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September 9, 2005

Mr. Steven J. Wright
Administrator and Chief Executive Officer
Bonneville Power Administration
Attn: Communications – DM-7
P.O. Box 14428
Portland, OR 97293-4428

RE: Open Comment Period – Decision Point 2

Dear Mr. Wright:

We are writing in reply to your request for comments on how the region should proceed to manage and operate the region's high voltage transmission system. Our region has worked diligently, and at times has significantly struggled, over the past nine years in attempting to address how we ought to move forward in addressing a number of issues and opportunities to gain efficiencies in the transmission arena. The time has come for our region to move forward. With Bonneville's position as the major transmission provider in the region it is imperative that any approach to manage the region's high voltage transmission system have Bonneville's fully committed participation. We acknowledge that the decision you make will for the most part determine the direction in which the region heads. Accordingly, we offer our perspectives for your consideration. In addition to our primary comments offered here, we are also including responses to a number of the specific questions that you requested respondents to consider; Avista Corporation's ("Avista") responses to those questions are attached.

Regional stakeholders have worked diligently and have developed two viable, workable approaches to managing the regional transmission grid. We believe that the region needs to choose one of these options and commit to work it through to conclusion. Doing nothing, at this point, is not an acceptable option. Further delay in deciding is also problematic, in that the region has already worked on this issue for over ten years without choosing a path. Both the TIG and the work group proposals to Grid West are workable and would provide value to the region if achieved. For either approach to be viable and successful, Bonneville must be a committed participant.

In whichever approach Bonneville determines it will move forward, Grid West or TIG, Avista is willing to be a participant and intends to fund either proposal in the developmental stage. Avista will not, however, agree to fund competing processes. Avista has always supported a staged and incremental approach to changes in operation of the transmission system. Indeed, the primary reason Avista supported TIG was to develop individual near-term opportunities and proposals which could be achieved while the formal Grid West offer was being developed, and then

incorporated as necessary into Grid West. Grid West instead chose, over Avista's objection, to encompass the same near-term TIG objectives into its proposal, causing the Grid West and TIG proposals to become competing alternatives instead of two parallel processes that, pending the outcome of Decision Point #4, would have seen either the TIG initiatives rolled under the Grid West umbrella or continue on in a coordination contract approach in the event Grid West did not become operational.

At this point, with the Grid West and TIG proposals in conflict and competition with one another, Avista believes that it is absolutely necessary for Bonneville to choose a path and stick with that choice. If the path is Grid West, it is important to Avista that the near-term activities that had been under consideration at TIG, such as planning, actually be developed and implemented, and that a means of securing those activities to preserve the benefits be in place in the event that the overall Grid West offer is not accepted by the requisite number of transmission owners. Thus, a member vote by Grid West to not engage in planning activities in the near term during the Development Stage would reduce the benefits Avista sees in Grid West by delaying a change in the planning process to make it more efficient and usable by the region. An inability to design an alternative home for these planning activities, if the Grid West offer is not accepted and Grid West is transferred back into a non-member organization, would have a similar impact.

The regional stakeholders in both the Grid West forum and the TIG forum have developed excellent work products within their respective governance structures. Avista believes that the prevailing approach should gather the best and most successful work from both alternatives.

Again, Avista believes that both the Grid West and TIG approaches represent viable, workable structures for our region, so long as there is "critical mass" participating, and will provide value to the region. Consequently, for either approach to be successful, Bonneville must be a committed participant. Avista pledges its support in the continuation of the process during the next stage of development, including the funding of further development activities, regardless of whether Bonneville chooses TIG or Grid West. We appreciate the opportunity to submit these comments.

Respectfully,

AVISTA CORPORATION

/s/ Randall O. Cloward

Randall O. Cloward
Director, Transmission Operations

/s/ J. A. Schlect

Jeff Schlect
Manager, Transmission Services

Attachment

Response of Avista Corporation to Questions Posed by BPA

1. Do you agree with BPA's goal of applying the "one utility" vision to the region's transmission system?

Yes. We agree that, wherever possible, consistent with statutory and fiduciary obligations, the region's transmission owners should endeavor to plan the region's high voltage transmission system using a "one utility" planning concept. To the extent justifiable, utilities should coordinate or combine certain transmission administration and operations functions. Avista agrees with Bonneville that the "one utility" vision for transmission does not specifically require single system operation under a new entity.

