlining shows deletions and additions from the July 7, 2004 clean draft as posted on the Grid West Website.

**PROPOSED CHANGES TO
SECTIONS 7.12 AND 7.16 OF GRID WEST OPERATIONAL BYLAWS**

7.12 Standard of Care.

7.12.1 General Standard for Decisions. A Trustee shall perform the duties of a Trustee, including duties as a member of any committee of the Board of Trustees on which the Trustee may serve, in good faith, in a manner that such Trustee believes to be in the best interests of the Corporation in achieving the purposes set forth in Article III, and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

7.12.2 Guiding Principles for Decisions. The Board of Trustees when considering whether to adopt a proposal regarding the provision of transmission services (including the Special Issues List), shall, at a minimum, take into account the following considerations to satisfy itself that any proposal adopted is warranted:

(i) The proposed change responds to a current, identifiable problem or opportunity and is reasonably expected to result in an improvement over existing practices.

(ii) The benefits of the proposed change (qualitative or quantitative) the Trustees expect to result from the change, taken individually or in conjunction with other prior or anticipated changes, are likely to be greater than the anticipated burdens of the proposed change.

(iii) The proposed change can be implemented in a manner that is not inconsistent with the Corporation’s legal obligations, Transmission Agreements, and third party agreements for transmission services that were (a) executed by transmission owners and operators signing Transmission Agreements, and (b) in existence before the Corporation offers transmission services.

*Operational Bylaws Sections 7.12 and 7.16
Redline Draft for RRG Review September 20, 2004
Comparison to July 7, 2004 “Good Enough” Version as Posted*

(iv) The proposed change is not reasonably expected to preclude the implementation of further changes in the future to solve remaining problems (including remaining items on the Special Issues List) or take advantage of opportunities.

(v) The proposed change is reasonably designed to minimize or mitigate cost shifts.

7.12.3 Required Demonstration to Implement Backstop Measures. In addition to complying with the provisions of Section 7.16 to invoke authority to exercise backstop measures, any time the Corporation wishes to implement any backstop measure (as defined in Section 7.16.1.1), it must, in consultation with the market monitoring unit for the Corporation, demonstrate that chronic, significant, commercial congestion has not been mitigated due to market failure. The demonstration of market failure must be based on substantial evidence documented by the Corporation through its public planning process.]

7.12.43 On-Going Regional Consultation. In addition to complying with the mandatory consultation provisions applicable to the Special Issues List and as set forth in Section 7.16 of these Operational Bylaws, the Board of Trustees shall develop (and may, as it deems appropriate, modify from time to time) general policies and procedures designed to promote ongoing input to the Board of Trustees from interested parties throughout the Geographic Area (including Members and Governmental Committee) and to provide clear, useful information to interested parties throughout the Geographic Area concerning the Corporation’s activities and policies and any potential changes to the Corporation’s existing practices.

7.12.54 Business Plan. The Operational Board of Trustees shall consider the business plan recommended by the Developmental Board of Trustees and either (i) adopt and implement such plan or (ii) adopt an alternative plan after submitting proposed changes and an estimate of their costs to the Board Advisory committee for review and comment (including submission of any proposed alternative proposals).

7.12.65 Information a Trustee May Rely Upon. In performing the duties of Trustee, a Trustee shall be entitled to rely on information, opinions, reports, or statements, including financial statements and other financial data, in each case prepared or presented by:

(i) any advisory committee established by the Board of Trustees pursuant to Section 8.2 of these Bylaws;

(ii) one (1) or more officers or employees of the Corporation whom the Trustee reasonably believes to be reliable and competent in the matter presented;

(iii) legal counsel, public accountants, or other persons as to matters that the Trustee reasonably believes are within such person’s professional or expert competence; or

*Operational Bylaws Sections 7.12 and 7.16
Redline Draft for RRG Review September 20, 2004
Comparison to July 7, 2004 “Good Enough” Version as Posted*

(iv) a committee of the Board of Trustees upon which the Trustee does not serve, duly designated in accordance with a provision in the Articles of Incorporation or these Operational Bylaws, as to matters within such committee’s designated authority, which committee the Trustee believes to merit confidence; so long as, in any such case, the Trustee acts in good faith, after reasonable inquiry when the need therefore is indicated by the circumstances and without knowledge that would cause such reliance to be unwarranted.

