

## Renewable Northwest Project

917 SW Oak  
Suite 303  
Portland, OR 97205

Phone: 503.223.4544  
Fax: 503.223.4554  
www.RNP.org

### Members

Phases Energy Services

American Wind  
Energy Association

Bonneville Environmental  
Foundation

Calpine Corporation

Center for  
Energy Efficiency and  
Renewable Technologies

CH2M Hill

Citizens' Utility Board

David Evans & Associates

Eurus Energy America

FPL Energy, Inc.

Geothermal  
Resources Council

GE Wind Energy

Green Mountain Energy

Horizon Wind Energy

Montana Environmental  
Information Center

Montana Public Interest  
Research Group

Natural Resources  
Defense Council

NW Energy Coalition

Northwest  
Environmental Advocates

Oregon State Public  
Interest Research Group

Orion Energy

PPM Energy, Inc.

Portland Energy  
Conservation, Inc.

RES America  
Developments, Inc.

uksan Energy Consulting

Stoel Rives, LLP

Vestas American  
Wind Technology, Inc.

Washington  
Environmental Council

Washington State Public  
Interest Research Group



Renewable Northwest Project

September 9, 2005

Bonneville Power Administration  
Attn: Communications - DM-7  
P.O. Box 14428  
Portland, OR 97293-4428

### RE: Comments on Grid West, TIG, and Decision Point 2

The Renewable Northwest Project (RNP)<sup>1</sup>, FPL Energy<sup>2</sup>, Horizon Wind Energy<sup>3</sup>, and Tom Foley<sup>4</sup> have been active participants in the RRG/Grid West development process (and prior to that the RTO West process). We are pleased to have an opportunity to provide comments to Bonneville Power Administration (BPA) on the direction it should take at Decision Point 2 this September. Transmission access and availability are critical for the future development of renewable resources, so we have a strong interest in BPA's decision.

We feel, for the reasons that will be laid out in these comments, that the greatest potential for transmission improvements, and therefore the greatest benefits for the region, are possible under the Grid West (GW) proposal. We strongly urge Bonneville Power Administration (BPA) to approve Decision Point 2, and to help fund the future development of Grid West. We believe that the TIG proposal is not complete enough nor will it offer the region the net benefits we expect from GW. However, some of elements of the Transmission Improvements Group (TIG) proposal, such as the single OASIS and single regional queue, and the regional market monitor could be adopted before Grid West is operational and later be merged into GW.

We do not address the status quo option, as we do not consider this to be a viable option. The Northwest transmission grid no longer functions as a number of separate control areas as it might have 10 or 15 years ago. The grid functions as one big machine. In order to operate and plan for the future of that machine

---

<sup>1</sup> RNP is a non-profit renewable energy advocacy organization whose members include environmental and consumer groups, and energy companies.

<sup>2</sup> FPL Energy is the merchant generating subsidiary of FPL Group, Inc., and owns and operates over 11,500 MW of generation in 24 states. FPLE is also the leading wind power producer in the United States, with over 3000 net megawatts currently in operation in 15 states. This represents over 40% of the installed wind capacity in the country today. In addition, FPLE is the largest generator of solar power in the United States, with 310 MW in operation.

<sup>3</sup> Horizon Wind Energy is a leading developer and operator of utility-scale wind energy projects.

<sup>4</sup> Tom Foley is a consultant who has been working with RNP to further the development of cost-effective renewable resources in the Northwest and is also an active participant in BPA's Non-Regulated Round Table. He is also a member of the Regional Representatives Group (RRG).

in the most effective and efficient way possible, we must have regional coordination. The current transmission system needs to be improved. Therefore the option “Transmission owners continue separate operations” presented in BPA’s public letter of August 5, 2005 is unacceptable from our perspective. We are pleased that it appears that BPA also shares this perspective.

Our main concerns with TIG are:

- 1) The proposed governance structure and whether it will work.
- 2) The lack of a mechanism for trading flow-based rights within a market mechanism.
- 3) The lack of a backstop authority for planning and expansion for reliability outside of state and federal regulators.
- 4) The lack of a method for addressing pancaked rates.

We will briefly comment on these four concerns. We have addressed BPA’s specific questions in the attached memo.

