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Mr Stephen J. Wright
Administrator
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,

These comments are submitted by British Columbia Transmission Corporation ("BCTC"). BCTC welcomes this opportunity to provide its views on the Grid West and Transmission Improvements Group ("TIG") proposals.

There is important context to our comments. BCTC and BPA have a special relationship as a result of the high-voltage physical interconnection at the US/Canada border. This direct interconnection provides us with unique opportunities to improve system reliability and to secure additional economic efficiencies for the Pacific Northwest region by enabling more cost-effective commercial transactions.

BCTC believes that BPA should support Grid West through Decision Point 2 so that the widely acknowledged challenges to the region's transmission systems may be addressed without further delay. BCTC does not believe that the TIG proposal is a viable alternative to the Grid West proposal, primarily because it lacks a central, independent entity to make decisions and implement solutions in an independent, efficient, and accountable manner. We have answered the questions posed in your August 4, 2005 Request for Comments below.

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

Yes. The interdependence of the region's interconnected transmission systems leads logically to the conclusion that reliability, operations, and expansion decisions could be improved by applying a "one utility" vision. Clearly, the western interconnection as a whole – and the systems of which it is composed – needs continual evaluation and improvement. BCTC believes that this is best accomplished through a "one utility" vision.

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).*

BCTC does not believe that TIG constitutes a viable alternative to the Grid West proposal. BCTC believes that the TIG proposal is fatally flawed and offers the region little more than the status quo.

The Grid West proposal has been developed over a ten-year period with attention to achieving the six benefits listed. It approaches this challenge through a governance structure that carefully balances independence and regional accountability.

It is important to note that the Federal Energy Regulatory Commission has approved the Grid West governance structureⁱ and the region has supported the regional accountability that Grid West has created through the adoption of Developmental and Operational bylaws. Grid West's essential feature is a central independent entity given the task of implementing regional improvements. BCTC believes that the absence of this feature in the TIG proposal renders its design unworkable. This is the single difference between the two proposals that is fundamental and, from BCTC's perspective, cannot be compromised.

BCTC believes that a central operator, as contemplated by the Grid West proposal, will improve the efficiency of the region's transmission system, enable greater utilization of transmission capacity, and improve congestion management. A central operator will also enhance reliability and security by having greater visibility of the regional transmission system. The importance and value of a central operator has been recognized regionally by the Pacific Northwest Security Coordinator and internationally by the US-Canada Power System Outage Task Force.ⁱⁱ

BCTC also believes that a central, independent entity is necessary to ensure that transmission expansion in the region occurs in a systematic, logical, fair, and efficient manner. In contrast, BCTC does not accept that the TIG model can generate fair and efficient system operations and planning, since decisions will be taken by parties with particular economic interests. Simply put, the TIG committee structure is not a mechanism where cost allocation or other zero-sum decisions can be resolved, since it is naïve to expect parties in these circumstances to act against their own economic

ⁱ 112 FERC (July 1, 2005)

ⁱⁱ Final Report on the August 14, 2003 Blackout in the United States and Canada, "Causes and Recommendations", April 2004.

interests. In fact, if system improvements could be negotiated by economically interested parties, we would have seen such developments already; the problems, after all, have been evident for years.

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?*

BCTC believes that the goal of effective decision-making without undue influence of market participants requires the creation of a central independent entity. Consequently, BCTC believes that only the Grid West proposal meets that goal. Grid West will provide an independent perspective in the development of operational design, pricing, establishment of voluntary markets, system planning and expansion decisions, and market monitoring.

In contrast, TIG will not create a central, independent, and accountable entity to undertake the functions that are necessary to address and remedy current and future transmission challenges. This structural failure alone is fatal to the TIG proposal. The absence of a central independent entity makes the “one-utility” approach impossible. Acceptance of the TIG proposal would simply relegate the region to the continuation of the current fragmented approach to transmission operations and planning.

