

Grid West Bylaws

September 10, 2004

The attached comments reflect comment log number(s): GWB-038 through GWB-045.

Allen Burns – R-3  
Syd Berwager – R-3  
Preston Michie – R-3  
Tara Exe – R-3  
Steve Larson – L-7

NOTE: If you have any changes to the above distribution list, please contact Ginny Kuehn, x4413. Thank you.

# Grid West Bylaws

10-Sep-04

**Specialist:** Tara Exe

**Program Office:** Industry Rest.

**Comment Close Date:** 9/3/2004

Comment Log #	First Name	Last Name	Affiliation	Receipt Date	Notes
GWB-038	Charles L.	Dawsey	Benton Rural Electric Association	9/8/2004	
GWB-039	Nancy	Barnes	Washington Public Utility Districts Assoc.	9/8/2004	
GWB-040	Vito	Stagliano	Calpine	9/8/2004	
GWB-041	Pat	Reiten	PNGC Power - for the others see below	9/8/2004	letter signed by Bill Drummon
GWB-042	Don	Winslow	PPM Energy, Inc.	9/8/2004	
GWB-043	Marilyn	Showalter	Washington Utilities and Transportation C	9/10/2004	Letter also signed by Richard
GWB-044	Barbara	Dutro	Solar/Wind Energy Conversion & Mental	9/10/2004	
GWB-045	Denise	Hill	TransAlta	9/10/2004	FAX

GWB-038

SEP 08 2004



The Cooperative Way!

## BENTON RURAL ELECTRIC ASSOCIATION

402 7TH Street \* P.O. BOX 1150 \* PROSSER, WASHINGTON 99350 \* 509/786-2913 \* Fax: 509/786-0291

September 3, 2004

Mr. Allen Burns  
Executive Vice-President for Industry Restructuring  
Bonneville Power Administration  
905 NE 11<sup>th</sup> Ave  
Portland, Oregon 97232

Dear Allen:

Subject: Comments Regarding Grid West Beginning State

As you are aware, the Benton Rural Electric Association has formally adopted a resolution setting forth its position regarding Grid West or any form of RTO in the region. I have enclosed a copy of that resolution for your reference.

While we are not opposed to evaluating the pros and cons of Grid West or another RTO, we believe that adoption of even the developmental bylaws or seating a developmental board, as suggested in the Grid West proposal, is premature.

While we can appreciate that BPA could withdraw from the Grid West process after the developmental stage, we have no assurances that BPA would exercise this right even if a large majority of its customers strongly requested such action. Past experience would suggest that BPA does not necessarily follow suggestions of its customers even when supported by the vast majority of its customers-case in point implementation of the SN CRAC.

Allen Burns  
September 3, 2004  
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For this reason, Benton REA feels very strongly about the position set forth as follows:

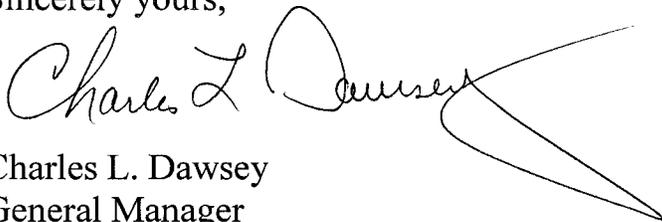
NOW, BE IT RESOLVED THAT

Benton REA Board of Trustees do hereby adopt and set forth the following official position of the Benton REA regarding Grid West and RTO.

***“Benton REA will not consider supporting any implementation of changes that affect the regional transmission system, including implementing the proposed Grid West developmental bylaws without, at a minimum, successful resolution of; (i) a contract lock that ensures that Benton REA’s current transmission rights, transmission service and associated business practices all as set forth in Benton REA’s current transmission contract with BPA and the BPA transmission tariffs, are memorialized in new or amended long-term transmission contracts between BPA and Benton REA; and (ii) the current outstanding issues regarding service under general transfer agreements (GTAs) including assignment of GTA costs. These new or amended contracts must be enforceable through binding arbitrations, and must state that Benton REA’s transmission rights are not a matter of rate making, not subject to the exclusive jurisdiction of the United States Court of Appeals for the 9th Circuit Court.”***

We appreciate this opportunity to comment, and appreciated your attendance to discuss the matter before our board.

Sincerely yours,



Charles L. Dawsey  
General Manager



EWB-039

SEP 08 2004

Washington  
Public  
Utility  
Districts  
Association

1411 Fourth Ave.  
Suite 810  
Seattle, WA 98101  
206 682-3110  
Fax 206 682-3913

June 17, 2004

Mr. Steve Wright  
Administrator  
Bonneville Power Administration  
905 NE 11th  
Portland, Oregon 97208-3621

Dear Steve:

As you know, the Washington PUD Association has been keenly interested in the discussions relating to the proposed establishment of a Regional Transmission Organization in the Northwest. We have generally opposed such establishment efforts, on the grounds that less risky and more cost-effective solutions can be found that will preserve regional control over our energy future.

The debate over Grid West has reached another critical point. At the end of this month, the current schedule basically calls for a "pens down" on drafting of the Developmental and Operational Bylaws, to allow for a assessment of the workability and potential impacts of these critical governance documents. At recent meetings of the Regional Representatives Group (RRG), Allen Burns has indicated that BPA needs a two-to-three month period to assess these draft Bylaws and conduct appropriate "due diligence" exercises on their likely impacts. As we understand the situation, such due diligence efforts will include consultations with BPA's customers, discussions with the Northwest congressional delegation, and a study commissioned by BPA and conducted by the National Academy of Public Administration (NAPA) of the Operational Bylaws.

We commend BPA for taking these prudent and responsible steps. We strongly support these due diligence efforts on BPA's part, and urge you to include customer representatives on the steering committee that will help direct the NAPA study. In addition, we urge you to consider the necessity for imposing adequate budget constraints on any new institution, in light of the experiences of other ISOs and RTOs around the country. We would like to discuss these and other concerns with you during the upcoming assessment period.

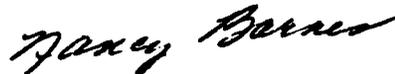
During this assessment period, it is also important that the Risk/Reward Work Group of the RRG continue its analysis of the risks, costs, and benefits, if any, of Grid West. In that effort, the Work Group should develop a range of feasible solutions to each

identified problem, so that the “package” known as Grid West can be compared with other approaches. We understand that this is the approach being considered by the Work Group at this point. It is important that, if and when BPA reaches the point where a potential decision on signing a Transmission Agreement with Grid West is under consideration, a reasonable range of possible solutions, aside from Grid West, are part of the decision-making process.