### **TIG’s Governance Structure**

TIG’s governance will rely on multiple contracts between many different entities covering five functional elements. It also includes a Coordinating committee, and an Executive Committee. We expect there will be difficulties in communicating across TIG’s different committee structures. If TIG does go forward, it is possible each of the five functional elements would be comprised of a different set of players. Yet the five elements of the TIG proposal need to function well together in order for the region to experience the improvements that TIG expects. It is not clear that there will be adequate participation in the five charter areas for all of the elements to work together in a way that yields an efficient operation of the grid.

Further, it appears that parties who are not signatories to the various elements will not have input into the contractual agreements and therefore will have limited input in to the definition of each element. To give a voice to non-utility members of the elements might bring TIG under FERC’s jurisdiction. But, the lack of formal roles for regional stakeholders representing renewable resources as well as independent renewable developers is very troublesome.

The planning function in TIG (NTP) is said to be “independent,” yet many of the same entities that cannot agree today on who builds transmission lines and how the costs and benefits are allocated will have to accept it plan. It appears to us that it could be difficult for the diverse vested interests represented on the Transmission Expansion Review Committee (TERC) to come to agreement on any plan.

GW, by comparison, will have an independent board in place working under transmission agreements with the major transmission owners. The GW board’s rights and responsibilities are clearly laid out in both the Developmental and Operational By-Laws, and these rights include everything needed for this independent entity to operate the regional grid. GW’s membership structure has a defined role for renewable representatives and developers, equal to the role defined for other market players who are GW members.

### **The lack of a mechanism for trading flow-based rights within a market mechanism.**

Both TIG and GW are proposing to adopt a physical model of the system that uses flow based analysis as a way to measure transmission capacity. This move, which TBL has already adopted,

is a major improvement away from contract path model and should help identify greater available transfer capability (ATC) on the region's grid as a whole. Where the two proposals differ is in how the capacity on the system can be bought and sold.

The GW proposal allows for "trading" of transmission rights through a reconfiguration auction that allows existing rights holders to sell them in order to enable a different set of rights wanted by another transmission user. This has great potential to improve the efficient use of the system.

TIG proposes a common OASIS to help identify bi-lateral trades, but it will not enable a trade of a right from A to B for rights from C to D or E to F, for example. This offers only a slight improvement over today's existing bilateral sales by providing better information in bulletin boards. Because it is unlikely that two entities want the identical rights, few if any bi-lateral trades will be made. This would lead to a less efficient outcome than the reconfiguration auction Grid West proposes. Bilateral trades rarely work for remote renewable resources, and thus TIG's approach would ultimately result in higher prices for renewable resources than the GW proposal, because intermittent renewables will not be able to sell their transmission rights when they are not needed. Comments made by some TIG proponents indicate that TIG will move toward a reconfiguration type system, but we are not convinced that this is possible while still requiring bilateral settlements, a requirement of TIG's proposal.

#### **The lack of a backup authority for planning and expansion for reliability outside of state and federal regulators.**

The GW proposal gives authority to the board to cause expansion of transmission capacity (AFC) if needed for reliability. In implementing this authority GW will have had the benefit of the planning analyses that its staff produces. This will allow GW to make informed decisions about where and when additional resources need to be put into place. In the TIG proposal, the backstop authority goes to state regulators and FERC, neither of which would be starting out with an in-depth knowledge of and experience with the Northwest transmission grid. We believe the backstop decisions made by GW would be more informed and more likely to be implemented than those made by regulators who don't possess an intimate sense of the needs of the regional grid.

#### **The lack of a method for addressing pancaked rates.**

Pancaked rates and pancaked transactions are painful for renewable resources, because they are more location dependent than other types of resources. Pancaking can dictate which renewable resources will be developed. When resources have to cross over more than two separate transmission systems, they usually become too expensive to develop. Therefore developers and utilities are likely to choose a less efficient renewable resource that does not suffer from pancaked transmission rates when comparing it to a higher capacity site that would require multiple transmission charges to deliver. Pancaked rates are not only a result of long transmission distances. Pancaking can happen even over short transmission distances when resources are located near control area boundaries, or multiple control areas are located near each other. The GW proposal has eliminated rate pancaking and transactional pancaking for all new service.

