

September 9, 2005

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Via Email

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Attn: Communications - DM-7

Re: *Open Comment Period - Decision Point 2*

These comments are submitted on behalf of Powerex Corp. ("Powerex"). Powerex is one of BPA's largest point-to-point transmission customers and is an active participant in the wholesale electricity market. Powerex is very interested in supporting advancements in the regional transmission system. There is little remaining debate about whether a problem exists. This was outlined in the Regional Platform Proposal that preceded the latest incarnation of a regional transmission entity (i.e., Grid West). Powerex has followed with interest the development of IndeGO, RTO West and now, Grid West. This process has taken a decade and in that time there has been a continual erosion of the transmission capacity margin. Worse still is the fact that many of the quick fix, optimization type transmission projects have been undertaken, leaving only the hard choices regarding long lead time transmission facility investments in order to begin to alleviate transmission congestion. Yet at this time, the region continues to debate form rather than substance with little visible progress.

We believe that BPA should support the Grid West Decision Point 2 and help to enable the region to move beyond the procedural stage and to start work on near-term transmission-enhancement activities. Below, Powerex has directly answered the questions that BPA posed in its August 4, 2005 Request for Comments.

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

Yes. We believe that reliability, operations and investment decisions could benefit greatly by consistently applying a "one utility" vision to the region's transmission systems. The interconnection of transmission systems naturally results in interdependence -- it is a fact of "interconnected life" that the actions of any one utility impact others who are part of the interconnection. This interdependence, we believe, necessitates that the transmission system be developed on a broad regional basis.

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).

Only Grid West provides a comprehensive proposal that could achieve real results in all six categories of benefits.

The TIG proposal is fatally flawed and offers nothing more than the status quo. Essentially TIG proposes to engage in a broad range of activities, without demonstrating it will have the structure to accomplish these objectives. This is particularly true with respect to market monitoring. The authority to monitor wholesale electricity markets lies exclusively with the U.S. Federal Energy Regulatory Commission (FERC) in the United States¹ and with the British Columbia Utilities Commission (BCUC) in British Columbia. These agencies could choose to delegate some of their authority to a suitable regional body. However, FERC has been clear that certain independence standards need to be met for this to happen. Without a truly independent governing structure, it cannot be assumed that TIG or the individual utilities come close to meeting these standards. In fact, FERC has made clear that it is improper for market monitoring functions, including both monitoring and enforcement, to be performed by non-independent entities, even if an ISO/RTO-type structure is in place, as evidenced by FERC’s recent decisions regarding the California ISO. The lack of independence of the TIG market monitoring proposal will fundamentally erode the confidence and trust of market participants.

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?

Only Grid West is an independent entity and thus meets the criteria of effective decision-making without undue influence of market participants.

Under the TIG approach the owners continue to control the decisions and thus the system. Many of the proponents of TIG have not even undertaken basic functional separation, let alone providing for independent decision making between transmission businesses and other market functions.

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 no different than the status-quo. The proposed structure of committee and agreements appears to be nothing more than an additional layer of administrative complexity on top of what exists today. Further, as noted above, TIG does not have authority to independently act in areas such as market monitoring. Powerex is not committed to the TIG proposal.

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

Powerex does not believe that the TIG proposal could be successfully implemented on a broad regional basis. Without significant changes, Powerex believes there is a substantial risk that the TIG proposal will not gain the support of key transmission providers, such as PacifiCorp, Idaho

¹ This has been reinforced by the recent passage of the Energy Power Act of 2005 in expanding FERC’s powers in the area of market monitoring.

Power Company and BCTC. Nor does Powerex believe that the TIG proposal will gain the support of many key regional stakeholders, such as power producers, end users, marketers, environmental and other public interest organizations, and state, provincial, and tribal officials that will be necessary for successful implementation.

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?

Powerex supports Grid West, but Powerex recognizes that the Grid West proposal still requires further development. However, these developments go to the details of the technical features, not the fundamental structure of the proposal. We believe that the incremental structure that Grid West and the RRG have put in place makes sense and we are committed to working on the Grid West effort to ensure that it brings a net benefit to the region.

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

Powerex strongly believes that the Grid West proposal has a significantly higher probability of success relative to the TIG proposal. Furthermore, many of the key barriers (jurisdictional concerns and transmission rights) to proceeding with Grid West, were addressed in either the FERC Declaratory Order EL05-106 or in the recently enacted Energy Policy Act of 2005.

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.

Powerex is not a supporter of the TIG alternative. Powerex sees the TIG alternative as essentially what is currently in place, with too little independence and no accountability. Powerex does not believe that TIG will effectively resolve the region's current or future operating and reliability needs.

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 designed to solve the transmission problems identified by the RRG during its 6-month investigation of the region's transmission problems. Specifically from a BPA customer perspective, the RRG process has made it clear that many of the problems on BPA's system are a result of its interdependence with other transmission systems and that, by itself, BPA is incapable of solving these problems. Making the Northwest's grid more efficient will allow BPA's customers to shop for the best value in meeting their resource needs, 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?

Powerex participated in the survey conducted by the Grid West RRG Risk/Reward workgroup. In our opinion, the region has many opportunities to secure benefits, not all of which were

quantified by the Risk/Reward workgroup. By way of example, Powerex is very interested in improvements in transmission outage coordination efforts and advancing planning and expansion efforts. We recognize that it is difficult to quantify some of these benefits; however, we consider them significant and additive to the benefits that have already been identified.

Furthermore, BPA should not assume that a go it alone strategy is a cost free strategy. BPA's scheduling, transmission reservation and settlement system are in need of a significant overhaul just to meet the existing business needs, let alone future growth. Other transmission providers will need to maintain and upgrade their systems related to offering transmission service as well. Grid West offers a manner of gaining efficiencies from a single investment, with shared benefits and costs, rather than duplicative efforts undertaken by numerous individual parties.

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

In addition to the costs above, Powerex 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.

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

Powerex suggests that BPA endorse further development of Grid West by supporting Decision Point 2. We think that the most important decision, at this time, is to get an independent board for an Independent Transmission Provider in place.

Powerex does not believe that fine tuning can salvage the TIG proposal as it is flawed at a fundamental level.

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

Powerex believes that the governance structure of the two are irreconcilable. As for the technical solutions, it is arguable that they are similar, however, we strongly discourage limiting technical solutions in order to avoid FERC jurisdiction, particularly considering the necessity to obtain FERC approval of market monitoring efforts.

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

Powerex believes that the region will see the value in moving forward with the Grid West alternative. In ten years, we anticipate that Grid West will be fully operational, will be systematically solving transmission problems and providing real value to customers via greater choice in selecting resources to meet their future needs.

Under the TIG alternative, Powerex believes that regional solutions will fail to materialize and that a more balkanized, expensive and potentially less reliable system will exist, and will carry forward many of the same problems that exist today.

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

Sincerely,

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