Questions & Answers
Grid West Pricing

Introductory Note: The questions and answers below are based on the pricing and cost recovery white paper developed by the Grid West Pricing Work Group (posted on June 16, 2005 at www.gridwest.org/Doc/GW_PricingWhitePaper.pdf). Please refer to the white paper for more detailed information.

Question 1: How will existing rights be treated?

Answer 1: It is a fundamental principle of Grid West implementation that pre-existing transmission rights and obligations will be honored. This means that those with pre-existing service agreements ("legacy" rights) will not be required to "convert" them into some new form of service or rights. Customers' payments for legacy rights will also continue, and the money will go directly to the transmission owner that granted the legacy service.

Question 2: What will new service cost?

Answer 2: The cost of new service will depend on five things:

(1) whether the new service is short- or long-term;

(2) what pricing structure Grid West implements for long-term service from existing facilities;

(3) whether the service can be granted from existing facilities or requires system upgrades or expansions;

(4) whether the new service is in the form of an Injection-Withdrawal Right (IWR) pair (analogous to today's OATT point-to-point service) or an interrelated set of network IWRs (analogous to today's OATT network service); and

(5) the specific locations of the requested injection and withdrawal points.

The five factors listed above (which are explained further in the following paragraphs) all relate to the cost to purchase new physical rights (IWRs) required for scheduling with Grid West. In addition to the cost of purchasing IWRs, parties that submit schedules to Grid West will also be responsible for paying Grid West's Grid Management Charge.

Short- Versus Long-Term Service

All new service rights issued by Grid West will be in the form of physical Injection-Withdrawal Right (IWRs). Short-term IWRs will be available through Grid West's reconfiguration services auction, and so the cost of new short-term service rights will be determined by the auction process.

Long-term IWRs may be priced according to embedded system costs or through a long-term auction mechanism, depending on which pricing approach Grid West implements (described below under "Proposed Long-Term Pricing Alternatives").

Proposed Long-Term Pricing Alternatives

The Pricing Work Group has proposed four possible options for pricing new long-term IWR pairs that can be granted from existing facilities.

Option 1 would charge customers according to the location of the withdrawal point[1] by applying the "company rate" of the transmission owner whose system encompasses that location.

Option 2 would charge customers the higher of the rate at the injection point or the withdrawal point.

Option 3 would distinguish between IWRs that are confined wholly to a single transmission owner's system (in which case the company rate for that "host" system would apply) and those with an injection point on one system and a withdrawal point on another system (in which case a Grid West system average rate would apply).

Option 4 proposes to auction long-term IWR pairs.

[1] The use of the terms withdrawal "point" or injection "point" is not intended literally. The work group responsible for developing market and operational design proposal for Grid West (the Transmission Service Liaison Group or TSLG) has not yet resolved the question of how specific the location of an injection or withdrawal "point" must be on the Grid West system.

Existing Facilities Versus System Upgrades or Expansion

IWRs for new long-term service will be granted from existing capacity ("AFC" or "Available Flowgate Capacity") if possible; if not, Grid West will oversee the process of upgrading or expanding the system as necessary to meet the new service request. Service granted from AFC will be priced according to one of the four options described in the preceding section.

If a long-term IWR request requires system upgrades or expansions, the FERC concept of "or" pricing would apply. This means that the customer's cost for the new rights would either be the applicable embedded cost rate (after rolling in the costs of upgrades or expansion), or the incremental cost rate if the cost for the upgrades or expansion were higher (on a unit basis) than the embedded cost rate. Because there are four options for pricing long-term service from existing facilities, the applicable embedded cost rate to which the incremental rate would be compared would vary depending on which approach Grid West implemented.

IWR Pairs Versus Network IWRs

The Pricing Work Group has proposed that Grid West could issue long-term IWRs as pairs (analogous to today's OATT point-to-point service) or as an interrelated set of network IWRs (available only within a single transmission owner's system and with restrictions on their use analogous to those applicable to today's OATT network service). As is the case today, these two different kinds of service would be subject to different rates. All four of the Grid West long-term pricing options call for network IWRs to be priced at the "company rate" for the system on which new network service is granted.

If new service is in the form of IWR pairs, then the applicable rate would be

- a company rate determined by the point of withdrawal (Option 1);
- the higher of the rate at the injection point or the withdrawal point (Options 2);

- a single transmission owner's company rate for single-system IWR pairs or a system-wide average rate for a multi-system IWR pair (Option 3) or

- priced though an auction mechanism (Option 4).

Location of Injection and Withdrawal Points

As explained in the preceding sections, Options 1, 2, and 3 would price long-term IWRs according to locations of their injection and withdrawal points.

Question 3: What is a "company rate"?

