



Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

EXECUTIVE OFFICE

August 4, 2005

In reply refer to: R-3

To: Our Customers and Interested Parties

Introduction

For the last decade, Northwest utilities have been considering ways to improve operation and management of the Northwest transmission system. Now, the region has developed two alternative strategies. One option, the Transmission Improvements Group (TIG) approach, would work primarily through multilateral contracts and, to the extent possible, through existing organizations. The other, the Grid West approach, would work through a new transmission entity.

In September, BPA will decide whether to provide additional funding to Grid West to seat a Grid West Developmental Board and further develop the proposal. Alternatively, BPA could support further development of the TIG alternative. Or the region could abandon any effort to coordinate regional transmission under a "one utility" vision, and each transmission owner, including BPA, would continue separate operations.

This letter briefly outlines the choices as BPA sees them today, invites you to comment before BPA makes a decision, and lays out questions to consider when commenting (Attachment 1). Since neither the TIG proposal nor Grid West design is a BPA product, we ask that you read the proposals of the respective organizations carefully before commenting. Links to these materials are provided later in this letter.

Background

Two years ago, the Grid West stakeholders forum, the Regional Representatives Group (RRG), began a multi-stage decision-making process for creating a new regional transmission entity. The process includes four decision points spread out over several years. The Grid West process will end if at any decision point the region decides not to continue with further development of the Grid West proposal.

Grid West moved past the first of these four decision points in December 2004 with the adoption of the Grid West Development Bylaws. The region decided to move forward to further develop the Grid West proposal, and is now at Decision Point 2.

The TIG developed a conceptual proposal about a year ago. Since the beginning of this year, the TIG has engaged in a public process to improve its proposal. Parts of the TIG proposal were presented at the RRG's May and June meetings.

What is the Decision to be Made?

Decision Point 2 under the Grid West process presents the question whether to seat a Developmental Board, shift toward an alternative developed by the TIG, or abandon both efforts and stay with the current approach where each transmission owner, including BPA, continues its separate operations. A decision to

support Grid West or TIG would be a decision to support further development of the chosen alternative, not a decision to implement the proposal.

If the Grid West Developmental Board were seated, it would: (1) further work to refine the Grid West proposal; (2) develop a tariff for the services it would provide; (3) negotiate a proposed transmission agreement with transmission owners; and (4) if Grid West members approve, initiate regional transmission planning activities with transmission owners that choose to participate. At Decision Point 3, Grid West would offer negotiated agreements to transmission owners for use of their transmission systems. Within a year of Decision Point 3, at Decision Point 4, the transmission owners would decide whether to execute the offered transmission agreements. If so, the members of Grid West would determine by majority vote whether to adopt the Grid West Operational Bylaws, seat a Grid West Operational Board and implement Basic Operations.

If a decision were made to implement the TIG proposal, BPA and other regional stakeholders would commit funds and staff resources to complete the TIG proposal over the next six to 12 months, and then decide whether to execute agreements to implement the TIG proposal.

If the region were to continue with the current approach of separate operations, individual utility activities, such as enhancement of BPA's ATC methodology, would proceed without parallel utility development. Stakeholders would continue to try to coordinate transmission planning through voluntary forums such as the Northwest Transmission Assessment Committee.

Applying the “One Utility” Vision to Transmission

A high level of utility cooperation has characterized Northwest power generation since 1964, when Northwest utilities began coordinating their water releases and thermal generation as if one utility owned and operated all of the region's generating resources. The Pacific Northwest Coordination Agreement (PNCA) has increased the combined firm power production from the Northwest's hydro-thermal system by hundreds of megawatts.

BPA believes now is the time to apply the “one utility” vision to transmission. Under the “one utility” vision, the Northwest transmission system would be operated and managed as though owned by one utility. To varying degrees, this could be implemented through contracts and existing organizations (the TIG approach) or through a new entity (the Grid West approach).

The benefits of doing so include:

- (i) More efficient and equitable system-wide “one utility” planning for grid expansion supported by a backstop authority that would support the implementation of projects important to reliable grid operation;
- (ii) Voluntary consolidation of control areas. This would enhance reliability over time because operators would have greater visibility of the consolidated grid and would improve the efficiency of providing required ancillary services;
- (iii) Better management of Available Transfer Capacity (ATC) through application of a common, flow-based methodology to support additional transactions without having to invest in additional facilities;

- (iv) Better management of congestion on the grid. This should achieve more economical voluntary redispatch of generation and less curtailment of transmission schedules;
- (v) Market monitoring to provide effective grid-wide detection of market abuse; and
- (vi) “One stop shopping” for transmission service to ease and simplify access to the multiple transmission systems and reduce the administrative costs of doing business on the grid.

What’s Happened Since Decision Point 1, December 2004?

Developing the TIG Proposal Since Decision Point 1

BPA has actively participated in the TIG effort to strengthen its proposal. BPA submitted a number of ideas to address certain issues including transmission planning and backstop authority, voluntary consolidation of control areas, and others. The strong desire of the TIG group to avoid additional FERC jurisdiction and to avoid creating a new entity governed by an independent board were also key drivers in the range of options TIG considered. BPA believes the TIG proposal is considerably stronger and more robust than the limited solutions the TIG group had put forward in July 2004.