The TIG proposal still contains pancaked rates for new service. Again, we find this unacceptable. Transactional pancaking in TIG may be lessened, because its common OASIS should make it easier to acquire transmission rights from available AFC without dealing with

multiple transmission owners. But it will be almost impossible to acquire rights through a bilateral arrangement with holders of rights, even if rights holders are willing to sell. The GW reconfiguration auction will enable the acquisition of rights made available through existing AFC and through purchases of rights from others who are willing to sell their rights in the auction eliminating more transactional inefficiencies than TIG.

For the reasons and comparisons detailed above, we urge BPA to move forward with the Grid West effort. We encourage BPA to support the seating of a developmental board and to participate in the further development of the functional design of Grid West. Solutions to the regions transmission problems are needed in the near future, and Grid West's comprehensive proposal with its balance of independence and regional accountability is the most viable solution.

Sincerely,

Natalie McIntire  
Senior Policy Associate  
Renewable Northwest Project

Mark J. Smith  
Director, Market Affairs  
FPL Energy

Chris Taylor  
Director of Development  
Horizon Wind Energy

Tom Foley  
Consultant

Cc: Steve Wright  
Allen Burns  
Syd Berwager

## MEMORANDUM

### Answers to BPA's specific questions in their public letter dated August 5, 2005

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

Yes, the most efficient solutions to the regions transmission problems and future resource needs can be accomplished by using a "one utility" approach. The TIG proposal adopts the "one utility" approach to planning and the OASIS. The GW proposal adopts the one utility approach throughout its design and implementation.

2. *Please describe how well you think each alternative achieves the six benefits described on pages 2-3 of this letter (planning and expansion, reliability, ATC, congestion management, market monitoring, and "one stop" stopping).*

*(i) More efficient and equitable system-wide "one utility" planning for grid expansion supported by a backstop authority that would support the implementation of projects important to reliable grid operation.*

TIG claims its planning function is "independent" and is designed to do planning on a single utility basis. But its plan must be accepted by many of the same entities that cannot agree today on who builds transmission lines and how the costs and benefits are allocated. Further, since the staff of the transmission owners will be "helping" the NTP in it's planning, we question the independence of this design. It appears to us that it could be difficult for any plan coming out of NTP to be agreed to by all of the diverse interests represented on the Transmission Expansion Review Committee (TERC). Rather than giving the staff authority to do sound planning, every planning decision will be subject to a new vote of the TERC. The dynamics of this planning structure are fraught with unknown consequences. We fear that it would be easy for any utility that prefers the status quo, to scuttle the TIG process after funding for GW ended. We are left with these concerns: Can a plan get done? Will any plan be acceptable to all transmission owners? Given the diverse vested interests, we do not see how a plan can be drawn up and implemented under this governance structure, which is not much different from the *status quo*.

GW, on the other hand, will have an independent board in place working under transmission agreements with the major transmission owners. The GW board's rights and responsibilities are clearly laid out in both the Developmental and Operational By-Laws, and these rights include everything needed for this independent entity to plan for and to operate the regional grid.

One area of concern is that of a backstop for needed transmission construction for reliability. The GW proposal gives authority to the board to cause expansion of transmission capacity through line construction if needed for reliability. In implementing this authority, GW will have had the benefit of the planning analyses produced by its staff. This will allow GW to make informed decisions about where and when backup resources have to be put into place, and to whom the benefits derive.

In the TIG proposal, the backstop authority is left to state regulators and FERC, where it is today. Neither state regulators nor FERC have used this authority in the past to solve reliability problems. Further, their limited knowledge on the specific details of the Northwest transmission

grid makes their decision process challenging, and in practice may limit their authority to impose penalties. We believe that the backstop decisions made by GW will be more likely to be implemented than those made by individual utilities in response to penalties imposed on them by regulators.