7.12.76 Conduct Rules. The Board of Trustees shall maintain Trustee conduct rules. These Operational Bylaws incorporate the Trustee conduct rules in effect under the Developmental Bylaws on the date these Operational Bylaws become effective. The Board of Trustees shall ensure, to the extent practicable, that each Trustee complies with the Corporation’s Trustees conduct rules, which Trustee conduct rules may be changed from time to time by the Board of Trustees. The Board of Trustees shall also comply with all applicable rules of FERC and other regulators.

7.12.87 Independence from Market Participants. The Board of Trustees shall develop and implement policies, designed to ensure independence from Market Participants, regarding the ownership of securities of suppliers of the Corporation or of other financial interest relating to the Corporation, by Trustees, officers, and employees of the Corporation (including Related Persons of such Trustees, officers, and employees). Each Trustee, officer, and other employee of the Corporation as may be designated pursuant to policies established by the Board of Trustees shall file an annual compliance affidavit with the Board of Trustees.

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7.16 Special Issues List.

7.16.1 The Special Issues List. The following matters constitute the “Special Issues List”: ~~authorizations specified in subsections (i), (iii), (iv), and (v) below, together with the action specified in subsection (ii), constitute the “Special Issues List” under these Operational Bylaws. To invoke the authorizations specified in subsections (i), (iii), (iv), and (v) below or to take the action specified in subsection (ii), the Corporation must comply with procedural requirements set forth in Section 7.16.2 and the timing requirements set forth Section 7.16.3.~~

(i) Authorization for the Corporation to exercise backstop measures with respect to chronic, significant, commercial congestion;

(ii) The Corporation’s ~~D~~departure from using the company rate approach to recover fixed costs of transmission service;

*Operational Bylaws Sections 7.12 and 7.16
Redline Draft for RRG Review September 20, 2004
Comparison to July 7, 2004 “Good Enough” Version as Posted*

- (iii) Authorization for the Corporation to convert the transmission rights of the transmission owners to financial rights and to issue new financial rights;
- (iv) Authorization for the Corporation’s market monitor to impose penalties or actively intervene in markets; and
- (v) Authorization for the Corporation to adopt and enforce a loss methodology that overrides individual company loss methodologies. ~~*[Drafting note: Descriptions of the highlighted terms are being considered.]*~~

The matters identified in the Special Issues List shall be subject to the provisions of Section 7.16.2 and Section 7.16.3 as provided below.

7.16.1.1 Backstop Measures. For purposes of this Section 7.16, the term “backstop measures” means that the Corporation:

- (i) contracts with a willing third party to implement the Corporation’s preferred transmission solution to address chronic, significant, commercial congestion that no Person has voluntarily elected to mitigate cost-effectively through a transmission solution or a non-wires alternative,
- (ii) allocates resulting costs to beneficiaries through voluntary arrangements or tariff rates, and
- (iii) identifies and assigns resulting transmission rights.

Before implementing for the first time a backstop measure with respect to chronic, significant, commercial congestion, the Board of Trustees must first submit a proposal to invoke authority to exercise backstop measures to a vote of the MRC in accordance with the consultation, procedural, and timing requirements set forth in Section 7.16.2 and Section 7.16.3(i). The Corporation may, subject to 7.12.3, thereafter implement backstop measures to address chronic, significant, commercial congestion if the requirements to invoke authority to exercise backstop measures, as set forth Section 7.16.2 and Section 7.16.3(i), have been satisfied. The Corporation’s ability to implement backstop measures does not override the prohibition against owning transmission or distribution facilities as set forth in Section 3.2.

[NOTE: See accompanying revision to Section 7.12 (a new Section 7.12.3.)]