You and Allen Burns have made yourselves available to the association and its leaders, and sought out opportunities to meet with us, to discuss the status of Grid West and BPA’s role in it. We very much appreciate this and believe it has given us the opportunity to convey to you and Allen the very extensive concerns we have had with the prospect of establishing a RTO in the Northwest. We trust that over the next several months, as BPA reviews Grid West, you and Allen will continue to meet with us to discuss these developments. When we meet we would like to discuss with you the development of a more limited, local BPA based alternative to Grid West.

Thank you for taking these prudent steps with regard to Grid West. I will ask Steve Johnson to set up a meeting with you at your convenience in July to talk about how we can work together on positive solutions to the region’s transmission needs.

Sincerely,

A handwritten signature in cursive script that reads "Nancy Barnes".

Nancy Barnes  
President

cc: Allen Burns



CALPINE

250 PARKWAY DRIVE  
SUITE 380  
LINCOLNSHIRE, IL 60069  
847.484.7700 (MAIN)  
847.484.7799 (FAX)

30 August 2004

Mr. Allen Burns  
Executive Vice President  
Bonneville Power Administration  
Attn: Communications – DM-7  
P.O. Box 14428  
Portland, OR 97293-4428

*GWB - o/c*  
SEP 08 2004

Dear Mr. Burns:

As you know, Calpine Corporation has been a diligent, long-standing participant in the design and development of Grid West, and predecessor organizations. We believe that an independently administered, regional transmission organization, and associated competitive wholesale market are the best means of ensuring the cost effective expansion of the transmission and generation system in the Pacific Northwest. Grid West meets our definition of such an organization, and we are gratified that the development process is now reaching the first major milestone, which is the forthcoming vote on the By-Laws that will govern the further development of Grid West.

We urge BPA to continue its vital engagement in Grid West and to cast a vote in the Regional Representative Group in favor of the proposed developmental and operational By Laws. We support the By-Laws even while retaining some reservations about the degree of independence that the By-Laws accord to the Board and Management of Grid West. Our support is based on the belief that once the initial Board is seated, stakeholders will continue to have the opportunity to refine all of the documents that legitimize the structure of Grid West, and, of course, to file comments in the various regulatory proceedings that will ensue.

It is self-evident that Grid West is not feasible without the participation of BPA. It is consequently essential for BPA to signal its willingness to continue to support the Grid West development process by casting an affirmative vote on the By-Laws. We do not underestimate the complexity of this vote for BPA, nor the determination shown by opponents of BPA's participation in Grid West. But we believe that the consensus that's been painstakingly forged in the last nine difficult months of open and fair deliberations deserves to be honored by our collective affirmation of the By-Laws.

Sincerely,

Vito Stagliano  
Vice President

Grid West - of 1  
SEP 03 2004

September 3, 2004

Allen Burns  
Executive Vice-President for Industry Restructuring  
Bonneville Power Administration  
905 NE 11<sup>th</sup> Ave  
Portland, OR 97232

Re: Comments to BPA Regarding Grid West Bylaws

Dear Allen,

The utilities represented by PNGC Power, NRU, WMG&T, ICUA, and IDEA are transmission dependent and face considerable challenges as they try to meet their future resource needs. Currently, the systems of BPA and the other transmission providers are very constrained, having little or no ATC across the most needed paths. There is no ability today to evaluate region-wide transmission capacity on a grid-wide basis. Further, requests to integrate new resources are done on a request-by-request basis looking only at the transmission provider's system, thus missing the system-wide implications of new resource development. As well, even if capacity is available, many of these utilities face the possibility of pancaked rates to bring on new resources. On the whole, the procedures for evaluating available capacity, granting access and expanding and operating the system can be vastly improved.

The utilities represented by our organizations are looking for solutions to these problems. We believe that Grid West's Beginning State is a reasonable step for these transmission dependent utilities. The following comments are submitted on behalf of our organizations, but may not reflect a consensus view of all of the individual members. Some utilities may decide to submit their own comments, or be aligned with the positions of other groups. Our utilities have concerns about the regional proposal and the bylaws. These utilities require certain changes to the Developmental and Operational Bylaws before they will support further development of Grid West, as follows.

Operational Bylaw Changes

- 1) Remove the built-in bias in the current Operational Bylaws to move to financial rights (Advanced State) by removing the last sentence in § 7.16.3(iii)(b) that requires the Board to review whether to move to financial transmission rights model every two years. The bylaws are designed to allow the independent Board the flexibility needed to accommodate change as needed. Grid West's independent board will

have the authority to do what is best for the region at any given time. There should not be a bias to a certain outcome built into the bylaws, especially given the substantial opposition within the region and nationally to financial transmission rights.

- 2) Build in safe guards to a possible push by FERC to move to financial rights. Many of our members are concerned that, once formed, Grid West would be “forced” by FERC to move to an SMD-like scheme of financial rights. To insure that any change in the fundamental nature of transmission rights is beneficial to the region, make the following changes.

- (a) Add the following sentence to the end of § 7.16.3(iii)(b):  
“In determining whether a move to a financial transmission rights is prudent, the Board must demonstrate that implementation of financial transmission rights by other RTOs has, in fact, provided value, including lower delivered power costs and appropriate transmission construction and investment. Additionally, a financial transmission rights model will not be proposed by the Board without prior completion of a fair and rigorous cost/benefit study that shows positive value to the Grid West region from moving to such a financial transmission rights model.”
- (b) Increase the vote needed to approve a move to financial transmission rights by adding the following new language to the end of the last sentence of § 7.16.2(vi): “, except that the Board of Trustees may take final action to adopt a proposal to move to a financial transmission rights model as described in § 7.16.1(iii) only by an affirmative unanimous vote of all nine of the Trustees.”

These changes will remove the bias towards movement to financial transmission rights (which is the biggest cost driver in other RTOs) while raising the consent threshold for adoption of a financial transmission rights model. This will create an organization that can still evolve over time, but with a very steep uphill slope to financial transmission rights.

#### Developmental Bylaws Changes

Because the Beginning State is not yet clearly defined, and due to the constantly evolving nature of FERC’s activities and actions, the region should have the ability to look at and approve the whole Grid West package prior to Grid

West going operational. Therefore, we recommend that the Developmental Bylaws require a positive binding (not advisory) membership vote authorizing the Developmental Board to adopt the Operational Bylaws. This can be done by amending §12.2. to delete references to “advisory” votes and adopting § 12.2.3 “Alternative 1” language.

