



September 2, 2005

Stephen J. Wright, Administrator
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Attention: Allen Burns, Executive VP,
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Dear Mr. Wright:

Re: Comments of the Public Power Council regarding TIG and Grid West

The Public Power Council is pleased to convey the following comments regarding BPA's upcoming decisions on its future participation in Grid West and the Transmission Improvements Group (TIG).

- **PPC supports the approach taken by TIG.** TIG provides a means for resolving the significant transmission issues that face the Northwest, without unnecessarily ceding control of decisions to the Federal Energy Regulatory Commission (FERC). Utilities will remain fully accountable to their regulators and the public for their actions, and they will remain responsible for making decisions. TIG's approach is incremental, ensuring that only innovations that are cost-effective and beneficial are implemented.
- **PPC opposes proceeding with Grid West.** In February 2005 PPC voted to oppose Grid West. The Grid West proposal raises significant concerns for PPC's members and the region. The governance structure is unmoored from effective accountability to the public interest. Moreover, the only public entity with oversight of Grid West is FERC, which is an inadequate substitute for local accountability. The proposed markets in the consolidated control area do not appear to be viable or desirable, and the proposed pricing policy would increase costs to BPA customers. BPA's preference customers would likely face higher transmission prices and higher and volatile prices for balancing energy and reserves. And BPA's power and transmission revenues would be jeopardized by implementation of Grid West proposals.
- **PPC urges BPA not to take the "public" out of public power.** For seventy years BPA has served the public and embodied the values of public power. These values and benefits will be injured if BPA hands over vital functions to a private corporation that has no charge to protect the public interest and has government oversight only by FERC. FERC has actively undermined the values of public power—cost-based electricity, local control and accountability, and equitable rates. BPA should maintain its historical role as a public-power transmission provider for the Northwest.

I. TIG Proposes An Approach That Will Serve The Northwest Well

A. Considerations Important to PPC

TIG proposes to make incremental improvements to the Northwest transmission system and to the transmission business through voluntary multilateral contracts among utilities and others. For decades, the Northwest has successfully used this approach to coordinate the operations of the region's electric generation resources. The approach ensures that those parties with the most interest in reliability, cost-effectiveness and risk make the decisions.

Governance, reliability, cost-effectiveness and reduced risk are key considerations for PPC in evaluating any proposal to change the transmission system or business. Other, derivative considerations of importance to PPC are:

- A reliable regional transmission system;
- A durable decision-making structure that is accountable to consumers and businesses who rely on the electricity system
- Non-expansion of FERC involvement in Northwest policy decisions;
- Enforceable protection of preference customers' existing transmission rights and their ability to exercise those rights;
- Continued access to affordable, new transmission rights needed to bring generation to their loads; and
- Cost-control and cost stability.

In PPC's judgment, the TIG approach provides a means to achieve a reliable, cost-effective transmission system and affordable, attainable transmission services sufficient to meet regional loads.

B. Governance and Jurisdiction are Key Issues

The question of "who gets to make decisions for whom and about what" forms the core of the debate about TIG and Grid West. This question has two components: are the right parties making decisions, with the right governmental oversight, and is the process for decision-making workable.¹

¹ PPC has previously commented on the process for Grid West's decision-making process and BPA should refer to those comments. PPC Comments to BPA on Decision Point 1, August 23, 2004. PPC's opinion of Grid West's bylaws and governance structure are unchanged.

1. Continued Accountability Of Utilities For Their Decisions Is Critically Important

Whether the right parties are making decisions is critically important. Today, utilities are individually accountable to their customers and their regulators for operating and maintaining an adequate, safe and reliable transmission system. Today, when mistakes are made, either in operations or investment, utilities have no one to hide behind. This accountability ensures a high degree of care by the utilities when they make decisions, and it translates into an emphasis on quality and cost-control in investments.

It is critical that decision-making remain with those parties who must implement the decision in order to fulfill a legal obligation and with those parties who invest money to implement a decision. In other words, allocate the decision-making authority to those who bear the risk of the success or failure of the decision. These are the parties who are most motivated to achieve success and cost-control. Put yet another way, don't give authority to spend "other peoples' money" to an entity that does not have to answer to the ratepayers.

2. FERC's jurisdiction over the region's transmission system should not be expanded beyond its current reach.²

PPC's desire to see decision-making retained within the region is informed both by its desire to retain strong accountability and by its observation of FERC's activities in electric transmission policy matters. FERC's past actions have revealed it to be an undesirable partner in the establishment of policy for the Northwest, in that it has repeatedly proposed policies that are not compatible with our physical system or regional needs. FERC has driven relentlessly toward market mechanisms that are antithetical to cost-based power, antithetical to non-market solutions, and antithetical to local control—all important values in the Northwest. FERC has aggressively pushed utilities to create FERC-jurisdictional Independent System Operators (ISOs) and Regional Transmission Operators (RTOs).

Once underway, these organizations have almost uniformly disappointed consumer interests and have frequently disappointed their original boosters. Because they are unmoored from state and local governmental oversight, they often fail to meet the needs of their regions. When the inevitable mistakes are made, or when conflicts arise, the ultimate arbiter is FERC.

² For a more complete discussion of PPC's views of FERC's recent policy objectives and proposals, please refer to PPC's comments regarding Decision Point 1, submitted to BPA on August 23, 2004.

TIG achieves the goal of limiting FERC’s involvement to the extent feasible. It is important to understand that TIG has not rejected any proposal for improvement that involves a FERC-jurisdictional activity. Rather, TIG’s approach is to avoid expanding FERC jurisdiction into areas and activities that would cause FERC to acquire additional authority over non-jurisdictional utilities, including BPA.

Risking expanded FERC jurisdiction is unnecessary because, as TIG demonstrates, the region can make significant improvements to the system *without* expanding FERC jurisdiction. The TIG proposals are carefully crafted to achieve this result. No new entity is created that would be a “public utility” for purposes of the Federal Power Act, and some functions are carried out by independent agents of the utilities, in order to isolate jurisdiction to currently jurisdictional utilities.

3. An independent entity that makes decisions in place of utilities significantly weakens accountability and local control.

“Independence” is a vexing term because it can mean many things. In the context of RTOs it means refers to an organization or its board members having no financial stake (being “independent” from) those who use the transmission lines to buy and sell power.

But if the organization and its board are *also* “independent” from the citizens and businesses it ultimately should be serving, the organization will not be accountable to those citizens and businesses—i.e. to “the public”—and very likely will not be responsive to their needs.

When utilities hand off control of decisions about transmission service and reliability to an independent entity, they tend to turn their attention to maximization of short-term profits through the markets established by the independent entity. They are no longer responsible for operational or planning reliability, and they act accordingly. The effects of this lack of accountability arguably contributed to the August 14 Midwest blackout: an independent entity, focused on markets first and reliability second, did not have the tools or expertise to arrest a cascading outage and utilities focused on profiting from the markets neglected critical system maintenance.

PPC does not contend that an independent entity will result in cascading outages; it is likely, however, that reliability will not improve if utilities cannot be held strictly accountable for improving reliability. PPC does not want to see the Northwest repeat the mistakes made by other regions. We want to ensure that utilities remain focused on their core obligations: reliable service and the lowest reasonable cost.

4. Independence is not an end in itself.

Independent decision-making is valuable only to the extent that it ensures fairness of decision-making. If the independent decision-makers are not genuinely accountable to the public and stakeholders, their very independence may result in decisions that are unrealistic, expensive, insensitive or worse.³

Unquestionably, it is important for decision-makers to make fair decisions and to explain those decisions publicly. It is important for the public to have input into those decisions, to express their opinions, and to have those opinions considered. These important processes, however, should not be confused or equated with decisions made in the public interest by public officials charged with a duty to protect the public interest.

Grid West asserts with apparent satisfaction that it is “not an RTO.” It can make this claim only because it does not satisfy all seven of the factors FERC originally laid out as defining an RTO. In the most critical respects, however Grid West is exactly like an RTO: it is a separate, regional, FERC-jurisdictional utility that takes on functions heretofore performed by local utilities or federal Power Marketing Authorities.

TIG strikes an appropriate balance between independence and accountability. Utilities responsible for paying for the implementation of improvements make the decisions, but a public process in which improvements are developed and debated heavily informs those decisions. In most cases independent contractors or agents carry out the improvements themselves. This structure provides public scrutiny and thus strongly promotes fairness. At the same time, no structure or process comes between the utility and its customers and regulators.

C. Assessment of TIG’s Substantive Proposals: Why BPA And Its Customers Benefit From TIG

TIG proposes improvements in five substantive areas. These areas are: transmission system reliability and security; common, flow-based ATC calculation; unified, regional transmission planning and “backstop” authority for new transmission needed for reliability; a common OASIS; and market monitoring.

³ “Fairness” as produced by an independent body that is not accountable may prove illusory, given the experiences of utilities in other regions governed by independent entities. An ISO or RTO will tend to listen most intently to its regulator, but after that will listen to those with the most influence (i.e., its biggest partners). The experience of most publics operating in those areas is that their needs and requests are ignored. Moreover, local public officials, who directly serve the public interest, may also be ignored. A good example is the “LICAP” proposal of ISO New England. *All* of New England’s governors and *all* of New England’s regulators and *all* of New England’s Congressional delegation opposed this proposal but their pleas were ignored by the ISO. There could hardly be a more clear example of flouting the public interest. Only extreme pressure by the New England Congressional delegation resulted in FERC (not the ISO) delaying the ISO’s decision.

1. BPA got everything it requested in the TIG proposal

In its negotiations of the “TIG Participation and Funding Agreement” and in the development of the TIG proposals, BPA staff requested that the TIG proposals contain a number of features not originally contemplated by the other TIG participants. These included proposals for: a transmission system expansion “backstop”; a consolidated control area; common, flow-based ATC calculation; overall coordination; and the express intent of the TIG participants that each party sign every contract that it is eligible to execute. TIG has accommodated every one of these requests.

a. Transmission Planning and Expansion Backstop

The TIG proposals contain a “backstop” for transmission expansion projects needed to ensure transmission system reliability. The backstop includes a contractual commitment by utilities to participate in the development of a regional transmission plan: utilities would build transmission facilities needed for reliability purposes, and if they refuse, they could be taken to FERC or their state regulator.⁴

b. Voluntary Consolidation of Control Areas

TIG proposes a consolidation of the reliability and balancing authorities currently exercised by control areas. Consolidation of these functions would not consolidate commercial activities or shift costs among participating transmission systems, nor would it establish expensive bid-based markets. Coupled with TIG’s other reliability and security proposals, it achieves BPA’s aim of providing greater operational control over a broader geographic and electrical area and of thus improving the ability to manage system reliability.

c. Flow-Based ATC Calculation

TIG proposes an independent agent that would perform a system-wide, flow-based calculation of available transmission capacity based on inputs from participating transmission providers. This will provide the economic and reliability improvements BPA sought by advocating this approach.

⁴ Utilities will retain the ability to refuse to construct or fund a transmission project if financing is unavailable, if they lack statutory authority or regulatory approval, or if they cannot get the necessary governmental approvals and permits to construct the facility. PPC believes, after review of the Grid West and RTO West approvals, that this is as much of a backstop as can reasonably be constructed. Although Grid West asserts that it will order projects to be constructed and will allocate the costs to benefiting systems, (1) Grid West will lack eminent domain authority and will not be able to construct without the cooperation of the local utility, and (2) its ability to allocate costs would be based on contract or FERC authority, and so its ability to reach utilities would be coextensive with the ability of TIG to reach those utilities through TIG’s backstop authority.

d. Commitment to Comprehensive Approach

In addition, TIG participants agreed to provide a central mechanism for ensuring coordination among the parties, as they focus on improvements to the transmission system, for ensuring that the parties make progress on developing and implementing those improvements. TIG participants also agreed in principle that every utility that wishes to execute an agreement to implement any of the improvements would also agree to execute agreements to implement all of the other improvements to the extent that it is eligible to do so. These will help ensure that the package of proposed TIG improvements is implemented and that the full benefit of these interrelated proposals is achieved.

2. The TIG Approach Is Lower-Risk for BPA and the Region

The TIG approach is truly incremental. It does not start with an initial “big bang” where very large changes are locked in at the beginning. TIG proposes that decisions be made as proposals are developed. Proposals will be evaluated for their cost-effectiveness and implemented only when the decision-makers agree that it works for all. **Specifically, TIG proposes to go forward now with the coordinated Implementation Agreements, but it could not self-evolve to more “advanced” features without additional agreement of the contracting parties.** This will give utilities better control over investments that they make in the region.

TIG does not propose centralized, bid-based energy markets or markets with a single clearing price. These are very expensive to establish and operate, and they promise to raise costs for participants. It has been demonstrated conclusively that the centralized markets operating in U.S. ISOs and RTOs do not reduce the delivered power price for consumers. TIG avoids these risky and damaging features.

Overall, TIG projects that its proposals will cost substantially less to implement than Grid West. Without the creation of a new entity, and with a focus on the cost-effective use of existing institutions and resources, less expense will be incurred. TIG estimates that its improvements will cost the region slightly more than \$50 million per year. Coupled with the incremental process for making improvements, this lower overall cost will substantially improve the probability that TIG will produce benefits in excess of these costs.

As importantly, TIG will require a lower total capital investment to achieve these results. Were it to become necessary for BPA to withdraw from one or more of the TIG implementation agreements, withdrawal would be more easily achieved than if the capital investment were greater. Very simply, less is at stake financially.⁵

⁵ Moreover, withdrawal by BPA from one implementation agreement would not necessarily require or cause withdrawal from other implementation agreements, whereas withdrawal by BPA from a single centralized entity

Overall, BPA and the region will run far fewer risks by adopting the TIG approach than under Grid West. In the end BPA's customers benefit when BPA's risk profile is low.

4. Retention Of Decision-Making By BPA Regarding The Federal Columbia River Transmission System (FCRTS) Is The Best Course For BPA

The TIG approach will permit BPA to retain its discretion to make changes to the FCRTS that BPA deems necessary. BPA will be the operator of the transmission system and will retain its tariff and BPA will retain the ability to make decisions as it does today. BPA will continue to set its own rates for new and existing transmission service and will continue to enter into transmission service contracts. This authority is critical to its ability to ensure the fiscal and physical integrity of the federal assets and to ensure full repayment of Treasury debt. Under the TIG approach, BPA will have a greater ability to control its investment in the FCRTS, to control its costs, and to ensure reliable and affordable transmission service for its customers. At a time when BPA is under intense pressure to control its costs and to respond to statutory obligations and court orders, the ability of BPA to chart its own course is important.

