



The Cooperative Way!

# BENTON RURAL ELECTRIC ASSOCIATION

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September 9, 2005

Steven Wright, Administrator  
Bonneville Power Administration  
P.O. Box 3621  
Portland, OR 97208-3621

Dear Administrator:

Subject: Benton REA comments regarding Grid West-TIG

We appreciate the opportunity to provide comments in response to BPA's August 4, 2005 request for comments on the agency's decision of whether to pursue further development of Grid West, or alternatively the Transmission Improvement Group approach (TIG).

First Benton REA is not convinced that the problems, or anticipated problems, on the transmission system warrant such a dramatic change to historical construction and operation of the Northwest transmission system. We are NOT convinced by BPA that grid operations require a new approach!

While we agree with the Northwest Requirements Utilities (NRU) that the following issues are of great concern, we do not agree with their assumption that these problems will be resolved in either a Grid West or TIG setting.

- 1) GTA Service and delivery of non-federal power
- 2) Poor quality service over low voltage facilities
- 3) Paying pancaked transmission rates
- 4) Identifying responsibility for construction of new transmission

Benton REA believes that, overall, the existing transmission system structure and operation is adequate, and efficiently operated. We do not share the concerns of others regarding the efficiency or operation of the existing system. Optimizing the transmission system may provide some additional transmission capacity; however, pushed too far the transmission system will begin to operate at its limits making it vulnerable to small disturbances. When the optimization of the transmission system goes too far, we will begin to see major outages like those in the Midwest and on the East coast. The tighter we tie the transmission system together for operational purposes, and the more we optimize the system to glean additional capacity, the more vulnerable the system becomes, and the more significant the outages will be when there is a problem.

While we do not disagree that “BPA has become the transmission construction entity of last resort for the region” the real issue is who ends up paying for the cost of alternative solutions proposed in Grid West or TIG. As it now stands, in either the Grid West or the TIG proposal, it appears that these costs will be born by BPA’s transmission customers, who in fact are currently paying for the cost of facilities that are constructed by BPA anyway. However today it is done without another layer of bureaucracy or the financial burden of additional overhead envisioned with Grid West. It should also be recognized that the Northwest has constructed more transmission in the last couple of years than most regions that are now operating under a Regional Transmission Organization (RTO). So transmission facilities are getting constructed!

We concur with the importance of the NRU “must haves” identified below, however, again would argue that few, if any, of these have actually been addressed or resolved in either the Grid West or TIG process:

- |    |   |              |
|----|---|--------------|
| 1) | Effective contract lock                 | Not achieved |
| 2) | Preserving existing transmission rights | Not achieved |
| 3) | Preserving regional flexibility         | Not achieved |
| 4) | Avoiding cost shifts                    | Not achieved |
| 5) | Eliminating pancaked rates              | Not achieved |
| 6) | Providing net financial benefits        | Not achieved |

The formation of any kind of governing board under either the Grid West or TIG process causes us great concern. If we simply look at where such regional boards have taken us in the past, it is questionable that we want to create another. A perfect case in point is the Regional Power Planning Council. This “board”, which was to have only oversight responsibility regarding the BPA fish wildlife and conservation programs, now drives a process that costs regional ratepayers over \$700 million per year. The fact that such boards are not directly accountable to the ratepayers of the region will lead to poor decision making and unwarranted cost escalations.

We all should be gravely concerned about creating some “board” that will ultimately fall prey to outside interests and all “stakeholders” in the region. We should not be lulled into believing that such a board can exist without political influence now or in the future. In addition, we need to be aware that even if all of the transmission dependent utilities agree on who should serve and represent their interests on the board, they will only represent 20% of the board. This certainly does not suggest that transmission dependent utilities can feel secure in the outcome of board decisions!

While we would like to believe that BPA would exercise its right to withdraw from Grid West if FERC oversight becomes a problem, there is absolutely no assurance that such action by BPA would be taken. Even if the situation gravely affected BPA customers, we have no ability to force BPA to withdraw. The decision is at the discretion of the BPA Administrator, and not subject to any oversight of meaningful value to protect individual BPA customers.