#### Cost Control

Last, we continue to be concerned that Grid West would be able to control its costs. The expected cost of Grid West is important because of our requirement that any changes to the region’s transmission structure produce net benefits (benefits in excess of costs). Therefore, Grid West must produce net benefits. Cost control is also important once Grid West goes operational. A fair and rigorous risk-reward study on the total Grid West proposal prior to its operational phase may indicate prospectively whether or to what extent Grid West is expected to produce benefits. However, that would not give assurance that an operational Grid West will control its costs. Therefore, we recommend adding language to the Grid West Operational Bylaws that will create a formal budget committee of the Board that will receive significant input from members on the corporation’s annual budget, or an alternative requirement that would encourage prudent cost management by Grid West.

#### Contract Lock

In conversations our staff has had with BPA staff, BPA has indicated that it will address necessary transmission contract lock to assure that existing contract rights will be protected. We look forward to participating in and concluding those discussions. We want BPA to be advised that a successful contract lock must be resolved in advance of any BPA decision to sign a Transmission Agreement with Grid West and in advance of the decision on whether Grid West should go operational.

We believe that with the changes and concepts just referenced above, Grid West development should continue. BPA’s continued participation in Grid West should not preclude BPA from participating in other regional transmission discussions if BPA deems these discussions valuable. However, the following are the characteristics of Grid West that would benefit the region when compared to our current approach to transmission.

- 1) **Grid-wide look at transmission capacity** for evaluating availability. This should better utilize the existing grid thus reducing or delaying the need to build and resulting in better reliability of the system.
- 2) **Backstop planning authority.** This is currently captured in the Planning documents and needs to be reflected in the TOA. Instead of being stymied by disputes, or having BPA customers pay for all transmission investment, regionally-needed reliability investments will get built and the costs of such will be allocated by an independent Grid West to the Transmission Owners who benefit.
- 3) **Voluntary Reconfiguration and Redispatch Market** will permit transmission capacity holders to make excess or unused capacity available on a secondary basis, allowing greater access to already committed but underutilized transmission. Redispatch will also allow better utilization of constrained paths giving operators a tool other than curtailment and allow all users the opportunity to voluntarily optimize power and transmission arrangements.
- 4) **Add-on regional transmission service.** While preserving existing transmission contracts, additional “add-on” regional network service will be available to existing contract holders at a non-pancaked company rate, permitting access to non-federal resources at reasonable cost.
- 5) **Better queue process for new resources.** This will result in a more comprehensive and timely processing of requests for new resources giving those resources a better chance of getting built and to market in a timely manner.

Grid West may well offer the region considerable benefits in the Beginning State. We are eager to make sure that we capture these benefits. Grid West’s Beginning State contemplates modest but important steps to a better transmission system, one that is essential to smaller transmission dependent utilities. We have a responsibility as users of the regional transmission grid to take the steps now that are the best option to deliver reliable, low-cost power to our consumers in the years ahead.

Finally, we appreciate that BPA has made an effort to reach out to its public power customers and address their transmission concerns. In particular, we are pleased with the progress we have been able to make on GTA issues.

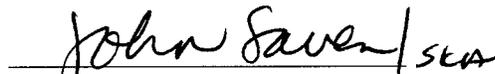
Allen Burns  
September 3, 2004  
Page 5

If you would like to discuss any aspect of this, please let us know.

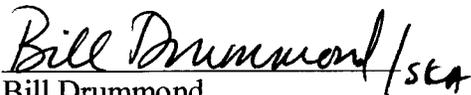
Sincerely,



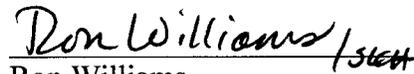
Pat Reiten  
CEO PNGC Power



John Saven  
CEO, NRU



Bill Drummond  
Manager, Western Montana G&T



Ron Williams  
Executive Director, ICUA



Peter Richardson  
Attorney for IDEA

cc: Jerry Leone, PPC  
Bud Krogh, Grid West



GWB-042  
SEP 08 2004

September 2, 2004

Allen Burns  
Executive Vice President for Industry Restructuring  
BPA  
Attn: Communications DM-7  
P.O. Box 14428  
Portland, OR 97293-4428

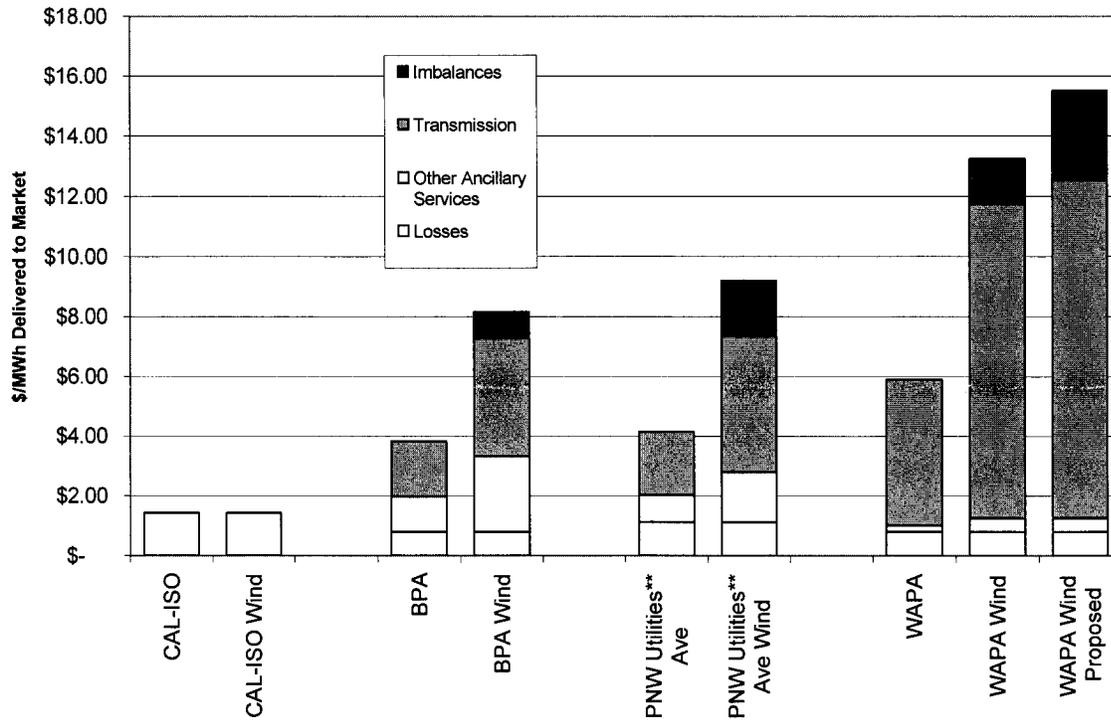
Dear Mr. Burns,

PPM Energy is engaged in thermal and wind generation activities in Washington and Oregon. We market energy from the Klamath Cogeneration Facility, the Stateline and the Klondike windfarms. We sell power to most of the many of the major utilities throughout the Pacific Northwest. Thus, because we are active in independent power production, renewable generation, and trading, we have a unique vantage point.