Moreover, because TIG's annual operating costs will be lower and more straightforward to recover, BPA and its customers run less risk of large, dislocating rate increases driven by these costs. This is particularly true because TIG does not propose centralized markets that are likely to produce volatile and inflated prices.

Overall, the lower total cost, the better control over the incurrence of cost and the absence of volatile markets comprise a better policy choice for the region. The Northwest, like all other regions of the U.S., depends on affordable, predictable energy prices to support economic growth. While we cannot eliminate volatility from prices (many causes are not within our control) we should be diligent about retaining whatever control we possess over those prices.

The TIG approach is well understood and historically successful in the Northwest. It will enjoy greater regional acceptance by a broader sweep of Northwest utilities and thus has a greater chance of adoption and implementation.

II. Grid West Provokes Serious Concerns About Its Effects And Effectiveness

In February 2005, PPC's Executive Committee voted to oppose the Grid West proposal. The details of the proposal published this summer confirm the very significant concerns

would certainly cause the collapse of the whole and the need for all parties to recover their investments and debts would be difficult and politically charged.

held by Northwest consumer-owned utilities toward the Grid West approach. These concerns involve:

- Creation of a new, FERC-jurisdictional utility with a cumbersome governance structure and attenuated lines of accountability
- Risk to the ability of Northwest consumer-owned utilities to obtain affordable transmission rights to move generation to their loads and to meet load growth
- Jeopardy to BPA power and transmission revenues
- BPA’s failure to offer an acceptable “contract lock” to protect transmission rights currently under contract with BPA

A. Grid West Governance Impairs Accountability

At Decision Point 1, PPC commented to BPA regarding the deficiencies of the Grid West governance structure. These deficiencies remain unaddressed.

1. Grid West Will Be Subject to FERC Control

Grid West would be a FERC-jurisdictional utility, and as such the disabilities discussed in the preceding section attach to it. The declaratory order recently issued by FERC does not provide any protection for the Northwest.⁶ FERC made plain in its order that it is not bound by the order’s policy pronouncements. FERC retains the right to find that the Grid West proposal is not just and reasonable and to order modifications to it. Co-extensive with its jurisdiction, FERC can order Grid West to modify its transmission rates; its market rules; its market transaction terms and conditions; the terms and conditions of Grid West transmission services (including matters such as scheduling, settlement, applications and all other aspects of the transmission rights); and any other aspect of any jurisdictional service offered by Grid West. Grid West, therefore, will respond most immediately and most consistently to the dictates of its regulator, FERC.

2. Grid West’s Governance Structure Does Not Provide Accountability to the Region’s Ratepayers

Grid West asserts that it will be “accountable to the region.” Its governing structure, however, attenuates to the point of elimination the relationship between Grid West decision-makers and those whose needs matter most: ratepayers.

Although “stakeholders” are involved in election of the board of trustees, this process does not equate to an obligation or guarantee to act in the public interest. Stakeholders are an assortment of interests, including independent power producers and power marketers, who represent private interests, not the public interest.

⁶ Bonneville Power Administration, 112 FERC ¶ 61,012 (July 1, 2005).

Moreover, even the stakeholders' influence is indirect and fragmented—by design. Member-entities clustered in stakeholder groups elect “electors” who elect the board (who must be “independent” of transmission interests), who hire the CEO, who makes the decisions.

One way to test accountability to ratepayers is to ask the question: “Where does a ratepayer go when things go wrong?” In the case of Grid West, a citizen would have to navigate a path of influence so thin and fragmented as to be vaporous. The lines of accountability between the CEO and the ultimate ratepayers are deliberately attenuated, in the name of “independence.”⁷ Overall, Grid West proposes a poor model for ensuring responsiveness and accountability to ratepayers and the public.

B. Grid West’s proposals do not provide mechanisms that assure transmission customers that they will have access to affordable transmission rights.

1. Short-Term Transmission Rights Would Be Auctioned To The Highest Bidder.

Grid West would be the sole provider of new transmission rights for use of the participating transmission systems. In other words, BPA’s transmission customers will no longer be able to purchase new transmission rights from BPA; they will have to do business with Grid West. Grid West proposes to sell what it terms “injection-withdrawal rights” (IWRs). IWRs are physical rights to move transmission between two (and only two) points on the transmission system. These may be used in a fashion analogous to a point-to-point right. If the rights-holder wants to use the IWR to move power between different points than reflected in the IWR, it must purchase a right to do so from the Grid West Reconfiguration Market.

These rights will be purchased in an auction operated by Grid West. Under the proposal, utilities seeking transmission to move economy or other short-term energy to their loads will have to compete for transmission rights on a price-basis with marketers and generators. To the extent that competitors are purchasing transmission rights to move power to higher-priced regions (such as California or the desert Southwest) the competitors will be able to bid more for the transmission. This means that in many cases utilities will incur substantially higher transmission prices than are paid now for short-term transmission—or, they may be priced out of the market altogether. It is not in the public interest for load-serving utilities to be put in a position of having to bid for the transmission they need to serve their native loads.

⁷ We note further that the problem of “board capture” by staff is a well-documented problem, particularly in industries where the details of operations and decisions are highly technical in nature.

2. Grid West’s Recommended Proposal For Pricing New Long-Term Transmission Rights Carries A Significant Risk Of Under-Recovery of BPA’s Transmission Revenue Requirement And Cost-Shifts

The pricing of long-term transmission rights is crucial because each transmission owner recovers the embedded costs of its transmission system through rates paid for long-term transmission services.⁸ The IndeGO and RTO West proposals collapsed in large part due to the inability of proponents to develop a method of pricing long-term transmission (of any stripe) without causing significant cost shifts. The Grid West proposal faces the exact same challenge and has not resolved it. Without a clear explanation of how license-plate rates may be constructed and implemented without causing unrecoverable under-recoveries and cost shifts, it would be irresponsible for BPA to vote to seat the Grid West board of trustees and execute an irrevocable funding agreement.⁹

a. Grid West Recommends Pricing Long-Term Grid West Transmission Rights Based on the “Point of Withdrawal”

Grid West’s White Paper on Pricing contains several options for pricing long-term transmission. One option is recommended: pricing transmission by the embedded costs of the system where the energy is withdrawn from the overall Grid West transmission system.¹⁰ This would be a license-plate rate to match the regional transmission right. If a customer purchased a right to move energy from a point on BPA’s transmission system to a point of withdrawal on Idaho Power’s transmission system, it would pay the same price as if it had move the same amount of energy from a point on PacifiCorp’s system to the point on the Idaho Power system. Under the current system, that transaction would pay both the BPA and Idaho Power rates in the first case, and both the PacifiCorp and Idaho Power rates in the second case. Under the *proposed* rate structure, the transaction will pay only the Idaho Power rate, and neither BPA nor PacifiCorp would charge a rate for the use of its system.

⁸ At this point Grid West intends to offer both NT and PTP transmission products in the long-term. Integrated Proposal, p. 30.

⁹ The Integrated Proposal notes that “[n]one of the proposal elements for Decision Point 2 (in pricing or other areas) are ‘binding’ on the Developmental Board, although they are intended to serve as important resources for the Developmental Board in future work. *The region will rely on the Developmental Board* to conduct appropriate testing and analysis as it moves forward, consult with regional stakeholders and *to make appropriate adjustments if it identifies any ‘fatal flaws.’*” Integrated Proposal, p.33 n. 43 (emphasis added). PPC does not believe that the Grid West developmental board will have an inherent interest in identifying “fatal flaws” in the pricing proposal. If the Grid West board were to identify a “fatal flaw,” it would be taking the first step in dismantling the corporation because a transmission marketer that cannot price and sell transmission has no reason to exist. It is unlikely that the Grid West board will act in a way so clearly contrary to its own self-interest.

¹⁰ Integrated Proposal at 32. It should be noted that some members of the Regional Representatives Group have advocated for auctioning long-term transmission rights. PPC opposes the use of auctions to price long-term transmission for the same reasons that it opposes their use to price short-term transmission: auctions favor transmission customers with financial resources and the promise of a profit from the sale of their power even when the cost of transmission is very high. Northwest consumer-owned utilities, by and large, cannot successfully compete against such parties and yet must do so in order to serve their loads.

Pricing the transaction at the point of withdrawal means that other transmission owners whose systems the transaction crosses are not compensated for use of their system, thus creating a revenue under-recovery. Under-recoveries must somehow be made up because transmission providers must fully recover their revenue requirements.

One way to make up the under-recovery is for the non-charging transmission provider to raise rates for the customers it *can* charge, in this case those customers located inside its transmission system and taking power off of the Grid West system at that point. In other words, the costs of the Grid West customers' uncompensated use of a transmission provider's system are shifted to that provider's customers—a cost shift.

It has been a cardinal principle of rate development in Grid West, and indeed for IndeGO and RTO West, that significant cost shifts must be mitigated. The Grid West pricing proposal notes that cost shifts must be mitigated and proposes two mechanisms for doing so. First, after paying the point-of-delivery transmission provider, Grid West would apply remaining revenues from the sale of new short-term and new long-term transmission rights to the collective under-recovery of the all participating transmission owners, allocating the revenues in accordance with each owner's relative under-recovery. Even this, however, may not fully make up the under-recovery incurred by some transmission owners. Therefore, Grid West proposes to roll the unrecovered costs into a scheduling charge and to apply this charge to all power scheduled through Grid West. Revenues from that charge also would be allocated to the under-recovering transmission owners.

These two measures, obviously, will cause costs to be shifted in various ways onto other customers.

In order to minimize this problem in the near term (and intermediate term), Grid West expressly assumes that all existing transmission contracts between transmission providers and third parties will stay in effect for the terms of their contracts. ***Thus, all contractual payments to the transmission providers will continue to be made and the rate "pancaking" will continue for those contracts.***¹¹ These transactions account for the majority of transmission capacity under contract in the current system. The Grid West proposal would also mandate that transmission providers keep in place the wheeling agreements that they have with each other, so they will continue to pay charges to each other.

Ironically, Grid West chooses to mitigate its cost-shift problems by institutionalizing the rate pancakes of the existing transmission contracts. While it may be prudent for the proposal to retain pancaking for the purpose of avoiding the very significant cost-shifts

¹¹ "The first source [of revenues to recover the costs of existing Grid West transmission facilities] is payment from legacy services, which account for the great majority of cost recovery for the existing Grid West system *and will be left in place.*" Integrated Proposal p. 26 (emphasis added).

that would occur if they were eliminated, it is important to acknowledge that *pancaking is not eliminated in either the near term or the intermediate term.*

b. Grid West’s Pricing Recommendation For Long-Term IWRs Does Not Successfully Reconcile The Mutually Exclusive Goals of “De-Pancaking” Rates And Avoiding Significant Cost Shifts.

Nor are cost-shifts and under-recoveries likely to be eliminated in the long-term. The problem seems intractable, and the steps taken by Grid West to *lock in* pancaked payments by legacy contracts only puts off the inevitable cliff that the region will face in 2026, when the majority of BPA’s long-term contracts held by preference customers expire.

c. BPA’s Legacy Contract Holders Will Face Higher BPA Transmission Rates To Make Up Under-Recoveries.¹²

i. Rates Will Rise If BPA Under-Recovers Or Risks Under-Recovery Of Its Revenue Requirement.

If BPA risks under-recovery of its transmission revenue requirement, it also faces the risk that the Grid West revenues, even with the scheduling charge, may not be sufficient to cover the under-recovery. Given BPA’s current and past practices of insisting on rate premiums for “risk,” we must assume that rates will reflect that risk, even if the under-recovery is ultimately covered by Grid West. Thus, rates will rise, due either to risk or to an actual under-recovery not mitigated by Grid West.

ii. Legacy Contracts Will Pay Their Pancaked Embedded-Cost Charges Plus A Scheduling Charge To Make Up Under-Recoveries Caused By New, De-Pancaked Transmission Transactions.

Whether or not BPA experiences an under-recovery of its own transmission revenue requirement, BPA’s transmission customers will face increased costs due to the collection of unrecovered costs of *other* transmission owners. Grid West plans to make up unrecovered costs of transmission owners through a scheduling charge that would be applied to all power scheduled through Grid West. BPA’s legacy contract customers, either directly or indirectly (as BPA incurs the charge on their behalf) will have to pay that scheduling charge. This charge will be paid on top of their BPA rates and any other rates that they must pay other transmission providers under legacy contracts.

¹² This leaves aside the issue of a general rate increase to cover BPA’s investment of millions of dollars in the implementation of Grid West.

iii. The Effects Of These Price Increases On Customers May Be Significant.

Grid West will spread the under-recoveries caused by de-pancaking to the region's transmission customers. Those purchasing new transmission rights for what would have been a multi-system transaction may see the lower costs of those new, de-pancaked transactions. It is highly likely, however, that existing transmission customers will see increases in the embedded-cost transmission rates the system providers charge.

Moreover, if BPA implements an allocation system for its power sales to preference customers and foregoes further generation resource development, BPA's preference customers will quickly find themselves in need of new transmission rights as they begin to integrate new resources to meet their load growth. If most of a utility's power is delivered within the transmission system within which the utility is located (or if its federal power is delivered over a GTA whose costs are spread to BPA transmission users), the benefit generated by the removal of the pancake for the non-federal power wheeled on the new transmission rights may be swamped by BPA's rate increases to recover the embedded system costs from legacy contracts.

d. Recovery Of BPA's Transmission Revenue Requirement Would Become Subject To Additional FERC Scrutiny.

If BPA needs to recover a portion of its transmission revenue requirement through Grid West's allocation of revenues from sales of new rights or through Grid West's scheduling charge, then BPA's unrecovered transmission revenue requirement becomes a basis for the Grid West rate. In that case, FERC will assert the ability to review the justness and reasonableness of BPA's unrecovered transmission revenue requirement.¹³ Based on its reasoning in its *City of Vernon* decision, FERC will apply the same level of scrutiny to the revenue requirement as it would to a fully jurisdictional utility under section 205 of the Federal Power Act. (This same dynamic will apply to any public-power transmission provider seeking recovery from these Grid West revenues.)

