

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

RE: Open Comment Period – Decision Point 2

Gentlemen/Ladies:

Coral Power, L.L.C. (Coral), recognizes that Bonneville Power Administration (BPA) and the region are at a major crossroad as far as moving forward with a “one utility” vision for the region. BPA’s decision on participating in Grid West is at the heart of whether the region will go forward with this concept or not. Coral supports the Grid West concept as the best compromise position for an independent, regional transmission operator. Coral endorses the Grid West proposal and recommends that BPA vote to continue the development of Grid West at Decision Point 2, including supporting the funding agreement and seating of the independent developmental board.

TIG is not a regional proposal, it wasn’t developed in a regional forum, and is flawed in its fundamental concept—that the region can voluntarily sign a series of multilateral contracts to implement its proposal. BPA should ask several fundamental questions about the viability of the TIG proposal.

1. Who will sign the TIG contracts?

IPPs and marketers likely will not sign contracts that keep utilities in total control of the transmission system and then allow them to hand over key operational information to competitors. Other major utilities in the region—PacifiCorp, Idaho Power, BC TC, Sierra/Nevada Power and Northwestern have expressed strong support for Grid West, in fact, PacifiCorp and Idaho Power have publicly stated they won’t sign TIG agreements. Without these signing the numerous TIG contracts, who, outside of BPA, is left that owns significant regional transmission facilities?

2. Is it really possible to get the plethora of contracts that the TIG proposal contemplates signed by even the TIG members?

There is recent western experience in the Northwest region utilizing the contract-driven approach that TIG is proposing. That experience provides compelling evidence that even TIG proponents will not likely sign key multilateral agreements governing the reliable operations of the transmission grid. Over 92 percent of the control area load in the Western Interconnection signed WECC’s Reliability Management System (RMS) contracts, agreeing to comply voluntarily with WECC reliability criteria. However, even after the severe blackout in the East, most of the control areas that are key promoters of the TIG contractual approach and members of the TIG steering committee failed to sign RMS agreements, BPA and Puget being the only exceptions. (All of the other filers and even several IPPs signed these agreements.) Coral questions how the proponents of the contractual TIG approach can profess the workability of a multilateral contract approach when they themselves have been unwilling to sign important contracts governing the transmission system’s most fundamental operational function—reliability.

3. Is the TIG approach sound public policy and will it meet FERC’s expectations?

Independence is the most fundamental aspect of preventing discriminatory behavior on the transmission grid and independent operation, such as that proposed in Grid West, eliminating the need for continual regulatory oversight of transmission access. The rest of the U.S., and even western Canada, is moving toward independent Grid operations. Coral questions whether the TIG approach is acceptable public policy for BPA to support or profess. Coral also believes that BPA and other parties will have a difficult time getting FERC to approve signing such agreements and, even if FERC does approve them, that FERC will take a much more active role in regulating the Northwest's electrical grid because of the lack of independent decision making. This could be the ultimate irony of the TIG proposal, that in an effort to try and avoid FERC jurisdiction, it will likely increase FERC oversight of the region's transmission grid.

The bottom line is that the only viable regional proposal to advance the "one utility" concept in the Northwest is Grid West. It presents the region with a comprehensive solution to the region's identified transmission problems. It has been developed in a public and open process with all the major stakeholders in the region. It represents significant compromises among the region's stakeholders, who generally support Grid West for this reason.

### **Grid West has successfully addressed BPA's major issues**

The Grid West proposal has met every major requirement that BPA set. Grid West has:

1. been found by BPA's independent reviewer, the National Academy of Public Administration, to have operational bylaws that "...have struck a reasonable balance between regional accountability and independence and that the bylaws, taken as a whole are workable."
2. adopted this workable set of bylaws that also incorporated further key changes BPA requested;
3. developed a workable market and operational design;
4. several options for developing a viable pricing proposal that, at minimum, will ensure that BPA and the other filers recover their fixed costs;
5. developed a comprehensive regional transmission solution that addresses the major problems and opportunities identified in the RRG process;
6. received favorable assurances from FERC, in a declaratory order, that it will not assert jurisdiction in areas in which BPA expressed concern; and
7. cleared BPA's requirement that it have a favorable benefit/cost test, even without including the non-quantifiable benefits that in many cases are significant.