Answer 3: The term "company rate" refers to the rates applicable to a particular transmission owner's facilities under the form of "license-plate" rates proposed for Grid West (also known as the "company rate approach"). Under the Grid West company rate approach, rates for service on a particular transmission owner's system are individual to that transmission owner. The rates will be based on the costs of that transmission owner's facilities,[2] and developed through the rate-setting process that applies to that transmission owner.

Question 4: Does the Pricing Work Group have a recommendation concerning which of the four long-term pricing options Grid West should implement?

Answer 4: Not yet. The Pricing Work Group believes that it is important to get regional feedback on pricing (particularly at the Grid West pricing seminar scheduled for June 23, 2005) before considering whether to develop a recommendation for long-term pricing. The Pricing Work Group will revisit the issue of recommendations after the June 23 seminar.

[2] If a particular transmission owner's company rate will apply to its own native load service, then that transmission owner's company rate for service to native load might also include the transmission owner's cost for wheeling on other transmission owners' systems (to the extent the wheeling is for native load service).

Question 5: How is "new" service (as opposed to legacy service) defined?

Answer 5: New service is either

- service to a customer that has no pre-existing (legacy) rights to use the Grid West transmission system or
- incremental service to a customer that enables the customer to receive service to which the customer is not entitled under its legacy arrangements.

Rollover rights and service for load growth (when granted in the legacy agreements) would not constitute new service.

The table below provides some examples to help readers understand what is considered legacy service for pricing purposes, as distinguished from new service:

Illustrative Examples of How New Grid West Service Is Defined		
Example Description	**Legacy Service**	**New Service**
a transmission owner using its own system to **meet native load service** obligations (or meet pre-existing transmission service agreements)	**X**	
load growth and contract extensions (*i.e.*, **rollover**) under agreements that provide for load growth or rollover	**X**	
a customer **seeks new rights** beyond those granted in pre-existing transmission agreements (if any)		**X**
• a customer of Utility A has pre-existing rights to network service on Utility A's system (including load growth) • the customer's load has grown from 60 MW to 65 MW; the customer wants to serve part of its 65-MW load from a 10-MW generator located on the system of Utility B • the customer maintains its network rights on the system of Utility A and can use transmission service on Utility A's system necessary to meet its full 65-MW load from resources on Utility A's system		

Illustrative Examples of How New Grid West Service Is Defined		
Example Description	**Legacy Service**	**New Service**
• BUT, to get power from the generator on Utility B's system, the customer will need to buy a new IWR for 10 MW (injection point at the generator, withdrawal point at the point of integration under the network contract with Utility A) • the 10-MW IWR is **new service** but continued use of network service rights on Utility A's system, including the load growth, is legacy service	**X**	**X**
a customer has no pre-existing rights to use the Grid West transmission system requests new long-term IWRs; the customer could request new service either as an IWR pair, which could have an injection and withdrawal point anywhere on the entire Grid West system, or as a network IWR, which would be limited to load service using a single transmission owner's system		**X**

Question 6: **Will load growth be treated as new service from Grid West?**

Answer 6: No. Service for load growth covered by existing transmission service rights and obligations will not be treated as new service from Grid West (see answer and table under Question 5).

Question 7: **What does this proposal mean for BPA power customers that need to supplement their federal power requirements with non-federal resources?**

Answer 7: The answer to this question depends on which kind of transmission service the customer has on the Federal Columbia River Transmission System operated by BPA (the "Federal System")—Network Integration service or Point-to-Point service. It would also depend on whether the incremental resource was located on the Federal System (for customers with Network Integration service).

If the customer takes Network Integration service, then the customer's "legacy" service would cover an incremental power source located on the Federal System, and BPA would work with Grid West to make the necessary arrangements for transmission service. The customer's legacy rights would cover the addition of new Points of Delivery and Points of Receipt (if those points are served directly from the Federal System), the addition of a Designated Resource (if the Federal System has available capacity), requirements for load growth, etc. If a customer with Network Integration service wished to integrate an incremental power source that was not located on the Federal System, either the customer or BPA would need to request new service (IWRs) from Grid West to integrate that resource.

If the customer takes Point-to-Point service on the Federal System, then the customer would need to request new service (IWRs) from Grid West to integrate an incremental power source, whether the resource was located on or off the Federal System.

Question 8: If I want to switch from my legacy service to new service from Grid West, could I do that and how would it work?

Answer 8: The TSLG design for Grid West market and operations calls for Grid West to inventory and certify all system commitments related to legacy services. The certification process will involve the legacy transmission provider, the legacy transmission customer, and Grid West. Completed certification will reflect the agreement of all three parties concerning what the pre-existing agreement entitles the customer to do. If a transmission customer wishes to have Grid West administer its legacy service after the certification process, this voluntary transition would be possible (even before the stated date on which the legacy agreement would have expired or rolled over) so long as both Grid West and the legacy transmission provider consent.