I am writing to indicate our company's support for BPA's continued participation in Gridwest. The Regional Representatives Group is to be commended on its progress in building a consensus across the stakeholder classes in drafting the developmental and operational bylaws. We believe the proposed bylaws are a balanced approach that deserves BPA support.

Finally, because PPM Energy is active in wind development across the United States, we are in a unique position to compare the cost of transmission and imbalances across both RTOs and those transmission providers operating under Order 888 tariffs. I have attached a chart comparing the costs to integrate wind among various transmission providers. In general, the cost to integrate wind in an RTO is far less than in an investor owned utility. As an example, integration in the California ISO is less than a quarter of the comparable costs across the average of major investor-owned transmission providers in the Pacific Northwest. Clearly, those entities which buy or sell wind energy would prefer a tariff comparable to that in place in California. Gridwest would facilitate movement in that direction and would provide a huge boost to further development of wind energy in the Pacific Northwest.

### Comparison of Cost of Integrating Wind vs. CCGT in Various Systems



I would be happy to meet with you to follow up on our thoughts on how Gridwest would support an open and competitive market in energy in the Northwest.

Sincerely,

Don Winslow  
 Vice President, Policy and Regulatory Affairs  
 PPM Energy



GWB-043

SEP 09 2004

Christine O. Gregoire

**ATTORNEY GENERAL OF WASHINGTON**

900 Fourth Avenue, Suite 2000 • TB-14 • Seattle, Washington 98164-1012

**WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

*1300 S. Evergreen Park Dr. S.W., P.O. Box 47250 • Olympia, Washington 98504-7250  
(360) 664-1160 • TTY (360) 586-8203*

**Department of Community, Trade and Economic Development**

*925 Plum Street SE, Bldg. 4 • PO Box 43173 • Olympia, WA 98504-3173 • (360) 725-4000*

September 7, 2004

Bonneville Power Administration  
Attn: Communications - DM-7  
P.O. Box 14428  
Portland, OR 97293-4428

**Subject: BPA Decision Regarding Proposed Grid West Corporate Bylaws.  
Comments of:**

**Washington Utilities and Transportation Commission  
Public Counsel Section, Office of the Washington Attorney General  
Washington State Dept. of Community Trade and Economic Development**

Thank you for this opportunity to comment on the proposal to adopt corporate bylaws to form and govern a new regional grid-management utility known as Grid West. The undersigned Washington State agencies make the following observations and recommendations to assist BPA as it considers decisions in October regarding the draft Grid West bylaws as well as it's role in other efforts

in the region to improve transmission service and reliability. Our comments include the following points:

- **There is as yet no persuasive evidence that the benefits of the proposed Grid West will outweigh its incremental costs and risks.**
- **Grid West would not be a government.** Incorporation of elements of government-like process (e.g., open meetings) does not make Grid West a government and does not substitute for decision-making by public officials accountable to the voters.
- **Grid West would be a private utility,** albeit one without stockholders. Because Grid West would be spending money and taking risks ultimately paid by electricity consumers and investors, it is important that it have effective forms of operational and financial accountability. The current proposal does not meet these needs.
- **Consultation does not equal accountability.** Consultation with stakeholders is no substitute for real forms of accountability (civic voting, state and local regulatory proceedings, etc.).
- **Diffuse and complex voting procedures within the Grid West membership do not bring meaningful accountability.**
- **Transfer of jurisdiction to FERC from local and state levels reduces real accountability to end-users (voters and/or ratepayers).**
- **A governing board that can self-evolve to expand the role of Grid West unnecessarily and prematurely forces the region to confront later stage functions that are problematic and divisive.**
- **A complex governing structure may come at the price of operational effectiveness.**
- **There may be simpler approaches than Grid West that can improve the region's transmission grid with less disruption to existing institutions, lines of authority, and lines of accountability.**

Washington shares with its neighboring Northwest states and Canadian provinces the great benefits of BPA's development and operation of the Federal Columbia River Transmission System (FCRTS), which is the core of the region's transmission grid. BPA's decisions will similarly be core to any improvements in the expansion, management and operations of the region's transmission grid. Moreover, BPA's decisions concerning the Grid West proposal will, in large measure, determine whether the region's federal and non-federal transmission systems continue to provide reliable and cost-effective service to the citizens of the Pacific Northwest, for whom they were built.

It is of paramount importance to the state of Washington that the Pacific Northwest transmission grid be managed and operated reliably and cost-effectively to support an adequate and environmentally sound power supply for Washington's electricity consumers. It is equally important to ensure that consumers or their representatives have meaningful avenues to influence decisions that affect their utility service, and meaningful redress should problems occur.

As governmental guardians of Washington's electricity consumers, we are keenly interested in the developing proposals to improve the region's grid. It was with this sense of importance that last year we welcomed the commitment by BPA and the region's transmission owners to refocus efforts on identifying *specific* transmission problems and opportunities presented to the region. We understood this commitment to go beyond problem identification and to include evidence-based and region-specific problem solving. Our agencies have devoted considerable staff resources to regional transmission discussions. Most recently, the WUTC has contributed senior staff to the RRG discussions and to the efforts undertaken by certain utilities under the auspices of the Transmission Issues Group (TIG).

The good news is that progress has been made in identifying problems and opportunities. Among these are the need for more comprehensive region-wide planning for transmission system expansion, transmission adequacy standards, the opportunity to utilize more fully the existing transmission system so as to mitigate the demand for expensive new projects, and the need to improve access to transmission capacity and interconnection for new generation, including renewable resource generators.

The challenge facing BPA and the region now is to focus on the most practical, cost-effective, and realistic ways to fix the problems worth fixing and secure the opportunities worth securing. The Grid West proposal is one approach for making grid improvements, but from our vantage point critical questions remain unanswered about this approach.

With respect to the Grid West proposal, BPA has requested comments on the following questions:

- Have the draft bylaws addressed the governance concerns expressed earlier in the region?
- Do the draft bylaws appropriately balance regional accountability with independence and workability?
- Are there other matters BPA should consider in making this decision?