A detailed description of the complete TIG proposal can be found at: <http://www.tig-nw.kristiwallis.com> A preliminary cost estimate is also included in the TIG proposal.

Refining the Grid West Proposal Since Decision Point 1

The Transmission Services Liaison Group (TSLG), a working subcommittee of the RRG, has published an overview of the technical papers generated by the TSLG. Grid West has published a comprehensive overview of the Grid West proposal as well as a “road map” to explain the proposal. These documents, as well as other pertinent information about the Grid West proposal, can be found at <http://www.gridwest.org/DP2Info.htm>

An RRG subcommittee has prepared a cost estimate and preliminary risk-reward study. A pricing subcommittee of the RRG has developed a pricing proposal that addresses recovery of existing transmission owner costs, reduces pancaked rates, and minimizes cost shifts.

To address certain concerns about FERC’s authority over non-jurisdictional participants and protection of the regional focus of the proposal from being modified by FERC to fit a national agenda without regard to regional interests, BPA, PacifiCorp, and Idaho Power Company requested FERC to issue a declaratory order on their concerns.

On July 1, 2005, FERC responded favorably on all issues, including an acknowledgement of FERC’s limited jurisdiction over non-jurisdictional and limited-jurisdictional participants as well as a determination that Grid West would not have to be an Order 2000 RTO. BPA believes this ruling provides significant reassurance that the major elements of the Grid West proposal, if implemented, would be respected by FERC. While this ruling cannot bind a future commission, BPA believes it sets a strong precedent that will be difficult for future commissions to set aside. Of significant interest is that FERC also recently cancelled its Standard Market Design proposal.

Grid West has retained Russell Reynolds Associates, an executive search firm, to find candidates to serve on the Developmental Board. A preliminary candidate list was announced at the July 27 RRG meeting.

Concurrent with Grid West development, BPA has entered into an agreement providing certain assurances to its General Transfer Agreement customers. In addition, contract lock, a proposal by BPA's customers to maintain certain features of BPA's current transmission service policy, is moving ahead, but progress has slowed because a number of difficult issues remain. BPA plans to provide a draft contract before the end of this comment period. Contract lock would only be available to BPA's transmission customers with open access transmission services if the Grid West proposal were implemented.

What are the Alternatives?

Some have suggested that the region continue discussing alternatives and delay picking a path. BPA believes further delay in picking a path is not a preferred outcome. The region has been discussing alternatives for ten years incurring substantial costs in the process. Continued delay will increase planning costs with limited value in terms of solving the region's real transmission issues.

BPA sees three basic alternatives for the region:

- Transmission owners continue separate operations
- The TIG proposal
- The Grid West proposal

Alternative 1. Each Transmission Owner, Including BPA, Continues Separate Operations

There is a perception among some that it is possible to deal with approaching transmission problems without making significant changes. We do not believe this to be true. Our industry is undergoing dramatic change that will continue with or without the region's participation. The region's transmission system is currently under significant stress from demands that are growing and are likely to continue to grow. Under this alternative, BPA would continue to evolve its policies to adapt to a changing industry and to changing conditions in the region.

To do this, BPA would likely continue to refine its flow-based ATC methodology. BPA would likely need to develop new transmission products such as conditional firm service. BPA's system would likely become more stressed as BPA sought to accommodate increasing requests for transmission, both to serve growing loads and new resources, such as wind.

Curtailment of schedules would remain the region's dominant method of managing congestion. This would force scheduling entities to switch to alternative, more costly sources of power to meet their obligations even when less expensive methods of making deliveries would be available through a redispatch market. The number of constrained cutplanes on BPA's system likely would increase as congestion worsens unless BPA invests significant amounts in transmission infrastructure. New methods to manage congestion such as zonal scheduling may be implemented.

There would be limited regional planning through the Transmission Assessment Committee. Each transmission owner would continue to develop its transmission plans driven primarily by its priorities, with less focus on those of the region. Expansions, if they are built, may not be built in the most efficient location because of the lack of an effective regional, one utility plan. There would be no corresponding

backstop authority for projects needed for reliability and no process to allocate costs of new projects among those transmission owners that benefit. Any joint efforts to plan and develop transmission projects would be subject to negotiation. Thus, each transmission owner could refuse to contribute to projects it opposes for whatever reason, even if that owner reaps the benefits.

Most transmission owners, including BPA, would likely continue to be “open access” providers, and would adopt changes to its standard tariff based on FERC direction.

It is unlikely that we would see consolidation of control areas and the reliability improvements that could result, although some pooling of regulating reserves through the Northwest Power Pool may be possible.

Because the problems facing the transmission grid today go beyond the borders of any one utility, the “Continue Separate Operations” alternative is not compelling and could result in the region becoming more fragmented and more out of step with national trends toward better coordination of grid operation.

Alternative 2. The Transmission Improvements Group Proposal

The TIG had produced a conceptual draft of its proposal by late 2004, but the effects and prospective benefits were at that stage unclear. In our December letter to the region, BPA noted that any proposal for moving forward must at least address the following:

- Effective “one utility” system-wide planning with an adequate backstop, so that important grid additions are implemented and costs assigned to those transmission owners that benefit;
- Effective regional market monitoring to detect market abuses;
- A common OASIS that provides real one-stop shopping using a common flow-based ATC methodology;
- Reliability enhancements through voluntary consolidation of some control areas, with an ancillary services market for those who want to participate in consolidation; and
- A flow-based method for managing congestion on a forward basis.

