

WESTERN ASSESSMENT GROUP

June 2, 2005

Governor Bill Owens

Chair, Western Governors' Association

At the December 3, 2004, meeting of the Western Governors' Association, the Governors expressed concern that the West may not be prepared to effectively deal with future electricity issues or to resolve the challenges of providing low-cost, reliable power. A recent Governors' motion states that "the Western electric power industry needs to have in place effective institutions to address both reliability and commercial regional electric power issues."

In January 2005, industry participants jointly initiated an effort to assess the availability and effectiveness of the West's electricity institutions to address the needs of the West. They formed the Western Assessment Group (WAG), consisting of industry and governmental representatives from across the West. The WAG's purpose was to identify the critical electric power issues facing the West and to develop an institutional framework to effectively address and resolve these issues. The WAG developed a white paper focusing on four critical issues: (1) transmission expansion planning, (2) resource adequacy, (3) market monitoring and (4) transaction practices. The white paper also identified institutional options to more effectively address these issues.

On May 23, 2005, the WAG held an open stakeholder meeting in Portland, Oregon to present and receive input on its findings. Approximately 125 industry, state, and provincial representatives from across the West attended the meeting. A list of companies and regulatory groups attending the May 23, 2005 meeting is attached. There was consensus that the four major issues identified in the white paper are the right ones to address. The meeting also covered the institutional options identified by WAG. Most of the stakeholders at the meeting expressed a preference to first investigate whether the Western Electricity Coordinating Council (WECC) would be able to perform both reliability and commercial functions, and what if any structural or governance changes would be

necessary for it to do so. If the WECC's membership and Board do not support these changes, then the effort will shift to creation of a new commercial organization in the West. The attached matrix is a summary of conclusions and next steps developed at the meeting. We have also included a short set of questions and answers about how the WAG relates to other institutions that deal with power issues in the West.

The WECC will present to its Board at the July meeting the strategic options contained in the WAG analysis for the Board's consideration. The WECC Board will be asked to approve the WAG recommendations, to approve associated funding and staffing to implement the recommendations, and to initiate action to revise the WECC Bylaws as required.

We feel these actions are significant steps forward to respond to the Governors' concerns. Our goal is to make the necessary institutional changes so that the West will have the tools to effectively address reliability and commercial challenges in the electric power industry.

Frank Afranji

Chair, Western Assessment Group

Louise McCarren

Chief Executive Officer, Western Electricity Coordinating Council

Bud Krogh

Chair, Seams Steering Group – Western Interconnection

Marsha Smith

Chair, Committee on Regional Electric Power Cooperation

Comment [JHS1]: I am not sure this Q&A document helps to address the governors questions...in fact it may raise more questions than answers...as worded someone could conclude that it was also a work product from the meeting in Portland.

Comment [JHS2]: This paragraph is somewhat misleading with respect to the Market Monitoring Issue. I would suggest adding a separate paragraph regarding the responsibility of CREPC for handling the market monitoring issue, and specifically noting which three issues which WECC has on its plate. I would also suggest noting the Dec 31 timeline for Issue 1 and Issue 2, as well as the April 2006 timeline for issue 4. The "when" question is probably as important to the audience as the "what" and "who" questions. As currently worded, the audience could expect results from the WECC board as early as July.

**COMPANIES REPRESENTED AT THE MAY 23, 2005
WESTERN ASSESSMENT GROUP MEETING
PORTLAND, OREGON**

Company	Segment
ABB, Inc.	End User
Alberta Electric System Operator	Canadian
Alcantar & Kahl	IPP/QF
Arizona Public Service	IOU
Avista Corporation	IOU
Bonneville Power Administration	Federal
California Energy Commission	Regulator
California ISO	ISO
California Municipal Utilities Association	Public
California Public Utilities Commission	Regulator
Calpine Corporation	IPP/QF
Department of Energy	Federal
Deseret Power	Public
Dynegy Inc.	IPP/QF
East Fork Economics	End User
Ecology & Environment	Other
Energy NewsData	Other
Energy Strategies	Other
Farmington Electric Utility System	Municipal
Federal Energy Regulatory Commission	Regulator
GE Energy	Other
Grant County PUD	Public