These questions focus mainly on the governance that is included in the Grid West proposal. Because we believe that threshold questions have yet to be answered regarding whether a new grid management institution is necessary and appropriate, we will address BPA's questions in reverse order starting with the most general.

#### **I. Matters BPA Should Consider in Making Decisions Concerning Grid West.**

The existence of problems and opportunities in the management, operation, and expansion of the transmission grid means that improvements to the grid are *possible*. But the mere existence of problems and opportunities does not answer the practical questions of whether all possible improvements should be made, or how any such improvements should be accomplished.

Given the importance of the transmission grid for consumer utility service in the region, and given the reliance utilities place on their historical rights to use the grid to provide that consumer service, we believe any proposals to change operation or management of the grid should be tested against three threshold questions. These are questions that we in Washington will use to evaluate Grid West or other proposals to improve the grid. We submit that BPA would also do well to focus on these three questions.

Threshold Questions:

**A) Do the proposed changes yield benefits that outweigh the costs and risks?**

This question focuses on whether it makes sense to incur whatever costs and risks accompany changes to management and operation of the grid. Do reasonably estimated and quantifiable benefits--for electricity consumers--exceed the costs and risks those consumers would be expected to bear? Moreover, are the net consumer benefits widely distributed across the region, or are they likely to be enjoyed by only a few, in certain locations, while all consumers bear new costs and risks?

**B) Is the proposal the simplest that can practically do the job with the least disruption to existing institutions, lines of authority, and lines of accountability?**

This is the Occam's Razor question.<sup>1</sup> Simple and uncomplicated solutions are preferable to complex ones, assuming both can get the job done. This question goes beyond measuring just costs and benefits and focuses on the practicality of a proposal. As important, the question includes whether the proposal strengthens or weakens the access consumers or their representatives have to decision-making that affects critical electricity service and redress for decisions that turn out badly. Finally, this question gets at the possibility that a complex change and the ability of a new institution to self-evolve to a grander scope of activity increases the likelihood of unintended and unpredictable consequences.

**C) Is there a broad consensus of support for a proposed solution?**

Fundamentally, the breadth of consensus supporting a proposal indicates whether that proposal equitably treats parties that rely on the grid and—as a consequence—whether the proposal is politically feasible and sustainable. Given the central role the FCRTS plays in the region's grid, and given the breadth of BPA's customer constituency, we believe that BPA is doing the right thing to

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<sup>1</sup> Mediaeval philosopher William of Occam stated a principle of parsimony to encourage emphasis on simplicity in theories, explanations, or solutions to "shave off" that which is not needed.

seek feedback on the Grid West proposal from its customers. A degree of support reached by the regional representatives group meeting in Portland is instructive, but it does not necessarily measure whether a critical mass of support exists across the region.

*From our vantage point we have yet to see a clear and definitive answer to any one of these three threshold questions.*

Indeed, it may not be possible to answer any one of these questions at this point because the practical and technical details of what Grid West is proposed to do are still in development.

However, without clear affirmative answers to these questions, we find it troubling that the region's focus has been directed to the form and substance of *corporate bylaws* that *presume* that a significant institutional change is necessary, cost-efficient, practical, and the simplest solution adequate to achieve grid improvements.

Without clear answers to these questions it would appear that the Grid West proposal has the "cart before the horse." The focus of the proposal is too much on what kind of institution can balance "independence" with "accountability" and not enough on what minimum cost and minimum risk actions are available to address transmission issues with balanced and objective decision-making to solve problems consistent with the region's needs, values and principles.

We do not disagree with BPA that it is constructive and appropriate to examine the pluses and minuses of a proposal to form an entirely new institution like Grid West. But it is similarly important that BPA participate fully in and consider approaches that rely less on creating new institutions and more on revising the relationship among and the roles performed by existing institutions. The latter might allow grid improvements to be made sooner than the considerable time necessary to build a new institution and, if these efforts are successful, might allow the region to avoid the costs, risks, complexity, and controversy that formation of a new institution likely will entail.<sup>2</sup>

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<sup>2</sup> BPA staff have represented to us that, even if the controversies and challenges facing the formation of Grid West were to be resolved, the new institution would not be up and running before 2009 – five years from now. If some grid problems are acute, it makes sense to get on with addressing them today without awaiting a grand institutional solution.

*BPA should not affirm "Decision Point 1" unless it is satisfied that it has answered all three of the threshold questions above in the affirmative--and that it can defend those answers.*<sup>3</sup>

## **II. Do the Draft Bylaws Appropriately Balance Regional Accountability with Independence and Workability?**

We noted in our preceding response that threshold questions about whether a new "independent" institution is necessary have yet to be answered. For that reason we *do not* favor adopting corporate bylaws to govern a new institution at this point. However, in response to BPA's question we have some observations on the general issues of "regional accountability," "independence," and "workability."

The question, and much of the Grid West governance discussion, is based on a mistaken concept of accountability and an inappropriate emphasis on the abstract concept of independence. The notion that independence and accountability can or should be "balanced" suggests that independence is an obtainable objective and that it is necessarily at odds with accountability. The notion also appears to be that accountability can be diluted so as to not interfere with the objective of independence.

The emphasis on balancing accountability and independence appears to stem from a basic misunderstanding about what Grid West would be. Grid West is proposed to be a new organization that manages grid functions and sells grid services. *Grid West is proposed to be a utility not a government. By blending some elements, not all, of government and corporate functions, the proposal would produce an institution with weak lines of both government and corporate accountability.*

The important issue is how the Grid West Board and managers would be held accountable for decisions that affect citizens/ratepayers and decisions that affect the owners of invested assets. Whom do citizens or businesses call if something goes wrong and how do the parties they surely will call--state or local government, state or local utility regulators--hold Grid West accountable for

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<sup>3</sup> "Decision Point 1" is the decision to adopt the bylaws proposed to govern the developmental and operational phases of Grid West.

decisions or responsible for redress in the instance of failure? To whom would Grid West be ultimately accountable and under what authority?

The advisory mechanisms in the proposed governance structure provide some avenues for regional interests to *influence* the decisions and operations of Grid West. But those mechanisms do *not* accomplish any new, true or meaningful form of accountability. *Mandatory consultation and advisory committees do not equate to accountability.* Indeed, the formation of Grid West would diminish existing lines of regional authority and accountability, as we will elaborate below.

But even as a utility, Grid West is unusual. Private utilities are held accountable by their stockholders for the financial performance of assets supplied by investors. Private utilities are held accountable for their performance in serving the public by their government regulators. Public utilities are held accountable for service to the public and financial performance by their voter/owners via citizen-elected boards or city government officials.