BPA challenged TIG “to determine how an alternative independent entity would be structured to capture these benefits while avoiding or minimizing FERC jurisdiction and actively engage a broader range of regional stakeholders in the process.” We also challenged TIG to develop an effective decision-making process independent of market participants.

The TIG proposal now includes regional transmission planning guided by an independent planning staff and overseen by a committee with representatives of transmission owners, transmission users, and independent representatives. TIG regional planning includes preparing a biennial transmission plan, management of studies for transmission and interconnection requests, and a defined process for a backstop authority to assure transmission needed for reliability gets built.

The TIG proposal includes a common OASIS, common provisions among the participating transmission owners' separate tariffs, a common flow-based ATC methodology, independent market monitoring, and

the potential to improve reliability through improvements to operational visibility, bulletin board markets for ancillary services and congestion management, and voluntary consolidation of reliability and balancing functions. The TIG proposal includes some governance features to help ensure effective decision-making that is not unduly influenced by market participants, but transmission owners remain the primary decision-makers.

Alternative 3. The Grid West Proposal

Grid West would create a regional transmission provider that would be a non-profit Washington corporation. Its board would be financially independent of market participants, but responsive to the region. Representatives of the corporation's members would elect and remove members of the Grid West Board of Trustees. The Grid West proposal envisions operating under Order 888; it would not be an Order 2000 RTO.

The Grid West proposal envisions an active and independent regional planning process that makes decisions in the best interests of the region rather than for individual transmission owners or market participants. Grid West would have backstop authority to contract to build transmission needed to maintain reliability and would allocate the costs of doing so to transmission owners that benefit. The proposal also includes "one-stop shopping" through a common OASIS for new, region-wide transmission-related services offered under a single Grid West tariff, a region-wide flow-based ATC methodology, market monitoring, and a voluntary reconfiguration service to allow transmission rights holders to sell their unused transmission rights through an auction run by Grid West.

In addition, the Grid West proposal anticipates voluntary consolidation of control areas. The consolidating entities would create a voluntary day-ahead operating reserves market (regulation, spinning, and non-spinning reserves) and a balancing energy market for the benefit of those that voluntarily consolidate. Congestion within the consolidated control area would be managed in real time using redispatch.

Prior to moving to the Operational Stage, the Grid West Developmental Board may engage in regional transmission planning activities if a majority of the members approve and a sufficient number of transmission owners agree to participate.

Comparison of Alternatives on Several Important Factors

Of these alternatives, only two hold the potential to capture the benefits of the "one utility" vision, the TIG proposal and the Grid West proposal. The third, the Continue Separate Operations alternative, would make efforts to capture the benefits of planning and operating the region's transmission system under the "one utility" vision more difficult.

In our December 2004 letter closing our the comment period on Decision Point 1, we noted that a number of concerns must be addressed successfully before BPA could sign a transmission agreement to join Grid West, or in the alternative join TIG. BPA makes the following observations about these alternatives based on several factors. A summary matrix to use for a quick comparison of alternatives on various factors is attached (Attachment 2).

Independent Decision-Making

For some time, BPA has stressed the importance of decision-making independent of market participants on many important issues. In our December 2004 close out letter, we noted:

[A]n independent entity is probably necessary to define the need for new transmission projects and allocate the costs, get the most ATC out of the system as possible, distribute it equitably, and improve reliability. In our view, purely voluntary organizations have a place, but alone have not proven to be sufficient to solve the region's very real transmission problems.

The Grid West proposal envisions creating a new entity independent of market participants. Regional stakeholders, through their representatives, elect and remove members of the Grid West board, participate in developing Grid West budgets, and participate in Grid West committees. Approving expanded functions are subject to a seven out of nine supermajority vote by the Grid West board to adopt policy over the objection of Grid West member representatives.

TIG incorporates features that provide for input from many regional interests, but decision-making in the TIG proposal for many functions remains with transmission owners that are also load serving utilities. TIG would employ an independent planning staff to develop the regional transmission plan and guide transmission and interconnection studies. A committee that includes stakeholders and independent members would approve the regional transmission plan. The market monitor would be independent and would send its reports to FERC and regional regulators. An objective flow-based ATC methodology will be developed and administered by staff independent of transmission owners and users. The reliability function would be independent.

Under the Continue Separate Operations alternative, BPA would act unilaterally.

Regional Planning Including Backstop Authority

The Grid West proposal envisions the Grid West Board being responsible for approving a regional transmission plan developed by a transmission committee. The proposal includes a backstop authority for reliability projects.

TIG proposes to develop a regional transmission plan. The TIG proposal creates a regional Transmission and Expansion Review Committee (TERC) with authority to adopt a regional plan and to recommend which utilities should fund and construct the facilities. An agreement signed by transmission owners would establish an alternative dispute resolution process to resolve disputes and specify transmission owners' obligations for plan implementation and identify enforcement procedures.