Finally, and most important, the recently signed Energy Policy Act of 2005 cleared a major stumbling block for BPA by specifically granting BPA and other federal power marketing agencies authorization to join regional transmission organizations. This provision clarifies a legal concern that some in BPA have had throughout the development of Grid West and its previous incarnations.

Coral cannot find any major reason that should cause BPA to want to discontinue the development of Grid West at Decision Point 2. There is no major hurdle that BPA has identified that Grid West has not cleared.

### **Responses to BPA's specific questions**

Coral offers the following answers to the specific questions posed by the BPA .

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

Yes. Coral believes it presents the only way to solve any of the region's transmission problems given the integrated nature of the Northwest's electrical Grid.

2. Please describe how well you think each alternative achieves the six benefits described on pages 2-3 of this [BPA] letter (planning and expansion, reliability, ATC, congestion management, market monitoring, and "one stop" stopping).

Grid West proposal is the most comprehensive solution to achieving the six benefits described in the letter. Regional commitment to the compromise solution embodied in Grid West allows for regional transmission planning and expansion capabilities, regional reliability, and a well structured reconfiguration service to manage congestion. While Coral believes that use of a financial rights model to clear and manage congestion will result in a more economically efficient outcome, the Grid West proposal reflects widespread input and support and should not be changed. Coral is concerned that the "one stop" shopping that Grid West is attempting to promote could fall short of its goal because some of the pricing and tariff proposals create multiple tariffs and pancaked transmission rates. Coral believes that it is possible to resolve the "one stop" shopping issues in the process leading up to Decision Point 3 if BPA supports moving forward at Decision Point 2.

The TIG proposal is fatally flawed in its contract-driven approach. Because other parties won't sign the contracts, it will not achieve the reliability or grid planning functions needed in the Northwest. The structure ultimately will not be able to make the important cost allocation decisions that an independent board will have to make.

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?

Grid West creates an independent board and independent decision-making. Coral believes that the Grid West bylaws partially compromise the independence of the Grid West board by some of its voting and other processes—in particular, the member vote to seat the operational board. However, even with Coral's concerns, Grid West is a quantum leap forward in terms of independent decision making on the region's grid.

The TIG proposal continues the present situation where transmission-owning utilities are decision makers. When difficult issues arise, the probably outcome will be "status quo." Cost allocation decisions will be nearly impossible without an independent "decision maker."

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?

Coral does not support the TIG proposal. The TIG proposal is fundamentally flawed with a voluntary structure which does not bode well for cost decisions, results in a built in bias for the status quo, and results in a "west side only" operation as significant regional participants will not sign agreements with TIG. Further, it is not practical to think that one could pick some features from the TIG column A and some from Grid West column B and create some sort of a compromise proposal. Grid West is the compromise proposal.

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

It is very unlikely that the TIG proposal will be successfully implemented, if one defines success as increased grid reliability, an expanded transmission grid, more market participants and more options for ratepayers.

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?

Coral, through the Northwest Competitive Power Coalition, has been involved in the development of Grid West and its previous incarnations, beginning with IndeGO. Coral is committed to working with the Grid West development board to complete the Grid West proposal and bring Grid West operational. While Coral has concerns about some of the details in the proposal, we anticipate working within the process to get the details satisfactorily addressed. With that caveat, Coral generally supports the Grid West proposal and will work to its successful implementation.

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

Grid West has a high likelihood of being successfully implemented and it has cleared all of the major hurdles that BPA has set forth. It is a workable and executable approach to operating the electrical grid in the Northwest.

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.

Coral is not a supporter of TIG and does not believe it is the best interest of BPA's customers or any other regional stakeholders. From Coral's perspective, it ignores the IPP/Marketer segment of the industry, which is 18 percent of the region's generation.