We are apprehensive that the up front costs of Grid West will never be economical, and are doubtful that the benefits of Grid West will outweigh the costs. We are still perplexed as to how the region can blend the costs of BPA's current transmission system, which are among the lowest in the region, with the higher cost transmission systems under a new entity that itself will impose additional overhead costs and expect that current BPA transmission customers will see any financial benefit. Someone will have to explain this "new math" to us.

In summary, we do not believe that extracting the last MW of capacity from the transmission system in the name of efficient operation is necessarily a good thing. From experience, we know that if we operate a system to its maximum performance several issues will develop:

- 1) The system has no room to absorb transient situations. Therefore the system is much more vulnerable to significant disruption from occurrences that historically have not been a problem.
- 2) Without exception, unexpected situations will occur, either operational, such as loss of a major component, or a strong weather front driving unexpected system demands. As we "fine tune" the system and utilize the capacity "more efficiently", we reduce or eliminate the systems ability to "absorb" these situations without major system interruption.

We also believe that it is naive to suggest that by making the regional transmission system more integrated, interconnected, and interdependent it will inherently be more reliable. We firmly believe that the opposite is true. A perfect analogy would be to tie all of the utility managers together with a rope, and throw some of them over a cliff. The managers represent independent transmission systems, the rope represents the Grid West or TIG, and the cliff represents a major transmission interruption. With a completely integrated system (all tied together with a rope) when one system fails (goes over the cliff) all of the other systems (managers) are involved, and are effectively pulled over the cliff tied together.

In addition, the fact that Grid West, and to a lesser extent TIG, will have Combined Control Area (CCA) reserves, CCA Energy Balancing, and CCA control error, will reduce the ability of the transmission system to absorb problems, and, in effect, will all work to reduce the collective strength of the transmission system.

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We realize that arguments will be made that we are smarter, we have new technology, new communications, better electronics, but the fact remains, and previous experience reflects, that under these circumstances huge areas will be interrupted like we have seen in the mid west and on the east coast over the past few years.

Given these issues, concerns, and lack of answers to many questions, Benton REA urges BPA to hold off decisions on reliability until we know the reliability requirements of the Energy Policy Act that is scheduled to be released 180 days of enactment of the Energy Policy Act.

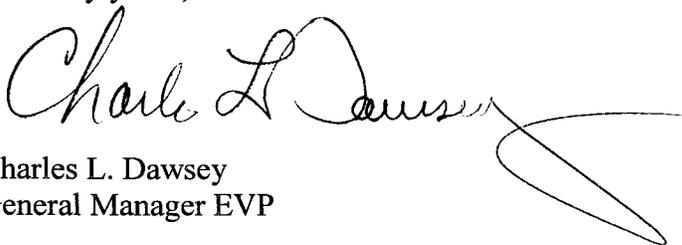
The existing transmission system, which has served the region well for so many years, was constructed without a regional entity such as Grid West or TIG. We can create an environment where we address transmission needs in the future without the added cost and bureaucracy which will undoubtedly accompany a Grid West or TIG organization. Let's consider approaching transmission facilities from an investment standpoint, and look at providing security with acceptable rates of return to the investing parties.

The region began this RTO effort trying to find solutions:

- 1) To pancaked rates
- 2) To non-federal delivery over GTA's
- 3) To protect existing transmission rights
- 4) To avoid cost shifts
- 5) To identify when and who should build new facilities

However, while solutions to these original concerns have escaped us, and remain unresolved, we have managed to create a great number of other issues or problems to try to fix. Once again in our typical Northwest fashion, we have failed in our effort to solve the apparent or immediate problems, but managed to create new problems so complex that we are not smart enough to find answers.

Sincerely yours,



Charles L. Dawsey  
General Manager EVP

Copies Sent to: Ed Brost, BPA  
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NW Power Planning & Conservation Council Members  
Washington Congressional Delegation