Great Northern Power Development	IPP/QF
Idaho Power Company	IOU
Idaho Public Utilities Commission	Regulator
Imperial Irrigation District	Public
L.A. Dept of Water and Power	Municipal
Mariner Consulting Services	IPP/QF
Montana Public Service Commission	Regulator
New Mexico Public Regulation Commission	Regulator
Northern California Power Agency	Public
Northwest Economic Research, Inc.	Public
Northwest Power Pool	Other
Northwestern Energy	IOU
OATI	Other
Oregon Dept. of Energy	Regulator
Oregon Public Utility Commission	Regulator
Pacific Gas and Electric	IOU
PacifiCorp	IOU
Portland General Electric	IOU
Public Power Council	Public
Public Service Company of Colorado	IOU
Public Service Company of New Mexico	IOU
Public Utility Commission of Nevada	Regulator
Puget Sound Energy	IOU
Renewable Northwest Project	Other
Sacramento Municipal Utility District	Municipal
Salt River Project	Public
Seattle City Light	Municipal

Comment [JHS3]: Please add Mirant to the list of attendees...as I was asked to represent them at the meeting

Sierra Pacific Resources	IOU
Sierra Pacific/Nevada Power Company	IOU
Southern California Edison Company	IOU
Southwest Transmission Cooperative, Inc.	Transco
SWRTA Class 2 Group	Public
TEA Energy Authority	
Tom Foley Consultants	IPP/QF
TransAlta	Canadian
Transmission Agency of Northern California	Public
Tri-State Generation & Transmission Assoc., Inc.	Transco
Tucson Electric Power	IOU
U.S. Bureau of Reclamation	Federal
Utah Associated Municipal Power Systems	Public
Utah Committee of Consumer Services	Regulator
Washington PUD Association	Public
Washington Utilities and Transportation Comm.	Regulator
WestConnect	IOU
Western Area Power Administration	Federal
Western Electricity Coordinating Council	Other
Western Interstate Energy Board	Regulator
Williams Power Co.	IPP/QF
Wyoming Public Service Commission	Regulator
Xcel Energy	Transco

Industry Consensus on Addressing Commercial Issues

Issue	Is it needed?	Who would do it?	How do we decide?	Next steps?
Transmission planning and expansion (Need more equitable/stable funding)	Yes Maintain current SSG-WI effort until handoff (Secure adequate/equitable funding for SSG-WI until handoff)	Preference: WECC with the continuing support of the Planning Work Group/ PacifiCorp/ ISO (as defined in the WAG Option 1 paper)	A work plan is developed by Louise McCarren (as point person) and reviewed/modified/ approved by WECC Board by October	<ul style="list-style-type: none"> WECC reforms structure/staffing to address west wide view of commercial needs (not reliability needs) for transmission expansion – database management Develop proposal for integration with sub-regional planning efforts WECC commits resources to manage public database
		Alternate: New organization (as defined in WAG Option 2 paper)	If WECC fails to approve and propose funding a work plan by Dec 31, then WAG develops a new organization proposal	<ul style="list-style-type: none"> Form an new organization in 2006
Resource adequacy	Yes (but some disagreement by those who think LSEs/customers will do the job)	WECC	WECC Board, in cooperation with regulators, will review and decide degree to which WECC PSA addresses RA needs Grace Anderson (point person) Submitted to the WECC Board by December 31, 2005	<ul style="list-style-type: none"> Continued work by WECC to improve PSA including transmission adequacy (As informed by subregional adequacy efforts) Prepare a work plan to address related data collection, assessment and adequacy metrics and targets and a schedule for bringing that work to fruition

<p>Market monitoring</p> <p>(Need more equitable/stable funding)</p>	<p>No strong agreement on need for west-wide market monitoring function</p>	<p>Requires more independence than WECC</p>	<p>SSG-WI MM/CREPC/ OMOI</p> <p>Pilot study to demonstrate or evaluate benefits</p> <p>(Various Funding Sources)</p>	<ul style="list-style-type: none"> • Establish a budget and funding mechanism for implementation of a pilot study • Evaluation after pilot study – how to be implemented
<p>Transaction practices</p>	<ul style="list-style-type: none"> • Agreement on need for a forum to air and resolve the issues • Disagreement on which commercial issues need to be addressed (e.g., pancaking) • Adequacy of WECC MIC to meet these needs is uncertain 	<p>WECC MIC (if industry will support)</p>	<ul style="list-style-type: none"> • By April 2006 WECC: (1) provides independent timely decision-making; (2) generates industry involvement in MIC • If changes are not in place by April 2006, then create a new structure or organization 	<ul style="list-style-type: none"> • WECC proposal to address commercial issues in a timely, effective fashion