The Continue Separate Operations alternative entails each transmission owner doing its own planning—from its own perspective with some regional coordination through Northwest Power Pool committees and separate negotiations. There would probably be no central, regional transmission plan, and there would be no backstop to assure needed transmission gets built and the costs allocated to those transmission owners that benefit.

Reliability Through Consolidation of Control Areas

Grid West provides for voluntary consolidation of control areas with Grid West as the Control Area Operator. While each consolidating utility would be responsible for providing resources sufficient to meet its share of Interconnected Operating Services (IOS), Grid West would operate voluntary real time ancillary services, imbalance energy, and redispatch markets to facilitate efficient operation and dispatch of the consolidated control area among the consolidating transmission owners.

TIG also provides an option for utilities to voluntarily consolidate control areas but in a different fashion than Grid West. Utilities would keep their control area metering and electrical boundaries but turn over the reliability and balancing authority responsibilities to an independent contractor, similar to the arrangement with the Pacific Northwest Security Coordinator.

This contractor would not run real time ancillary service, imbalance energy, or redispatch markets. Rather, it would ensure that each of the consolidating utilities meets their IOS requirements and operates in a reliable manner and that the overall planned operation of the consolidating utilities meets reliability and balancing requirements. The contractor would have the authority to direct the utilities to modify operations if needed to meet reliability needs, but would not have direct operational control of consolidating utilities' systems. The proposal would allow all control area utilities to pool regulating reserves, probably through a Northwest Power Pool agreement similar to the operating reserve sharing agreement.

The Continue Separate Operations alternative would not provide for consolidation of control areas.

Congestion Management

The Grid West proposal includes a voluntary flow-based reconfiguration service under which unused transmission may be sold at auction to help relieve congestion on a forward basis. The Grid West proposal includes creating a voluntary real time redispatch market to manage congestion in real time within the consolidated control area.

The TIG proposal calls for creation of a voluntary, bulletin board based redispatch market that parties can utilize to meet load requirements if transmission service is curtailed.

The Continue Separate Operations alternative relies on curtailing schedules as the primary method of managing congestion. Redispatch by each transmission owner may be limited to its own resources for service to its native load and network tariff load. BPA may need to move to a more detailed scheduling methodology on the BPA grid to ensure reliability and a more efficient approach to curtailment.

None of the proposals envision creating a day-ahead energy or a day-ahead redispatch market.

FERC Jurisdiction

The Grid West Developmental Board would not be FERC jurisdictional or conduct activities subject to FERC jurisdiction. If the Grid West Basic Operations were implemented after Decision Point 4, several of the Operational Stage functions would be subject to FERC jurisdiction. The July 1 FERC ruling addressed a number of concerns regarding FERC jurisdiction over non-jurisdictional participants, including BPA, and over FERC's intentions with respect to Order 2000. Because regional stakeholders elect Grid West board members and have other powers under the Grid West bylaws, Grid West would be responsive to regional stakeholders. BPA will also include termination rights in its transmission agreement with Grid West.

The TIG proposal seeks to avoid additional FERC jurisdiction, although FERC jurisdictional entities joining the TIG effort may have to file TIG contracts to implement the proposal and any subsequent changes, and would continue to be subject to Order 888 changes.

The Continue Separate Operations alternative would not raise questions of FERC jurisdiction, although under the energy legislation that Congress just passed, FERC would have expanded authorities to regulate reliability for all participants, including BPA and publicly owned utilities.

Costs and Benefits

The Structure Group, a consulting firm retained by Grid West to estimate Grid West costs, estimated the start up costs of the Grid West proposal to be about \$124 million. It estimated Grid West annual operating costs to be about \$86 million, including the costs of financing start up.

If the roughly \$20 million in costs to support the Grid West Developmental Board in 2006 and 2007 were added to the startup costs and financed under similar assumptions as the Structure Group assumptions, BPA estimates that Grid West annual operating costs would increase by about \$3 million. BPA estimates the annual internal costs BPA and other utilities would incur in doing business in the Grid West environment to be roughly \$12 million, about half of which would be BPA costs. Combining these rough estimates with the Structure Group estimates, BPA estimates the total annual operating costs of Grid West, including utilities' internal costs, would be about \$101 million.

Based on its analysis of the benefit study prepared by the TSLG, BPA believes the quantifiable benefits of Grid West would be between \$106 million and \$181 million per year. Attachment 3 summarizes BPA's perspective on Grid West benefits.

These figures do not include Grid West's cost to repay the filing utilities for Grid West developmental costs to date, currently estimated to be about \$16 million. Grid West would recover these costs in its grid management charge when Grid West begins operations in 2008, if the Grid West proposal were implemented. They would add about \$2.5 million to the annual costs of Grid West depending on financing assumptions.

TIG costs are estimated to be between \$51 and \$61 million a year. BPA expects TIG benefits to exceed costs. BPA has asked TIG to produce an estimate of the benefits it expects from the TIG proposal by Decision Point 2.

The benefits of both the TIG and Grid West alternatives are higher if more entities participate. The benefits of both proposals are augmented by significant unquantified benefits associated with improved transmission planning, construction deferral, coordinated maintenance, and unmeasured reliability benefits.

Costs of the Continue Separate Operations alternative have not been estimated. They are part of the base line against which both TIG and Grid West are measured as incremental costs above and beyond these base costs.