The TIG proposal will result in neither effective nor independent decision making. It calls for a combination of coordination agreements among transmission owners, the expansion of existing institutions, and the establishment of a number of committees. Under the TIG proposal, transmission owners and certain market participants will continue to control system decisions. BCTC’s concern regarding the lack of a central independent entity is exacerbated by the observation that many of the TIG proponents have not undertaken functional separation, let alone provide for independent decision-making between transmission businesses and other market functions.

The TIG governance structure does not create the one-utility entity that the region needs. The use of the proposed contractual arrangements as a governance structure means that, for TIG, there is no central authority, no accountability, and no control. The TIG approach does not have an entity taking responsibility for the decisions and results that will occur. This means that there is no entity to address concerns, issues and disputes. TIG proposes to rely upon multilateral contractual arrangements for a number of functions that should be centrally administered and operated independently.

The concern about the TIG approach is highlighted when one considers the responsibilities that the region is asking to be resolved, and when one considers why an independent entity is needed to accomplish the task effectively:

- a. A region-wide determination of available transmission capability (or available flow capability) through the establishment of a common, flow-based methodology. This function needs an independent entity that will propose or devise common or standard capacity margin assumptions, agreed-upon generation profiles, and transmission outage plans.

- b. A regionally-endorsed transmission system planning and expansion process. This function needs an independent entity in order to devise a non-discriminatory approach to identifying solutions, calculating benefits, and allocating costs, since parties will not voluntarily compromise their economic interests.
- c. The development of common data systems, regionally-supported modeling, and analysis that will be used to enhance reliability and security functions of the region's transmission systems. This function must be administered and operated by an independent entity because dispatch instructions for generation and load reduction as well as schedule curtailments involve economic choices and have material economic implications. These choices must be taken in a non-discriminatory manner, and this means they must not be influenced by the economic interests of market participants.
- d. The establishment of bulletin board markets to enhance the efficiency of ancillary service markets and manage congestion. This function must be administered by an independent entity in order to ensure protection of proprietary information and market participants' market knowledge and perceptions.
- e. The voluntary consolidation of control areas, the establishment of a Reliability Authority and Balancing Authority. This needs to be administered and operated by an independent entity to ensure that market participants cannot influence decisions made by the control area operator, such as directing Automatic Generation Control and arming Remedial Action Schemes.
- f. The establishment of a common Open Access Same-time Information System which will have to be administered and operated by an independent entity. This is essential to ensure that the posting of capacity, as well as the reservations procedures, selling, purchasing, and awarding rights to transmission capability is done in a non-discriminatory manner.
- g. The establishment, administration, and operation of an effective and independent market monitor. This is a function that must be undertaken independent from market participants.

BCTC does not believe that the policies and rules for these functions can be successfully established by a collection of transmission owners and other market participants with a stake in the outcome. Moreover, we do not believe that it is likely that a collection of transmission owners could manage to implement them.

In considering these issues, it is essential to think precisely about the difference between the ideas of "separate" and "independent". BCTC does not doubt that the TIG proponents could contract a separate party to undertake any or all of the functions listed above. But this should not be mistaken for independence. A contracted party is anything but independent of its employers, and one should fully expect its behaviour to reflect the wishes of all – or a subset – of those to whom it reports.

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?*

Due to the lack of an independent governance structure, TIG is little different than the status quo. BCTC is not prepared to support the development of the TIG proposal.

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

BCTC does not believe that the TIG proposal could be successfully implemented on a broad regional basis. TIG requires the development of a complex set of agreements amongst transmission owners. BCTC notes that some efforts aimed at addressing reliability concerns in the region via contractual arrangements has been unsuccessful. For example, a number of the TIG parties rejected the voluntary effort to make the Western Electricity Coordination Council reliability standards mandatory through contracts using an existing regional organization. If the region cannot coalesce around the universally held goal of improved reliability, BCTC sees little prospect for voluntary agreement where the parties' economic interests are at stake.