This is a result that BPA should not accept. BPA has repeatedly taken the public position that it will not become more FERC-jurisdictional than it currently is pursuant to statute. Such a voluntary acceptance of further jurisdiction is highly undesirable, as it will shift the forum for determining BPA's revenue requirement to FERC, which is far from BPA's customers both in distance and concerns.

¹³ *City of Vernon, Calif.*, FERC Op. No. 479, ¶ 35 (Apr. 12, 2005)

B. Current BPA Revenue Levels Will Be Jeopardized If The Grid West Proposals Are Implemented

1. Grid West Proposes Balancing Energy and Reserve Markets for the Consolidated Control Area

Grid West's consolidated control area proposal would establish centralized markets for balancing energy and load-following and for ancillary services. The markets would be bid-based and employ a security-constrained, economic dispatch using locational pricing, similar to the real-time balancing markets of other RTOs and ISOs.¹⁴ Although BPA has insisted that the consolidation of control areas is "voluntary," it is not voluntary for the utilities that are not control area operators and are located inside the consolidating control areas. Those utilities may well prefer that their control area not consolidate. Their participation is conscripted, not voluntary.

Participation in the consolidated control area's balancing energy and reserve markets is also "voluntary." Here again, however, "voluntary" needs to be clearly defined. *Resource participation* in the balancing and ancillary services markets is voluntary¹⁵ In other words, generators and dispatchable loads do not have to offer to sell generation "incs" or "decs" or dispatchable load into the market.¹⁶ However, transmission customers that wish to self-supply balancing energy must offer their generation and bid to purchase it back.

Resource participation is voluntary unless Grid West determines that it has or will have insufficient resources based on bids into the market. If that occurs, Grid West will require the consolidating control areas to offer balancing energy and reserves to the market.¹⁷ In the case of insufficient reserves, Load-Serving Entities would be required to offer resources.¹⁸ PPC's assumption is that BPA's Transmission Business Line (TBL) would have to acquire sufficient generation from BPA's Power Business Line (PBL) to

¹⁴ Integrated Proposal, p. 23 ("The balancing service will establish locational prices according to the offers and bids that are accepted."); Real-time Balancing Service White Paper (May 2005) (RBS White Paper), p. 8 ("The SCED algorithm will resolve any CCA imbalance while maintaining system security. In addition, it will also re-dispatch all resources whose bids can improve economic efficiency. This is similar to real-time balancing markets used by other RTOs/ISOs. The result is a least-cost dispatch solution consisting of locational imbalance prices, generation basepoints, and adjusted Net Scheduled Interchanges (NSIs). The locational prices can vary from one interval to the next. The prices reflect the value of imbalance energy for a specific period of time and location. The solution is "security constrained" in that it takes into consideration security limits and contingencies.").

¹⁵ RBS White Paper, p. 4.

¹⁶ Integrated Proposal, p. 23.

¹⁷ "If on any given day there are insufficient voluntary offers to meet the needs of the consolidated control area, consolidating transmission owners will be obligated to offer into the market ancillary services *at least* equal to their individual requirements." Integrated Proposal, p. 22 (emphasis added); see also RBS White Paper, p. 11.

¹⁸ Consolidated Control Area, Reserve Market White Paper (May 2005), p. 2 n. 4 ("If IOS are not offered in the DA market sufficient to meet Grid West's [Consolidated Control Area] CCA requirements, CCA [Load Serving Entities] LSEs will be required to offer IOS as necessary to provide adequacy.") (emphasis added).

cover both PBL's surplus market transactions and its power sales where customers have contracted with TBL to provide balancing energy, load following and reserves.

This proposed arrangement raises a number of questions. First, the must-offer condition is troubling. Under what circumstances may BPA refuse Grid West's "must-offer" requirement and in the event that it does, what happens? A must offer situation for a federal asset raises questions about control of the federal asset, and because the federal hydro system is involved, non-power requirements of the system must be maintained without fail. Second, does the presence of the market imply that TBL may be "out of the business" of providing balancing energy and load-following for transmission customers unless their contracts specifically provide that TBL will do so? PPC assumes that BPA must remain involved as the provider of last resort, but this does not preclude BPA's withdrawal from its role as a transmission services provider. Third, currently, PBL receives \$60 to \$80 million in transfer payments from TBL in exchange for providing TBL power to use in interconnected operations services (IOS).¹⁹ It is unclear whether PBL will continue to receive this transfer payment if Grid West is established – if it does not, that could be a \$60 to \$80 million loss to BPA, and BPA will raise its power rates to recover that amount.

As a last matter, to the extent that BPA is obligated by a must-offer requirement to provide balancing energy, load following, or ancillary services to the market in excess of its own needs, how will BPA ensure that it complies with its public and regional preference obligations? Public preference customers are entitled to step in front of other customers.

These questions must be answered prior to BPA's decision on Decision Point 2. It is not sufficient to say that BPA does not know but will work it out: the answers raise very serious cost and legal issues for preference customers and they deserve to know the answers up front.

2. Balancing and Ancillary Services Markets are unlikely to be viable

The foregoing discussion about the Grid West energy and reserve markets assumes that the markets will function as proposed. PPC believes that this assumption is shaky for a number of reasons. First, the markets are likely to be thin. Prices would be set and auctions held at buses or aggregations of buses on the system. If resources must be bid in by location, there are likely to be locations where few resources are located. Although Grid West asserts that no transmission rights will be required to move reserves and balancing energy across its system,²⁰ it will still be constrained to ensure that resources are located on the right side of congestion zones. If only a few participants can bid

¹⁹ Those funds are currently attributed to PBL's surplus sales revenues.

²⁰ That assertion may prove incorrect, given recent FERC decisions.

generation into the market at different locations, there may be too few generators to make the market. In that event, prices will be volatile and subject to manipulation.

Second, and perhaps most importantly, locational pricing is not suitable for use with the Northwest hydro system. This point was made during the national debate on FERC's Standard Market Design proposal and was endorsed by nearly every consumer-owned utility organization in the Northwest.²¹ The reasons for this incompatibility are straightforward and, one would hope, uncontroversial.

Locational pricing demands that individual generators respond independently to market price signals based on their own marginal costs of operation. The fundamental truths, however, are that (a) no mainstem hydro-electric generator is truly independent of another and (b) all of the hydro-electric generator's fuel is subject to non-power uses and obligations. Over 60% of generation in the Northwest is hydro generation in an average water year and hydro-electric systems are fuel constrained. All of the hydro generation on the mainstem of the Columbia and Snake rivers is hydraulically linked, and so no dam may be operated in isolation from another. In addition, coordination agreements govern hydro generation operations. Thus, the requirements of independent operation, bids, and information are not met.²²

Also, in the Northwest the majority of available generation has little ability to respond to short-run price signals. This compounds the problem of attempting to calculate a marginal cost of hydro generation, which is a wholly subjective enterprise. In addition, locational marginal pricing may increase market power in the Northwest in existing load pockets. Locational pricing may further impede bilateral trading and will not encourage rational expansion of transmission infrastructure.

In short, the proposal to use locational prices is not suitable for the Northwest, and BPA should not endorse a proposal that employs locational prices set through a centralized market. The damage that would be done to transmission and power customers by

²¹ See "Comments of Idaho Consumer-Owned Utilities Association, Northwest Requirements Utilities, Pacific Northwest Generating Cooperative, Power Resource Managers, Public Generating Pool, Public Power Council, Snohomish County Public Utility District No. 1, and Western Public Agencies Group to the *Concept Discussion Paper For an Electric Industry Transmission and Market Rule*, Dec.17, 2001," FERC Docket No. RM01-12-000, p. 7-19 (Feb. 1, 2002) (Publics' Joint SMD Comments).

²² "Auction Pricing 1. Has the TSLG considered the theory of affiliated information in auction design, which concludes that ascending price auctions are lower cost when information is affiliated rather than independent? (See Klemperer, P. 2004. Auctions: Theory and Practice.) The existence of the PNCA would seem to imply that suppliers in the Northwest possess affiliated information, which argues against market-clearing prices. Also, concern about market-clearing auctions was significant enough in England that the regulatory switched to discriminatory (AOP) auctions in the late 1990s.

Answer: No. The choice of a clearing price auction was made based on the information and practical considerations provided in the paper." "Grid West White Papers Comments: Answers to Questions from Lon Peters," July 27, 2005.

dysfunctional balancing energy and reserve markets is significant and difficult to remedy after-the-fact. Reference to the California markets crisis of 2000 and 2001 is ample demonstration of this point.

3. Issues Regarding BPA's Possession of Market Power In The Grid West Markets Will Have To Be Addressed And May Result In A Loss Revenues Relative To Current Levels

BPA is highly likely to have market power in the balancing energy and ancillary services markets in the Northwest, even after long-term term contractual commitments are accounted for. BPA has a significant portion of the generation in the Northwest. It may not be reasonable to assume that generators outside of the Northwest will bid into this market and so dilute BPA's market share. Because it has market power, BPA will be constrained to sell at a fixed cost-based price, or will have to be a price-taker in the centralized markets. The former seems unlikely to bring in the revenues BPA has obtained historically. The latter allows other parties to bid in and set the price; how many participants there will be and how robust the market will be (at any point of delivery) is difficult to gauge, but we can predict that there will be a number of places where the markets are very thin. Arguably, BPA may have to sell into the market to ensure that it is not withholding capacity from the market.

These constraints on BPA may cause BPA to forego revenues relative to current levels because it may not be able to sell into the market at the time and place of its choosing or for a price that it believes is fair. In that event, BPT would have to raise its rates to account for lost revenues—a matter of great concern to BPA's customers.

4. FERC Will Have Jurisdiction Over BPA's Transactions In The Grid West Markets.

As with its transmission revenue requirements, the proposed energy and reserve markets expose BPA to greater FERC jurisdiction. The markets established by Grid West will be subject to FERC's jurisdiction. They will be centralized markets legally analogous to the California ISO markets. FERC has asserted jurisdiction over all transactions that occur in the California ISO markets over which it has oversight. Given the FERC and DC Circuit rulings, the transactions entered into and rates charged by any party that voluntarily participates in that market will be subject to FERC's jurisdiction.

C. Grid West Cost-Benefit Analysis Does Not Demonstrate Net Benefits.

1. Introduction

The risk-reward (cost-benefit) estimates developed by Grid West are critical to evaluating whether proceeding with Grid West would be beneficial or not. Besides the various comments that PPC will make here on the risk-reward work to date, there is one further key factor that needs to be considered: the baseline that Grid West is being evaluated against. It is not enough for Grid West to demonstrate that it is a superior alternative to the status quo. It is also incumbent on Grid West to demonstrate that it is a superior alternative to other transmission proposals. If an alternative transmission proposal can be developed that can provide benefits similar to those provided by Grid West at a fraction of the cost, then BPA should not go forward with Grid West.

In addition, Grid West has not provided information on, and BPA has not considered, the *distribution* of benefits by Grid West. Grid West might claim to provide significant benefits, but in fact it may provide them only to extra-regional entities, or disproportionately to certain geographic areas. BPA's state-by-state analysis may provide insights into this area. Until that analysis is complete, however, any conclusions on the benefits of Grid West are unreliable.

2. Quantifiable Benefits From Grid West

In terms of estimating the quantifiable benefits from Grid West, PPC generally agrees with the technical criticisms provided by Linc Wolverton, who has devoted considerable efforts to trying to understand the validity of the numbers provided by Grid West.

One of the problems is that the quantifiable estimates were provided quite late in the risk-reward process and were derived from a different consolidated control area proposal, so there has been little time to evaluate the results provided. In particular, the claimed benefits provided by consolidating ten control areas were provided at the last minute (consolidating ten control areas was not part of a different proposal for consolidated control areas), and there was dissension within the risk-reward technical group on whether the ten-control-area proposal should be publicly presented, given the limited time available to test the basic validity of that set of numbers. Until there is a better chance to review the ten-consolidated-control area numbers, we feel that they should not be included in an assessment of Grid West.

3. The Structure Group's Cost Estimates

The Structure Group's RTO cost estimates, which were commissioned by Grid West, are a carefully thought-out and researched set of numbers that indicate the potential cost of an RTO under the *best possible* circumstances. Those estimates, however, assume that

nothing goes wrong and that nothing unexpected happens after Grid West is established that would require changes in procedures and software. As such, it should be viewed as establishing a *lower bound* on possible Grid West costs; not as a realistic estimate of what Grid West is likely to cost after the inevitable revisions are made to procedures after the commencement of operations, and after Grid West encounters other surprises associated with the establishment of new, large, complex organizations.

Consider, for example, the number of full-time employees projected to be employed by Grid West. With the exception of Grid Florida (which is just getting started), a striking fact is that all operational RTOs currently employ between 400 and 600 people, despite substantial differences in function and geographic extent. The Structure Group estimated that Grid West need only employ 305 people—three-quarters of the staffing that any operational RTO has been able to achieve.

The Structure Group explicitly stated that these numbers were developed assuming that procedures and software requirements were fixed before Grid West becomes operational, and that these procedures and software *would not be altered after Grid West becomes operational*. No operational RTO has been able to live up to those assumptions. The Structure Group also indicated which costs would escalate if post-operational changes became necessary; these costs are largely, but not entirely, in the Information Technology area.

PPC appreciates the Structure Group's point that Grid West has two advantages not enjoyed by some other RTOs. First, there is now a trained pool of people available who have gone through the startup of a RTO, who can better-avoid others' mistakes when starting an RTO up. Second, there is no externally imposed regulatory deadline that RTO West has to meet in initiating operations. Nevertheless, we do not feel that those two points are enough to justify assuming that Grid West will not meet with surprises that will drive costs up above the minimum. After all, every RTO formed to date began with an original cost-estimates but encountered unexpected problems and costs.

A final point to be gleaned from looking both at the Structure Group report and the experiences of operational RTOs is that the more things a transmission organizing tries to do, and the more complex it becomes, the more likely it is that there will be unexpected cost-overruns. This is one reason the TIG approach is more appealing: incremental steps can be tried and tested before moving to the next stage.