Conclusion

The Northwest has made significant progress since Decision Point 1 in December 2004. The region has developed two viable alternative strategies that are consistent with a “one utility” vision for improving the management and operation of the region’s high voltage transmission system. While they differ in some important respects, they share many similarities.

There are serious problems with Northwest transmission that need to be addressed. BPA believes the region should adopt a regional strategy that captures the potential inherent in the “one utility” vision for transmission.

Implementation of either the TIG or Grid West proposals will be most effective if they have significant support from the region’s transmission owners and control area operators, transmission customers, and other key stakeholders. We hope the region will be able to reach greater alignment around a preferred approach as we move forward.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen J. Wright". The signature is written in a cursive, flowing style with some loops and flourishes.

Stephen J. Wright
Administrator & Chief Executive Officer

Attachment 1

Public Comment Period - Decision Point 2
Bonneville Power Administration
August 4 - September 9, 2005

1. What am I commenting on?

BPA is soliciting comments on how the region should proceed to manage and operate the region's high voltage transmission system. Should we proceed to seat a Developmental Board for Grid West, abandon Grid West in favor of the TIG alternative, or abandon the "one utility" vision for Northwest transmission altogether and adopt the Continue Separate Operations alternative?

In preparing your comments, we ask that you consider the following points. A number of comments we received on earlier proposals demonstrated a lack of understanding of the proposal. In some instances, people strongly criticized ideas that were not part of the proposal.

We are hoping to avoid these problems here by asking people to please take the time to carefully read the materials that describe each proposal.

Previous comments focused at a high level of generality. BPA has a good understanding of which stakeholders support which alternatives. In this round of comment, BPA is seeking to gain deeper insight into why people support the alternative they do.

We have developed a list of questions designed to provoke more insight into the alternatives and a better understanding of why people see the choices the way they do. The questions BPA would like you to consider are:

1. Do you agree with BPA's goal of applying the "one utility" vision to the region's transmission system?
2. Please describe how well you think each alternative achieves the six benefits described on pages 2-3 of this letter (planning and expansion, reliability, ATC, congestion management, market monitoring, and "one stop" stopping).
3. How well do you believe the Grid West and TIG proposals meet the goal of effective decision-making that is not unduly influenced by market participants?
4. If BPA supports the TIG proposal, are you committed to all of the elements of the TIG proposal? If not, which ones are troubling? And why?
5. If the TIG proposal were to be chosen, how likely would it be that the proposal would be successfully implemented?
6. If BPA supports Grid West, are you committed to all of the elements of the Grid West proposal? If not, which ones are troubling? And why?
7. If the Grid West proposal were to be chosen, how likely would it be that the proposal would be successfully implemented?
8. If you are a supporter of the TIG alternative, please explain why adopting the TIG alternative will be in the collective best interests of all of BPA's customers who depend on the Northwest transmission grid and of other stakeholders who have an interest in regional transmission issues.

9. If you are a supporter of the Grid West alternative, please explain why adopting the Grid West alternative will be in the collective best interests of all of BPA's customers who depend on the Northwest transmission grid and of other stakeholders who have an interest in regional transmission issues.
10. The RRG recently completed an examination of the benefits of the Grid West proposal. Do you have additional views on the benefits of the Grid West proposal that you have not already brought to our attention?
11. Do you have additional views on the estimated costs of the TIG and Grid West proposals.
12. What 2-3 improvements might you suggest for each alternative?
13. The Grid West and TIG alternatives seem to be quite similar. Please suggest how these alternatives may converge?
14. Where do you think the region will be in ten years under each alternative?

2. Where can I find a more complete description of the proposals?

BPA asks that you take some time, research both proposals on their respective web sites, and consider their comments in the light of their own needs and concerns and those articulated by BPA. The materials to use in these considerations are:

- 1) BPA materials (posted on BPA web site): <http://www.bpa.gov/corporate/business/restructuring/>
 - a. BPA letter on this Decision Point 2 comment period (Aug. 4, 2005)
 - b. Q&A
 - c. BPA preliminary regional cost-benefit analysis of Grid West
 - d. Keeping Current - WANTED: One-Utility Transmission for the Pacific Northwest
 - e. BPA letter on Grid West Decision Point #1 (Dec. 2004)
 - f. BPA Principles for RTO participation
- 2) Grid West materials (posted on Grid West web site) <http://www.gridwest.com/DP2Info.htm>
 - a. Grid West bylaws (adopted Dec. 2004)
 - b. Grid West preliminary benefit analysis
 - c. Grid West preliminary cost analysis
 - d. Transmission Services Liaison Group proposal on Grid West services.
 - e. Grid West Pricing Group proposal on Grid West pricing.
 - f. BPA/PAC/IPC request to FERC for a declaratory order and FERC's response.
- 3) TIG materials (posted on TIG web site) <http://www.tig-nw.kristiwallis.com/>
 - a. TIG proposal, including chapters on its proposed five services
 - b. TIG very preliminary cost analysis

3. How can I get my questions and concerns answered?

Should you have any questions about the process, or if you would like to meet with Allen Burns about these alternatives, please contact your Account Executive or Constituent Account Executive. Or you may contact Tara Exe, Project Coordinator at 503-230-4169.