*(ii) Voluntary consolidation of control areas. This would enhance reliability over time because operators would have greater visibility of the consolidated grid and would improve the efficiency of providing required ancillary services.*

Both proposals allow for consolidation of control areas on a voluntary basis. In the GW proposal, the GW Board would be the control area operator for the consolidators, and it will operate a regional market for ancillary services needed for control area operations. In the TIG proposal, a separate entity (Reliability Authority Balancing Authority - RABA) is formed to operate only the resources (presumably at cost) used by the consolidating utilities to meet their ancillary services needs. There should be an economic gain in both cases, as consolidated areas should require fewer ancillary services than unconsolidated control areas. But given that PacifiCorp and Idaho Power have both indicated that they will not participate in TIG, it is unclear that a consolidated control area under TIG will bring many of the benefits the group expects. However, the GW model should result in lower costs of ancillary services for any given group of consolidators, because it will have a broader market from which to draw ancillary services. It will gain from the fact that fewer resources will be needed to support a consolidated group (as will TIG) as opposed to individual control areas. It will also experience gains from drawing on resources in an inc/dec market, potentially at lower costs, from a wider selection of resources than can RABA. The Grid West approach offers greater opportunity for cost efficiencies that will ultimately flow to end use customers.

Relative to improving reliability, it appears as though the GW proposal is better, because the control area operator is also the grid operator. GW is more likely to be able to use its greater visibility of the consolidated grid and its access to a wider range of resources to avoid problems before they occur. In the TIG proposal, RABA is a control area operator only, and only has access to the consolidators' resources. RABA is limited in its scope, which constrains its ability to improve reliability beyond a certain point.

*(iii) Better management of Available Transfer Capacity (ATC) through application of a common, flow-based methodology to support additional transactions without having to invest in additional facilities*

Available transmission is critical for renewable development, and with the cyclic extensions of the federal Production Tax Credit, timing is key. Although both are proposing a flow-based system, Grid West's proposal has the potential to make more efficient use of the transmission system than TIG's.

First of all, the GW reconfiguration market will allow for a more robust secondary market for transmission than TIG's bilateral sales bulletin board. And based on the challenges to BPA's recent effort to modify its flow based methodology, which identified additional ATC, we expect TIG will also face significant challenges in achieving consensus on a regional ATC methodology. We also understand that TIG will be conservative in offering long term contracts based on new ATC identified in its flow-based assessment. For these reasons, Grid West will enable more development of new renewable resources.

To elaborate on the point above, TIG does not plan to offer new long-term contracts based on any new ATC until late in 2009. This is too late for renewable development. We saw limitations in the amount of wind being developed in 2005 due to lack of availability of long-term firm transmission contracts. Timing is critical with short-term extensions of the federal production tax credit, which has recently been extended through 2007. Work within the NTAC transmission planning effort has identified between 1500-2000 MW of wind resources that could be constructed by the end of 2008, but that will depend on how much long-term transmission service is available. If TIG is committed to making more efficient use of the transmission system, they will move up their timeline for making long-term offers of flow based rights.

*(iv) Better management of congestion on the grid. This should achieve more economical voluntary redispatch of generation and less curtailment of transmission schedules.*

Both TIG and GW are proposing a flow-based system that ultimately will help to increase the efficiency of the system. The flow-based approach, on which BPA has taken the lead, will result in additional available AFC resulting in more transactions. This can actually increase congestion in real time. But congestion is not necessarily bad. If there were no congestion, the system would be clearly overbuilt. A more serious problem is not being able to buy your way through a congested flow gate even when you value those rights more than an existing rights holder. In this instance both entities lose.

GW, with its reconfiguration auction, will allow parties who place a high value on a flow gate to purchase rights to it from others who value it less. Further, in GW the injection and withdrawal points being offered and purchased do not have to match.

In TIG only bi-lateral exchanges are proposed. It will be very difficult to piece together the flow-based right that is desired by purchasing other rights bilaterally.

GW will also be operating a market to increment and decrement (inc/dec) generating resources to reduce congestion. With the addition of non-wires resources bidding into this market to dampen market power of generators and access to all generators in the region, the cost of congestion relief should be reduced relative to today and should be considerably lower than the cost of congestion relief under the TIG proposal.

