



Oregon

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Public Utility Commission

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Bonneville Power Administration
Attn: Communications – DM-7
P.O. Box 14428
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RE: Open Comment Period – Decision Point 2.

The Oregon Public Utility Commission urges Bonneville to go forward with development of Grid West at Decision Point 2 and end its participation in the Transmission Improvements Group (TIG).

We make this recommendation after careful consideration of the alternatives Bonneville faces. We have closely followed efforts over the last ten years to improve the operation and planning of the region's transmission system, devoted significant staff resources to helping craft the Grid West proposal and to monitoring the development of the TIG alternative, and held two public workshops to discuss the pros and cons of the two proposals and hear stakeholder comments on them.

We support Grid West because it is superior to the TIG alternative in three important ways: it comes closer to meeting the "one utility" vision for operating and planning the region's transmission system, it will provide greater benefits, and it is more viable. We address those points in turn and then explain how key differences between the Grid West and TIG proposals make meaningful convergence now impossible.

The Grid West proposal goes farther in meeting Bonneville's "one utility" vision than the TIG or "separate operations" alternatives

Over the past few years, Bonneville itself has made the best public case for the need for structural reform in how we operate and plan our transmission system. To its credit, it has highlighted (time and again) the serious reliability problems we face absent action, it has identified the opportunities we have to improve system efficiency, and it has stressed that it cannot solve these problems alone. Although regional actors disagree on means, they do largely agree that we have problems and must act to resolve them.

We agree with Bonneville that the path of "continued separate operations" will not "provide the tools the region needs to maintain reliability in the increasingly fragile Western power grid." (BPA, *issue alert*, August 2005) As Bonneville does, we dismiss this as an acceptable option for the region. Only a "one utility" approach to managing and planning for the region's transmission system will result in a more reliable system, a more efficient system, and a system more conducive to timely, efficient investment in infrastructure.

Both the Grid West and TIG proposals move toward a "one utility" framework. For example, both use a common flow-based method to calculate ATC, and both establish mechanisms for regional planning and expansion. But Grid West goes farther by incorporating the following features:

- A single transmission entity that: determines ATC for the region, operates voluntary markets for transmission rights, imbalance energy and ancillary services, and plans for system expansion.
- A single governance structure and a single set of implementation agreements.
- A comprehensive, integrated set of services.

Grid West will provide greater benefits to the region

Bonneville's own admittedly conservative analysis presented at our August 17th workshop shows significant net benefits from Grid West – ranging from \$5 million to \$80 million a year. These forecasted benefits derive directly from the integrated design elements of the Grid West proposal: the voluntary consolidation of control areas; the operation of voluntary markets for ancillary services, imbalance energy and reconfiguration services; the use of day-ahead flow-based scheduling; and the elimination of rate pancaking for new services. Further, the quantified benefits are on top of other, very real benefits that Bonneville acknowledges but did not quantify, such as improved transmission planning, more efficient load-following, more efficient coordinated maintenance, and the potential for up to six more consolidated control area participants.

Over the last several months, TIG participants have done yeoman's work in developing their proposal. They have substantially improved the original TIG proposal. We have not had an opportunity to evaluate the cost projection for TIG, and – of course – are waiting on the benefits analysis. But, we expect that analysis will show lower benefits (and net benefits) for TIG than for Grid West because TIG doesn't go as far toward the "one utility" standard for operation and planning of the transmission system. TIG falls short of Grid West in meeting that standard and in producing benefits for the region in the following ways:

- TIG would not be the transmission provider for the region and therefore would not be the reliability authority for control areas that do not consolidate. Therefore, TIG would not have a day-ahead system view and would not be able to mitigate potential problems using the most economic resources. Each control area would continue to be responsible for providing these services using only those resources that were available to it.
- Rate pancaking would still exist under the TIG proposal.
- Rather than operate markets for transmission rights, real-time energy, and ancillary services, TIG would run a bulletin board for short-term transmission and generation inc/decs. We believe that TIG's reliance on bulletin boards means that it would be giving up a large part of the efficiency gains made possible through markets.
- TIG's backstop authority for ensuring that needed transmission is built is not effective.
- TIG has offered no viable design for day-ahead scheduling.

However, some in the region are concerned that Grid West's advantages are more than offset by risks inherent in moving too far toward a "one utility" system. The concerns raised are: the threat of FERC overreach; the threat of exorbitant costs; and the threat of cost shifts that mean some parties will be harmed even if there are overall benefits. These concerns are real, but we believe Grid West has taken the necessary steps to avoid them.

Concerns about the FERC's ability to exercise expanded jurisdiction over non-jurisdictional utilities have been greatly ameliorated by the July 1, 2005 Declaratory Order issued by FERC. In its order, the FERC stated that Bonneville can withdraw from Grid West at any time without FERC approval, that a non-jurisdictional entity would not be exposed to full FERC jurisdiction simply because it joined Grid West or allowed Grid West to use its facilities, that transmission providers could continue to serve existing transmission contracts, and that FERC lacks the authority to order changes to Bonneville's OATT or any transmission agreements under its OATT.

Grid West members will have many ways to keep the organization's costs under control. For example, members, directly or through committees they control, will be able to elect and remove board members, initiate a management audit, develop and propose annual budgets, and weigh in on any proposal to expand the scope of Grid West's activities.

One of the primary considerations during the development of Grid West was preventing cost shifts. Among the features of Grid West that will mitigate cost shifts are: preservation of existing rights; maintaining “company rates” for at least eight years; maintaining payments for existing transmission contracts between filing utilities during the company rate period; ensuring consolidated control area participants pay the additional cost of consolidation; and requiring that all users of the system, including extra-regional users, will contribute to recovery of fixed costs. Further, participation in Grid West and its markets is voluntary.

Nearly a dozen classes of unquantified risks of moving to Grid West have been identified and examined. Bonneville’s analysis indicates, depending on the issue, that Grid West will actually reduce the risk over the status quo, will not increase the risk, or has incorporated protections that mitigate the risk.

The TIG proposal is not viable

Ultimately, we do not believe that the TIG proposal is viable. Two of the major transmission owners in the region—Pacific and Idaho Power – have stated that they will not participate in TIG as structured because of the lack of independence. More specifically, Pacific and Idaho Power will not cede decision-making authority or provide sensitive information to an organization that is not independent of other transmission owners and competitors of the two utilities. Their position makes sense.

A large portion of the expected benefits of Grid West are directly due to consolidation of Bonneville, PacifiCorp and Idaho Power control areas. Without an effective consolidation of control areas, the expected benefits of TIG would be considerably less than those from Grid West. In effect, any regional approach to solving transmission problems can not succeed without these two utilities.

No meaningful compromise between the current Grid West and TIG proposals is possible

We agree with Bonneville that there has been convergence in the Grid West and TIG proposals. However, we see no opportunity for further compromise without fundamentally altering the design and philosophy of Grid West or TIG. The Grid West proposal requires an independent entity that TIG proponents cannot support for fear of FERC jurisdiction or loss of regional accountability. At this point, one proposal should prevail over the other. Since the TIG proposal is not viable, and the “separate operations” alternative doesn’t address the region’s transmission problems, the choice is clear. Bonneville should pick Grid West.

Thank you for the opportunity to comment.



Lee Beyer
Chairman



John Savage
Commissioner



Ray Baum
Commissioner