4. When does the comment period open and close? When will a decision be made?

The comment period for Decision Point 2 opens August 4, 2005. Comments will be accepted through September 9, 2005.

BPA expects to announce its decision by September 30, 2005.

5. How do I submit comments?

The preferred way is to submit your comments on-line at: www.bpa.gov/comment.

You may also mail your comments to:

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

Or fax your comments to 503-230-3285

When sending in comments, please refer to the following project title:

Open Comment Period - Decision Point 2.

Attachment 2

QUICK COMPARISON OF ALTERNATIVES

Note: This Table is designed for a quick comparison of alternatives. By using a short-hand bullet summary of how each alternative deals with a particular function, details are lost. These details are important to a complete understanding of the proposals. A description of the TIG proposal can be found at: <http://www.tig-kristiwallis.com>. A description of the Grid West proposal can be found at: http://www.gridwest.org/Doc/IntegratedProposal_July222005.pdf

Function	Continue Separate Operations	TIG	Grid West
Independent Decision Making	Transmission decisions made by individual transmission owners	Independent decision-making in some areas, but much of the decision making is done by existing transmission owners	Creates non-profit corporation run by board members and employees that are independent of market participants; stakeholders elect and remove members of the Grid West Board
“One Utility” Transmission Vision	No, each transmission owner would continue operating separately according to its own interest	Yes, if it includes all the TIG features, including consolidating of reliability authority and balancing authority functions	Yes
Broad Regional Participation	Yes with respect to BPA’s system; no commitment to do so with respect to other transmission owners’ systems, although many utilities participate in NWPP and NTAC discussions with neighboring systems regarding upgrades	The multi-lateral contract structure of TIG functions allows for full participation of transmission owners with an advisory role for transmission customers; planning, common OASIS, and market monitoring allow for broader participation, and TIG is looking for other areas to increase stakeholder participation	Extensive stakeholder process; stakeholders elect and remove members of the Grid West Board, help prepare Grid West budget, etc
Geographic Scope	Each transmission owner is responsible for its own system	Potentially broad scope	Potentially broad scope

QUICK COMPARISON OF ALTERNATIVES

Note: This Table is designed for a quick comparison of alternatives. By using a short-hand bullet summary of how each alternative deals with a particular function, details are lost. These details are important to a complete understanding of the proposals. A description of the TIG proposal can be found at: <http://www.tig-kristiwallis.com>. A description of the Grid West proposal can be found at: http://www.gridwest.org/Doc/IntegratedProposal_July222005.pdf

Function	Continue Separate Operations	TIG	Grid West
Potential to Evolve to Respond to Changing Conditions	Yes, on a transmission owner by transmission owner basis	Potential to evolve exists, but changes are subject to unanimous approval by parties to the multi-lateral agreements	Potential to evolve subject to compliance with bylaws processes, including input from stakeholders and board approval
Regional Planning & Expansion	Planning and Expansion done transmission owner by owner based on its own interests; no central, “one utility plan;” NWPP provides opportunities for regional coordination	Yes, central regional transmission plan envisioned	Yes, central regional transmission plan envisioned
Backstop Authority to Assure Needed Facilities Get Built	No	Yes. Relies on contract obligation to implement needed transmission facilities for reliability and firm obligations	Yes. Allows Grid West to contract with a third party to construct needed transmission facilities for reliability and to protect existing TTC and allocate costs to those transmission owners that benefit
Flow Based ATC	BPA is moving to a flow-based ATC methodology	Empowers TIG contractor to apply a common, flow based methodology to determine ATC for each transmission owner that joins TIG	Empowers Grid West to apply a common, flow based methodology to determine ATC for each transmission owner that joins Grid West

QUICK COMPARISON OF ALTERNATIVES

Note: This Table is designed for a quick comparison of alternatives. By using a short-hand bullet summary of how each alternative deals with a particular function, details are lost. These details are important to a complete understanding of the proposals. A description of the TIG proposal can be found at: <http://www.tig-kristiwallis.com>. A description of the Grid West proposal can be found at: http://www.gridwest.org/Doc/IntegratedProposal_July222005.pdf

Function	Continue Separate Operations	TIG	Grid West
Reliability	Current practice is evolving to zonal scheduling; schedule curtailment and load shedding are primary tools to maintain reliability	Establishes incremental steps to improve regional visibility, reserve-sharing, congestion management (voluntary Bulletin Board to post available assets) and voluntary consolidation of Reliability Authority and Balancing Authority functions for existing control areas, but it is uncertain if there will be any consolidation of control areas	Grid West would become the operator of a consolidated control area likely to include at least Pac East, Pac West, Idaho Power Company, and BPA; CCA will create ability to detect and respond more quickly to a broader array of problems than Continue Separate Operations or TIG proposal
Congestion Management	Relies on schedule curtailment to manage congestion, which is likely to increase; limited ability to affect power flows; moving toward zonal scheduling	Relies on voluntary bulletin board of available assets and schedule curtailment to manage congestion, which is likely to increase	Creates forward reconfiguration service to release unused transmission rights; creates real time redispatch market for CCA participants to manage congestion in real time
Economic Efficiency	Bilateral markets remain the only method of achieving economic efficiency	Bilateral markets remain the primary method of achieving economic efficiency with new bulletin board markets for congestion management	Bilateral markets preserved; in addition, establishes voluntary real time ancillary services, imbalance energy, and redispatch markets that include the potential for economic dispatch