Some General Questions & Answers About the Western Assessment Group

1. Q. What is the purpose of the Western Assessment Group?

- A. The basic mission of the Western Assessment Group (WAG) is to explore and propose workable solutions to address these questions:
- Which aspects of planning, building, operating, or providing services over the West's electric power system should be addressed on a West-wide basis?
 - What are the best processes or institutions to address commercial issues on a West-wide basis?

2. Q. Who is participating in WAG?

- A. Interested parties from across the West are participating in the WAG effort, including representatives of state agencies and regulatory bodies, transmission providers and transmission customers (federal power marketing agencies, investor-owned utilities, generators, public power, etc.), the Western Electricity Coordination Council (WECC), and the Seams Steering Group-Western Interconnection (SSG-WI). Participation in WAG activities is open to all interested parties.

3. Q. What is the relationship between CREPC and WAG?

- A. Some of WAG's participants are members of the Committee for Regional Electric Power Cooperation (CREPC). CREPC is a cooperative forum created under the Western Interstate Energy Board (which is itself an arm of the Western Governors' Association (WGA)). A major impetus for the WAG effort was a challenge from the WGA for the West to "have in place effective institutions to address both reliability and commercial regional electric power issues." CREPC members' contributions can help the West answer this challenge.

4. **Q. What is the relationship between SSG-WI and WAG?**

- A. SSG-WI was created initially to support interregional coordination among regional transmission organizations (RTOs) forming in the West. The pace and probability of RTO formation is not uniform throughout the West, however. Recognizing this, SSG-WI has broadened its focus to activities that will in general promote more robust, efficient wholesale power markets in the West (and the transmission infrastructure that supports them).

As the mission of SSG-WI has evolved, SSG-WI has sought to broaden its base so that its activities not only serve existing or forming regional transmission entities, but also address the commercial needs of industry participants throughout the West.

SSG-WI participants have supported WAG activities as part of SSG-WI's outreach process.

5. **Q. What is the relationship between the WECC and WAG?**

- A. Representatives of the WECC have participated actively in the WAG process because the commercial issues identified by WAG concern the WECC's membership. The WECC is the institution that addresses system reliability on a West-wide basis. Commercial and reliability issues affecting power system operations are inextricably linked, although on a conceptual basis they are often separated. Any approach for addressing commercial issues will need to complement the work of the WECC. Moreover, one identified option for addressing West-wide commercial issues is expanding the scope of the WECC.

6. **Q. What is the relationship between Grid West and WAG?**

- A. Grid West representatives have consistently supported and participated in SSG-WI activities. As explained in the answer to Question 4 above, SSG-WI outreach efforts have proceeded in large part through the WAG process. If Grid West becomes operational, it will be responsible for addressing commercial issues within its geographic "footprint."

Once it is up and running, Grid West can simplify coordination of West-wide issues for its area because it will be a single entity covering several systems. But there will be issues that reach beyond Grid West's geographic scope. It will enhance Grid West's effectiveness if there is one clear, unified process to address these broader issues. If WAG efforts are able to identify or create an institution for addressing West-wide commercial issues, the WAG process and the development of Grid West will be mutually beneficial.

7. **Q. What is the relationship between the California ISO and WAG?**

- A. Like Grid West, California ISO representatives have consistently supported and participated in SSG-WI activities and the WAG process as part of SSG-WI's outreach efforts. There are benefits for the California ISO in a unified process or institution to address commercial issues that reach beyond the California ISO's geographic scope.

8. **Q. What is the relationship between WestConnect and WAG?**

- A. Representatives from WestConnect parties have also actively participated in SSG-WI Steering Committee and work group activities and in the WAG effort. WestConnect parties fully support implementation of robust mechanisms for region-wide standards setting and issues resolution that are open to participation from all industry stakeholders, including governance and regulatory bodies, in the Western Interconnection.