*(v) "One stop shopping" for transmission service to ease and simplify access to the multiple transmission systems and reduce the administrative costs of doing business on the grid.*

TIG's proposal envisions a single OASIS to increase transparency, and to allow all needed transmission rights to be acquired at a single "place." The GW proposal uses a one-stop reconfiguration auction for acquiring transmission rights up to one-year long. In the long-term, GW envisions a single queue for gaining transmission rights, although an auction is possible.

The TIG proposal will limit the sale of needed transmission, because it only allows for bi-lateral trades. Bi-lateral trading will not yield the benefits of a reconfiguration auction will yield because reconfiguration allows trades of unlike rights, whereas TIG does not. This limitation of TIG will result in valuable transmission going unused, or worse building transmission that may not really be needed.

*(vi) Market monitoring to provide effective grid-wide detection of market abuse.*

Both proposals seem similar with regards to market monitoring, but again we come back to independence. In order for parties to feel comfortable releasing data to a market monitor, they need to feel completely confident that that party is independent of all other market participants. Given that the creation of a market monitoring function under TIG will be based on a coordinating agreement signed by a set of the region's utilities, without input from other market participants, we feel that confidence in the independence of this function may be compromised.

*3. How well do you believe the Grid West and TIG proposals meet the goal of effective decision-making that is not unduly influenced by market participants?*

There is a distinct difference in the independence of the Grid West and TIG proposals, which is not surprising given TIG's goal of avoiding any increase to FERC's jurisdiction. While the TIG proposal has some aspects that use independent contractors, such as the transmission planning process, the coordinating agreements that all five of the charter efforts are based upon will be signed only by utilities. In order to avoid any new FERC jurisdiction, TIG says that all agents or contractors acting for the transmission providers must be acting only under the direction of the utilities, and not acting independently. This leaves limited room for input and influence from the rest of the region's stakeholders such as public interest groups and independent power producers, including renewable developers. Regional stakeholders representing renewable resources, and renewable developers themselves, find this omission very troublesome.

The Grid West governance structure by comparison brings the right balance of independence and regional accountability. The voting structure gives an equal voice to public interest groups and renewable developers. The Board would be independent of the transmission providers and other market participants, while at the same time have a clear line of connection with regional sentiment via membership meetings, and the potential to be voted off the board by Grid West members. The Board is also bound to follow particular protocols to check in with members on particular issues, as well as check in with the states. The Board must pass certain issues of regional concern by a super majority, and is limited in the changes they can make to the Grid West organization and functionality over time.

*4. If BPA supports the TIG proposal, are you committed to all of the elements of the TIG proposal? If not, which ones are troubling? And why?*

While we strongly encourage BPA to support the Grid West proposal for all the reasons identified throughout this letter, if the region chooses the TIG direction, we will be active participants. Transmission issues and improved access and availability of transmission in the NW are too important to the future development of renewable resources for us not to play as active a role as we can in any efforts to change the system.

Unfortunately, TIG gave up a lot in its attempt to avoid FERC jurisdiction. Public bodies will not have much of a voice in TIG development and implementation, and because of this we are concerned about our ability to participate in the further development and implementation of TIG.

If TIG is chosen by the region as the preferred approach to solving transmission problems,

- 1.) We would be working hard to include markets for transmission rights, because we need the ability to buy and sell transmission depending on the output of renewable resources. This is especially important for intermittent resources like wind.
- 2.) We would be working hard to include inc/dec markets that include non-wires alternatives for congestion relief, because it is an economical way to do so.
- 3.) We would be working hard to get rid of pancaking, because pancaking limits the sites that renewable developers and utilities can consider.
- 4.) We would be working hard to change the governance structure, because we do not think the current structure will work.
- 5.) We would be working hard to give regional stakeholders a stronger voice in TIG.
- 6.) In general, we think that the TIG proposal is far from complete, and should not be chosen, but we will work hard to make it better.

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

We have strong concerns about the ability of the regions utilities to come together not on just one agreement, but on the Coordinating Committee agreement and five different agreements that would be necessary to implement the full TIG proposal. We do not want to spend several more years trying to make these agreements happen. It is time in the region for action, and we fear further delays under the TIG direction. Many of the participants of the RRG that are now supporters of TIG asked for several changes to the Grid West proposal such as an incremental implementation plan, and significant regional control, both of which have been added to the Grid West proposal. Those parties that were saying, “go slow” are now saying, “stop” to Grid West. We are concerned that if the region again steps back to adopt TIG, these parties will once again say that TIG goes too far. And they will once again derail another effort to use a coordinated regional approach to solve the Northwest’s transmission problems.

