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September 9, 2005

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DELIVERY VIA ELECTRONIC MAIL - [www.bpa.gov/comment](http://www.bpa.gov/comment)

RE: Open Comment Period - Decision Point 2

Dear Steve,

The utility members of the Washington PUD Association (WPUDA) have participated, directly or indirectly, in a series of discussions regarding the restructuring of the management of the regional transmission system since the early 1990s. Most recently, this advocacy has led to strong support for the work of the Transmission Improvements Group (TIG), as opposed to the formation of Grid West. Notwithstanding the specific forum, the WPUDA has advocated for incremental and cost-effective options for solving the region's transmission problems.

Decision Point 2 for Grid West was originally conceived as an "up or down" evaluation of Grid West: either (a) the Developmental Board would be seated, a new funding agreement established for the next two years, and all future work conducted under the direction of the Developmental Board, or (b) further work on Grid West would cease. There was never much discussion of what would happen if the latter course were chosen. Earlier this year, BPA challenged the supporters of the TIG approach to come up with a practical and substantive alternative to Grid West in time for Decision Point 2. Accordingly, BPA, three regional investor-owned utilities, and publicly owned utilities across the region teamed up to flesh out the TIG proposal. The result was, and is, a real alternative to Grid West at this time. Thus, the character of Decision Point 2 has changed.

Your letter of August 4, 2005 sets out three choices: separate operations (similar to a "status quo" option), Grid West, and TIG. The WPUDA members acknowledge that "no change" is not an option. We recognize that there are real issues that must be addressed, and real changes that must be made. Therefore, consistent with our fundamental principles, we think that BPA should adopt the TIG proposal, moving forward with work on all components.

Based on the available evidence at this time, we conclude that the TIG approach offers the best ideas developed to date, promises the greatest benefit to consumers in the

Northwest at the lowest possible cost and risk, and retains the fundamental TIG principle of regional control rather than reliance on an “independent board” that is subject to FERC. The Grid West proposal simply cannot meet these fundamental principles. It is time to recognize that \$16 million has been “sunk” into the development of a proposal that does not meet the immediate needs of the Northwest, and that an additional \$20 million in developmental costs will not improve the situation materially. Rather, those funds should be spent getting to work immediately on the TIG proposal.

### The New Legal Landscape

The passage of the Energy Policy Act of 2005 (EPA '05) has changed one fundamental aspect of the regulation, operation and management of the grid. Title XII of the Act provides new authority for the Federal Energy Regulatory Commission (FERC) over reliability, by permitting FERC to certify an Electric Reliability Organization (ERO), to exercise jurisdiction over the ERO and “all users, owners and operators of the bulk-power system”, and to approve and enforce reliability standards. Thus, with or without TIG or Grid West, all transmission providers and transmission users will have to comply with new reliability standards. Although we do not know how these standards will be developed, what the standards will be, or what the enforcement mechanism will be, we should be careful not to ascribe to either Grid West or TIG benefits from increased reliability that may be simply part of future federal requirements.

### Grid West Integrated Proposal for Decision Point 2

Although considerable effort has been put into further development of the Grid West proposal, several issues remain to be resolved by the Developmental Board. These issues are too important for the region to yield to the members of the Developmental Board, many of whom may not have experience in the region and all of whom will be part-time (and possibly short-term) decision makers. Unresolved issues include:

1. most importantly, the fact that none of the work to date is binding on the Developmental Board, which is free to proceed with different ideas and in different directions (within the confines of the Developmental Bylaws);
2. the possibility that Grid West service will incent those with high-cost transmission contracts to convert to Grid West service as soon as possible, with the resulting claims on “unrecovered revenues” due to Grid West driving up the transmission rates of other, low-cost Participating Transmission Owners in Grid West;<sup>1</sup>
3. special accommodations for Canadian participation;
4. the nature of the scheduling system (i.e., how granular must schedules be);
5. the wisdom of using market-clearing price auctions in electricity markets, especially given the nature of the coordinated hydroelectric system in the Northwest; and

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<sup>1</sup> Given that Grid West would be a FERC-jurisdictional public utility, FERC itself may require that high-cost transmission contracts be converted to Grid West service, if the experience of the Midwest ISO is any guide. This likelihood is aggravated by the proposal that revenues from the “communal bucket” be allocated to transmission owners in proportion to their claims for “lost revenues” as a result of Grid West implementation. This proposal will generate an endless series of debates about what lost revenues Grid West has caused. If the revenues in the “communal bucket” are insufficient to meet all claims, Grid West would just “uplift” the difference, thus socializing a hypothetical cost. This increases the incentive for transmission owners to claim lost revenues.