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.

Grid West has been specifically designed to solve the transmission problems identified by the RRG during its 6-month investigation of the region's transmission problems. The fact that Grid West was designed to resolve specific transmission problems in the Northwest by definition makes its support in the collective best interest of BPA and other regional stakeholders. Governance by an independent board provides a superior structure to make the correct expansion and cost allocation decisions necessary for regional benefits. From BPA's perspective, the RRG process has shown that many of the problems on BPA's system are a result of its interdependence with other transmission systems and, by itself, BPA is not able to solve these problems. Grid West is a regional solution, allowing BPA to share in the costs of solving its major transmission problems on its own system, rather than having only BPA's customers solve them. Finally, making the Northwest's grid more efficient will allow BPA's

customers to shop for the lowest cost resources in the Northwest, thus reducing their long-term energy costs.

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?

Generally, Coral believes that the benefits identified in the Grid West study are conservative and, around the country, the actual achieved benefits in other RTOs have exceeded those calculated at the start. Coral also cautions BPA against generally discounting the major benefits that Grid West will bring to the grid that are not quantified in the Grid West risk reward study because many of these benefits are very significant. The initial Grid West study of costs and benefits has found benefits far in excess of costs.

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

Coral generally finds the estimated costs of Grid West to be reasonable and well benchmarked with other RTOs in the country.

In addition to the Grid West cost estimate, Coral believes that BPA and other utilities in the Northwest are going to have to make significant improvements in their operating systems in order to comply with federal reliability standards enacted in the Energy Policy Act of 2005. Many of these systems are the very same operating systems that Grid West will need to operate and manage the transmission system for the Northwest. It only makes sense to develop these systems for the entire Grid West footprint and take advantage of economies of scale and a single operating system, rather than each utility developing its own separate systems. These are significant costs that should be “netted” out of the Grid West cost estimate resulting in a better cost/benefit balance.

The TIG cost estimate is interesting because the estimated costs are more than half of the Grid West estimate, but provide little or no benefit to the Grid. The major implication of this finding is that even doing nothing on BPA’s system is going to impose costs on the region’s transmission grid. In effect, the TIG cost estimate supports the Grid West cost estimate and should put to bed the notion that maintaining the status quo is free.

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

Coral believes it is a little late in the game for BPA to begin proposing changes to the Grid West proposal. While it would be beneficial, and Coral would support, moving Grid West to a full financial rights model, to totally eliminating rate pancaking and bring Grid West to full operations by the end of 2006, the basic fact is that Grid West represents a significant regional compromise that can’t or shouldn’t be seen as easily tweaked by BPA without it unraveling.

As far as the TIG proposal is concerned, there are no incremental improvements that Coral believes could salvage the seriously and fundamentally flawed approach in the TIG proposal other than moving TIG to independent decision making.

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

TIG and Grid West basically identified the same set of problems and very similar solutions—flow-based transmission, etc. The fundamental difference is in whether an independent entity is created and given decision-making responsibility. This artificial constraint in the TIG proposal keeps TIG from morphing into Grid West.

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

If TIG advances, BPA should be prepared to see utilities migrate toward other RTOs, either the Cal ISO or the MISO. In fact, Idaho Power and PacifiCorp have publicly stated that they will move toward such options if BPA fails to move forward with Grid West. This could once again create a bitter irony for the TIG proponents in that in an effort to try maintain what they perceive as more regional control, they may actually cause the control of the Northwest's electrical grid to shift to the Midwest.

Under Grid West, there is the potential for transmission system expansion, increased choices for ratepayers, and regional reliability benefits. BPA has an opportunity to demonstrate guidance and leadership in the region with this move toward independent transmission system operations and control through the Grid West proposal by supporting Decision Point 2.

Thank you for the opportunity to provide these comments.

Sincerely,

Mike Evans  
Director, Regulatory Affairs  
Coral Power, L.L.C.