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Stephen Wright, Chief Executive Officer
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Dear Steve,

PacifiCorp welcomes the opportunity to present its views on Grid West and the Transmission Improvements Group (TIG) proposal.

We wholeheartedly agree with Bonneville that now is the time to apply a one-utility vision to transmission. A one-utility vision promises increased efficiency and reliability, and more timely construction of needed infrastructure. The vision calls for consolidating and centrally managing grid operations; conducting system-wide planning more efficiently; allocating transmission expansion costs equitably to beneficiaries; ensuring a fuller, more economical use of the region's "fleet" of assets; better optimizing reserves; providing effective grid-wide market monitoring; and simplifying transmission access - all managed for the purpose of maximizing benefits for the region. A one-utility vision for transmission would avoid the bias of competing commercial and parochial interests.

Grid West is the only viable option likely to achieve this vision. A coherent organization combined with independent governance is the key. The TIG proposal will not fulfill the vision because it includes no central authority, accountability, or control; it allows commercial bias into system operations; and it employs a decision-making process that is unworkable. It is a path to further delay and inaction, not a vehicle for timely and meaningful improvements.

By contrast, Grid West is the result of 10 years of collaboration among regional stakeholders. The Regional Representatives Group (RRG) has built fair consensus on the best aspects of RTO West, the National Academy of Public Administration (NAPA) review, and IndeGO. The proposal is informed by lessons learned elsewhere in the country, and it is designed to work for this region. The Grid West proposal is the region's "convergence" proposal; it reflects major compromises by a broad and diverse set of regional stakeholders. Grid West is a moderate, balanced, and well-conceived proposal.

The choices before us at Decision Point 2 carry important regional consequences. As the attachment demonstrates, Grid West should yield substantial cost savings in contingency and regulating reserves, redispatch efficiencies, reduced rate pancaking, and improved reliability management and transmission utilization. (PacifiCorp's preliminary estimates are \$280 to \$680 million annually). Bonneville significantly underestimates the value of these long-term benefits. Controls will be in place to constrain Grid West's costs and to limit its functions. By contrast, the TIG proposal may well lead to costs equivalent to Grid West because both proposals must make a large investment in systems, facilities, and O&M to be able to consolidate control areas. The TIG proposal can not yield nearly the same level of benefits, largely because it does not capture market efficiencies. *There is no question that Grid West will provide substantially greater net benefits to the region than the TIG alternative.*

PacifiCorp is committed to developing Grid West. We urge that Decision Point 2 funding be approved without delay so that the Developmental Board can begin its work. Any delay is expensive and denies important benefits to the region. PacifiCorp sees no value in developing the TIG proposal further. That said, market monitoring and regulation pooling concepts devised by TIG merit consideration within the Grid West framework during the developmental phase.

Regional Transmission Problems and Goals

The Eastern Blackout of 2003 demonstrated the critical importance of a robust and reliable grid. Today's grid operations in our region are balkanized and more costly than necessary. The RRG identified transmission problems that need a comprehensive and integrated solution immediately:

- lack of transparency and independence;
- many rules and practices prevent full utilization of transmission infrastructure;
- impediments—such as rate and transactional pancaking—limit efficient, region-wide transactions;
- operational challenges, such as congestion management through curtailment, are costly;
- absence of organized market structures that enable a more efficient use of the system;
- inability to effectively plan and construct needed transmission; and
- lack of an independent market monitor.

In developing the Grid West proposal, PacifiCorp and many other parties have been seeking:

- fair, stable, clearly defined, and uniformly applied market rules for grid operations, market administration, and transmission planning. It also includes minimizing cost shifts, seeking FERC deference to Northwest issues, and allowing a choice to honor existing contracts and obligations;
- reductions in the region's production costs, through increased access to energy markets and creation of new ancillary service markets;
- fuller and more optimal use of existing transmission and generation assets; and
- effective regional planning, with equitable allocation of grid investment costs among beneficiaries and backstop authority.

Grid West is likely to achieve these goals. The TIG proposal will not, for the reasons detailed below.

Governance

Bonneville commissioned NAPA – an independent, nonprofit organization chartered by Congress – to assess the proposed Grid West governance structure and bylaws. While the governance was found to be basically sound, changes were proposed and adopted. In a closeout letter, Bonneville concluded that the revised governance proposal met the key criteria necessary to address transmission issues on a regional basis – independence, accountability, cost control, and workability.