## 6. pricing of new services offered by Grid West.<sup>2</sup>

Furthermore, it is entirely unclear that Grid West is a necessary condition for the improvements claimed by Grid West to occur. A review of the TIG proposal indicates that much, if not most, of the improvements for which Grid West is claimed as the unique source can be accomplished by the contract structure proposed by TIG. In short, the improvements promised by Grid West can be achieved less expensively, and at less risk, by TIG. The TIG participants are moving toward a Memorandum of Intent (MOI), which should be executed before Decision Point 2; if so, this should demonstrate that the necessary will is available to implement the TIG proposal.

### Consolidated Control Area Initiative

Both the Grid West and TIG proposals contain an option for voluntary control area consolidation. Therefore, neither Grid West nor TIG is uniquely suited to implement this option. Accordingly, BPA and other control areas interested in consolidation can continue work on this proposal, separate from either TIG or Grid West. The costs and benefits of a more detailed proposal for consolidation should be measured as the proposal develops, and BPA should identify a new decision point once the details of the initiative have been more fully worked out.

### Transmission Improvements Group

In only a few months – and at comparatively low cost – the TIG members have developed a package of proposals that address the most obvious and pressing issues facing the Northwest transmission system. The TIG package promises almost all of the benefits of Grid West at a fraction of the cost, and without the risks of an independent board and FERC jurisdiction. The WPUDA urges BPA to adopt the TIG package as the foundation for future improvements to access, planning, expansion, and use of the region's transmission system. In the near-term, the TIG proposals for planning, expansion, common OASIS, market monitoring, and reliability can be implemented or at least more fully developed.

### Cost/Benefit Analysis of Grid West Integrated Proposal

Based on a review of the estimated costs and benefits of Grid West, the WPUDA concludes that Grid West does not pass a cost/benefit test. This conclusion is reinforced by the risks associated with FERC jurisdiction and decision making dominated by short-term, part-time individuals, even if they are “independent” of market participants. Finally, a significant difference between the Grid West and TIG proposals is the ease of modification and, if necessary, termination. Quite simply, it is much easier to change course with TIG contracts than with a Grid West Board, staff, and regulatory structure. A commitment at this point to seat the Developmental Board is a significant step, and one that should not be taken lightly. Significant funds would be committed that could be put to better use. The temptation will be to make concessions or changes as necessary to ensure that Grid West does not fail as an institution. Not all these changes or concessions

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<sup>2</sup> Note the lack of unanimity identified in footnote 42 on p. 31 of the “Integrated Proposal Description for Decision Point 2”.

will be in the interest of regional consumers, who will be asked to pay the bills for the new enterprise.

### The Risks of the Independent Board

Recent experience in New England reinforces our concerns about the establishment of a co-called "independent Board". Despite the strong objections of stakeholders in New England, the ISO-NE Board voted last year to establish a Local Installed Capacity (LICAP) market. In response to objections from all New England governors, the entire New England Congressional delegation, and all New England state regulatory commissions, the FERC has delayed implementation of LICAP markets until October of next year at the earliest. This is a good example of an "independent Board" acting against the express interests of elected and appointed officials in New England, as well as utilities who must serve load. Despite all the safeguards built into the Grid West Bylaws, we could face exactly the same kind of dispute in the Northwest, and have to rely on the actions of FERC to protect Northwest interests, which is dubious given FERC's track record in the electricity crisis of 2000-2001.

For these reasons, we urge you to cease work on the Grid West proposal and shift future efforts to development of the TIG platform.

Thank you for the opportunity to provide these comments.

Sincerely,

A handwritten signature in black ink that reads "Steve Johnson". The signature is written in a cursive, flowing style.

Steve Johnson  
Executive Director  
Washington PUD Association