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" shopping).

Avista believes that either proposal could achieve benefits in the six areas sufficiently to constitute the alternative as viable and better than the status quo. In that regard, however, Avista does not believe that the risk and reward analysis of either proposal should contain a quantified estimate of benefits of improved reliability based upon an analysis of increased likelihood of avoiding a cascading outage. To the extent that projected improvements to reliability are based upon giving operations staff better "tools" with which to manage the system, these tools can be incorporated into either proposal, or even as an upgrade of our existing systems. To the extent that the analysis depends upon an assumption that better planning will result in increased transmission construction, Avista believes the analysis confuses transmission adequacy with reliable operation of whatever level of transmission capacity is available.

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?

Avista believes that the Grid West governance model has the widest regional support for delivering "independent" decision-making. Some parties, however, view the independence from local governmental and state regulatory commission control as a deficiency in the Grid West proposal, and not a benefit. The Federal Energy Regulatory Commission ("FERC") has recently indicated its approval and acceptance of the Grid West governance model. Other parties have questioned whether the entire form of non-profit corporation ISO-type governance under FERC regulatory jurisdiction is a viable and *cost effective* governmental model, and whether it provides the type of accountability needed for good government. While the Grid West approach provides true "independence" in its governance structure, the TIG approach provides for "separate" staff to produce decisions that are not unduly influenced by market participants or transmission providers. Avista recognizes the ability for both the TIG and Grid West approaches to meet the goal of attaining effective decision-making without undue influence 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?

Avista is committed to all of the elements of the TIG proposal, with the caveat that, as with any such functionality incorporated with Grid West, Avista has not yet investigated whether consolidation of control areas would be a benefit to its customers. Consequently, if the TIG proposal is the path that Bonneville chooses, Avista would evaluate the RABA proposal on its merits when it is complete and therefore expresses no preference here for or against control area consolidation.

5. If the TIG proposal were to be chosen, how likely would it be that the proposal would be successfully implemented.

Attempting to implement the TIG proposal without the participation of PacifiCorp and Idaho Power Company, each of which has publicly expressed opposition to the proposal and an indication of disinterest in supporting it, would be difficult and less desirable than proceeding with the entire region's support. This question can't really be answered, unless it is assumed that all major transmission owners would participate. In that latter case, Avista believes that it is highly likely that the proposal could, and would, be successfully implemented, assuming that the region can avoid the negotiating failures that defeated the IndeGO and RTO West proposals.

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?

At this point, Grid West does not have a proposal. The purpose of seating an independent Board is to have an independent body attempt to make a complete proposal that can be evaluated for acceptance by the region and its transmission owners. There are, however, the products of the Grid West work groups that constitute "one workable path" which Bonneville required be demonstrated before it would make the decision required at Decision Point #2. As to the elements of the work group proposals to the Grid West independent Board, and subject to seeing the method by which these proposals are incorporated into a final Transmission Agreement and associated tariffs of Transmission Owners and Grid West, Avista is committed to all of the elements contained in the present proposal, with the exception that Avista has not yet made a determination that consolidation of its control area would benefit its customers. Avista notes, however, that some of the issues concerning which have been most difficult to reach consensus, such as use and control of distribution facilities and scope of the Grid West tariff, are not addressed in the work group proposals, but were left for the independent Grid West developmental Board.

7. If the Grid West proposal were to be chosen, how likely would it be that the proposal would be successfully implemented?