4. Reliability

An RTO's effect on transmission system reliability has long been a contentious issue. Well-informed people have weighed in on both sides of the debate, but the question of whether establishing a centralized RTO will improve reliability (particularly when compared to less centralized approaches, such as establishing regional reliability coordinators) continues to be hotly disputed.

We now have empirical evidence of the costs and operations of actual RTOs. This empirical evidence does not shed much light on whether RTOs reduce the likelihood of major cascading outages, since these outages occur so infrequently. The Grid West risk-reward group, however, claims a significant benefit for reducing momentary and sustained outages, which occur on a regular basis, and 10% of which are ascribed to transmission failures. It was noted at the Grid West risk-reward workshop, though, that there is *no* empirical evidence from currently operating RTOs that momentary and sustained transmission outages are reduced as a result of establishing an RTO. An expert from Lawrence Berkeley Labs present at the Grid West workshop confirmed this fact. Without evidence that currently-operating RTOs reduce momentary and sustained transmission outages, Grid West has no basis to assume these benefits in its risk-reward analysis.

5. Unquantifiable Benefits

Grid West notes correctly that not all possible benefits from establishing a new transmission organization can be quantified and goes on to list possible qualitative benefits. Again, to the extent that these benefits exist, they should be observable in operating RTOs. There is some empirical evidence for one qualitative "benefit" cited—construction deferral²³. The Northwest, *without* an RTO, is investing more in new transmission facilities than any other part of the country, while some RTOs are constructing no transmission whatsoever.²⁴ Whether these RTOs are actually providing a "benefit" by not constructing is a contextual question, but a general reason for forming RTOs was a perceived need for *more* transmission, not less.

It is necessary to comment on one unquantifiable benefit: "market innovation." Grid West claims that market innovation will provide huge (but unquantifiable) benefits from technologies such as vehicle-to-grid, SmartGrid, and other, as-yet-unknown and

²³ Grid West, "Preliminary Report on the Estimated Benefits of Grid West," July 19, 2005, Seminar Review Draft, pp 33-34, available on Grid West website, August 24, 2005.

²⁴ See FERC, "2004 State of the Market", pp 74, 80, 88, 97, 102, 112, 119, 125, 129, and 135. The Northwest completed twice as many circuit-miles of major transmission additions as any other region in the country. In RTO New England, the New York ISO and MISO, *no* new transmission circuit-miles were added to the transmission system.

unimagined innovations. The rhetoric on this point at the risk-reward workshop was eerily reminiscent of the claims Enron was making in the '90's for deregulated markets.

Before ascribing any value to “market innovation,” one needs to answer two questions: is it necessary to form Grid West in order to provide the appropriate incentives for such innovations; and where is the evidence from operating RTOs that these market innovations are in fact taking place where RTOs are currently operating? At this point, in the absence of answers to these questions, this claimed benefit should be ignored.

Overall, the cost-benefit analysis presented by Grid West and BPA is incomplete and inconclusive. It is not an adequate basis for concluding that net benefits can be predicted with any accuracy, nor that there is sufficient promise in the proposal that it should be pursued at this point.

D. BPA has not offered an acceptable, enforceable “contract lock” and thus fails to deliver a critical protection that is essential to support for a proposal involving an independent transmission operator and marketer.

Throughout all of the attempts to create an RTO or regional grid entity in the Northwest, PPC has conditioned potential support for those efforts on the protection of existing transmission contracts. PPC has repeatedly stated that BPA must provide to its preference customers contractual assurance that current contract provisions, business practices, and rate treatments will remain unchanged in the event that Grid West commences operations.

Over the last six months representatives of PPC and BPA reached tentative agreement on the most essential elements of Network and Point-to-Point transmission service that must be contractually assured in order to convince preference customers that Grid West will not jeopardize their ability to deliver federal power they purchase from BPA to their retail customers. For this contractual assurance to be meaningful to preference customers during the Grid West process, it must be in place while the transmission agreement between Grid West and the transmission owning utilities is being negotiated, and it must be enforceable during its entire term by both BPA and its preference customers.

Although tentative agreement was reached on the most essential elements of the transmission service, PPC and BPA are at an impasse over the implementation and enforceability of the agreement. BPA insists that it be allowed to change its tariff in ways inconsistent with the contract terms during the period between execution of the contract and BPA's execution of a transmission agreement with Grid West. BPA also insists that the Administrator make the decision regarding whether the contract terms and its tariff and agreement with Grid West are consistent with each other.

A “contract” in which only one party (the BPA Administrator) is the ultimate arbiter of what the contract means, and which moreover is operating in an environment (Grid West) over which FERC has dominant control, is not a “contract” in the normal sense of the word. Rather, it is a BPA-controlled “process” taking place in a larger FERC-jurisdictional world. As a result, PPC’s long-standing “must have” of an adequate and effective contract lock is unmet.

E. Conclusion In Regard To Grid West

Grid West has been and remains a risky proposition for BPA and the region. Grid West is expected to cost, at a minimum, \$101 million per year in operational and debt expenses. It is highly likely that transmission rates will climb as a result of Grid West’s pricing and market proposals. BPA has not taken steps to try to calculate the total costs to its customers but they are likely to be substantial. In exchange for these costs, the region is expected to receive uncertain and debatable benefits. At best they are marginal relative to costs, but PPC does not expect costs to be adequately contained, so net benefits appear to be an illusory promise.

PPC understands that BPA hopes to reap substantial reliability benefits from Grid West, but the analysis does not support that expectation. As noted above in PPC’s evaluation of the current cost-benefits studies, there is little empirical evidence that RTOs or other grid operators actually provide a benefit in terms of either reliable operations or reliability on a planning basis. BPA asserts such a benefit, but it provides no basis for that assertion.

Overall, BPA has not provided a convincing case to the region that Grid West is the best path for the region to take. Thus, BPA should not pursue Grid West further, either to seat the board or to execute an irrevocable funding agreement. BPA and the region do not face an imminent crisis that requires these actions now. PPC acknowledges that the transmission system is increasingly constrained, but with the addition of significant new transmission facilities in the last few years, some of those constraints are eased as a reliability matter. With no imminent crisis, BPA should vote no on Decision Point 2.

III. BPA’s Role In The Northwest

BPA is a federal electric utility and the beacon of public power in the Northwest. Since 1937, when Congress articulated its policy regarding transmission in the Bonneville Project Act, BPA’s role has been to build, maintain, and operate the backbone transmission that interconnects the region. BPA’s role as the developer and operator of transmission has been critical to the establishment of public power utilities in this region. It is crucial to public power that BPA carry out its responsibilities and be accountable to the region for its decisions. If BPA turns over responsibility for the operation and expansion of its transmission system to Grid West, a private third party, it will abdicate

its public role and reverse seventy years of public policy choices. PPC urges BPA not to take this step.

PPC believes that a strong and engaged BPA is a boon to the region and its economic growth. BPA can maintain its important role in the region by moving ahead with the TIG approach. We urge BPA to choose TIG.

Thank you for the opportunity to comment on your upcoming decision.

Sincerely,

A handwritten signature in black ink, appearing to read 'M. Showalter', written in a cursive style.

Marilyn Showalter
Executive Director

Attachments (separate documents):

Two Graphs (Cost of RTOs; Transmission Completed in 2004)

Questions Addressed in Rounds 1, 2, and 3

Round 1, August 17, 2005 (first set of informational questions and answers)

Round 2, August 30, 2005 (relating primarily to jurisdictional and operational aspects of TIG)

Round 3, September 2, 2005 (relating primarily to east-west, GTA, and pancaking issues)

Side-by-side comparison

Executive Summary TIG

Executive Summary Grid West

PUBLIC POWER COUNCIL
Questions and Answers on TIG and Grid West

Round 1, August 17, 2005
(First set of informational questions and answers)

GENERAL

- 1-1 *What Is TIG?*
- 1-2 *What is the TIG approach?*
- 1-3 *How does the 2005 Energy Policy Act affect TIG?*
- 1-4 *Which transmission issues does TIG address?*
- 1-5 *What are the cost differences between the TIG approach and Grid West?*
- 1-6 *How does TIG control costs?*
- 1-7 *Are there near-term benefits of TIG?*
- 1-8 *How many utilities support the TIG approach now?*
- 1-9 *What is the deadline for a decision?*
- 1-10 *What if all the transmission owners don't endorse the TIG approach?*

GOVERNANCE

- 1-11 *Who will have the responsibility for taking action?*
- 1-12 *How will decisions be made?*
- 1-13 *What are the benefits of the TIG governance structure?*
- 1-14 *Are the TIG or Grid West decisions irreversible?*

RETENTION OF REGIONAL DECISION MAKING

- 1-15 *Can you explain the issue of FERC jurisdiction?*
- 1-16 *Does the Energy Policy Act of 2005 change jurisdiction?*
- 1-17 *Without FERC authority to order action, how do we know improvements will be made?*

TRANSMISSION SYSTEM PLANNING AND EXPANSION

- 1-18 *Does the Northwest have a problem with transmission planning and expansion?*
- 1-19 *How will TIG help?*
- 1-20 *Who will decide what new transmission facilities are needed and who will pay for them?*
- 1-21 *What authority would TERC have?*
- 1-22 *Has this contract approach been tried before?*

TRANSMISSION SYSTEM RELIABILITY AND SECURITY

- 1-23 Is there a problem with transmission system reliability in the Northwest?*
- 1-24 How will system reliability, security and efficiency be improved?*
- 1-25 How would voluntary consolidation of control areas be managed?*

UNIFORM CALCULATION OF AVAILABLE TRANSMISSION CAPACITY

- 1-26 Does TIG include a Flow-Based ATC approach?*
- 1-27 What happens to existing transmission rights that are measured by contract path?*

SIMPLIFICATION OF TRANSMISSION TRANSACTIONS THROUGH A COMMON NORTHWEST OASIS

- 1-28 What is an OASIS?*
- 1-29 What is the problem with the current OASIS sites?*
- 1-30 Will TIG offer “one-stop shopping”?*
- 1-31 How does TIG’s OASIS proposal fit with practices in the rest of the West?*

MARKET MONITORING

- 1-32 How does TIG address potential market manipulation?*

RATE PANCAKING

- 1-33 What is “rate pancaking?”*
- 1-34 How does TIG deal with the problem of “pancaked” rates?*

NEXT STEPS

- 1-35 What is the process for moving TIG forward?*
- 1-36 Where can I find the details of the proposal?*

Round 2, August 30, 2005

(Relating primarily to jurisdictional and operational aspects of TIG)

- 2-1 *Given that the energy bill includes the FERC Lite provision requiring BPA and other public power transmission owners (TOs) to offer comparability on terms, rates and conditions of transmission service to what they offer themselves, isn't the concern about FERC jurisdiction in Grid West significantly weakened? If not, in what way could FERC jurisdiction be expanded further that could be harmful?*
- 2-2 *Similarly, TIG calls for TOs to eventually come up with a unified "joint" tariff that would be filed with FERC. Given that BPA would be conforming to this unified tariff, doesn't that also weaken the complaints of you and others (including my boss) about the FERC jurisdiction inherent in the Grid West proposal?*
- 2-3 *And, as I understand the planning and expansion function, if a utility didn't build a line that was recommended by the transmission expansion review committee, then other utilities could file a complaint at FERC. Doesn't using FERC as the enforcement tool undermine the complaints about FERC jurisdiction under Grid West?*
- 2-4 *As I understand it, under TIG, each TO would calculate the available transmission capacity (ATC) on its own system. It would then turn these figures over to TIG staff to calculate ATC for the whole system. Is that an accurate understanding? If so, how is that better than the current system? Isn't it still likely to show much less physical transmission being available than is actually the case?*
- 2-5 *TIG has no centralized scheduling function. Doesn't that undermine the "one-utility" concept that Grid West and TIG are trying to achieve? Doesn't that limit the improved visibility over the entire system that TIG and Grid West both state as a goal?*
- 2-6 *By one count, TIG has 13 different agreements that would need to be negotiated and signed. In addition, to change the agreement would require unanimity among the signers. Is your timeline to negotiate the agreements realistic? Has anything of a comparable scope ever been done in the NW or anywhere else? Would the unanimity required to make future changes limit the flexibility to respond to emerging issues?*
- 2-7 *The Grid West transmission agreement requires that TOs facilitate 3rd party construction, including through the exercise of the TOs eminent domain authority,*

when the TO declines to build a requested project. Does that undermine TIG's analysis that its proposal is better in terms of eminent domain and the likelihood that a project will be built?

2-8 *Given current contract rights, the bulletin board that would be used under the TIG proposal wouldn't have transmission released to it until 20 minutes before the hour. Does that make the proposal difficult to actually implement? If transmission capacity has to be released prior to 20 minutes, doesn't that undermine existing contract rights?*

2-9 *TIG accepts the premise of zone scheduling, meaning that even if control areas were consolidated, control areas would be broken up into zones, with utilities having to submit different schedules for each zone. Doesn't that undermine the "one-utility" concept and the goal of consolidated control areas?*

Round 3, September 2, 2005
(Relating primarily to east-west, GTA, and pancaking issues)

- 3-1 *If Idaho Power and PacifiCorp do not join TIG, then what is the expected demonstrated source of benefits of TIG that will offset the costs? Is TIG viable without these utilities?*
- 3-2 *With a TIG which does not include ID and PAC, from an infrastructure perspective, don't we just end up with the status quo, with BPA effectively building everything, at least until the Agency runs out of borrowing authority?*
- 3-3 *The PPC draft associates Grid West with poorly designed RTOs, and assumes the same failed operational practices, "establish expensive bid based markets." In contrast, Grid West relies on voluntary markets, and bi-lateral markets are still available. Grid West will not have day ahead markets. All schedules that are submitted must be balanced. Can PPC staff show that Grid West will raise costs compared to benefits?*
- 3-4 *The PPC draft opposes short term transmission rights being auctioned to highest bidder. Such revenues will help to keep rates down. Why does PPC emphasize possible impacts on market players and not on NT customers that would benefit from Grid West receiving additional revenues from auction?*
- 3-5 *The PPC draft does not quantify risk of under recovery for the Grid West pricing methodology, but calls it "significant." However, legacy contracts are to remain in place. The maximum stated under recovery modeled is \$50 M out of \$1.8 B, or 2.8%, which would change the Grid Management Fee from about 0.31 mills to 0.48 mills, or 0.17 mills. If a delivered BPA power product is about 35 mills, is the maximum under recovery risk of 0.17 mills added to a Grid West management fee sufficient to undermine the proposal?*
- 3-6 *There may be very small scale cost shifts using legacy contracts and a point of withdrawal methodology proposed by Grid West. Why does the PPC draft not take into account the very significant cost implications to GTA utilities that may want to move non federal power in the future if we continue with pancaked rates under the status quo? Does PPC support use of the highest transmission system rate to price new service under TIG, and the potential for pancaked rates for resources coming from out of TIGs geographic service territory?*
- 3-7 *The PPC draft identifies a \$60 – 80 million potential PBL shortfall identified linked to not providing power to TBL for use in interconnected operations*

services. We believe BPA will continue to be a provider of balancing services in Grid West. This needs further discussion.

