

Bonneville Power Administration
Frequently Asked Questions and Answers
Grid West Proposal
4/6/04

1. **Why is BPA supporting this regional proposal when it has not been proven the NW will benefit from an RTO?**
 - Many regional parties have expressed concerns about current transmission problems that inhibit the efficient and reliable operation of the system. BPA shares these concerns but we also understand problems expressed by one group may not be considered problems to others.
 - The RRG, which includes over 25 representatives from all the key stakeholder groups in the region, spent several months discussing what the problems and opportunities are with the NW grid. This was a bottoms-up look focused on the unique characteristics of the NW. The RRG produce a 13-page document describing these. BPA has also looked at the system as a whole and believes there are opportunities to make significant improvements in reliability, efficiency, and infrastructure development. BPA believes that establishment of a properly constructed Independent Entity (IE) that is free of market interests, provides services from an overall system perspective, is responsive to regional needs, and acts as a central repository for information has the best potential to realize these improvements.
 - The problems include the inability of multiple system operators to manage the system on an integrated basis causing fragmented operations and mismatches in scheduled and actual flows, inefficient generation patterns and ineffective means of managing congestion. Access is hampered by underutilized capacity, pancaked rates, lack of incentives to do the right thing and lack of adequacy and infrastructure standards.
 - BPA believes the beginning state of the proposal shows promise of providing a reasonably low cost solution with net benefits to the region in the form of both improved reliability and lower costs. Taking a single utility approach to expansion and operation of the entire NWPP grid should allow for more efficient use of the system that could lead to lower costs to consumers. We understand that not all of the identified problems will be solved in this state but believe benefits resulting from partial consolidated control area operations, “one-stop shopping,” and enhanced planning and expansion capabilities inherent in the beginning state could be realized through a properly constructed IE.
 - However, we need to be certain of net benefits and a cost/benefit analysis will have to be done showing net benefits before BPA would agree to join the IE.
 - Our support for the proposal does not mean a decision by BPA to endorse implementation of the advance target state. In fact we need further definition before we can decide that even the beginning state is a workable proposal. There are not enough details in the proposal to make a decision on either. Instead, BPA’s support means choosing to stay engaged in the RRG process to further develop the proposal and provide a good faith effort to shape it into a workable,

sustainable approach to regional issues. Each state must be workable for the Northwest, increase regional benefits and be sustainable over time before BPA will endorse it.

2. Who developed the list of problems and opportunities that are said to hamper our existing system and why do these problems warrant such a drastic step forward?

- After hearing the region's concerns that the RTO West process had been too strongly driven by the Federal Energy Regulatory Commission (FERC) and its standard market design rulemaking, and that the RTO West Stage 2 proposal was too costly, complex, risky, too big a first step and entailed too little regional accountability, the RRG went back to the table to attempt to craft a workable, low cost and flexible solution tailored to the unique needs of the Northwest.
- The RRG decided to do a bottoms-up review of regional transmission issues and opportunities facing the system that the Northwest agreed it needed to address. The group specifically kept FERC out of these discussions to ensure the resulting problems and opportunities list adequately reflected Northwest issues seen as hindering a more efficient and reliable transmission system.
- The RRG membership not only includes the original filing utilities, but representatives from other utilities, the publics, special interest groups, states, tribes, end-use customers, and other key stakeholders affected by Northwest transmission service and infrastructure.
- BPA believes the beginning state of the proposal is not as drastic of a step forward as Stage 2 since the proposal is now a phased approach allowing for logical evolutionary steps for addressing issues and does not create a financial rights model right from the start. It should also be less costly since it relies heavily on existing systems and a brown-field site for the IE.
- We also believe an IE is needed to adequately address some of the identified issues because it must be free of market interests (but not unaccountable or unresponsive to the region's needs) and have an overall system view that could lead to efficiencies. An IE is needed to ensure equitable management of resources and allocations of costs. The IE could make decisions that will affect access to new transmission, develop and ensure implementation of a regional transmission plan, be the reliability coordinator for the system, and oversee critical functions of those control areas deciding to consolidate and it is felt these types of decisions can only be trusted in the hands of parties who have no financial interest in their outcome.

3. The proposal envisions three states: Beginning, Interim and Advanced. The beginning state has some potential but some regional parties are hesitant to support its development for fear that support of the beginning state will automatically lead to the eventual implementation of the advanced state and is seen as the “slippery slope” the region will be on toward a state that looks like the Stage 2 filing with full-blown costs and risks.

- The proposal being developed holds promise as an improvement over the Stage 2 filing in that it is not an all or nothing approach and allows the region to gain experience and reach points of readiness before deciding to move to the next state if it is determined to be beneficial to the region.
- This proposal is not a forced march to the Stage 2. It allows the region to stay in a state until such time the region feel further evolution is beneficial and cost-effective and ensures the necessary markets are in place and functioning well before making any transition. It does not require a transition and allows for a solution that does not necessarily need to include any of the provisions of the advanced target state.
- This evolutionary process must be regionally accountable at every step and BPA will ensure it has a viable exit strategy in place if it appears the entity is not acting in the best interest of the region.
- The proposal also does not express the advanced state as a desired outcome and builds in hurdles that the IE must go through before any transition to a new state is possible. The proposal also has built in the Special Issues List process that makes it difficult for the IE to act in a manner that is inconsistent with the region’s goals. A good example is at the bottom of page 18 of the proposal where there is clear acknowledgment of the divergent views in the region on moving to the financial rights/LMP model relevant to this end state.
- An entity’s support for the development of the beginning state does not mean the entity will be forced into successive states. Implementation of the beginning state can and must be separated from a decision to implement the advanced state. BPA sees the advanced state as a reality only if and when the region decides it is the right thing to do.