The Grid West governance structure is informed by commercial and stakeholder concerns, but decision-making is unbiased by commercial interests. But while the Board of Trustees is independent, the governance also guarantees that regional interests will be given ample opportunity for input and involvement. For example, regional stakeholders, through Members Representative Committee (MRC) and advisory committees, are empowered to elect and remove trustees to the Independent Board; approve any amendments to the governance; and provide review and recommendation on significant Board proposals. The Board of Trustees is also required to consult and obtain an MRC vote before making certain decisions on expanding Grid West functions.

Further, the Grid West bylaws provide the tools needed to control costs. These include formation of a Budget Committee comprised primarily of Members to develop and control the Grid West budget; opportunities for Members to review and comment on proposed budgets before the Board takes action; and a requirement that Members vote on any budget increase that exceeds 15 percent. In addition, regional interests can intervene in Grid West revenue requirement proceedings at FERC.

By contrast, the TIG governance structure is not independent nor is it free of commercial bias. The TIG proposal seeks to retain control of decision-making in the region by (1) avoiding features that would invite new regulatory control by FERC, (2) requiring that consensus be obtained on an issue-by-issue basis before action is taken, and

(3) requiring that complex multilateral contracts be negotiated to govern grid operations, transmission planning, and other functions. In seeking to avoid the costs of a new entity, the TIG proposal further institutionalizes today's balkanized approach to system planning and operations.

These objectives drive TIG to a governance structure that is unworkable. TIG governance relies on a loosely integrated committee apparatus designed not to manage problems efficiently and effectively, but to avoid FERC's reach. It features five initiatives that would be negotiated separately, on a patchwork basis, by transmission owners who choose to participate. Transmission owners would largely retain control of regional decision-making. The initiatives would require prolonged contract negotiations and unanimous or super majority consent—an approach that stifles innovation, gives undue power to opponents of change, and does little to assure that decisions, especially hard decisions, will get made. TIG's governance lacks central authority and accountability (there is no true steering committee, for example), and provides little assurance that grid operations will be unbiased by commercial and parochial interests. In short, the TIG proposal is a prescription for gridlock on many important issues; the region's electricity users deserve better.

Grid West is neither designed to invite nor avoid FERC jurisdiction; its design flows from a need to solve regional problems in an optimal manner. FERC oversight is not something that should be feared – certainly not to the level demonstrated by TIG, where sub-optimal solutions are proposed solely with the goal of avoiding federal review. As the NAPA panel observed, if the region wants harmonized transmission tariffs and common operating procedures, FERC will have a say in what those tariffs and procedures are. Moreover, FERC has demonstrated recently—both in its June 30 Declaratory Order issued to Bonneville, PacifiCorp, and Idaho Power and its recent termination of the SMD rulemaking— that it is willing to accommodate locally developed solutions to local problems. The recently enacted Energy Policy Act also explicitly prohibits FERC from impairing the ability of utilities in the Grid West region from exercising their firm transmission rights.

Market Design

Market operations must be independent of commercial interests and responsive to the region's needs and priorities. Independence is essential if market rules are to be equitable, stable and uniformly applied. Such market rules will promote competition and robust wholesale markets, and lead to lower power costs.

Grid West will increase efficiency and reduce power costs by reducing transmission rate pancaking on new service, and by operating voluntary markets for transmission reconfiguration, imbalance energy, and redispatch. These markets will aid in a fuller, more optimal use of the regional grid and facilitate provision of ancillary services at least cost. And by virtue of being voluntary, the Grid West design accommodates hydro operators' concerns regarding storage and flow restrictions. Such markets will effectively coordinate regional generation and transmission, and they fall squarely under FERC's jurisdiction. TIG's objective of avoiding new FERC review precludes TIG from developing these markets - despite the added competition and savings they would provide.

TIG suggests that it can implement region-wide flow-based transmission service and emulate Grid West's Reconfiguration Service, but TIG does not acknowledge that an independent, centralized scheduling entity would almost certainly be needed to perform such services. In its consolidated control area, TIG proposes the use of a non-market, prescriptive approach to generation dispatch. But economic dispatch is the key to reaping commercial benefits from the consolidated control area. Generation owners will not agree to have their resources dispatched in other than an efficient manner. Without organized markets in which to participate, owners will not surrender control of their generation dispatch—particularly to a “contract staff” hired principally to manage reliability. TIG's proposal for consolidating control areas is a nonstarter because it lacks an appropriate commercial framework.