QUICK COMPARISON OF ALTERNATIVES

Note: This Table is designed for a quick comparison of alternatives. By using a short-hand bullet summary of how each alternative deals with a particular function, details are lost. These details are important to a complete understanding of the proposals. A description of the TIG proposal can be found at: <http://www.tig-kristiwallis.com>. A description of the Grid West proposal can be found at: http://www.gridwest.org/Doc/IntegratedProposal_July222005.pdf

Function	Continue Separate Operations	TIG	Grid West
“One Stop Shopping”	No	Yes	Yes
Market Monitoring Unit	No	Yes	Yes
Honor Existing Contracts	Yes	Yes	Yes
Voluntary Markets	Yes, bilateral markets remain voluntary	Yes, bilateral markets remain voluntary; some voluntary bulletin board markets will be established	Yes, bilateral markets are voluntary. The new markets for real time ancillary services, energy imbalance, and redispatch are voluntary; BPA may opt out of these markets to preserve ability to meet non-power obligations
Day Ahead Energy or Redispatch Market	No	No	No
Federal Control over Federal Generation and Transmission Preserved	Yes	Yes	Yes
Practical Exit Strategy	Not an Issue	Yes	Yes
FERC Jurisdiction	Transmission owners will continue to modify their Order 888 tariffs in response to FERC directives; new energy legislation gives FERC authority to regulate reliability, including BPA and other historically non-jurisdictional entities	Jurisdictional utilities will file the TIG contracts with FERC as necessary, but none of the TIG functions is intended to expand FERC jurisdiction or create a new FERC jurisdictional entity	Some of the Grid West functions will be subject to FERC jurisdiction under Order 888, not Order 2000; FERC influence controlled by (1) ability to remove Grid West board members who do not act in the region's best interests, and (2) ability of BPA to implement a practical exit strategy

QUICK COMPARISON OF ALTERNATIVES

Note: This Table is designed for a quick comparison of alternatives. By using a short-hand bullet summary of how each alternative deals with a particular function, details are lost. These details are important to a complete understanding of the proposals. A description of the TIG proposal can be found at: <http://www.tig-kristiwallis.com>. A description of the Grid West proposal can be found at: http://www.gridwest.org/Doc/IntegratedProposal_July222005.pdf

Function	Continue Separate Operations	TIG	Grid West
Costs	Base Line; costs likely to increase in response to changing market conditions	\$50 to \$60 million in annual operating costs	Structure Group estimates are about \$124 million in start up costs; annual operating expenses of about \$86 million, including the costs of financing start up. BPA estimates the total annual costs of Grid West would be about \$101 million once the costs of completing the Grid West proposal are included as well as BPA's rough estimate of the internal costs BPA and other utilities would incur in doing business in a Grid West environment. These figures do not include about \$16 million the filing utilities have incurred to date to develop Grid West. This would add about \$2 million annually to Grid West's costs to be recovered through its grid management charge
Benefits	Base Line	BPA has asked TIG to produce an estimate of the benefits of the TIG alternative before Decision Point 2	BPA's estimate of the annual benefits of Grid West is between \$106 and \$181 million.

Attachment 3

BPA Grid West Benefit Assessment for Decision Point 2
REGIONAL BENEFITS OF GRID WEST WITH 3 CONSOLIDATORS (PAC, BPA, IPC)

QUANTIFIED BENEFITS			\$ Million/year	
Item	Potential Benefit	Facilitating GW Policies	High	Low
1	Reliability: Cascading Outage Prevention	1. GW DA Scheduling 2. Planning 3. Outage Coordination 4. Consolidation of CA's 5. CCA Redispatch 6. CCA Reliability Authority	\$62	\$27
2	Increased Transmission capacity.	Reconfiguration Service & Single Scheduling Entity	\$15	\$9
3	Regulating Reserves	CCA regulating pool	\$8	\$5
4	RT Redispatch Efficiencies	CCA RT redispatch market	\$56	\$41
5	Contingency Reserves	CCA AS Market	\$30	\$20
6	De-pancaking	Reconfiguration Service	\$10	\$4
TOTAL			\$181	\$106
UNQUANTIFIED BENEFITS			Magnitude of Potential Benefit	
Item	Potential Benefit	Facilitating GW Policies		
7	Improved Transmission Planning (ability to get trx built in the most economical location)	One Utility Planning	Significant	
8	Long Term Gen. Siting Efficiencies	Reconfiguration auction, Redispatch mkt.	Significant over time	
9	Improved ability to monitor markets	Reconfiguration auction, Redispatch mkt.	Small	
10	Transmission Construction Deferral	Reconfiguration auction, Redispatch mkt.	Medium	
11	More efficiently coordinated maintenance	Coordinated trx. maintenance protocol	Medium	
12	More efficient load following	Redispatch market	Medium	
13	Other reliability benefits (avoidance of momentary outages, cost of spoilage, reduction of utility costs of recovery)	See reliability policies in quantitative table	Medium	
14	DSM Benefits - Accelerated deployment of conservation leading to construction deferral	RCS auctions, demand response to RBS	Small to medium	
15	Potential for up to 6 more CCA Participants		Significant	