The Grid West proposal exhibits aspects of a private corporation, yet it provides the bulk of its services through the assets of other corporations and is not directly accountable to the stockholders that own those assets. Grid West has no stockholders of its own. Moreover, the performance of Grid West in serving the public would be remote from the direct oversight of the region's state utility regulators and the locally elected officials who govern public power utilities.

To substitute for these conventional forms of public utility accountability, the Grid West proposal struggles to create a government-like corporate membership and decision-making process.<sup>4</sup> We do not fault the effort, but the product is a hodge-podge.<sup>5</sup> In reality, the proposed membership structure and processes

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<sup>4</sup> The membership structure is evidently intended to achieve balanced representation for the parties ultimately affected by Grid West's policies and practices. Electricity consumers will ultimately foot the full bill for Grid West and realize the benefits, costs, and risk of the new institution. Yet, the proposed membership structure accords end-use consumers only 1/5 of the voting power in that structure—equal to the voting power of the purely commercial interests of the generator class.

<sup>5</sup> It is not at all clear what *practical* recourse regional electricity consumers would have to challenge Grid West decisions or seek redress should those decisions produce bad outcomes. For example, consider the following plausible scenario:

a) Utilities select to take transmission for retail load under the Grid West tariff; and

cannot achieve any meaningful level of accountability because they lack any real authority. Real authority must come from the citizens through real government, or from the investors through real control of invested assets. The Grid West proposal fails the former because the membership is not a government and it fails the latter because the asset owners cannot exercise control over their investments.

This lack of any meaningful accountability appears to be what the architects of Grid West desire because it is the most conducive to “independent” decision-making on the part of the Grid West Board. But just who or what the Board should be independent from depends on who’s posing (or answering) the question. Some would say the Board should be independent from any commercial interest. Others would say the Board should be independent from any stakeholder. Still others would even appear to say that, once the Board is seated, its decisions should be insulated from the interests of the consumers who depend on the electricity services the Board’s decisions will affect. Basically it would appear that independence is the panacea for all parties to believe decisions will not be influenced by interests counter to their own.

Independence as an abstract concept is not very useful in this context. No institution or government makes decisions that are fully independent of influence, nor should they. Any institution with significant responsibility over important transmission policy and practices with major economic consequences will be subject to intense lobbying by affected parties and will be funded, in some manner, by some or all of those parties. One can reasonably expect that the institution will respond to those influences.

We understand and agree that one goal embodied in the abstract term “independence” is to insulate against undue commercial (particularly

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- b) Grid West decides that facilitation of generator interconnection requires system-wide rolled-in rate recovery of interconnection-driven expansion costs.

Under this hypothetical scenario the major transmitting utilities are assured cost-recovery (perhaps at bonus rates of return too) under a FERC tariff effective for all transmission including native load service. Generators are assured interconnection with the costs spread to all system users. The interests of these two classes (12 votes) are aligned. The consumers (6 votes) pay the bill. Consumers can never muster sufficient support for a super-majority remand and may not be able to achieve even a majority of membership voting power to oppose such a policy. So, what recourse do consumers then have? Who do they call? FERC is the only clear answer, which is not a very satisfying one.

generation) bias in decisions that affect operation of the grid.<sup>6</sup> Another important goal is to accomplish a region-wide perspective and to accomplish decisions that otherwise could involve disputes among multiple systems and multiple actors. Elimination of bias, however does *not* require independence from accountability, but rather requires objective and balanced decision-making. Similarly, resolution of disputes and facilitation of joint action by multiple parties do not require independence from accountability. They require objective and balanced decision-making and effective dispute resolution mechanisms.

Focusing on independence as the objective not only misses the point that the real goal is objective and balanced decisions, it also confuses the search for ways to achieve objectivity and balance in decisions by setting up a mistaken opposition between independence and accountability. Accountability is not the enemy of objectivity. Independence is neither an exclusive nor even a certain means to ensure that decisions are unbiased and made with objectivity. Moreover, independence itself cannot ensure that when decisions balance competing private interests that such a balance is struck consistent with the region's public interest.<sup>7</sup>

*When considering our second threshold question<sup>8</sup> we hope that BPA will fully address a range of options — not just the concept of independence — that may be available to accomplish the real and important goal of objectivity in decisions and dispute resolution.<sup>9</sup> Among the available options are inter-utility contracts and multi-party agreements that leave existing lines of authority and accountability intact.*

Ultimately, if formed as proposed, Grid West will be a new utility accountable to the regulators with jurisdiction over the functions it performs and the services it provides to the public, i.e., principally FERC. This jurisdiction cannot be delegated to some new institutional governance structure or to a new regional

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<sup>6</sup> We note in this regard that, despite allegations and speculation, no body of evidence has been produced that such bias exists today, or that any such bias that may exist is undue given the public obligations of BPA and other transmission providers.

<sup>7</sup> The proposed bylaws establish “principles” for decision-making in both Article III (Purposes) and Article VII (Standards of Care). While these principles include the important themes (e.g., that benefits should exceed “burdens,” and that cost-shifts should be minimized or mitigated) they do not include other important regional values like least-cost solutions (as distinct from positive benefit solutions).

<sup>8</sup> Is the proposal the simplest that can practically do the job with the least disruption and cost to existing institutions, lines of authority, and lines of accountability?

committee. Consequently, and regardless of the effort to inject regional influence in the structure, Grid West would be formally accountable chiefly to FERC.

This is a very important point for BPA and the region to think about as the implications of BPA's joining in the formation of a new utility are examined. *BPA is a government agency.* BPA's lines of accountability follow lines of representative government decision-making authority—the executive branch of the federal government and Congress, particularly the region's congressional delegation. If BPA dedicates its facilities to the operation of a new utility, those lines of accountability will shift away from the region's elected representatives in Congress and toward less regionally responsive regulators in Washington DC.<sup>10</sup> This shift inevitably attenuates the lines of authority through which the region and its electricity consumers can hold some party (BPA or Grid West) accountable for transmission decisions and the power system consequences of those decisions.

A similar attenuation of meaningful accountability would occur if investor-owned utilities (who are now accountable to state regulators) or consumer-owned utilities (who are now accountable to local officials or directly to voters) dedicate operation of their transmission systems to a new, federally regulated, utility.<sup>11</sup> Parties that today can advocate their interests in local or state regulatory proceedings would lose that forum and need to look to decision-making at FERC to protect their interests.