7.16.1.2 Departure from Company Rate Approach. When the Corporation begins offering services, loads will pay a “company rate” (and applicable grid management fees, if any) to obtain transmission access under a rate structure known as the “company rate approach.” Obtaining “transmission access” provides the right to receive any continuing transmission service (on terms and conditions established under preexisting

*Operational Bylaws Sections 7.12 and 7.16
Redline Draft for RRG Review September 20, 2004
Comparison to July 7, 2004 “Good Enough” Version as Posted*

agreements and obligations) and confers eligibility to purchase new services offered by the Corporation.

For purposes of this Section 7.16, a “departure from using the company rate approach” means establishing a rate structure for transmission access to the transmission system over which the Corporation offers services that differs from the initial company rate structure by:

- (i) utilizing a rate structure other than a license plate rate; or
- (ii) imposing a transmission access rate for delivery of power derived from the costs of facilities of a participating transmission owner other than the owner of the facilities from which the delivered power is withdrawn from the transmission system over which the Corporation offers services (unless a preexisting agreement, such as a General Transfer Agreement, provides otherwise).

The provisions of Section 7.16 shall not apply to rates or rate structures for grid management and any new services offered by the Corporation (for example, regional network service, market participation, redispatch, etc.). In addition, the provisions of Section 7.16 shall not apply to any costs allocated by the Corporation as a result of exercising any “backstop authority” even if such costs would be incorporated into a company rate.

7.16.1.3 Authorization to Convert to Financial Rights. For purposes of this Section 7.16, the Corporation’s action to “convert the transmission rights of transmission owners to financial rights and to issue new financial rights” means that the Corporation either (i) substitutes physical transmission rights (either historic contract path or physical injection-withdrawal rights) on a transmission owner’s system with transmission service that separately charges for, and provides financial rights to hedge against, locationally derived costs of congestion clearing or (ii) provides transmission service in response to requests for new transmission service through offering transmission service that separately charges for, and offers financial rights to hedge against, locationally derived costs of congestion. Before acting for the first time to “convert the transmission rights of transmission owners to financial rights and to issue new financial rights” within the meaning of this Section 7.16.1.3, the Board of Trustees must first submit a proposal to invoke authority to do so to a vote of the MRC in accordance with the consultation, procedural, and timing requirements set forth in Section 7.16.2 and Section 7.16.3(iii). The Corporation may thereafter convert the transmission rights of transmission owners to financial rights and issue new financial rights if the requirements to invoke the necessary authority, as set forth Section 7.16.2 and Section 7.16.3(iii), have been satisfied. The Corporation must also comply with the timing requirements specified in Section 7.16.3(iii)(b). This requirement to invoke authority to convert the transmission rights of transmission owners to financial rights and to issue new financial rights shall not preclude the Board from authorizing testing (limited in time, scope, and financial risk assumed by the Corporation, and in which participation is voluntary) as it deems appropriate to help facilitate its determination of whether the transition to financial rights is feasible and prudent. In addition,

the Corporation’s implementation of a congestion management approach that relies on a market-based system to relieve congestion (such as through voluntary redispatch bids), in conjunction with historic contract path or physical injection-withdrawal rights, shall not be subject to the requirements of Section 7.16.

7.16.1.4 Authorization of Certain Market Monitor Actions. Before the market monitor for the Corporation may be authorized to impose penalties or actively intervene in markets, the Board of Trustees must first submit a proposal to invoke authority to so authorize the market monitor to a vote of the MRC in accordance with the consultation and procedural requirements set forth in Section 7.16.2. The Corporation may thereafter authorize the market monitor for the Corporation to impose penalties or actively intervene in markets if the requirements to invoke the necessary authority, as set forth Section 7.16.2, have been satisfied.

7.16.1.5 Authorization to Implement Certain Loss Methodologies. The Corporation must consider whether to adopt and enforce a loss methodology that overrides individual company loss methodologies in accordance with Section 7.16.3(iv). Before the Corporation may adopt and enforce a loss methodology that overrides individual company loss methodologies, the Board of Trustees must first submit a proposal to invoke authority to do so to a vote of the MRC in accordance with the consultation and procedural requirements set forth in Section 7.16.2. The Corporation may thereafter adopt and enforce a loss methodology that overrides individual company loss methodologies if the requirements to invoke the necessary authority, as set forth Section 7.16.2, have been satisfied.