Furthermore, because TIG is not a central operator, BCTC believes that it cannot implement a one-utility vision. Instead, it leaves the currently balkanized system in place. The expectation that transmission owners – with over twenty generating and transmitting utilities using a regional transmission system managed by seventeen different control areas – will consolidate control areas when there is no assurance of truly independent operation, and no expectation of meaningful commercial benefits, is unrealistic. The region will not be able to enhance reliability, efficiency, and ensure necessary investment in transmission infrastructure relying upon the contractual arrangements proposed by TIG.

Finally, TIG's primary objective of avoiding any increase in FERC jurisdiction or oversight means that adoption of the TIG approach precludes the region from implementing optimal solutions. By way of example, TIG cannot put a transmission reconfiguration auction in place.ⁱⁱⁱ Such an auction relies on having an independent

ⁱⁱⁱ The Reconfiguration Service (RCS) proposed by Grid West is a transmission capacity market – the distinguishing feature of which is that it allows the market operator to make capacity available to customers for transmission between points on the system for which there may be no directly corresponding offers to release rights.

- This service goes beyond one-on-one matching of offers to buy and sell. Additional capacity sales result from optimizing the use of flows made available by transmission customers releasing firm rights and scheduling flexibilities to meet the highest value needs of all transmission customers.
- By reconfiguring the system more capacity will be made available than can be under a bulletin board approach that focuses on reselling the same quantity or Points of Receipt/Points of Delivery pairs.
- But to do this, one operator must assess the most efficient reconfiguration possible given the offers to the market and determine which requests for capacity will be granted.
- The market operator will also determine what the locational price is for the injection-withdrawal pairs awarded to customers and the clearing price for those bidding in transmission rights or releasing their scheduling flexibility to Grid West.

entity at its centre. Yet, the loss of the reconfiguration proposal would significantly impede the opportunity to expand and redesign today's secondary market for transmission capacity.

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?*

BCTC supports Grid West and does not find any of its elements troubling at this stage. We recognize that more technical work needs to be done. That work, however, is appropriately consigned to post-Decision Point 2 efforts.

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

BCTC believes that, relative to the TIG proposal, the Grid West proposal has a significantly higher probability of success. Grid West has incorporated an incremental approach to its development so that the region will be directly involved in the selection of membership representatives, operating committee members, and board members. In addition, an incremental approach has been adopted for the development of the Grid West operational design on issues including, but not limited to, the planning "backstop" measure, the departure from the use of a Company Rate, the issuance of financial rights, the ability for the market monitor to impose penalties, and the adoption of a new real power losses methodology, etc.

Additionally, the TIG proposal lacks any provision or preparation for Canadian involvement. In contrast, Grid West has invested considerable time and effort in refining its approach to Canadian involvement. From BCTC's perspective, therefore, the Grid West proposal looks viable and advanced in an area where TIG's proposal is entirely silent. BCTC observes, further, that this comparison between TIG and Grid West is not confined to Canadian involvement. Moreover, BCTC does not see TIG as having the comprehensive footprint or inclusiveness of Grid West. Grid West is a far more evolved proposal compared with TIG, and it has already cleared many time-consuming hurdles. This greatly increases its chance of ultimate success.

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.*

BCTC is not a supporter of the TIG alternative. BCTC sees the TIG alternative as essentially what is currently in place. BCTC does not believe that TIG will effectively resolve the region's future operating and reliability needs.

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- The market operator must also be the central scheduling entity to insure that any schedule changes are accommodated properly.

These features – most significantly the fact that it will take the combined actions of the seller and buyer participants as well as the market operator to effectuate the new capacity sales – place reconfiguration service among the type of services triggering FERC jurisdiction.

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.*

BCTC has answered this question in consideration of both BPA's power and transmission customers. BCTC believes that improvement in Pacific Northwest transmission planning and operations offers the potential for significant economic benefits in the region.