BPA and the region have had some significant and dissatisfying experiences in relying on the federal regulator to protect the region's electricity consumers. The

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<sup>10</sup> Some would argue that the accountability to the Congressional delegation would not be diminished. If that argument is correct, the formation of Grid West will do nothing to remove the bias or BPA-centric decision-making that some point to as justification for forming Grid West.

<sup>11</sup> The investor-owned utilities in Washington would need to seek approval from the WUTC to dedicate operation of their transmission assets to a new utility. The WUTC can only grant such approval if it finds the proposal to be in the public interest. The WUTC is required by law to make such a decision based on a record of evidence. To date no such approval has been requested and no such evidence has been presented. Participation of the WUTC in these comments to BPA serves to raise questions, highlight issues, and offer suggestions to BPA. WUTC participation in these comments does not constitute any conclusion regarding participation of WA investor-owned utilities in Grid West or any other transmission-related institutional arrangement. The same is true for the Public Counsel Section of the Washington Attorney General Office.

future may hold better decisions, but the past teaches hard lessons. We have little basis for confidence that shifting oversight to a federal regulator will produce service and costs that will further Washington State's policy objective of reliable and affordable electricity service with an emphasis on end-use efficiency and renewable energy.

As we have already noted, the fundamental questions facing BPA and the region boil down to 1) Are the problems worth solving? and 2) Do we need a new utility to solve them? The fundamental questions are not about the governance of a utility if one *is* found to be necessary.

*The important point for BPA and the region to weigh is whether the benefits of forming a new regional utility outweigh the costs and risks inherent in the inevitable loss of existing local accountability.*

To summarize, on the matter of regional accountability:

- 1) The proposed Grid West governance structure does not enhance or even preserve the existing forms of regional accountability.
- 2) The proposed Grid West only provides ways for regional interests to advise and possibly influence Grid West—this is not accountability.
- 3) The formation of Grid West would create a federally regulated utility and diminish the practical degree to which the region can today hold BPA and other transmission providers accountable.

Turning finally to workability, we believe that this is a very important objective. If the answers to the three threshold questions we noted earlier become a clear "yes," and the decision of BPA and the region is to form a new utility, every effort should be made to ensure that the new utility can understand and efficiently fulfill the tasks assigned to it. The problem with the proposed bylaws in this regard lies in their complex and diffuse manner of electing, removing and replacing board members, and of the way and membership make important decisions. Various scenarios could produce paralysis, vacant seats, or a "tyranny of the minority." In the meantime, the utility must continue to function. The way to think of this issue is by trying to answer questions like: What happens when things go wrong? When the CEO does not perform? When there is a high-

stakes and divisive proposal? How, *and how long will it take*, to resolve the problem?

In most corporate settings, the board can remove and replace the CEO, and the stockholders, by majority share, can remove and replace the board. In most government settings, the voters, by majority vote, can replace elected officials, who appoint executive decision-makers. The Grid West governance proposal is far more complex—so much so that its very complexity is a bar to its understandability and execution. Ultimately, workability depends on accountability, because it is the lines of authority and accountability that determine who makes decisions and how those decisions are enforced, checked, or revised. Because we don't know whether the proposed governance structure will actually work when confronted with difficult and controversial decisions, *we urge BPA to run several "stress tests" that would reveal how and whether decisions could be reached under various scenarios in which the region is divided in multiple ways over an important subject under Grid West's purview.*

### **III. Have the Draft Bylaws Addressed the Governance Concerns Expressed Earlier in the Region?**

As we have already noted, the threshold questions about whether the region should form Grid West are **not** fundamentally questions of governance. We have also noted that consequences of forming a new utility do inevitably affect issues of accountability and BPA should consider these carefully. We perceive that a key concern raised in the region is loss of regional control and accountability.<sup>12</sup> The Grid West proposal has attempted to address that concern with a complex governance structure that provides for multiple avenues of regional advice and consultation. But fundamentally, the loss of existing lines of regional accountability is not and cannot be overcome with any particular form of utility governance or through layers of regional advice and consultation.

The Washington agencies do not take the position that formation of a new utility like the proposed Grid West should necessarily be rejected for the single reason that it would attenuate regional accountability. We do take the position that the threshold questions, outlined earlier, that bear on whether it makes sense to form a new utility and whether a new utility is the only and best way to address the

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<sup>12</sup> In this regard we direct BPA's attention to the comments submitted by the Public Power Counsel on August 23, 2004.

region's needs have yet to be answered. Consequently, we urge BPA to focus carefully on these questions and not to take any irreversible steps toward Grid West formation before it is satisfied that it can present and defend affirmative answers to those questions.

Finally, we note that, though the membership structure proposed for Grid West does not provide meaningful accountability, it does provide channels for input and advice to Grid West from a broad range of regional interests. While we have serious reservations about the manner in which those interests are allocated representation in the membership structure, we do acknowledge that the community of interests in the proposed Grid West membership is broad.<sup>13</sup> The membership is proposed to include: the parties that transact commercial business over the region's grid facilities as well as the parties that provide transmission service; parties that rely on those services to meet statutory obligations; public interest groups; and the consumers who ultimately rely on dependable transmission services.

Keeping in mind our third threshold question—breadth of support—we observe that, if a membership organization is formed to provide a channel for the interests of the region to influence Grid West, major decisions concerning adoption of changes to the bylaws and changes to the scope of Grid West functions and services are more likely to be successful and sustainable if they carry the affirmative endorsement of the membership.

The proposed bylaws incorporate not only the ability of Grid West to expand the scope of its services and roles, but also a requirement that the board consider certain “special issues” on a mandatory schedule. These two characteristics create both an expectation and a bias in favor of scope expansion. Much of the bylaw document is devoted to the mechanisms and decision process by which Grid West is allowed to self-evolve. We believe it would be a mistake to allow for significant self-evolution and expansion of scope without the need of the

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<sup>13</sup> As we noted in fn 4, above, consumers are only granted 1/5 of the voting power of the membership. Furthermore, looking at the allocation of voting power from a state perspective, there is no weighting by population or electricity load. Thus, the most populous states with the highest electricity loads and who provide the most electricity revenue have the same representation as those states with the least. As officials of the state with by far the greatest population and electricity expenditures, we are, naturally, quite concerned about being under-represented and are thus even more reluctant to surrender any state authority to a new entity or to FERC.

membership to endorse and regulators to approve modifications to the corporation's bylaws.

If a new transmission entity is to be formed, it is most likely to be effective, efficient, and workable, and it is most likely to achieve broad regional support, if its scope is clear—at the outset—and it cannot engender the controversy and intra-regional divisions that self-evolution would inevitably produce. If the need for changes in the scope of services arises, the endorsement of the membership can and should be sought to change the bylaws and appropriate regulatory approvals should be obtained to ensure accountability for any such change.