As with TIG, the greatest challenge will be to get past the negotiation of the key underlying contracts and the significant issues that have made the transmission proposals to date incapable of starting on implementation. If the contracts can be worked out, however, Avista believes that it is highly likely that the work group proposals can be implemented. Again, Avista expresses no opinion concerning control area consolidation or the interface between consolidated and non-consolidated control areas. As an example of a key issue, Bonneville will no doubt

require termination provisions in its Transmission Agreement. The fairness to Grid West of those termination provisions, and the ability of the remaining Transmission Owners to have either a viable continuing Grid West organization or a controlled and workable winding down process is a key consideration. There are differences between the RTO West proposal and the Grid West work group proposals to Grid West that give rise to additional considerations about the termination terms that are necessary between Bonneville and Grid West in order for Grid West to have independence from Bonneville, and a viable path to follow if Bonneville terminates its participation.

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.

Avista has supported the development of both Grid West and the TIG alternative proposal, and has done so in the interest of trying to have the region come together on a single path towards improvement of the planning and operation of the region's high voltage transmission system. Either approach can achieve their respective intended benefits, subject to having sufficient regional support and successfully negotiating the key implementing contracts. While, Avista cannot speak for other stakeholders or to what they see as being in their best interests, Avista submits that it is clear that a "do nothing" or status quo alternative is not acceptable at this point and not in the collective best interest of the region's customers.

9. If you are a supporter of the Grid West alternative, please explain why adopting the Grid West alternative will be in the best interests of all of BPA's customers who depend on the Northwest transmission grid and of the other stakeholders who have an interest in regional transmission issues.

Avista provides the same answer as the answer to Question 8.

10. The RRG recently completed an examination of the benefits of the Grid West proposals. Do you have additional views on the benefits of the Grid West proposal that you have not already brought to our attention?

No, none other than the use of a quantified benefit associated with avoiding a cascading transmission outage referenced in Avista's response to Question 2.

11. Do you have additional views on the estimated costs of the TIG and Grid West proposals?

(No response).

12. What 2-3 improvements might you suggest for each alternative?

(No response).

13. The Grid West and TIG alternatives seem to be quite similar. Please suggest how these alternatives may converge?

Avista sees the principal difference between the proposals as being the method of governance and, in the Grid West proposal, combining the work under one entity that will be a FERC jurisdictional public utility if the tariff that is offered involves the sale of transmission services in interstate commerce. While there are a number of technical areas where the alternatives are indeed quite similar, any true convergence approach must address governance issues.

Initially, Avista understood that the two alternatives might proceed on parallel paths, with near-term activities (such as regional transmission planning and implementation of a single regional OASIS) being undertaken in the TIG process while final development of the implementing agreements for an operational stage of an independent entity, pursuant to negotiations with the independent Grid West developmental board, were undertaken in the Grid West process. Upon an affirmative result at Decision Point #4 for Grid West, the near-term activities undertaken in the TIG process would/could be folded under the umbrella of the Grid West structure. Should Decision Point #4 result in Grid West not attaining operational status, the near-term activities implemented in the TIG process would continue to provide benefit to the region and the TIG approach would be expanded to incorporate other functions as appropriate.

Instead, Grid West chose, over Avista's objection, to encompass the same near-term TIG objectives into its proposal, causing the Grid West and TIG proposals to become competing alternatives instead of two parallel processes. At this point, should there be any "convergence" of these proposals where both processes remain active, it must be clear to the Grid West developmental board, TIG process facilitators and all stakeholders in both processes that the two processes shall not be in competition and conflict with one another. It would be imperative that stakeholders embrace the implementation of near-term activities under the TIG umbrella, or, as proffered by Avista months ago, the implementation of near-term activities under a corporation separate from Grid West managed by the same independent board. Having had experience with implementing certain functions under the TIG process, stakeholders would be better informed going into Decision Point #4. Absent this coordinated approach between the two processes, they will remain in competition and conflict with one another and Avista cannot support proceeding with, and funding, both processes.

14. Where do you think the region will be in ten years under each alternative?

Avista believes that both proposals are viable, and would offer net benefits to customers. Each proposal has its own set of risks and benefits, mostly associated with the difference in governance and scope of regional participation. Fundamentally, however, the differences in those risks and benefits to Avista's customers are not so large as to weigh in favor of one proposal to the exclusion of the other. A far more important element of success of either is the ability of the region to choose one, and get past the troublesome contract issues that have plagued past attempts.