- 3-8 *Why does the PPC draft characterize contact lock as being at an impasse? A third- party determination of whether BPA OATT changes are inconsistent with the lock, and whether any part of the BPA-Grid West transmission agreement prevents BPA from honoring the contract lock, before Administrator makes the final decision, may be acceptable to many in public power. Also, the lock insulates BPA customers from FERC-ordered changes. The substance of contract lock remains very valuable to NT customers.*
- 3-9 *If TIG is not viable, would PPC advocate for continuing the “status quo” and moving into a long term allocation/contract negotiation with BPA without a resolution of the non-Federal power delivery problem, or would PPC consider Grid West?*
- 3-10 *Do you support the proposal that has the highest net benefit for BPA customers? For Grid West, what is the balance between economic value and the potential of FERC jurisdiction?*
- 3-11 *What about some form of a merger of the Grid West and TIG proposals? Is a merger seen as feasible or desirable given the jurisdiction and governance issues?*

Public Power Council

Questions and Answers on TIG and Grid West

Round 1, August 17, 2005
(First set of informational questions and answers)

GENERAL

1-1 *What Is TIG?*

TIG is a group of transmission providers and users that formed the Transmission Improvements Group (TIG) in 2003 to explore alternatives to Grid West. In early 2005 TIG agreed to undertake the development of a comprehensive proposal to improve the Northwest transmission system. The effort was funded by a wide range of regional interests—both public and private—including BPA. Anyone interested was welcome to participate. The TIG proposal was released on August 2, in time for in-depth regional review prior to BPA's late-September decision point for Grid West.

1-2 *What is the TIG approach?*

TIG's approach avoids creating new institutions and minimizes activities that would be—or could become—Federal Energy Regulatory Commission (FERC)-jurisdictional. It focuses on retaining regional control of policy decisions, and addresses transmission problems incrementally. By relying on multilateral contracts and existing institutions, the TIG approach reduces costs and risk, and ensures continued regional accountability and decision making. At the same time, it allows broad participation by all transmission providers and users. The TIG proposal can be found at www.tig-nw.org.

1-3 *How does the 2005 Energy Policy Act affect TIG?*

The 2005 Energy Policy Act provides limited authority over public power entities (including BPA) to ensure that public power utilities treat transmission users as they treat themselves. However, the new act makes clear that utilities that use their own transmission lines to serve their own native load customers are not engaged in unduly discriminatory practices. Thus, fundamentally, while the new energy bill authorizes BPA to participate in regional transmission entities, it does not alter or usurp utilities' obligation to serve their customers.

Nothing in the Energy Policy Act pre-empts TIG's goals and proposed means of obtaining those goals. To the contrary, the new act complements the TIG approach

and removes some of the rationale for creating a FERC-jurisdictional transmission organization. Specifically, the act enhances the TIG approach by:

- adopting mandatory reliability standards;
- granting FERC backstop authority for federal siting; and
- granting FERC authority to ensure that nonjurisdictional utilities provide access to their transmission lines at rates comparable to those they apply to themselves.

1-4 *Which transmission issues does TIG address?*

TIG covers all the same subject areas that Grid West addresses:

- Reliability & Security
- Planning and Expansion
- Common Northwest OASIS
- Flow-Based ATC
- Market Monitoring

1-5 *What are the cost differences between the TIG approach and Grid West?*

The TIG proposal takes a phased approach, with the belief that problems can be solved by relying as much as possible on existing institutions and multilateral contracts. TIG is still completing its cost analysis, but expects annual operating costs to be significantly less than those projected for Grid West. BPA and other utilities would incur internal costs because of the committee structure and regional involvement. Grid West projects that its annual expenses would be approximately \$86 million per year (including amortization of capital investments). In this case, as well, utilities will incur internal costs of acquiring systems, personnel and training necessary to implement the Grid West proposals.

1-6 *How does TIG control costs?*

TIG controls costs by ensuring that the entities that must spend the money make the decisions and are responsible through contractual provisions. Utilities and their regulators, with input from regional stakeholders and backed by contracts, will be accountable for cost decisions.

1-7 *Are there near-term benefits of TIG?*

A key feature of the TIG proposal involves prompt agreement and implementation of a number of near-term improvements—including proceeding with a common software structure—and ensuring that transmission capacity is available on an equitable basis to all comers under terms and conditions acceptable to FERC.

1-8 *How many utilities support the TIG approach now?*

A number of Northwest utilities feel strongly that needed improvements to the transmission system can be implemented without expanding FERC jurisdiction. The Public Power Council recently endorsed the TIG approach. TIG expects to gain a significant number of additional endorsements from transmission owners and other interests as people have an opportunity to compare and contrast TIG with the alternative.

1-9 *What is the deadline for a decision?*

BPA recently opened a public comment period and is asking for detailed comments by September 9, including answers to a list of very specific questions. By the end of September, BPA will decide whether to seat a Development Board for Grid West, support the TIG alternative, or take some other action.

1-10 *What if all the transmission owners don't endorse the TIG approach?*

If BPA selects the TIG approach rather than Grid West, it is likely to receive support from some transmission owners who did not actively support it—in part because the two plans are much alike except for governance structures and Grid West's change in on-going jurisdiction. It is unlikely that transmission owners will ignore the benefits afforded by TIG's "single utility" vision for transmission improvements if Grid West is no longer an option.

GOVERNANCE

1-11 *Who will have the responsibility for taking action?*

The TIG approach does not alter decision-making responsibility or the fundamental relationships—or accountability—between utilities and their customers, regulators, and investors. TIG relies on existing institutions and multilateral contracts. Transmission owners will work together under a transparent committee structure, with an advisory role for customers and other stakeholders.

1-12 *How will decisions be made?*

Transmission owners agree to coordinate their decision-making and bind themselves to do so in a set of Implementation Agreements (multilateral contracts) that establish activities in five areas: reliability & security, flow-based ATC, planning and expansion, market monitoring, and common NW OASIS.

Transmission owners, users, and stakeholders have input into a decision-making committee, which oversees the activity. In the case of market monitoring, for example, a broad-based committee selects an independent market monitor to perform duties prescribed by the committee. In the case of planning and expansion, the committee oversees an independent staff and selects a review board to develop and approve a transmission plan. These separate agreements would be coordinated under an overall TIG Coordinating Agreement. This approach is modeled after the Northwest Power Pool, and also has been used successfully in the Midwest (MAPP).

1-13 *What are the benefits of the TIG governance structure?*

TIG's proposed structure maintains current decision-making authorities while providing a mechanism to make sure improvements happen. Responsibility is aligned with authority, and the oversight role of local and state entities is maintained. The proposed structure allows improvements to be paced and implemented incrementally, providing an opportunity for the region to make course corrections.

1-14 *Are the TIG or Grid West decisions irreversible?*

The TIG approach is incremental, voluntary, and managed through contracts, so course corrections will be manageable. Grid West will be legally answerable only to FERC; once it is created and significant funding is sunk into the new institution, withdrawal by any entity will be extremely difficult.

RETENTION OF REGIONAL DECISION MAKING

1-15 *Can you explain the issue of FERC jurisdiction?*

FERC has jurisdiction over investor-owned utilities (referred to as "public" utilities in the Federal Power Act) that sell at wholesale and/or provide transmission in interstate commerce. FERC regulates these utilities in order to weigh the interests of shareholders with those of ratepayers to ensure that rates are just and reasonable. Generally, municipal utilities and cooperatives ("consumer-owned utilities") are not FERC jurisdictional. Because they are not-for-profit and owned by the customers they serve, there is no need for FERC to weigh the needs of shareholders against those of customers. TIG avoids additional FERC jurisdiction because no new entity or "public" utility will be created. FERC jurisdiction brings with it additional costs (relating to attorneys and dealing with

commission orders) and also moves oversight of the transmission away from local regulators and the congressional delegation to Washington, D.C.

1-16 *Does the Energy Policy Act of 2005 change jurisdiction?*

Yes, in a limited way. The Energy Policy Act of 2005 grants FERC new, limited authority to order consumer-owned utilities to charge users of their transmission system rates that are comparable to those under which those consumer-owned utilities take service. FERC also gains the authority to order consumer-owned utilities to provide transmission services on terms and conditions comparable to those under which they take service. This is less authority than FERC has over investor-owned utilities under the Federal Power Act, but more authority than it had before passage of the act. If consumer-owned utilities joined an RTO or a jurisdictional transmission organization such as Grid West, FERC would gain greater practical authority over them than it would simply pursuant to the Energy Policy Act of 2005, which we do not think is in the interest of consumers in the region.

1-17 *Without FERC authority to order action, how do we know improvements will be made?*

The improvements are in everyone's interest, and the TIG approach includes "prompting mechanisms" to move things forward. Transmission owners who join together under the TIG approach contractually commit to participate in the process and abide by timelines, fund the projects they have the legal ability to commit to, and work with other regional interests cooperatively. Those contractual commitments can be enforced in court. Moreover, to the extent that FERC has the authority to order a jurisdictional utility to take action, its authority is not diminished by these contractual arrangements. On the other hand, Grid West does not have eminent domain. TIG offers more immediate, more direct means of building transmission.

TRANSMISSION SYSTEM PLANNING AND EXPANSION

1-18 *Does the Northwest have a problem with transmission planning and expansion?*

The Northwest has succeeded in the last several years at building more new transmission infrastructure than any other region in the nation. According to FERC's "2004 State of the Markets," the Northwest completed twice as many circuit miles in that year as any other region of the country. Notably, ISO-New England, New York ISO, and MISO completed *zero* circuit miles. Nevertheless,

loads continue to grow in the Northwest and new transmission will be needed. The Northwest should build on its success.

1-19 *How will TIG help?*

TIG proposes to improve the process of transmission planning by having transmission owners plan cooperatively for the whole of the transmission system. So that the transmission needed by the region is built but less efficient, duplicative facilities (potentially built when utilities do not communicate and cooperate on transmission planning and expansions) are not built. This will conserve capital that can be used for other purposes. TIG also proposes a process for approval of the transmission plan and for assigning the responsibility for construction to utilities and cost allocation to beneficiaries. If those utilities refuse to build the facilities called for in the plan, a complaint will be filed at FERC requesting that FERC order construction.

1-20 *Who will decide what new transmission facilities are needed and who will pay for them?*

A Transmission Expansion Review Committee (TERC) would be created to address, recommend, or approve planning, construction and cost allocation issues associated with new transmission. TERC's basic functions are: to oversee development and periodic updating of a new regional transmission plan, including needed upgrades and analysis of non-wires solutions; identification of who should build; and allocation of costs. The TERC board would include users and operators of the existing system, and qualified members of the public.

1-21 *What authority would TERC have?*

TERC would have influential advisory authority and it would be a powerful agent for moving projects forward by developing an approved, comprehensive, regional plan that utilities could take to regulators and financiers. TERC will have the ability to take recalcitrant transmission owners to FERC for an order to force construction or payment. Public and peer pressure also will encourage action, and the utilities' regulators will have access to the plan and the underlying documentation.

1-22 *Has this contract approach been tried before?*

The TIG approach is based on the experience of the Mid-America Power Pool (MAPP). By multilateral contracts with each other, MAPP utilities agree to abide by the plan, including responsibilities for construction and payments of costs,

subject to their ability to secure financing and the approval of all relevant governing bodies. Similar efforts by WestConnect are working and producing tangible improvements. Closer to home, the TIG approach has similarities to the Northwest Power Pool (NWPP), which operates by multilateral contract.

TRANSMISSION SYSTEM RELIABILITY AND SECURITY

1-23 Is there a problem with transmission system reliability in the Northwest?

The Northwest has a reliable transmission system but improvements can be made to increase reliability and to save money. Better transmission planning and expansion will help ensure reliability in a long-term sense, but improvements can also be made to the operation of the system to assist reliability in real time.

1-24 How will system reliability, security and efficiency be improved?

TIG proposes to improve the ability of the system operators to “see” the condition of the system, improve reserves sharing, address congestion management, and provide for the voluntary consolidation of control areas. Specifically, TIG proposes to improve the information available to the grid’s security coordinator and control areas through better tools for monitoring the status of the system, better analysis, and enhanced data exchange. TIG proposes to improve the reserves-sharing programs now in use in the Northwest to gain greater economic benefits from them. TIG addresses congestion management through an active bilateral market for redispatch managed by a broker. TIG proposals anticipate voluntary consolidation of control areas and a coordinated redispatch process. TIG’s incremental approach will also allow the region to more readily adapt to the new mandatory federal reliability rules.

1-25 How would voluntary consolidation of control areas be managed?

Participating transmission providers would contract with a Control-Area Operator responsible for meeting all applicable criteria for reliability and balancing. This would result in increases in total transfer capability, reductions in system losses, and, potentially (as determined by the participants), cost savings.

UNIFORM CALCULATION OF AVAILABLE TRANSMISSION CAPACITY

1-26 *Does TIG include a Flow-Based ATC approach?*

Yes. TIG proposes that transmission providers adopt a common flow-based methodology and modeling capability to identify Available Transmission Capacity (ATC). Once the methodology is agreed upon, an independent party would operate the software to produce the capacity numbers for the transmission owners.

1-27 *What happens to existing transmission rights that are measured by contract path?*

Current contract-path transmission rights would be preserved. The principle of preservation of these rights guides the development of this proposal and the methodology. The ability of transmission customers to continue to use these rights as they have in the past will not be disturbed.