Under the TIG proposal, each of the functional elements could likely be comprised of different players. Yet all of these elements of the TIG proposal have to coordinate very efficiently for all of the elements to work together in a way that yields an efficient operation of the grid. History tells us there is great difficulty in communicating across different committee structures. Because of the complicated structure of the TIG proposal, it would be very easy for a few to scuttle the entire TIG developmental process, leaving us with the status quo that most of us believe needs fixing.

*6. If BPA supports Grid West, are you committed to all of the elements of the Grid West proposal? If not, which ones are troubling? And why?*

We fully support the Grid West proposal, and we will continue to participate in the effort to further design Grid West so that it best serves the needs of the region and can support increased development of renewable resources. One area of improvement could be how network service is defined. Currently, the GW proposal allows network service only within a transmission utilities electrical footprint. One could not add resources outside of that footprint to be part of the network service without separate transmission rights for that resource. This creates the possibility of a pancaked rate. We hope that in the future network service can be extended throughout the GW footprint.

We will also be alert to assure that GW carries through on its intent to include non-wire measures as competing players to provide services historically confined to generators and wires. The renewables community believes that if we are successful in assimilating non-wires measures into planning and implementation, the costs of congestion relief, ancillary services, and transmission and distribution will be decreased.

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

There is still work to be done to fill out the proposal, including a refinement of the cost/benefit analysis, computer systems design, and development of a transmission agreement. However, we believe that with the support of the region's key utilities, and seating of an independent developmental board, the Grid West proposal has a strong chance of coming to fruition.

*8. If you are a supporter of the TIG alternative, please explain why adopting the TIG alternative will be in the collective best interests of all of BPA's customers who depend on the Northwest transmission grid and of other stakeholders who have an interest in regional transmission issues.*

N/A

*9. If you are a supporter of the Grid West alternative, please explain why adopting the Grid West alternative will be in the collective best interests of all of BPA's customers who depend on the Northwest transmission grid and of other stakeholders who have an interest in regional transmission issues.*

The grid in the Northwest relies on balkanized planning. Because of this balkanization and because the grid is interconnected, it is not always clear when expansion is needed, where it is needed, and who should pay for expansion. Historically, BPA has taken on a lot of the responsibility to meet expansion needs. Budget concerns will not allow BPA to take on this role any longer. It is clear that an independent entity with backstop authority for reliability is needed in this region. The GW proposal is the only one on the table with these provisions.

In addition, the Risk and Reward group of GW has made, in our estimation, conservative estimates of benefits that would accrue to the region from having an independent operator implement the GW proposal. Those benefits range from over \$100 million to over \$400 million if only PacifiCorp, BPA, and Idaho Power consolidate control areas. The use of non-wires alternatives in GW and the reduced need for construction add additional millions of dollars to these estimates. The benefits are much higher if additional control areas are consolidated. The benefits are due to lower costs of contingency and regulating reserves, increased redispatch efficiency, increased reliability of the bulk grid, increased reliability of power delivery, and from the reconfiguration service. All of these benefits will be spread among the region's ratepayers.

GW is not only the best option on the table for acquiring new AFC when it is truly needed, but is the best option for squeezing more AFC out the existing system through its reconfiguration auction and its regional flow based methodology. GW is also more likely to eliminate pancaked rates that are so problematic for the development of location dependent renewables, resources that are cost effective, stable priced, and bring environmental and local economic development to the region.

*10. The RRG recently completed an examination of the benefits of the Grid West proposal. Do you have additional views on the benefits of the Grid West proposal that you have not already brought to our attention?*

The demand-side benefits calculated by the Risk/Reward Workgroup were extremely conservative. The estimate included no benefit for load control,<sup>5</sup> no benefits for using demand-side resources as ancillary services,<sup>6</sup> no benefits for strategic placement of resources in the grid or behind meters, etc. Further, in the analysis the Risk and Reward group used an 11% cost of money for pure conservation, and assumed that the existence of the reconfiguration would only yield a 10-20% increase in the demand-side resources offered to free up transmission. We have been talking to venture capital firms that clearly want to get into the non-wires businesses. The potential gain from non-wire opportunities with the context of GW and its market structures could be very large. The expected benefits will not come about without the reconfiguration auction, the inc/dec market, and a market for ancillary services, as contained in the GW proposes.

