

PPL Montana, LLC Comments
RE: BPA Open Comment Period – Decision Point 2

Dear BPA:

PPL Montana, LLC (PPLM) welcomes the opportunity to comment regarding the pending decision of the Bonneville Power Administration (BPA) on whether to support the proposed Grid West Independent Transmission Corporation (Grid West), or the proposal put forth by the Transmission Improvements Group (TIG). There is also a third option, which is to abandon efforts to develop the “one utility” vision where each Northwest transmission owner, including BPA, would continue separate operations.

PPLM believes that option 3, to abandon the one utility vision, is unwise for many reasons, so we will comment on the Grid West and TIG proposals only. PPLM supports the Grid West proposal. It is a well thought out proposal developed with stakeholder input and will bring more benefits to the region compared to the other options under consideration. PPLM believes the TIG proposal is unworkable and flawed as currently configured.

BPA has identified six benefits to address as essential for the region to move toward the “one utility” concept. They are as follows:

- More efficient and equitable system-wide “one utility” planning and expansion with back-stop authority for transmission improvements
- Voluntary consolidation of Control Areas to enhance reliability and provide for required ancillary services
- Improved management of ATC through application of a common, flow-based methodology to support additional transactions
- Better management of congestion on the grid
- Market monitoring to provide effective grid-wide detection of market abuse
- One Stop Shopping for transmission service to ease and simplify access to the multiple transmission systems and reduce the administrative costs of doing business on the grid

PPLM believes that the Grid West proposal has broad-based support within the Northwest because the basic principles and design of the proposal is the result of a regional dialog based upon compromise and consensus building. This process has included the participation and input from virtually all regional stakeholders. The Grid West proposal builds upon and incorporates the best ideas of past regional and national efforts and experience in creating successful efficient independent transmission organizations. Thus, the Grid West proposal is much more likely to achieve the six benefits identified by BPA as necessary to accomplish the one utility concept. Grid West proposes creating a new independent entity to manage the Northwest transmission system as one utility.

The TIG proposal seeks to achieve the one utility concept by utilizing an unworkable, cumbersome process through either existing, or new, bilateral contracts between the existing utility organizations, and utilizing existing transmission provider's planning functions, the Pacific Northwest Reliability Coordinator, and the Northwest Power Pool's operating reserve sharing procedure. The TIG proposal is nothing more than a continuation of currently available practices and procedures which is incapable of achieving the six benefits identified above.

PPLM, as an Exempt Wholesale Generator, has actively participated in and supported the regional multi-stage decision-making process for creating a new regional transmission entity. Throughout this process, PPLM has expressed its desire and belief that a strong independent regional transmission organization was necessary to provide all regional stakeholders with fair open access to the region's transmission services.

PPLM believes that an independent regional transmission organization, as proposed by the Grid West proponents, is the only way to enhance wholesale markets. This organization would ensure fair equal access to the transmission system, eliminate rate pancaking, and provide for efficient effective non-discriminatory access to, and use of, the transmission system, while also providing reliable transmission system operations.

Responses to BPA's Specific Questions

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

Yes. PPLM believes the goal of applying the "One Utility" concept will provide all of the region's stakeholders a way to resolve the region's transmission problems and issues in a fair non-discriminatory manner. This concept will enable the Northwest transmission system to achieve operational efficiencies by, creating an open transparent market for ancillary services, improving congestion management, and removing impediments to efficient, region-wide transactions.

2. Please describe how well you think each alternative achieves the six benefits described above (planning and expansion, reliability, ATC, congestion management, market monitoring, and "one stop" shopping).

PPLM believes that the Grid West proposal is the best option for achieving the six benefits described above. PPLM believes that several issues remain to be resolved, such as efficient management of system congestion. PPLM is also 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. However, PPLM believes that it will be possible to resolve the "one stop" shopping

issues in the process leading up to Decision Point 3 if the Transmission Filers support moving forward at Decision Point 2.

The TIG proposal will not achieve all of the six benefits that BPA has identified. We believe it will be difficult for TIG to achieve those benefits because TIG is a voluntary contract-driven approach, and it is unlikely all necessary parties will sign contracts. The TIG approach is not independent because it keeps transmission owning utilities as the sole decision makers regarding the region's transmission grid. From PPLM's perspective, the TIG proposal ignores the IPP/Marketer segment of the industry because the IPP/Marketers have no decision-making voice, or avenue to address their concerns, as part of TIG.

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 with independent decision-making authority. PPLM believes this is a critical component for effective decision-making that is fair and non-discriminatory to all market participants.

The TIG proposal continues the current situation where transmission-owning utilities are the major decision makers. Other market participant's opinions are advisory only. The TIG proposal is premised upon the idea that by soliciting outside advice, that independent decision-making will follow. PPLM does not believe that independence is achievable without creating a board that is truly independent from 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?

The TIG proposal does not include sufficient detailed information for PPL to determine which, if any, of its elements it can support. In particular, PPL is concerned about continued rate-pancaking. This problem is not addressed by the TIG proposal. Further, TIG has not outlined a complete cost/benefit analysis. Our understanding is that TIG has forecasted costs, not benefits, and that TIG's forecasted costs have not been subjected to independent review. The TIG estimate of its costs is more than half of the estimated cost of Grid West with little apparent added benefit. Therefore, the cost of TIG cannot be justified.