SIMPLIFICATION OF TRANSMISSION TRANSACTIONS THROUGH A COMMON NORTHWEST OASIS

1-28 *What is an OASIS?*

An OASIS (Open Access Same-time Information System) is an internet site through which transmission system users purchase transmission rights from transmission providers. It is also the place where transmission providers post information about the transmission system and system status (for example, scheduled maintenance outages of transmission facilities that will affect the availability of transmission capacity on certain lines). Each FERC-jurisdictional transmission provider is required to operate and maintain an OASIS.

1-29 *What is the problem with the current OASIS sites?*

The difficulty is that a transmission customer that wants to move a power purchase or sale over more than one transmission system must go to each transmission provider's OASIS to purchase capacity on each leg of the transmission path that it wants to use. This can be complicated and time consuming. Often transmission providers do not describe their products or facilities in a consistent way.

1-30 Will TIG offer “one-stop shopping”?

The common Northwest OASIS allows transmission customers to purchase transmission, redirect or resell transmission, and connect new resources or loads to the system all at one location. TIG recommends the OASIS be established through the existing platform, westTTrans. Other actions, including planning, will be done cooperatively.

1-31 How does TIG’s OASIS proposal fit with practices in the rest of the West?

westTTrans is a common OASIS site that has already been implemented (through contracts) across the West. Currently many utilities participate in westTTrans. TIG’s proposal could fit seamlessly and compatibly into the westTTrans arrangement, but would also offer the Northwest a regional voice in calling for westTTrans services.

MARKET MONITORING

1-32 How does TIG address potential market manipulation?

TIG proposes the creation of an Independent Market Monitor for the Northwest. This oversight mechanism would serve as an early warning system regarding pending problems. The existence of the market monitor who can receive, process and analyze complaints about market participants should increase everyone’s confidence in the system.

RATE PANCAKING

1-33 What is “rate pancaking?”

Rate pancaking refers to the fact that when power is wheeled across more than one transmission system, more than one embedded-cost rate must be paid. In other words, each transmission owner is entitled to be paid for the use of its transmission system. Some feel that this is unfair or inefficient because utilities located “one or more systems away” from resources must pay more to transmit power from those resources than utilities located closer to the resource.

1-34 *How does TIG deal with the problem of “pancaked” rates?*

Once the flow-based transmission capacity proposal is implemented, the transmission owners may decide to develop a joint tariff for each transmission owner that would permit the sale of transmission capacity across several systems for a single charge. This would likely be implemented first for short-term sales of capacity, where most of the problem with rate pancaking occurs.

NEXT STEPS

1-35 *What is the process for moving TIG forward?*

The TIG participants are developing a cost estimate, which is expected to be significantly less than Grid West. The commitments in the TIG proposal will be memorialized in a Memorandum of Intent (MOI) to be signed by interested parties. This will strongly signal institutional commitments of staff and resources, and commitment to move forward with the project should the region decide to pursue the TIG alternative. The MOI will indicate that parties are willing to negotiate in good faith to put all needed contracts in place by April 2006.

1-36 *Where can I find the details of the proposal?*

An overview titled “An Incremental Approach to Transmission System Improvements” and the detailed TIG proposal can be found at www.tig-nw.kristiwallis.com.

PUBLIC POWER COUNCIL

Questions and Answers on TIG and Grid West

Round 2, August 30, 2005

(Relating primarily to jurisdictional and operational aspects of TIG)

2-1 *Given that the energy bill includes the FERC Lite provision requiring BPA and other public power transmission owners (TOs) to offer comparability on terms, rates and conditions of transmission service to what they offer themselves, isn't the concern about FERC jurisdiction in Grid West significantly weakened? If not, in what way could FERC jurisdiction be expanded further that could be harmful?*

No. Under the Energy Policy Act of 2005, FERC gains authority to ensure that a Public provides transmission to others under rates, terms and conditions that are comparable to those that it charges and applies to itself. FERC did not gain the full sweep of jurisdiction that it holds over investor-owned utilities.

For example, FERC can not set the actual rates, terms, and conditions offered by so-called "unregulated" transmission owners, but may only remand the rates (not the terms and conditions) back to the "unregulated transmission provider." This authority is significantly weaker than the jurisdiction that FERC has over IOUs. Also, the various exemptions in section 1231(c) (new section 211A((c)) of the Federal Power Act) mean that almost all publicly-owned utilities in the Northwest will not fall under the "FERC-lite" provisions.

The Publics have no desire to expand FERC's jurisdiction any more than necessary. That desire has not changed with the passage of the new Act.

Under current judicial rulings and regulatory policies, the creation of a FERC-jurisdictional transmission operator in the Northwest (e.g., Grid West) would expand FERC's jurisdiction over those Publics that participate as transmission owners, as well as those that buy and sell in the operator's markets. This jurisdiction would attach whether their participation is direct (as it would be for transmission-owning Publics or those selling in the markets) or indirect (e.g., full-requirements customers of BPA).

Expansion of jurisdiction could be harmful in a number of ways. For example, Publics (e.g., BPA or Tacoma Power) that own transmission and sell their transmission services through Grid West are likely to find themselves recovering some portion of their transmission revenue requirement through Grid West. To the extent that they do so, FERC gains the authority to determine if that portion of the

transmission revenue requirement is just and reasonable, not merely whether it is “comparable.” In other words, for this purpose, FERC will subject the Public to the same review as it would a jurisdictional transmitting utility. For Publics that own transmission, this would open them up to regulation that could conflict with decisions of their commissions or city councils and could create unrecovered costs. For BPA, the same result could obtain.

Another example would be the markets that Grid West intends to create. These would be centralized jurisdictional markets. FERC has made clear in the last three years that it will assert jurisdiction over all transactions made in those markets, whether the parties are jurisdictional or not. Arguably, the parties to such transactions become subject to FERC's refund authority and its authority to act on prices generally in those markets.

2-2 *Similarly, TIG calls for TOs to eventually come up with a unified 'joint' tariff that would be filed with FERC. Given that BPA would be conforming to this unified tariff, doesn't that also weaken the complaints of you and others (including my boss) about the FERC jurisdiction inherent in the Grid West proposal?*

No. First, the scope of the “joint tariff” does not completely duplicate, and thus supplant, the current transmission tariffs. The TIG proposal calls for a joint tariff for a limited set of transactions, such as the use of short-term flow-based ATC. This is similar to the MAPP structure.

Furthermore, a joint tariff is a tariff that would be negotiated by the transmission owners, public and private, with input from transmission users. Each transmission owner would agree to adopt the tariff and it would be submitted to FERC only on behalf of the jurisdictional utilities. The working assumption among the TIG participants is that the tariff would be offered with similar conditions to those that accompanied the Pacific Northwest Security Coordinator Agreement: if FERC orders changes to the tariff that are unacceptable, the tariff would be withdrawn. This entails significantly less risk than the Grid West proposal poses. FERC will be less able to order changes because there will be no single entity to give orders to.

2-3 *And, as I understand the planning and expansion function, if a utility didn't build a line that was recommended by the transmission expansion review committee, then other utilities could file a complaint at FERC.*

Doesn't using FERC as the enforcement tool undermine the complaints about FERC jurisdiction under Grid West?

No. FERC's reach is unchanged by the TIG proposal.

The TIG proposal only uses existing FERC authority as a backstop. FERC's ability to order utilities to construct has never been a significant jurisdictional issue, and is the same under TIG, Grid West, or the status quo. Under the Federal Power Act, as amended in 1992, FERC can order Publics to construct transmission facilities for an interconnection or to fulfill a transmission request.

The TIG proposal is that a party can take the matter to FERC, as it can today, or to a PUC or court with jurisdiction. What TIG adds, however, is the prior cooperative agreement of transmission providers and users to abide by (and take "ownership" in) a planning and expansion process that is designed to work through conflicts and avoid the need to go to FERC.

2-4 *As I understand it, under TIG, each TO would calculate the available transmission capacity (ATC) on its own system. It would then turn these figures over to TIG staff to calculate ATC for the whole system. Is that an accurate understanding? If so, how is that better than the current system?*

Isn't it still likely to show much less physical transmission being available than is actually the case?

Under the TIG approach, transmission owners would develop and agree upon a methodology for calculating a system-wide flow-based ATC. The transmission owners would each provide information necessary to make that calculation (such as committed system use, line limits, etc.). An independent contractor (the common OASIS operator) then would perform the agreed-upon calculation.

TIG expects there to be a transitional phase in which transmission owners will continue to calculate their own flow-based ATC until the regional methodology is proven accurate and practical. When ATC is calculated on a subsystem basis (whether on a flow-basis or otherwise), arguably there are inaccuracies in the calculation compared with a system-wide calculation. The common OASIS operator will, however, make the calculation on a system-wide basis (after this

transitional phase) and that should eliminate or mitigate the problem and thus be better than the present system.

The calculation would not show that there is less capacity available than the system really can support so long as it is made on a system-wide basis. It would not be any less accurate than any other proposed system-wide calculation.

2-5 *TIG has no centralized scheduling function. Doesn't that undermine the "one-utility" concept that Grid West and TIG are trying to achieve? Doesn't that limit the improved visibility over the entire system that TIG and Grid West both state as a goal?*

TIG is aware of the probable need for a centralized scheduling function and expects that it will address scheduling in the next phase of work. A centralized scheduling function, however, could take many different forms and will have to be carefully considered. Centralized scheduling may be a natural evolution of the Common OASIS component of the TIG proposal.

2-6 *By one count, TIG has 13 different agreements that would need to be negotiated and signed. In addition, to change the agreement would require unanimity among the signers. Is your timeline to negotiate the agreements realistic? Has anything of a comparable scope ever been done in the NW or anywhere else? Would the unanimity required to make future changes limit the flexibility to respond to emerging issues?*

The timeline for agreements is realistic because not all agreements will be negotiated and executed prior to May 2006. The coordinating agreement and the implementation agreements need to be finalized or well-along by then. (The schedule also includes the execution of one agreement this year: for market monitoring services.) This is an incremental approach, however, and agreements will be developed and executed as agreements are reached.

Projects of comparable scope have been implemented elsewhere. TIG has much in common with power pools, which have been implemented elsewhere in the country. The Northwest has extensive, successful experience with this approach to cooperation in regard to generating resources—the PNCA and hourly coordination agreements, the U.S.-Canada Treaty, the PNSC agreements, and the Northwest Power Pool.

Unanimity is likely to (but need not) be required to amend the underlying agreements. The agreements themselves, however, are designed to provide a

process for developing and implementing new innovations. The decisions to do so need not require unanimity and in some cases will not.

For example, TIG proposes that an implementation agreement set up a committee of transmission owners for the development of improvements to a single Northwest OASIS. Within specified budgetary constraints, improvements can be made without the unanimous assent of the owners. (This is the way that westTTrans operates currently.) In the market monitoring proposal, the scope of work is set by a committee of interested parties, not by the owners. The point is that the implementation agreements are intended to provide a means for improving the system without needing to be amended to achieve that improvement, and without necessarily requiring unanimity to move forward.

2-7 *The Grid West transmission agreement requires that TOs facilitate 3rd party construction, including through the exercise of the TOs eminent domain authority, when the TO declines to build a requested project. Does that undermine TIG's analysis that its proposal is better in terms of eminent domain and the likelihood that a project will be built?*

It is not clear whether Grid West has a true ability to call on other utilities to exercise eminent domain. (And Grid West itself has no eminent domain authority.) If a transmission owner refuses to build in its own territory, what is the likelihood that it will willingly exercise eminent domain to facilitate third-party construction in its territory? Grid West is likely to have to sue to enforce its "rights." Moreover, eminent domain is a limited authority; it is not clear that a utility can exercise eminent domain on behalf of a third party that is building facilities that may or may not benefit or be used by the utility's customers.

TIG is superior because it provides a means of resolving disputes rather than a forum for creating new ones.

2-8 *Given current contract rights, the bulletin board that would be used under the TIG proposal wouldn't have transmission released to it until 20 minutes before the hour. Does that make the proposal difficult to actually implement? If transmission capacity has to be released prior to 20 minutes, doesn't that undermine existing contract rights?*

Transmission capacity that is released 20 minutes prior to the hour of delivery can be used to make nonfirm transactions, or to modify existing transactions. The TIG proposal is to provide for a bulletin board market through which transmission customers that have unused transmission rights could sell them on a temporary

basis. These are transmission rights that have not been scheduled by those customers and are being released by the transmission owners. The secondary sales of rights by transmission customers could happen days in advance of the active hour. Neither the scheduling timeline nor existing rights are affected by this proposal.

It may be that TIG will want to explore a non-jurisdictional version of the Grid West reconfiguration market, in which transmission owners would release and sell transmission rights that are not committed or that they believe are not going to be used by the transmission customer.

Transmission owners today sell rights they believe that the transmission customer will not use; those rights are sold as non-firm transmission and should the existing rights holder want to use them (within its rights), that transmission would be recalled from the non-firm purchaser. Were TIG to establish a market that transmission owners could use to sell "unused" capacity currently under contract to a customer, those rights would also be sold as non-firm.

2-9 *TIG accepts the premise of zone scheduling, meaning that even if control areas were consolidated, control areas would be broken up into zones, with utilities having to submit different schedules for each zone. Doesn't that undermine the "one-utility" concept and the goal of consolidated control areas?*

Zonal scheduling does not impede the operation of a consolidated control area as a single unit. BPA has proposed a move to zonal scheduling within its control area, without any apparent impact on its ability to operate the control area. The goal of consolidating control areas has many possible incentives, including potential savings in regulating and contingency reserves. If achievable, these savings would not be affected by zonal scheduling. A schedule must account for the zones that it crosses; much as it must account for cut planes now. Parties will have to schedule with greater specificity but this does not affect the operation of the single control area, although it provides greater information and control to the consolidated control area operator.

Public Power Council

Questions and Answers on TIG and Grid West

Round 3, September 2, 2005
(Relating primarily to east-west, GTA, and pancaking issues)

3-1 *If Idaho Power and PacifiCorp do not join TIG, then what is the expected demonstrated source of benefits of TIG that will offset the costs? Is TIG viable without these utilities?*

First, we do not assume that Idaho and PacifiCorp would not join TIG if BPA chooses to go in that direction. IPC and PAC would have to explain to their regulators why it would be prudent not to follow the path (TIG) that BPA and the rest of the region had chosen. A “stand-alone” option for IPC and PAC would have to be shown to be more cost-effective than joining TIG. Realistically, we think that BPA will make the decision for the region.