Transmission Planning/Cost Allocation

The region would benefit from a rigorous, well-managed and impartial transmission planning process that is integrated with pricing and cost allocation criteria and with construction backstop authority. The process would provide important regional benefits:

- increased liquidity and price competition in power markets;
- improved access to lower cost power;
- increased ability of generators to diversify fuels used to serve their customers, which can help minimize fuel price risks and broaden access to renewable resources;

- improved reliability and greater flexibility in operating and maintaining the system; and
- tax, revenue and other economic benefits for communities and states where development takes place.

Investors today are reluctant to invest in regional transmission projects because the uncertainties can be great, and financial returns may not be commensurate with risks. Limits on borrowing authority constrain Bonneville's ability to fund new transmission. There are important regulatory challenges that must be resolved if the region is to make large investments in transmission infrastructure:

- lack of a regional tariff or other means to allocate project costs across the companies and states that would benefit;
- absence of pricing incentives for large, higher-risk projects;
- delayed recovery of investment in large projects with long lead times; and
- time-consuming, expensive and potentially contentious siting processes.

As a single, independent entity responsible for managing grid operations, Grid West will be much better positioned than TIG to design and manage a systematic, rigorous, and inclusive planning process. The planning process must identify congestion and reliability problems, evaluate alternatives objectively, and produce project proposals that a diverse group of stakeholders regard as economically sound and technically feasible—a responsibility that demands impartiality, freedom from commercial biases, and a system-wide focus. Grid West is likely to collaborate more effectively with public agencies on allocating expansion costs equitably across benefiting companies and states; integrating non-wires solutions into the regional plan; developing pricing incentives for large, higher-risk projects; streamlining siting processes; coordinating with other regional planning processes; and supporting regulatory approval processes.

TIG's proposed approach to transmission system planning would prove inefficient and lack discipline and rigor because its governance is weak. Its decision process would require that consensus be forged on difficult issues of analytical methods, project prioritization, allocation of costs to beneficiaries, and coordination of regulatory approvals. Additionally, TIG proposes a non-binding allocation of construction or financing responsibilities – an approach that does little to ensure that investments will be made to enhance reliability. Grid West with its backstop authority for reliability solves this problem.

Conclusion

Grid West is the only viable route to the one-utility vision for transmission that we share. The Grid West proposal is the region's "convergence" proposal; it reflects major compromises by a broad and diverse set of regional stakeholders. It is a moderate, balanced, and well-conceived proposal that will lower costs and improve reliability for our region's electricity users. PacifiCorp will approve the funding proposal at Decision Point 2, and we urge Bonneville to join us and provide the leadership needed to move the region forward.

There are significant problems with the current operation and expansion of our region's transmission system. The TIG proposal is fatally flawed by a lack of independence, inferior benefits and unworkable structure that only perpetuate gridlock and costs that are higher than they need be. PacifiCorp will not commit resources to develop the TIG proposal.

Sincerely,



Judith Johansen
President & Chief Executive Officer

Attachment

Attachment: Regional Benefits and Costs of Grid West

Preliminary analyses show that Grid West will produce substantial net benefits for the region, even if conservative assumptions are used and several important benefits are not yet included. A more thorough, final cost/benefit study will be completed later in Grid West's development.

The Risk and Reward group under the RRG has developed a range of potential benefits using well documented, openly shared assumptions and analytical methods (benefit estimates described in the Risk and Reward report are summarized in the table below). They include benefits from the consolidation of control areas; operating new markets for transmission reconfiguration, imbalance energy, and redispatch; improvements in reliability, and new services. Time, modeling, and policy limitations did not allow quantifiable assessments to be completed for several important benefit categories. While quantification was performed on construction deferral and conservation/demand side management that showed benefits ranging from \$5 to \$80 million per year, Bonneville decided not count these benefits in its quantified category, but kept them in the qualitative area.

PacifiCorp preliminary estimates are that Grid West benefits will be \$180-\$490 million higher annually than those assumed by Bonneville, depending on the number of control areas that consolidate. Benefits are expected to reach the high level as Grid West and its markets mature.