Regardless of how the membership may or may not inject regional influence in Grid West decisions, it bears repeating, however, that the membership of Grid West is not a government and does not possess the ultimate authority to hold Grid West accountable to serve the public interest. Regardless of the judgments of Grid West membership, or the “independence” of the decisions of the Grid West Board, the only real accountability is through the government regulators empowered to police Grid West's services and rates.<sup>14</sup>

Thank you for the opportunity to provide comments on this important matter. We will continue to pay close attention to the progress of any and all proposals to improve transmission grid operations in the Pacific Northwest to support an adequate and environmentally sound electricity supply for Washington's citizens.

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<sup>14</sup> This is why it is unlikely that the regulators with any authority over Grid West or any authority over the utilities who participate in Grid West could legally serve also as voting members of the Grid West Membership.

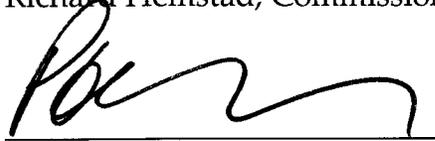
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION



Marilyn Showalter, Chairwoman



Richard Hemstad, Commissioner



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OFFICE OF THE ATTORNEY GENERAL OF WASHINGTON



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Public Counsel Section *per telephone authorization*

WASHINGTON STATE DEPARTMENT OF COMMUNITY, TRADE AND  
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Barbara Duro  
319 Minnesota Avenue  
Libby, Montana 59923

September 7, 2004

600-044  
SEP 10 2004

Steven Wright and Brian Silverstein  
Bonneville Power Administration  
P.O. Box 3621  
Portland, Oregon 97208-3621

Dear Mr Wright and Mr Silverstein:

These comments are relative to the  
Grid West development and operational  
Bylaws, however I want you to read  
them, then you may submit them.  
Thank you.

This Grid West constituency leadership  
is in conflict with the development of  
small scale site specific equity  
energy systems that do not require  
transmission.

If you pursue this leadership you  
are further obstructing solar/wind  
energy conversion and the solar/  
conservation program I have asked  
you to implement. If you continue  
to lead here I will be forced to go

2.

to court in the hope of stopping you.

Paul Norman is using this leadership to leave my business and the program I have suggested that clears the obstructions to the development of free enterprise in the energy business, or industry.

Insurgents are using the grid to force Capitalism and I suggest that you begin to dismantle the Western interconnection because it is being used to suppress free enterprise.

I suggest to you that you already have more than enough transmission capability and that you should de-emphasize this form of development in favor of transitions to small scale site specific equity solar/wind.

Randy Moy is leading for transitions and I think you should be working with him to bring that possibility into reality instead of cautioning his leadership with more of the wrong technology. He was working for you 10 years ago as government liaison for Bonneville. I suggest you

3.

Contract with him to make a pathway for Solar/Wind and for Solar/Conservation.

Paul Norman is, as usual, leaving my leadership and leaving Roy Grant's leadership and that only helps the enemys of freedom. I think you should help him out by asking him to go to the Mental Hospital. He seems to think that obstructing progress is a way to go.

Solar/Wind is the technology that will save us and our freedom, freeing us from the bondage of corruption. I have had a similar problem with the Forest Service and in house insurgents.

I went to court to stop the development of the Noranda mine and the Asarco Rock Creek mine. The Forest Service is grateful because they were being forced by communist witchcraft.

Maybe you would like to join my suit to stop the insurrection, you may be being forced and eclipsed also. I would welcome it, and then we could go on with Consti

4.

tutional leadership for free enterprise in the energy industry. The Court could support you with direction for minimizing Donnell's role in development and let the private sector have it. I suggest you contact Randy. He is good energy and is working with all seven marketing agencies and the Department of Energy to bring this option into reality.

I am going to be filing with the Court in the near future on the Constitutionality of the Federal Power Act.

Thank you for your attention in this critical matter of our personal sovereignty.

Sincerely,

Barbara Duto, President  
Solar/Wind Energy Conversion  
and Mental Seminars

# TransAlta

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GWB-045  
SEP 10 2004

August 26, 2004

Allen Burns  
Executive Vice President for Industry Restructuring  
Bonneville Power Administration  
Attn: Communications - DM-7  
P.O. Box 14428  
Portland, OR 97293-4428

VIA Fax: to 503-230-3285

Dear Mr. Burns

TransAlta Energy Marketing U.S., Inc. is a major independent supplier of energy in the Pacific Northwest region. Our Centralia and Big Hanaford plants together produce 1652 MWs of generating capacity. Since our purchase of the Centralia plant in May of 2000 we have worked to promote regional transmission solutions and to ensure an efficient energy market. To this end, TransAlta Energy Marketing U.S., Inc. supports Bonneville Power Administration's effort in the creation and implementation of the Grid West proposal.

We share Bonneville's belief that a regional entity with system-wide visibility can best address reliability concerns, transmission planning and efficient infrastructure development. Our operational experience leads us to believe that an independent, nonaffiliated transmission operator is necessary to best assure the:

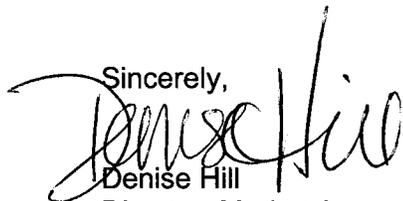
- addition of cost-effective generating resources
- creation of fair and equitable transaction rules, and
- expansion of the northwest transmission system at the least cost.

Thank you for the opportunity to comment on the bylaws developed and proposed by the Grid West. We are pleased with the efforts made to develop workable bylaws that encompass the concerns of the regional stakeholders. We remain concerned, however, about the limitations placed on the Independent Board in the proposed Developmental Bylaws.

Specifically, the intrusion of an unnecessary voting process will allow members to sabotage "good faith" efforts to establish Grid West as a truly independent entity. There are many fail-safe provisions already in place for members to participate in the review of Transmission Agreements without removing independence from the board by allowing members to control the board through this voting process. We are pleased to see that this voting process will not be continued into the Operational Bylaws.

We encourage Bonneville Power Administration to persevere in its efforts to promote Grid West and to bring to the region the non-discriminatory transmission access necessary for the creation of a long-term stable market.

Sincerely,

A handwritten signature in black ink, appearing to read "Denise Hill". The signature is written in a cursive style with a large initial "D" and "H".

Denise Hill

Director, Market Access and Trade Policy