In addition, to the benefits of non-wires, the Risk and Reward group also showed significant benefits from deferring transmission construction, because of more available AFC under GW.

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

TIG has done no analysis of benefits, and the cost analysis that it has done has not been vetted with the public. Certainly, TIG's cost estimate is nowhere near as detailed as the cost estimate done by The Structure Group for GW. For example, we do not know how TIG has factored in the costs of the voluntary members of the five elements, the Coordinating committee, and the staff of utilities who will help with planning. Nor do we know whether rental fees for meeting space of the various elements have been factored in. All of these costs are embedded in the cost estimate of GW.

While we appreciate the effort TIG has made recently to put together a cost estimate, the cost estimate alone is meaningless without an estimate of benefits against which to compare it. It is not surprising that the TIG cost estimate is lower than the GW cost estimate, because of the less ambitious nature of the TIG proposal. Even the most conservative benefit estimates for the Grid West effort exceed the GW cost estimates. Without a benefit estimate for TIG, we cannot assess whether the benefits are higher or lower than the costs. And without this comparison, claims that TIG will cost the region less than Grid West should not be considered.

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

At this stage in the evolution of TIG, it is hard to know what changes to propose or how the TIG groups will flesh the proposal out. Having said that, we would recommend that TIG examine its governance structure very critically. It relies too much on ongoing negotiations to get things done. We do not see a lot of improvement in the reliability of the system under the TIG proposal.

---

<sup>5</sup> In July, California saw loads cut by 2,000 MWe from what it had forecasted the day before. It used a bully pulpit, and relied on conservation done in the last couple of years due to higher electricity prices. In the 2001 energy crisis in the Northwest, demand control and buyback saved the region a lot of money.

<sup>6</sup> In BPA's Round Table last month, PacifiCorp stated that it was getting its AC load control program certified as an ancillary service. This step and others like it will align with GW markets to produce benefits, including limiting the market power of some providers in certain pockets of the grid.

We also strongly believe that TIG would need to develop a mechanism to allow trading of rights in a market framework instead of only in bi-lateral agreements. In a reconfiguration auction, an entirely different right can be created by given up an existing right(s). In the TIG proposal, this cannot happen, and it will limit the exchange of rights and the efficient use of the system.

With GW, the GW Board is probably over constrained, but it at least has fairly clear boundaries within which to operate. We think that with experience, everyone in the region will get comfortable with GW, and we hope some of these constraints can be lowered.

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

We have seen the TIG effort converge slowly toward that proposed by GW, and we would have expected more and more convergence if both efforts would have continued. But we still see great differences. Both proposals show intent to move to flow-based rights, and both have a central planning function, but little after that is the same.

TIG's insistence on not creating an entity subject to FERC jurisdiction has left them with a planning and governance proposal that we believe will not work. If this is a hard constraint, we do not believe that further convergence would happen. Without that constraint, we think that the two proposals could evolve to look quite similar.

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

If we adopt the GW proposal, we believe that we will come close to treating the Big Machine (grid, generators, and loads) more like a single machine than it ever has been. We believe GW will bring more reliable and cost effective grid operation. We believe under this direction, renewables will have the greatest chance of reaching their fullest potential.

We cannot anticipate all of the details that will be in TIG's final proposal, and therefore, cannot guess where it may lead us. At this time we do not support the direction of TIG. Its proposal is troubling in the ways set forth above, and incomplete in ways that make it difficult to even guess how it will turn out. Further, we think that TIG will have more difficulty in getting key transmission owners to sign on than will GW.

It is imperative that the region does not spend another 10 years debating this question. The time for action is now. If the region wants to take advantage of its great potential to improve the efficiencies of the grid, it should choose Grid West. The region will be better served, as will renewable resources.