7.16.2 Procedural Requirements Applicable to Special Issues List. An action by the Corporation to invoke an authorization or take an action identified on the Special Issues List is subject to the procedural requirements set forth in Sections 7.16.2.(i) through 7.16.2.(vi) below.

(i) Preliminary Consultations Related to Proposal Development. In the course of developing a proposal to invoke an authorization or take an action identified on the Special Issues List, the Board of Trustees may seek preliminary input from the general public, as well as Members, the MRC, and the Governmental Committee.

(ii) Mandatory Consultation Process. If the Board of Trustees intends to vote on adopting a proposal to invoke an authorization or take an action identified on the Special Issues List, the Board of Trustees shall provide notice of its proposal according to its then-effective policies for providing notice to the general public, as well as to Members, the MRC, and the Governmental Committee. After providing notice, the Board of Trustees shall complete formal consultation processes concerning the proposal (which may be separate or combined) with the MRC and with the Governmental Committee. The Board of Trustees shall provide not less than 45 days to complete its formal consultation processes before voting to adopt a proposal to invoke an authorization or take an action identified on the Special Issues List. This formal

*Operational Bylaws Sections 7.12 and 7.16
Redline Draft for RRG Review September 20, 2004
Comparison to July 7, 2004 “Good Enough” Version as Posted*

consultation period may overlap with any period of notice required in connection with the Board of Trustees vote under Section 7.16.2(iii).

(iii) Board of Trustees Vote To Adopt a Proposal. Within 14 days after completing the mandatory consultation process set forth in Section 7.16.2(ii) above, the Board of Trustees (in compliance with all applicable provisions of these Bylaws concerning notice of and the manner of conducting meetings of the Board of Trustees) shall vote on whether to adopt a proposal to invoke an authorization or take an action identified on the Special Issues List. The Board of Trustees may, before voting, make changes to its proposal as noticed for the mandatory consultation process under Section 7.16.2.(ii) to reflect input received during mandatory consultations. As provided in Section 7.12, the affirmative vote of a majority of Trustees then in office shall be sufficient to adopt the proposal. If the Board of Trustees adopts the proposal it shall summarize in writing (which may be the minutes of the board meeting) its consideration of the provisions set forth in Section 7.12.2. If the Board of Trustees votes to adopt the proposal, the Board of Trustees shall comply with the additional requirements set forth below in Sections 7.16.2(iv) through 7.16.2(vi).

(iv) Submission of Proposal to Members Representative Committee Vote. Subject to all applicable provisions of these Bylaws concerning notice of and the manner of conducting meetings of the MRC, the Board of Trustees shall, within 14 days after any vote to adopt a proposal under Section 7.16.2.(iii) above, submit to the MRC the proposal as adopted by the Board of Trustees. With respect to a proposal to take an action or invoke an authorization specified in Section 7.16.1(ii), (iii), or (v), the Board of Trustees shall also comply with the provisions of Section 7.16.3 below.

(v) Members Representative Committee Vote. Promptly after receiving a proposal from the Board of Trustees under Section 7.16.2(iv) above, the MRC shall issue (or caused to be issued) notice of a meeting of the MRC to vote on the proposal. Promptly following the completion of any notice period required by these Bylaws, the MRC shall vote to indicate whether it supports a proposal submitted to it by the Board of Trustees in accordance with Section 7.16.2(iv).

(a) Unless the MRC votes (as specified in Section 7.16.2(v)(b) below) to remand a proposal submitted to it by the Board of Trustees in accordance with Section 7.16.2.(iv), the Board of Trustees may, after the MRC has voted, implement the proposal without any further vote of the Board of Trustees.