The transition would substitute Grid West for the legacy provider as administrator of the legacy service (daily scheduling, etc.), although it would not shift revenues from the legacy provider to Grid West. The transmission customer's continuing legacy service would not be deemed new service from Grid West. The transmission customer would continue to pay the legacy transmission provider in exchange for maintaining the legacy service rights.

Question 9: What would happen if I let my current transmission service rights expire without renewing or exercising my rollover rights?

Answer 9: If a customer with existing transmission service rights chooses to allow the contract to expire at the end of its term, the customer would be in the same position as would be the case today. The customer would no longer be entitled to receive transmission service and would also be relieved of the obligation to pay for transmission service. If, after allowing a pre-existing service agreement to expire, a customer subsequently wishes to obtain transmission service, the customer could obtain new service from Grid West (either through the short-term reconfiguration services market or through a request for new long-term IWRs). Grid West pricing, terms, and conditions would apply to the new service.

Question 10: Will Grid West charge a separate fee for "through and out" (export) transactions?

Answer 10: No. Those who engage in through and out (export) transactions **will**, however, contribute to cost recovery for the existing system along with all other users.

The Grid West market and operational design requires that all system users have or obtain (and pay for) physical rights before they submit energy schedules to Grid West. This means that users engaging in through and out transactions will contribute to the embedded system costs, through payment for the necessary physical rights. These rights could be in one of three forms:

- legacy rights;
- new short-term rights purchased through the Grid West reconfiguration service; or
- new long-term rights purchased from Grid West

Because through and out transactions will necessarily contribute to existing system costs through payment for physical rights, the Pricing Work Group does not believe that it is necessary or appropriate to propose a separate, additional charge for these kinds of transactions, and has not done so.

Question 11: **What happens to Grid West pricing after the time for the Grid West "company rate approach" ends?**

Answer 11: The Grid West Operational Bylaws require Grid West to use a "company rate approach" for at least the first eight years of commercial operation.

At the end of the eight-year period for the company rate approach, Grid West would have at least three options:

- leave its then-current company rate structure in place;
- change to another form of company rate structure; or
- depart from the "company rate approach" after complying with all "Special Issues List" requirements in the Operational Bylaws.

No matter which approach Grid West adopts, "legacy" rights would continue to be honored and Grid West would need to address resulting transition issues (if any). This would apply to legacy rights issued by Grid West transmission owners before Grid West began operations (unless they had subsequently expired), as well as new IWRs issued by Grid West after operational start-up.

Question 12: **What are the key (pricing) differences between the RTO West Stage 2 proposal and the Grid West pricing proposal?**

Answer 12: RTO West Stage 2 called for a financial-rights-based, accept-all-schedules commercial model.

RTO West's on-system loads were to be responsible for paying all of the systems' embedded costs through an access fee. In exchange for these payments, loads had the ability to schedule transactions anywhere on the entire RTO West system, subject to explicit charges for any congestion clearing necessary to accommodate their schedules.

The Grid West model, on the other hand, is a physical-rights-based model (all users must have physical rights obtained in advance before they can submit schedules to Grid West, and those physical rights must match the injection and withdrawal points specified in their schedules). Legacy arrangements, services, and payments will be left in place. New Grid West service will be incremental to the legacy arrangements. Users must buy the specific physical rights (with identified injection and withdrawal points) for the system uses they seek. Grid West will not grant comprehensive access to the entire network. Grid West will honor the physical rights that are in place from legacy arrangements and those that are newly purchased from Grid West's short-term (reconfiguration service) market or through new long-term service requests.

The table below compares key features of the RTO West Stage 2 pricing proposal and the Grid West pricing proposal.

Comparison - RTO West Stage 2 and Grid West	
RTO West	**Grid West**
› Transmission Use Service allows all eligible users to submit schedules	› Users must have physical rights to submit schedules
› Accept all schedules and manage through redispatch	› Issue service rights up to system capability
› Service in the form of Financial Transmission Rights (congestion hedges)	› Near-term service (reconfiguration service markets)
› No long-term service using existing capacity	› Long-term service using existing capacity • Cost-based options • Auction-based options
› No explicit pricing proposal for long-term service requiring capacity expansion	› New long-term service requiring capacity expansion • "or" pricing
› "Backstop" cost recovery fee to assure revenue sufficiency	› Replacement revenues to assure revenue sufficiency
› Separate fee for "external interface access" ("through and out" (export) transactions)	› "Through and out" (export) transactions contribute to embedded system costs through payment for physical rights
› Grid Management Charge	› Grid Management Charge