



3628 South 35th Street
Tacoma, Washington 98409-3192

TACOMA PUBLIC UTILITIES

November 28, 2006

Mr. Stephen J. Wright
Administrator and Chief Executive Officer
Bonneville Power Administration
P.O. Box 3621
Portland OR 97208-3621

Dear Mr. Wright:

Tacoma Power is pleased to submit comments to the Bonneville Power Administration (BPA) on the proposed ColumbiaGrid Planning and Expansion Functional Agreement (referred to in these comments as "the functional agreement.")

Tacoma Power believes the functional agreement is the result of a cooperative regional effort. Tacoma Power actively participated as a member of both ColumbiaGrid and the Planning and Expansion work group, and we are committed to the success of these respective processes. We encourage BPA to support ColumbiaGrid's adoption of the functional agreement and to sign the functional agreement upon offer.

The remainder of this letter discusses the functional agreement and the specific issues raised in BPA's letter dated October 27, 2006. In general, Tacoma Power believes BPA correctly identified the main rewards and risks, as well as the factors mitigating the risks. On balance, Tacoma Power believes the rewards outweigh the risks.

Planning and Expansion Functional Agreement

The functional agreement establishes a regional transmission planning process. It gives ColumbiaGrid responsibility for producing a plan that covers a 10-year planning horizon every two years. In doing so, the functional agreement establishes a process that is:

- Regional in nature;
- Integrated across the participants, treating the system as if it were one utility;
- Transparent and open; and,
- Definitive, because it offers mechanisms to resolve disputes and construct facilities.

As discussed below in response to BPA's questions, the ColumbiaGrid proposal offers benefit to BPA and to the region.

Specific questions asked by BPA

BPA's letter asked three questions about the functional agreement. Tacoma Power addresses these questions below.

1. What positive impacts do you think the proposal may have on BPA's ability to serve customers reliably and at least cost?

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The ColumbiaGrid planning process will help BPA serve customers through increased accountability and process transparency, greater process efficiency, and decreased system congestion.

Accountability and process transparency: In consideration of BPA's Northwest presence and the region's relative interconnectedness, many believe that BPA is a de facto backstop for the region. In short, many believe an entity's unwillingness to build a needed facility on its own system can force BPA to respond and build on the federal system. Such a result may provide neither the most effective nor least-cost solution. The functional agreement's open, coordinated, transparent planning process should facilitate holding all parties accountable for constructing projects required to address regional needs in which they should be a party. Further, the transparency of the coordinated planning process should provide parties with a more accurate picture of the state of the transmission system. This information will enable the participants to prioritize projects relative to need, mandate, cost/resource levelization, and/or sequence. As such, BPA and the region will benefit through better system planning that holds parties accountable.

Greater process efficiency: ColumbiaGrid will increase planning process efficiency by providing a vehicle for parties to gather, analyze, and develop solutions, and by using two dispute resolution processes to resolve disagreements. While the main objective of the functional agreement is to gather parties together and garner agreement, we certainly expect disagreement to occur. When parties cannot agree on reliability project details, ColumbiaGrid staff will provide an independent, third-party perspective (a de facto alternative dispute resolution service). This service will reduce the time spent in disagreement and should accelerate the construction of needed facilities. Beyond these initial steps, the functional agreement also provides a vehicle for seeking Federal Energy Regulatory Commission review and adjudication. This three step process of getting parties together to work toward agreement, alternative dispute resolution, and timely adjudication should greatly increase efficiency, especially when compared to current processes. Process efficiency supports BPA's goal of a reliable and low-cost system.

Decreased congestion: Current capacity issues on major paths force BPA to deal with congestion by re-dispatching resources and by curtailing wheeling transactions. Congestion currently imposes a hidden cost on Northwest power customers in the form of increased power supply costs, foregone off-system sales, and the costs of dealing with transmission curtailments. By speeding up the facility construction process, ColumbiaGrid's functional agreement offers the potential to reduce congestion costs.

2. What negative impacts do you think the proposal may have on BPA's ability to serve customers reliably and at least cost?

Tacoma Power believes that BPA identified the major risks, and the mitigating factors. We will address some specific risks that we see as material.

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BPA forced into plans of service it does not support: The transparency of the planning process, BPA's participation, and the dispute resolution processes should reduce BPA's risk of being forced to pursue projects it objects to. Tacoma Power believes that existing regulatory mechanisms under the Federal Power Act are capable of forcing BPA into plans of service it does not necessarily support. We believe the increased risk to BPA is low.

The dry-hole risk: BPA noted that it is possible for parties to sign the functional agreement, fund the staff and activities, and in the end accomplish nothing. This risk is mitigated through ColumbiaGrid's structure. If in a few years it becomes obvious that ColumbiaGrid is accomplishing little or nothing, mechanisms exist to withdraw from or end the functional agreement.

One special case of the dry-hole risk exists if the forcing mechanism fails and gridlock occurs. Tacoma Power believes this risk is low. The forcing mechanism only applies to reliability-related projects. Given all of the other factors influencing utility decisions and the open nature of the ColumbiaGrid process, Tacoma Power believes it is unlikely that the forcing mechanism will be called upon. We believe it is more likely that utilities will plan and negotiate in good faith and that the needed projects will be built.

Inadequate participation: Tacoma Power believes that a planning group including the current ColumbiaGrid members is sufficient to dramatically improve current conditions. Tacoma Power expects that additional parties will sign the agreement once it becomes effective and ColumbiaGrid begins to produce substantive results.

Other risks: BPA identified other risks that Tacoma Power perceives as relatively unlikely. These include the cost of the functional agreement exceeding expectations, a runaway board, and a runaway staff. These three risks are unlikely because of the checks established in the ColumbiaGrid bylaws and in the functional agreement. Tacoma Power believes the bylaws and the functional agreement strike an appropriate balance between allowing the board and staff freedom to accomplish good things and enabling the participants to maintain appropriate controls over the process.

3. Do you have any suggested changes that might improve the effectiveness of this proposal?

At present, Tacoma Power has no substantive suggestions for improving the effectiveness of the present proposal. Tacoma Power intends to submit comments on the functional agreement to ColumbiaGrid, and these comments may generally benefit the agreement.

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Conclusion

Tacoma Power believes the Planning and Expansion Functional Agreement represents a big step toward open, cooperative regional transmission planning. We believe the proposal offers many rewards, including speedier transmission planning and construction and more transparent decision making. We also agree that the functional agreement exposes transmission owners and operators to certain risks. However, because of the mitigating factors built into the functional agreement, we do not believe that the risks are greatly increased relative to the status quo.

Tacoma Power urges BPA to support and to sign the agreement when it is officially offered for signature.

Sincerely,


William A. Gaines
Superintendent/COO