(b) If the MRC votes to remand a proposal submitted to it by the Board of Trustees in accordance with Section 7.16.2.(iv), final adoption of proposal shall require a vote of the Board of Trustees in accordance with Section 7.16.2.(vi). The MRC may vote to remand a proposal submitted to it by the Board of Trustees in accordance with Section 7.16.2(iv) in one of two ways.

*Operational Bylaws Sections 7.12 and 7.16
Redline Draft for RRG Review September 20, 2004
Comparison to July 7, 2004 “Good Enough” Version as Posted*

The first way is by having at least 20 of the 30 MRC 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 MRC members vote. The second way is for at least 16 MRC members to vote against the Board of Trustees’s decision; provided, however, that the minimum total of 16 negative votes includes a unanimous negative vote by every MRC member within at least one Member Class (a “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’s representatives submitting a unanimous negative vote) shall apply without regard to how many of the 30 MRC members participate in the vote. Furthermore, to fulfill the requirements of a unanimous Member Class remand, every MRC member then in office from the relevant Member Class must cast a negative vote, without regard to how many MRC members from the relevant Member Class are in office or attend the Member MRC meeting at the time of the vote.

(vi) Final Board of Trustees Vote. If the MRC votes to remand a proposal submitted to it by the Board of Trustees in accordance with Section 7.16.2 (iv), the Board of Trustees may, following the MRC vote required under Section 7.16.2 (v) (and in compliance with all applicable provisions of these Bylaws concerning notice of and the manner of conducting meetings of the Board of Trustees) take final action to adopt the proposal only by an affirmative vote of not less than seven of the Trustees then in office.

7.16.3 Timing Requirements Applicable to Special Issues List. In addition to the procedural requirements set forth in Section 7.16.2, actions by the Board of Trustees to invoke an authorization or take an action identified on the Special Issues List shall be subject to the timing requirements specified in Sections 7.16.3 (i) through 7.16.3 (iv) below.

(i) The Board of Trustees may not seek to invoke the backstop authorization with respect to chronic, significant, commercial congestion specified in Section 7.16.1(i) until the Board of Trustees is satisfied that it has sufficient knowledge regarding where the transmission system is congested, what the congestion is costing users, and the potential alternatives available to address the congestion. The Board of Trustees may invoke this authorization before a full financial rights-based congestion management system is in place.

(ii) The Board of Trustees may not seek to take the action specified in Section 7.16.1(ii) sooner than eight (8) years following the date on which the Corporation first initiates commercial services to customers pursuant to a transmission service tariff filed with and approved by FERC.

(iii) With respect to the authorization specified in Section 7.16.1(iii):

*Operational Bylaws Sections 7.12 and 7.16
Redline Draft for RRG Review September 20, 2004
Comparison to July 7, 2004 “Good Enough” Version as Posted*

(a) The Board of Trustees may not seek to invoke the authorization specified in Section 7.16.1(iii) before the Corporation has completed an inventory of pre-existing claims on the regional transmission system (pre-existing transmission rights and obligations). The Board of Trustees shall cause the Corporation to complete this inventory by no later than two (2) years following the date on which the Corporation first initiates commercial services to customers pursuant to a transmission service tariff filed with and approved by FERC.

(b) Within no more than three (3) years following the date on which the Corporation first initiates commercial services to customers pursuant to a transmission service tariff filed with and approved by FERC, the Board of Trustees must complete an evaluation of whether it is feasible and makes sense to transition to financial-rights-based congestion management as contemplated under Section 7.16.1(iii). After completing its evaluation, if the Board of Trustees concludes that the transition is feasible and prudent, the Board of Trustees may take no longer than six (6) months to make a proposal to the MRC to transition to financial-rights-based congestion management. If the Board of Trustees concludes that it is not feasible or prudent at the time of its initial evaluation, it shall not propose the transition, but the Board of Trustees shall revisit its decision every two years thereafter.

(iv) The Board of Trustees shall affirmatively consider whether it is in the best interests of the Corporation and its Members (as a whole) to invoke the authorization specified in Section 7.16.1(v) no more than three (3) years following the date on which the Corporation first initiates commercial services to customers pursuant to a transmission service tariff filed with and approved by FERC.