Summary: BPA Grid West Benefit Assessment for Decision Point 2

Quantitative Estimate Method Description

Note: Analyses are described in detail in BPA's "Grid West Benefit Assessment for Decision Point 2"

Item 1: Reliability (Cascading Outages)

Benefits that could result from avoiding catastrophic outages were derived from the 2004 Gross Product for Grid West. Based upon US Census Bureau wage and earning data, it was assumed that 85% of total production occurs during weekdays and 15% on the weekends. The existence of Grid West was assumed to enable avoidance of one (1) catastrophic outage every 20 years or 1 catastrophic outage of 1 productive day every 15 years. An outage is assumed to result in 50% loss of a pro-rated daily GDP (the remaining 50% would be recovered or protected by back-up generation). The high estimate reflects results of 1 avoided weekday outage every 15 years, the low estimate reflects results of 1 avoided weekend outage every 20 years.

These estimates are supported by the work of Bill Mittelstadt, BPA transmission engineer and reliability expert who assisted in analyzing the causes of the East Coast outage. Mittelstadt reviewed NERC records of large disturbances in the WECC over the last 12 years and found that 45% of the causes of these outages would be mitigated by Grid West. See the BPA Grid West Benefit analysis for details.

Item 2: Increased Transmission Capacity

Benefits derive from increased access to existing transmission capacity as a result of more liquid and transparent transmission markets and as a result of GW's change to merge regional schedules through before-real-time single area scheduling. This estimates what the benefits would be if these features yield 3% or 5% more available flow capacity (AFC). Grid View was run to estimate the least cost dispatch to meet loads over 1 year in the Grid West footprint with different transmission availability numbers. The measured benefit derives from the less expensive generation dispatch that occurs when more transmission is available. The high estimate assumes a 5% improvement over the baseline, the low assumes a 3% improvement.

(Note: These figures were derated by 50% as compared with the RRG results, to account for the potential overlap between measurements of the benefits of increased transmission capacity and those accruing as a result of a real time balancing market).

Item 3: Regulation Reserves

These benefits accrue when regulating reserves are pooled and the magnitude of expected variation in load is reduced, resulting in a reduced need for regulating reserves. Studies were performed by TBL's Bart McManus in 2005 - he examined the actual variation in loads for BPA, PacifiCorp and Idaho Power over 3 years and 4 seasons. The benefits cited are based on a 60 minute rolling average deviation from average load. The high estimate values the resulting capacity savings, 109 MWs, at \$6 per kW month, the low was valued at \$4 per kW month (based on PBL trader estimates of the value of capacity).

Item 4: Real Time Redispatch Efficiencies

PowerWorld optimal power flow analyses were used to calculate potential production cost savings resulting from the CCA Real Time Balancing service. PowerWorld was run using generator data from SSG-WI and transmission, load, and unit commitment data from WECC operating cases. The model was used to simulate a base case where least cost real time dispatch would be achieved with each GW control area minimizing operating costs independently. The future allows Idaho Power Company, PacifiCorp, and BPA (the consolidators) to minimize real time control area costs amongst themselves without regard to scheduling constraints. The difference in production costs between the base and future case is the anticipated Grid West benefit. Benefits for 8 representative hours in a year were estimated (heavy load and light load hours for each of the 4 seasons) and multiplied up to represent a full year's savings. .

The sensitivity of the resulting dispatch efficiencies to the price of hydroelectric surplus sales (which are a function of the value of power in California into the storable future) was tested. Five different cases were run: \$20/MW-hour, \$30/MWh; \$40/MW-hour; \$50/MW-hour; and, \$65/MW-hour, as well as a run using Dow Jones average prices at mid C. Bonneville's low estimate of benefits is a summation of the lowest benefits for each season of the year. The high estimate is based upon the Dow Jones runs.

Item 5: Contingency Reserves (Spinning and Supplemental)

The NWPP already pools contingency reserves – but they do not meet those reserves on a *regional* least-cost basis (each control area meets its reduced reserve requirement on an internal least cost basis). Consolidating Control Areas will meet their reserve requirement through a reserves market that combines resources and allows for a more optimal commitment of generating units. This more optimal commitment translates into a more optimal dispatch of generation in real time.

Henwood Energy Services conducted a study of these benefits on behalf of Snohomish PUD in September of 2004. BPA's high estimate de-rates their results (\$73 million in benefits for the Grid West Region) by 44% as only 56% of Grid West load is assumed to participate in

the CCA. This estimate is de-rated again to reflect the fact that short term reserves trades occur to a small degree today. We assumed a 25% to reduction in our high estimate and a 50% in our low case.

Item 6: Pricing Pancakes

BPA's estimated benefits of eliminating price pancakes were derived from two different studies. The high estimate is based on the PacifiCorp's runs of its GridView model wherein they simulated an optimal security constrained dispatch in the Grid West region with and without wheeling rates. The PacifiCorp results were de-rated by 50% to reflect potential overlap with the Real Time Balancing service analysis. The previously mentioned Henwood study also looked at the effects pancaking under extremely conservative assumptions and found there to be about \$4 million in potential benefits – this figure comprises our low estimate.