However, even without IPC and PAC, TIG would still produce benefits. The improvements to reserves and system visibility would produce significant benefits for little investment and can go forward. So can the consolidated control area, if desired. Also, even if PAC and IPC were to form their own organization, we expect that they would still participate in the regional planning and expansion portion of TIG, as the political pressure on them to participate would likely be considerable and they would benefit from doing so. It is important to remember that Puget, PGE, and Avista would participate in TIG, as would the major Westside publics, many of whom operate control areas and own transmission. Moreover, even if PAC and IPC do not formally participate in TIG, the TIG planning and expansion process would take their (PAC’s and IPC’s) plans into account when planning for the rest of the region’s transmission. And we suspect PAC and IPC would follow closely, and cooperate with, the TIG process.

3-2 *With a TIG which does not include ID and PAC, from an infrastructure perspective, don’t we just end up with the status quo, with BPA effectively building everything, at least until the Agency runs out of borrowing authority?*

First, as noted above, we think ID and PAC would participate in the planning and expansion process, because they and their ratepayers would benefit from doing so.

Second, the question seems to assume that under the status quo only BPA has built anything. This is not the case. While BPA, with its enormous service territory, is

the Pacific Northwest's leader in building transmission, the runner-up is Avista, which just completed a series of new lines and upgrades in Eastern Washington with a total cost of \$108 million. PGE continues to build transmission additions in its urban service territory. Puget Sound Energy has a new major transmission line planned for the Puget Sound area. And Northwestern is nearing completion of a high voltage line in southern Montana. Just outside of the Pacific Northwest, Sierra Pacific, WAPA, and merchants have plans for large transmission enhancements.

Whether joined by ID and PAC or not, participating utilities would continue their transmission responsibilities via TIG, but with the added force of TIG's planning and expansion (and allocation) procedures. TIG participants (BPA, transmission-owning publics and three IOUs) would commit under the contracts to participate in regional planning and to build, if possible, if the plan called on it to do so. This alone is a significant improvement over the present system.

BPA has taken the position (informally) that it does not wish to exercise its borrowing authority unless there is no other option, but it likely will follow that policy whether there is TIG, Grid West, or the status quo (although the status quo makes such a policy more difficult).

TIG's backstop procedures, which were developed with BPA's participation, are designed to give comfort to utilities' regulators that plans for building and paying for transmission facilities were developed under a fair process, with participation by affected parties. We do not believe that Grid West will have a more effective backstop. The IOUs will not agree to a backstop that obligates them to build or to follow the plan if they cannot guarantee full recovery of their investment.

3-3 *The PPC draft¹ associates Grid West with poorly designed RTOs, and assumes the same failed operational practices, "establish expensive bid based markets." In contrast, Grid West relies on voluntary markets, and bi-lateral markets are still available. Grid West will not have day ahead markets. All schedules that are submitted must be balanced. Can PPC staff show that Grid West will raise costs compared to benefits?*

The asserted benefits of Grid West are largely speculative, or purely assumption-driven, and if available can be obtained without the costs and risks of Grid West.

¹ This question is referring to PPC's draft comments to BPA on TIG and Grid West, August 17, 2005

The PPC draft does not associate Grid West with “poorly designed” RTOs. Rather, the PPC draft associates Grid West with all currently operating RTOs². What they all have in common are governance structures that are insulated from end-users, no local or state regulation, and jurisdiction under FERC. We believe these governance structures have contributed to cost-creep and scope-creep, often over the concerted and united opposition of public officials and end-use ratepayers, who realize (too late) they have lost authority and influence to protect the public interest.

Empirically, two things characterize currently operating RTOs. First, surprises crop up in establishing the RTOs, requiring new policies, extensive software reworking, and substantially increased costs (costs which were expressly not included in the Structure Group estimates). Second, the functions assumed by RTOs increase over time. We should not assume, for example, that Grid West will not eventually have day-ahead markets. The independent Grid West board may decide later to establish day-ahead markets (subject to some review by stakeholders, but this is not something public power would have a veto over, and is not a decision required to be made in the public interest). As a FERC-jurisdictional utility, FERC can also mandate that Grid West assume additional functions.

As we have noted elsewhere, all currently existing RTOs³ have between 400-600 employees, despite significant differences in geographic extent, population, and functions performed. Grid West asserts that it can function with only three-quarters the staffing of any existing RTO, but it will be swimming against the tide of history.

3-4 The PPC draft opposes short term transmission rights being auctioned to highest bidder. Such revenues will help to keep rates down. Why does PPC emphasize possible impacts on market players and not on NT customers that would benefit from Grid West receiving additional revenues from auction?

Our concern is for all public power utilities, including public-power customers of BPA, and including NT customers. There is absolutely no guarantee that revenues received by Grid West from its auctions will accrue to BPA and its customers. In fact, the Grid West pricing structure is designed to compensate transmission owners for the “losses they bear due to Grid West.” Given that BPA is an average-cost transmission provider, it will be difficult for BPA to argue

² We are not including Grid Florida, as it has just started up.

³ Again, Grid Florida is not included because it has just started up.

convincingly that it needs additional compensation from Grid West. More likely, the expensive transmission owners will make such arguments successfully at Grid West. Thus, BPA will likely be a payor not a payee, i.e., BPA's rates will likely increase, in order to contribute to Grid West's compensation of the higher-cost Grid West PTOs. Heavy users of BPA will bear the brunt of these increased rates.

Further, as BPA begins to lose revenue, as a result of non-payment by "through and out" customers, it will have to make up the difference. By default, BPA's customers are on the hook. Only if there is some other (not articulated) solution will this cost-shift be avoided.

In addition, BPA's NT customers also will be market players. They may need to purchase non-federal resources, and many of these resources may need to be moved on the short-term transmission that Grid West will auction. In this situation, these customers will be paying, not merely receiving, the "increased revenues."

Finally, it is entirely unclear that, overall, Grid West's revenues will increase, as the question seems to assume. (Why is this assumption made and what is the basis for it?)

3-5 *The PPC draft does not quantify risk of under recovery for the Grid West pricing methodology, but calls it "significant." However, legacy contracts are to remain in place. The maximum stated under recovery modeled is \$50 M out of \$1.8 B, or 2.8%, which would change the Grid Management Fee from about 0.31 mills to 0.48 mills, or 0.17 mills. If a delivered BPA power product is about 35 mills, is the maximum under recovery risk of 0.17 mills added to a Grid West management fee sufficient to undermine the proposal?*

The question seems to assume that Grid West has determined an outer limit of under-recovery. Grid West, however, only models the starting point and does not carry out the analysis through time. Thus, Grid West does not answer this question in the manner implied.

As amplified below, we make two points in response: (a) the rate design proposed by Grid West is not durable; and (b) once the rate design fails or is abandoned, the region will be faced with the same structural issues (high-cost and low-cost transmission systems and the consequent cost shifts among them). PPC does not believe that Grid West will develop a solution that avoids under-recovery by some systems without significantly increasing effective rates.

The rate design is not durable. The IOUs' contracts with BPA are largely only a few years in length. As they expire, BPA's under-recovery will increase in size. In other words, more and more MWs that were previously under contract will no longer pay the embedded costs of the intervening transmission systems that they cross. Grid West may get the IOUs to roll those contracts over for the "company rate period," but that will not last long and at best will create a cliff. It is also not clear that BPA will have the political will to hold its public customers to their existing contracts if the IOUs do not have to have similar contracts. If special rollover or exit rules are permitted, the larger utilities with the wherewithal and political clout could be expected to go first, leaving the smaller utilities stuck with the shortfall bill.

The fundamentals will not change. Investment must be paid off over the long term. Those costs will continue to need to be funded. Moreover, we all hope that new transmission investment will be made in the system. The embedded costs of that new construction must be recovered, and utilities (and their investors) must have confidence that they can recover that investment before they will invest. The uncertainty created by Grid West's proposed rate design (the lack of durability of the design, and the inability of GW to guarantee that embedded costs will be fully recovered) will likely frustrate, not benefit, the goal of greater investment by all transmission owners in the regional system.

Grid West will not fully recover the embedded costs of all systems without cost shifts. It is not clear to whom Grid West will listen when rates are developed in the future. The Grid West CEO will hear arguments on many sides: that cost shifts have and have not occurred, or will/will not occur, or are/are not necessary. PPC does not believe that Grid West will be sufficiently responsive to regional needs when those needs compete with federal policy directives or with the Board's own inclination to make changes. (See PPC written materials regarding GW governance issues.) FERC has not yet abandoned the goal of "load pays," and we do not know what policies it may advance for the nation on the basis of their benefit for other regions or just on the basis of theory. We can reliably predict that there will be a very serious push to "depancake" all transmission transactions (existing or otherwise) because this is the core benefit (cost shift) that the commercial interests in the industry hope to achieve. Those interests, however, are not concerned with full recovery of embedded costs without the creation of cost shifts.

Given the very serious problems posed by structure of system costs in the Northwest (which has not been solved by any proponent of any Northwest independent entity) and the fact that this problem is not adequately addressed by the Grid West proposal, we believe that the risk of under-recovery by BPA is

significant. It seems unlikely that a low-risk premium will be sustainable going forward.

- 3-6** *There may be very small scale cost shifts using legacy contracts and a point of withdrawal methodology proposed by Grid West. Why does the PPC draft not take into account the very significant cost implications to GTA utilities that may want to move non federal power in the future if we continue with pancaked rates under the status quo? Does PPC support use of the highest transmission system rate to price new service under TIG, and the potential for pancaked rates for resources coming from out of TIGs geographic service territory?*

First, the TIG pricing proposal is still in flux. TIG proponents are willing to consider various alternatives, but the incentive-effects, over time, of the alternatives must be fully analyzed and taken into account.

Regarding Grid West, we do not know what pricing structure it ultimately may adopt, but even if “pancaking” is abolished at the Grid West level, there may be pricing changes that won’t help, or will harm, smaller utilities. Grid West has no plans to assume control over the lower-voltage systems of the IOUs; in that event, buyers would have to continue to make payments to IOUs to get across their systems. Alternatively, Grid West may employ separate charges for using the high-voltage portion of its system and the low-voltage portion of its system, as do some existing RTOs.

For GTA customers, abolishing pancaking may lower transmission costs for their smaller fraction of nonfederal power, while markedly increasing transmission costs for the much larger fraction of federal power they use. Abolishing pancaking means that very-long-distance power transactions (Colstrip to California, for example) also would no longer pay pancaked rates. This transmission revenue insufficiency will have to be recovered somewhere, and may well lead to a significant increase in the rates GTA utilities would pay to wheel federal power to their systems.

- 3-7** *The PPC draft identifies a \$60 – 80 million potential PBL shortfall identified linked to not providing power to TBL for use in interconnected operations services. We believe BPA will continue to be a provider of balancing services in Grid West. This needs further discussion.*

We would be happy to discuss this dynamic further, but are not sure what specific issues the statement has in mind.

3-8 *Why does the PPC draft characterize contract lock as being at an impasse? A third-party determination of whether BPA OATT changes are inconsistent with the lock, and whether any part of the BPA-Grid West transmission agreement prevents BPA from honoring the contract lock, before Administrator makes the final decision, may be acceptable to many in public power. Also, the lock insulates BPA customers from FERC-ordered changes. The substance of contract lock remains very valuable to NT customers.*

PPC disagrees with this assessment of contract lock and has made its position clear on the subject. At this point, there is simply no “lock” that can be relied on to protect any existing NT or PTP customers. A “contract” in which only one party (the BPA Administrator) is the ultimate arbiter of what the contract means, and which moreover is operating in an environment (Grid West) over which FERC has dominant control, is not a “contract” in the normal sense of the word. Rather, it is a BPA-controlled “process” taking place in a larger FERC-jurisdictional world.

3-9 *If TIG is not viable, would PPC advocate for continuing the “status quo” and moving into a long term allocation/contract negotiation with BPA without a resolution of the non-Federal power delivery problem, or would PPC consider Grid West?*

The PPC Executive Committee has not voted on this or considered the question.

3-10 *Do you support the proposal that has the highest net benefit for BPA customers? For Grid West, what is the balance between economic value and the potential of FERC jurisdiction?*

Yes, we will support the proposal that is most beneficial for the values of public power. Reaching a conclusion as to which proposal meets that test involves evaluations and judgments of many dynamics that will play out over the short term and long term. The most important issue, in our view, is who gets to make important decisions over the long term.

We do not see a “tradeoff” between economic value and the potential of FERC jurisdiction, because the economic value of a new transmission entity and FERC jurisdiction are inextricably linked. FERC jurisdiction and the establishment of an independent Grid West board correspondingly mean a loss of state and local control. Public power will have far less ability than under the current system to influence what the structure of the regional transmission becomes, what functions

the regional transmission system will assume, and what economic benefit public power utilities will derive from the regional transmission system. Talk to public power utilities elsewhere in the country if you want to get a sense of how responsive existing RTOs are to public power's concerns.

3-11 What about some form of a merger of the Grid West and TIG proposals? Is a merger seen as feasible or desirable given the jurisdiction and governance issues?

“Merger” is a misnomer and does not accurately describe the alternatives now being discussed. PPC will carefully consider all alternatives as they are proposed. It is possible that certain functional aspects of Grid West can be incorporated into the TIG package without violating TIG's fundamental principles regarding governance and accountability.