PacifiCorp believes that Bonneville has understated the potential benefits of Grid West - the analysis performed by the Risk and Reward group already relies on sufficiently conservative approaches, and Bonneville's further discounting is unwarranted. While the Risk and Reward group agreed that some overlap may exist between a few benefit categories, the reduction in benefit levels that Bonneville has applied to correct for the overlap is too severe. For example, Bonneville gives credit to benefits in the Reliability area that accrue from reductions in major cascading outages (made possible by wider generation control and acquisition of system data by the consolidated control area and reliability authority system operator). But Bonneville discounts the value to customers of increased reliability due to reductions in more common, "run of the mill" types of transmission outages. Grid West would achieve these reductions from the development, application and enforcement of "best practices" in operations and maintenance.

Grid West's estimated operating and implementation costs, developed using a "bottom up" approach by The Structure Group, are reasonable and tailored to the functions proposed by Grid West. Several factors distinguish Grid West from other regional transmission organizations and should result in lower operating costs. First, the scope of Grid West's functions is considerably narrower than those of a typical RTO, and several mechanisms are proposed to constrain its costs to much lower levels. Second, Grid West is not "first to market" and therefore will benefit from the experience, systems and software developed and refined by others. Finally, there are no legislative/mandatory deadlines that require quick development and implementation without regard for costs.

Bonneville's internal preliminary cost estimates suggest that TIG will be cost-beneficial. While the cost and benefit analysis for TIG has not yet been made public, it is not clear to PacifiCorp how TIG would result in net regional benefits. TIG's proposal includes functions similar to Grid West, such as control area consolidation - a major cost component of Grid West that includes constructing and operating primary and backup control rooms. We question whether TIG can perform much the same functions at lower cost than Grid West. The TIG approach would require substantially greater staff time on the part of its transmission members and stakeholders to develop and administer its functions and various committees. At the same time, TIG's avoidance of FERC jurisdictional markets prevents it from capturing the substantial benefits of market efficiencies that would be realized with Grid West.

Attachment 1

PacifiCorp's Assessment of Grid West Regional Benefits for Decision Point 2

The table below compares PacifiCorp's assessment of potential regional benefits offered by Grid West with BPA's estimates. PacifiCorp's estimates are derived from Risk and Reward analysis as presented in Grid West Benefits Seminar on July 19th, 2005. The results are preliminary. For details please see <http://www.gridwest.org/DP2Info.htm>

PacifiCorp believes that Grid West's benefits will fall in the range of \$283-673 million, as shown in the highlighted columns under Grid West Benefit Study. While the Grid West structure may initially begin with only IPC, BPA and PAC consolidating control areas, there is a likelihood that others will shortly join thereby adding to the benefits.

Estimate of Annual Quantifiable Benefits

\$ millions

Line #	Cost Saving Category	Grid West Benefit Study						BPA Comment Letter	
		3 Consolidators (PAC, BPA, IPC)			10 Consolidators			High	Low
<i>Net Power Costs Savings to Generators</i>									
1	Contingency Reserves	39	30	20	73	55	30	20	27
2	Regulating Reserves	10	8	5	26	21	8	5	5
3	Redispatch Efficiencies	65	56	41	385	332	56	41	41
4	Reconfiguration-Transmission Utilization	52	30	18	52	30	15	9	9
5	Elimination of Pricing Pancakes	61	20	4	61	20	10	4	4
<i>Customer Savings</i>									
6	Bulk Electric System Reliability -Cascading Disturbances	83	50	27	83	50	62	27	27
7	Power Delivery System Reliability - Momentary, Sustained Outages	98	58	17	203	119	Included in Qualitative Section Below		
8	Conservation and Demand Side Management	33	17	1	61	32			
9	Construction Deferral	20	14	4	20	14			
Total Annual Benefit		461	283	137	964	673	181	106	106

There are substantial potential benefits associated with Grid West that have not been quantified to date. Such as:

Line #	Cost Saving Category	BPA Estimate of	PacifiCorp
10	Improved Transmission Planning	Significant	Significant
11	Long-term Siting Efficiencies	Significant	Significant
12	Coordinated Generation and Transmission Maintenance	Medium	Significant
13	More Efficient Load Following	Medium	Significant
14	Improved Ability to Monitor Markets	Small	Significant