The Grid West alternative is in the best interest of BPA's customers because it provides tangible, developed, and pragmatic solutions to many of the problems facing BPA's system. The Regional Representatives Group's (RRG) list of "Problems and Opportunities", developed in September 2003, indicated that many of the problems on BPA's system are a result of its interdependence with other transmission systems. Unfortunately, BPA is incapable of solving these problems because many of the problems require "seams" arrangements, joint studies, joint financing, jointly-supported market design, etc. Given that BPA, the operator of the greatest quantity of high-voltage transmission, has also concluded that a one-utility approach is needed in the region, it is logical that Grid West be adopted as the solution to solve the transmission problems identified by the RRG. Only an independent entity like Grid West will be adequately positioned to take on these regional concerns effectively.

Given the broad membership interests represented by Grid West, there will naturally be broader consideration given to regional transmission issues and potential solutions. Grid West was developed by this broad membership; it was neither shoe-horned into a FERC model nor compromised to avoid FERC's jurisdiction. Instead, it is an integrated and comprehensive organization designed to reflect and consider regional interests. The Grid West bylaws, both Developmental and Operational, contain extensive provisions for regional input and accountability while maintaining the independent governance structure critical to resolving regional challenges.

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?*

BCTC, and before BCTC, BC Hydro, have participated in a comprehensive way in the design of the Grid West (and earlier) proposals in order to ensure that the Grid West proposal can accommodate Canadian participation in regional transmission solutions in a manner that is fair to parties on both sides of the border. While detailed provisions associated with Canadian participation still remain to be negotiated, BCTC believes that a sufficient understanding has been developed with Grid West to enable Canadian participation, and to expand the footprint within which regional transmission solutions might be implemented far beyond that envisaged by TIG. In contrast, there is no assurance with the TIG proposal that Canadian participation will be accommodated, or even welcome. With 18,000 kilometres of high-voltage wires and approximately 12,000 megawatts of generating capacity, BCTC believes that the participation of British Columbia in the Grid West proposal provides another benefit to the region that would not exist with TIG.

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

Grid West, through the establishment and efforts of two RRG workgroups, the Transmission Services Liaison workgroup and the Risk/Reward workgroup, developed detailed (although preliminary) estimates of benefits and costs. These workgroups had broad representation and developed detailed materials on the market design, quantitative and qualitative benefits, and bottom-up cost estimates associated with the “basic features” of Grid West. These estimates were scrutinized, updated, publicly-presented, and made available for further scrutiny in follow-up workshops that were open to all interested parties. BCTC is confident that the estimates that Grid West developed are reasonable and that they are adequate to justify further development beyond Decision Point 2. BCTC also believes that the operational bylaws constrain Grid West to prevent unchecked scope expansion (e.g., there is no provision for adopting costly centralized energy markets). This is a key feature of Grid West’s incremental approach to development, which was specifically designed to avoid the problem of cost escalation seen in other places.

In contrast, BCTC is aware of no such detailed analysis of benefits or costs developed by TIG.

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

The main point of the Grid West Decision Point 2 is to enable the region to agree to move ahead in furthering the development of an Independent Transmission Provider, i.e., Grid West. Discussing 2-3 improvements in the technical proposals associated with Grid West and TIG takes attention away from what should be the region’s real focus.

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

BCTC does not agree that the Grid West and TIG proposals are quite similar. They are fundamentally different proposals, with completely different structures.

To the extent TIG is defined by the avoidance of an independent entity such as Grid West, it cannot be converged with the Grid West proposal. An independent entity cannot be merged with an approach to governance that is no more than a series of multilateral contractual arrangements among market participants.

That said, BCTC supports and expects that a post-Decision Point 2 independent Grid West board would consider all applicable elements of the TIG proposals, and incorporate the beneficial ideas wherever possible. In addition, to the extent “convergence” can be achieved without doing damage to BCTC’s fundamental commitment to the existence of central, independent, entity, BCTC would support having compromise-driven recommendations presented to the independent board.

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

BCTC believes that acceptance of the TIG proposal will simply lead to a continuation of the status quo. In contrast, BCTC believes that Grid West will be an operating entity, providing a valuable contribution to the region's customers.

Thank you for this opportunity to comment. We would be happy to answer any questions you may have to our responses above.

Sincerely,

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Doug Little
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