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

PPL believes the likelihood of successful implementation of the TIG proposal is low because key Transmission Owning Utilities including PacifiCorp and Idaho Power have stated they will not sign the proposal and the majority of the important elements are voluntary. In addition, the TIG proposal was developed by a much smaller group than the Grid West Regional Representative's Group ("RRG"). Therefore, the TIG proposal is much more narrowly written to serve the interests of a few versus serving the interests of all regional stakeholders.

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?

PPLM has been involved in the development of Grid West. PPLM is committed to working with the Grid West development board to complete the Grid West proposal and bring Grid West operational. While the Grid West proposal is not complete and there are opportunities for its improvement, PPLM supports the Grid West proposal and will continue to work to bring about 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?

PPLM believes the Grid West is more likely than the TIG proposal of being successfully implemented because the Grid West proposal has been driven by regional compromise and consensus, whereas the TIG proposal has been driven by a much smaller segment of Northwest market participants that seek to maintain the current status quo. That status quo is inherently preferential to some market participants at the expense of others.

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.

As stated above, PPLM believes the TIG proposal does not provide for fully independent decision-making, is not representative of all Northwest market participants and all regional stakeholders, and is therefore, not in the collective best interests of the region as a whole, including BPA's customers who depend on the Northwest transmission grid and other stakeholders who have an interest in regional transmission issues.

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.

The Grid West proposal has been driven by regional compromise and consensus of many market participants and stakeholders. The Grid West proposal has been designed to solve the transmission problems identified by the RRG's investigation of the region's transmission system. Because the Grid West proposal was based upon regional compromise and consensus to resolve transmission problems in the Northwest, it is in the collective best interest of BPA and all regional stakeholders.

PPLM believes that in creating a new independent transmission provider through the Grid West proposal, the region will be better equipped to resolve its transmission problems. The RRG process has made it clear that many of the problems on BPA's system are a result of its interdependence with other Northwest transmission systems and, by itself, BPA is incapable of resolving these problems. The Grid West proposal also allows BPA and other Northwest transmission providers to share in the costs of solving 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 Northwest and BPA 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?

PPLM believes that the benefits identified in the Grid West study are conservative. We believe the actual achieved benefits of established RTOs have exceeded those originally contemplated. We believe that there are major unquantifiable benefits that Grid West will bring to the grid that are not quantified in the Grid West risk reward study. These unquantifiable benefits are as follows:

- Improved Transmission Planning
- Long-term Siting Efficiencies
- Construction Deferral (Generation, Transmission, and Distribution)
- Conservation and Demand-Side Management
- Load Following
- Market Innovation
- Market Monitoring

PPLM believes these benefits will be significant. In addition, the initial Grid West study of costs and benefits has found that benefits are in excess of costs.

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

PPLM believes that the costs of Grid West to be well estimated and benchmarked with other RTOs in the country. In general, estimated benefits have been deliberately understated and estimated costs have been overstated. For this reason, PPLM believes the Grid West benefit and cost estimate is very conservative.

In addition to the Grid West benefit and cost estimate, PPLM believes that 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 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.

The TIG cost estimate is more than half of the Grid West cost estimate, but for little or no realized benefit from the current status quo. The TIG cost estimate demonstrates that maintaining the status quo is not free and will actually result in lost benefits for the region.

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

See response to item # 6 above. PPLM would support a move by Grid West to a full financial rights model, total elimination of rate pancaking, and implementation of Grid West sooner rather than later. However, even without these attributes, the Grid West proposal is vastly superior to the status quo of the TIG proposal.

As far as the TIG proposal is concerned, PPLM believes that there is little or no realized benefit because the proposal essentially maintains the current status quo. If the proposal were to be changed, we would recommend moving TIG to some sort of independent decision making entity with full voting rights for all stakeholders.

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

While it may appear that the TIG and Grid West proponents have basically identified similar problems in the Northwest, the two approaches to resolving those problems are vastly different. The major fundamental difference is in whether an independent entity is created and given decision-making

responsibility. Without an independent decision making entity that will consider the best interests of all of the region's stakeholders, the status quo will be perpetuated. This constraint in the TIG proposal keeps TIG from evolving into Grid West. Further, the TIG proposal would provide only a fraction of the net benefits that Grid West would provide because the electric system would continue its Balkanized approach to resolving issues. Thus, the region will not gain the benefits of one utility operation.

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

As stated above, PPLM believes that the Grid West proposal is far superior to the TIG proposal. The Grid West proposal has broad-based support within the Northwest because the basic principles and design of the proposal is the result of a regional dialog based upon compromise and consensus building. The Grid West proposal builds upon and incorporates the best ideas of past regional and national efforts and experience in creating successful efficient independent transmission organizations. Thus, the Grid West proposal is much more likely to achieve the six benefits identified by BPA as necessary to accomplish the one utility concept.

On the other hand, PPLM believes the TIG proposal will not achieve the hoped for benefits of a one utility operation because its design will maintain the status quo of the current inefficient system we now have.

In conclusion, PPLM encourages BPA to support the Grid West proposal and vote to approve and support moving forward at Decision Point 2.

Thank you for the opportunity to submit comments on this important issue

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