**PUBLIC POWER COUNCIL
COMPARISON OF TIG AND GRID WEST**

Function	TIG proposal	Grid West for Decision Point 2
New entity	No	Yes
New FERC-jurisdictional entity	No	Yes. Grid West would be a FERC-jurisdictional utility under the Federal Power Act.
Governance	Existing transmission owners and users, through multilateral contracts, agree to abide by coordinated processes for the use and expansion of the transmission system.	Creates nonprofit corporation that is a FERC-jurisdictional utility. Stakeholders elect and remove the board of directors. The board appoints a CEO, who hires staff.
Independent decision makers	There is independent input into decision-making in some areas (such as transmission planning and expansion, and market monitor), but much of the decision making is done by existing transmission owners, IPPs and transmission customers under the multilateral agreements	Board members and employees are independent of market participants
Transfer of authority to new entity	None	Yes. Functions performed by Grid West that previously were (a) subject only to state regulatory jurisdiction or (b) subject only to local (public power) control would now be under Grid West authority and subject to FERC jurisdiction and oversight. State regulatory commissions have no authority over Grid West.
Federal ultimate control over <i>physical</i> operation of federal generation and transmission	Yes	Yes

Function	TIG proposal	Grid West for Decision Point 2
Practical exit strategy	Yes, and less capital will be committed up front	Possibly, although more capital will be committed up front, making exit more difficult
Other issues of FERC jurisdiction	Jurisdictional utilities will file the TIG contracts with FERC as necessary, but none of the TIG functions is intended to expand FERC jurisdiction or to create a new FERC jurisdictional entity. Public power might file tariffs under "FERC lite" but that requirement is limited to showing that the utility treats others as it treats itself.	Grid West is a FERC-jurisdictional utility. Arguably, FERC influence may be controlled by (a) ability - over time - to remove Grid West board members who do not act in the region's best interests, and (b) ability of BPA to implement a practical exit strategy
"One Utility" transmission vision	Yes	Yes
Broad regional participation	Multilateral contract structure of TIG functions allows for full participation of transmission owners with significant roles for transmission customers and other interested parties; planning, common OASIS, and market monitoring allow for broader participation; TIG is looking for other ways to increase stakeholder participation.	Extensive stakeholder process: stakeholders elect and remove members of the Grid West board, help prepare Grid West budget, etc.
Geographic scope	Potentially broad scope. Already compatible with WestTrans/West Connect common OASIS that has been implemented throughout the West	Potentially broad scope
Potential to evolve and respond to changing conditions	Potential to evolve exists, subject to approval by parties to the multilateral agreements (does not need FERC approval)	Potential to evolve subject to compliance with bylaws processes, including input from stakeholders and approval by board and FERC

Function	TIG proposal	Grid West for Decision Point 2
Regional planning and expansion	Yes, central regional transmission plan envisioned	Yes, central regional transmission plan envisioned
Backstop authority to ensure needed facilities get built	Yes, within limits. Relies on contract obligation to implement needed transmission facilities for reliability and firm obligations, with appeals to FERC, as applicable, for backstop. Participating utilities have right of eminent domain.	Yes, within limits. Allows Grid West to contract with a third party to construct needed transmission facilities for reliability and to protect existing TTC, and to allocate costs to those transmission owners that benefit. However, Grid West has no right of eminent domain; third party may or may not have eminent domain.
Flow-Based Available Transmission Capacity (ATC)	Empowers TIG contractor to apply a common, flow-based methodology to determine ATC for the total transmission system of those owners that join TIG	Empowers Grid West to apply a common, flow-based methodology to determine ATC for the total transmission system of those owners that join Grid West
Sell new transmission rights	Short term (less than one year) ATC would be made available for purchase via flow-based ATC calculations; new long-term rights would continue to be sold by the transmission owners	Grid West would sell all new short-term and long-term transmission service
Reliability	Would have to comply with new, federal mandatory reliability standards of the new Energy Act. Establishes incremental steps to improve regional visibility, reserve-sharing, congestion management (voluntary bulletin board of assets) and voluntary consolidation of reliability authority and balancing authority functions for existing control areas	Would have to comply with new, federal mandatory reliability standards of the new Energy Act. Grid West could become the operator of a voluntary consolidated control area (CCA)

Function	TIG proposal	Grid West for Decision Point 2
Congestion management	Relies on voluntary bulletin board of available assets and schedule curtailments to manage congestion; broker would match buyers/sellers, who would settle bilaterally	Creates forward transmission reconfiguration service to release unused transmission rights; creates real-time redispatch market for CCA participants to manage congestion in real time
Economic efficiency	Bilateral markets remain the primary method of achieving economic efficiency with new bulletin board markets for congestion management	Bilateral markets preserved; in addition, establishes voluntary real time ancillary services, imbalance energy, and redispatch markets that include the potential for economic dispatch
“One Stop Shopping”	Yes; single regional queues for interconnection and transmission service	Yes; single regional queues for interconnection and transmission service
Market monitoring unit	Yes	Yes
Honor existing contracts	Existing contracts continue under existing rules. BPA has some discretion - subject to usual pressure points of persuasion and challenge, including pressure from its customers	Existing contracts would continue but in the new Grid West environment, which by design is more insulated (“independent”) from its customers.
Voluntary markets	Yes, bilateral markets remain voluntary; some voluntary bulletin board markets will be established; suppliers may opt out of voluntary bulletin board markets to preserve ability to meet non-power obligations	Yes, bilateral markets are voluntary; new centrally operated but voluntary markets for real time ancillary services, energy imbalance, and redispatch; suppliers may opt out of these markets to preserve ability to meet non-power obligations
Day-ahead energy or redispatch market	No	No

Function	TIG proposal	Grid West for Decision Point 2
Cost Control	Parties (transmission owners and users) to multilateral contracts would exercise cost-control through contracts. Parties would be disciplined by need to pass on costs to ratepayers and shareholders.	Aided by a budget committee and CEO, Grid West Board would determine costs, subject to FERC review, and, ultimately, subject to member election and removal of Board.
Costs	Basic TIG functions (excluding CCA) likely to be less than \$20 million annually; perhaps \$50 million in annual operating costs, when consolidated control area (CCA) operations are included; ⁴ these estimates include amortization of start-up costs incurred after October 1, 2005; internal costs (incurred by market participants to interact with new TIG functions) not estimated yet; cost estimates are still being refined; developmental costs of TIG to date have been about \$250,000-\$300,000	Annual operating expenses of about \$91 million, including the costs of financing of all start-up costs (pre- and post-Decision Point 2) and operating the CCA; \$140 million in start-up costs, including \$16 million incurred to date; BPA estimates the total annual costs of Grid West would be about \$103 million once the internal costs BPA and other utilities would incur in doing business in a Grid West environment are taken into account
Benefits	BPA has asked TIG to produce an estimate of the benefits of the TIG alternative before Decision Point 2	Grid West's benefit study suggests a range of potential benefits as high as \$400 million annually. However, there is considerable disagreement about these estimates due to the potential for double-counting and questionable assumptions.

⁴ Because TIG performs many of the same functions as would Grid West (and due to the lack of time in which to perform a bottom-up cost analysis), TIG developed its preliminary cost estimates using Grid West's cost estimates for the Grid West functions that TIG also performs. While the functions are comparable to those of Grid West for costing purposes, TIG's structure and cost-control incentives differ from Grid West's, which is structurally akin to an RTO. Because TIG will rely more on contractors and less on institutional staff, TIG expects the costs for its performance of these functions to be less than the costs incurred by Grid West. TIG is working on a "bottom up" analysis of the costs of the proposed TIG functions.

GTA ISSUES. *GTA customers have significant concerns about their future ability to wheel non-federal resources to their loads over multiple transmission providers' transmission systems. The concerns can be broken down into two parts: access to transmission capacity, and pricing. Access to transmission capacity is the ability to obtain transmission rights to use those transmission systems; access turns on the availability of unused transmission capacity on those systems. GTA customers must pay a "pancake" of embedded cost rates, one for each transmission system they use, to wheel power.*

In addition many GTA customers must also pay to use lower-voltage transmission facilities of the transmission provider with which they interconnect. Because they must cross lower-voltage transmission facilities to get to their systems, GTA customers also face a third issue with regard to any proposal to provide "regional" transmission rights: are all the transmission facilities used to transfer their power included in the regional transmission rights so that no additional transmission rights are needed and the rate "pancake" is truly eliminated? The Publics have tried repeatedly, and have so far failed, to have all transmission facilities used in the delivery of wholesale power included in the Grid West (and RTO West-controlled) transmission facilities.

Issue	TIG Proposal	Grid West For Decision Point 2
<p>Wheeling of Non-federal power to load:</p> <p>1) Access to Transmission Capacity on non-federal transmission facilities</p> <p>2) Rate Pancaking for Transmission Services</p>	<p>(a) TIG proposes a joint transmission tariff for short-term transmission rights and eventually for long-term transmission. Transmission rights would be physical and regional, i.e., they would be rights for use of more than one transmission system.</p> <p>(b) TIG will implement a common, flow-based methodology for calculating ATC for the transmission system as a whole. An independent contractor will calculate ATC calculation using input from transmission providers.</p> <p>Service under the TIG joint tariff will be at a single rate (de-pancaked)</p>	<p>(a) Grid West would have its own tariff for providing new transmission services on the transmission providers' systems. Transmission rights would be physical and regional, i.e, they would rights for use of more than one transmission system.</p> <p>(b) Grid West will use a flow-based methodology for calculating ATC for the transmission system as a whole. Grid West will perform the calculation based on input from the transmission providers.</p> <p>Service under the Grid West tariff will be at a single rate (de-pancaked)</p>
Facilities Inclusion	Unresolved	Unresolved

PUBLIC POWER COUNCIL

Reasons to Support TIG

The Transmission Improvements Group (TIG)'s proposal to address the Northwest's transmission challenges was unveiled August 2, 2005. Here are some of the highlights.

TIG addresses regional needs

TIG proposes concrete and detailed improvements to the Northwest transmission system that will result in greater reliability and lower costs. Improvements are proposed in five areas.

- **Transmission system planning and expansion** – Utilities will implement a single, regional plan and an independent panel will help ensure that projects are built.
- **System reliability** – The ability to manage system reliability will be improved and costs of maintaining reserves will be reduced.
- **Simplified purchasing and sale of transmission rights** – Utilities will develop a single site for purchasing transmission services.
- **Uniform calculation of the transmission capacity available on the transmission system** – More capacity can be sold and system operators will better manage reliability.
- **Market monitoring** – An independent “watchdog” will monitor Northwest transmission markets.

TIG maintains regional control

TIG's governance structure allows for broad participation and builds on our history of working together cooperatively. TIG does not alter existing relationships – or accountability – between utilities and their regulators, investors or customers. TIG avoids additional FERC jurisdiction and does not create a new entity subject to FERC oversight.

TIG proposes incremental changes that will cost ratepayers less

TIG uses existing institutions and multilateral contracts to address and resolve important issues now and in the future. The TIG approach is to take incremental steps using a decision-making process that will reduce risk and cost.

TIG offers lower risk and more flexibility for the Northwest

Empirical evidence suggests that regional transmission entities that are unmoored from local control pose serious risks of cost escalations and customer disappointment, with limited local remedies. By avoiding a new, FERC-jurisdictional controlling entity, TIG maintains the ability of local and federal utilities to adapt to what works best for the Northwest.

PUBLIC POWER COUNCIL

Grid West Proposal Raises Significant Concerns

In September 2005, BPA and the other Grid West filing utilities will vote on whether to seat a Grid West independent board of trustees and whether to execute an irrevocable funding agreement that will commit them to provide, collectively, more than \$18 million to Grid West to fund development and implementation of the proposal, in addition to the more than \$16 million they have already spent.

The Grid West proposal raises many serious concerns:

- **Flawed Governance Structure.** Grid West is a private corporation that will not be responsive to the needs of end-use customers. The governance and corporate structure erect a barrier between those customers and the decision-makers. It is worth noting that the Board of ISO-New England continued to advance a controversial proposal (LICAP) despite the united opposition of the region's consumer groups, state regulators, governors and Congressional delegation.
- **Loss of Regional Control.** Grid West will be a FERC-jurisdictional entity beyond the oversight of any state or local public official. Establishment of Grid West will transfer the authority to make decisions about electric transmission policy from the Northwest (and its Congressional delegation) to FERC.
- **Dubious Means for Constructing Transmission.** Some believe that RTOs are needed to ensure needed infrastructure is built, but the evidence suggests the contrary: regions with RTOs and ISOs are building *less* transmission than regions without these institutions.
- **Ill-Suited Pricing Mechanisms.** Consumer groups, industrial customers and others have complained about the use of market mechanisms (like "locational marginal pricing") to price transmission service and ancillary services. These markets have been empirically shown to fail to deliver lower delivered-power prices to consumers, are subject to manipulation and, in the case of the Northwest, are not compatible with the hydro-electric system. Despite these complaints, Grid West proposes to implement bid-based, security-constrained economic dispatch markets that are similar to those used by RTOs. While it is claimed that this is a limited application, it will be costly and unnecessary and it starts us down the wrong path.
- **Unnecessary Risks for Consolidated Control Areas.** The consolidation of control areas into Grid West is said to be "voluntary"—but only for the consolidating control area operators; *not* for the utilities that are located within those control areas and who must bear the costs and the risks of consolidation and the proposed markets. (Consolidated control areas in a TIG environment are less risky because control would not be transferred to an organization—Grid West—with a flawed governance structure.)

- **Unproven Reliability Benefits.** Grid West’s claims of reliability benefits from the consolidated control area are based on *unproven* assumptions about the ability of RTOs and ISOs to be better equipped to handle emergencies.
- **Troubling Cost Shifts.** The Grid West pricing proposal may entail significant cost-shifts among utilities and areas of the Northwest. Grid West proposes to mitigate the cost-shifts by assuming that all existing contracts will stay in place (*i.e.*, there will be no “de-pancaking” of transmission rates for those contracts) and by spreading any net under-recoveries to the region as a whole. Existing transmission service customers would subsidize new transmission service customers.
- **Increased Costs with Weak Cost Controls.** Grid West will cost transmission customers \$101 million per year in direct costs and significant further costs through higher rates and power prices. Once the considerable start-up and operation costs are added, transmission rates will go up. Further, the governance structure, which insulates decisions from the end-users whose dollars are at stake, fosters the kind of cost explosions other RTOs have experienced.

Charging Up

Operating budgets for grid-running corporations,
in millions

California Independent System Operator



Midwest Independent System Operator



PJM Interconnection



Electric Reliability Council of Texas



Independent System Operator New England



New York Independent System Operator



Source: Cambridge Energy Research Associates

RTO Costs: Reasons for Skepticism

Transmission Completed 2004

Source: FERC "2004 State of the Markets" (Note: ERCOT's are projections)

Major Transmission Circuit Miles