4. The proposal does not appear to have a governance structure that maintains regional control over important policy decisions and this further supports the fear of the “slippery slope.”

- Taking the above example of the IE moving to the financial rights/LMP model of managing congestion, the following shows the heightened consultation and procedural requirements the board must comply with to ensure they are acting in the region’s best interest:
- The board first has to determine that the transition is both feasible and makes sense for the region and as part of this process, will have mandatory regional consultation with stakeholders, states, provinces, and tribes. In addition to

assessing feasibility from the perspective of market operations and user readiness, the board would need to complete additional steps including:

- If the board concludes the transition is feasible and does make sense, the issue goes to the TSC for a vote. If there are adequate votes from the TSC to support the board's proposal, the board would be free to implement.
- If 20 of the 30 TSC members vote against the board's proposal (a 20-vote remand) or if 16 TSC members vote against the proposal with at least one member class voting unanimously against the proposal (unanimous member class remand), the proposal goes back to the board for vote and consideration of TSC member's concerns.
- If, despite a remand vote from the TSC, the board's judgment is that the transition continues to be in the best interest of the IE and its members, the board could move forward with the transition but only by an affirmative vote of at least seven of the nine board members (vs. the normal five of nine).
- It is expected that concerns about regional control will be further addressed in a properly constructed set of bylaws that will formally require the board to deliberate and consult with regional stakeholders and governmental/regulatory representatives of the states, tribes and provinces. Because it takes such a high degree of support from a broad spectrum of regional interests (24 out of the 30 members of the TSC) for an individual to become a member of the board, the idea that sitting board members would act in a manner inconsistent with the regional interest is highly unlikely. It would not be in the best interest of any board member to take lightly significant opposing viewpoints, particularly a remand from the TSC, since it has the on-going power to remove board members with whom it is dissatisfied.

5. What specific benefits to BPA and its customers do you see materializing if enough details were added to the proposal's *beginning state*?

- A cost/benefit analysis will have to be done on the beginning state to know the specific benefits that will be derived by its implementation but the following are examples of benefits we think could be achieved if properly constructed:
- For those Transmission Operators (TO) who choose to consolidate their control areas, benefits include:
 - Decreased costs/improved efficiency of load regulation.
 - Reduced reserve capacity requirements/costs.
 - Increased efficiency in the cost of control area management, software and hardware.
 - More reliable operations
- As a seller of power, BPA should be able to reach higher value distant markets without having to worry about pancaked rates
- Customers that participate in regional energy markets should see benefits similar to BPA's
- New Bulletin Board "market" will create opportunities for utilities with surplus generation, such as BPA, to sell other products such as ancillary services, regulation, redispatch, etc.

- Improved reliability by having an IE with visibility over the grid
- Transmission construction – the IE will have the ability to cause infrastructure to be developed to protect reliability and relieve chronic congestion; these costs will be borne by other TOs, not just BPA.
- Lower possibility of market volatility and disruption because of ongoing data collection, monitoring and reporting by an independent market monitor.

6. What will happen to future transmission prices?

- While we have not conducted a cost-benefit study on the latest market design, transmission costs could go down because changes in rates policies, such as un-pancaking, are expected to increase the use of existing transmission (i.e., increased throughput). Further, the value of transactions could likely rise by allowing firm transactions supported by redispatch to occur that currently are not accepted for lack of ATC. Consumers benefit when existing facilities support more transactions or higher value transactions.
- The company rate was designed to minimize “cost shifts” between customer classes. In principle, customers total transmission costs should not change appreciably once company rates are put into effect.
- The IE’s backstop authority and its authority to allocate costs of new transmission facilities to those who benefit should result in a contribution from other TOs for many projects that BPA pays for largely on its own. This has the potential of reducing the costs on BPA’s customers since we will not have to exclusively build those facilities if other parties also benefit.

7. What will happen to future power prices?

- While we have not conducted a cost-benefit study on the proposal because we don’t have a detailed design yet, earlier studies suggest we may reduce the cost of power by increasing the efficiency in the use of existing generation resources. For example, generation dispatch is improved somewhat across the system, mostly by removing pancaked rates. The elimination of ratepancaking should provide increased opportunities for parties to market surplus hydro power outside the region as well.
- A more robust transmission grid, coupled with market monitoring and reporting, should help to minimize the potential for abnormally high spot market prices that can drive up both short and long term power supply costs as was seen during 2000/2001.

8. We’ve recently heard that RTO West has had a name change to Grid West. Why did the name change occur?

- Two reasons. First, to emphasize that the RRG Regional Proposal is significantly different than the RTO West Stage 2 proposal and second, to reflect that the proposal is NOT (particularly in the beginning state) a full-blown RTO that fully complies with FERC Order 2000.

9. So is Grid West still an RTO?

- Grid West, if implemented, will be an Independent Grid manager that has a number of the features of an RTO but not all of them. It is the organization that will be responsible to complete a detailed proposal (i.e. TOA, tariff, and bylaws) based on the RRG Regional Proposal and if BPA and at least two contiguous IOUs decide to join, it will then become the operational enterprise. It will be focused on a single utility approach to planning and expanding the grid, improving reliability and also more efficient operation of the grid, including control area consolidation by BPA, PAC, IPC, and maybe BCH.

10. There is a unique issue between BPA and its public power customers referred to as GTA service. What is the issue and how is it being addressed?

- The basic question customers have been asking is whether BPA will continue to support GTA (third-party transmission) services on behalf of its power customers. The answer to that question is yes, through the term of current power sales agreements and beyond. However, BPA has not made any definitive decisions as to how the costs of providing GTA will be recovered by the agency, i.e. whether the costs will be recovered through power rates or transmission rates, what rate design will be adopted to ensure recovery of these costs, or what, if any commitment time frame will be adopted.