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July 7, 2004

MEMORANDUM

TO: Power Committee

FROM: Wally Gibson

SUBJECT: Update on Grid West

INTRODUCTION

The RRG adopted a new schedule at the last meeting on June 30, which postpones the decision on adoption of the bylaws until October 14. This was done in order to allow time for Bonneville to conduct its own review prior to making a decision on the bylaws. The RRG did not try to arrive at consensus on the membership vote question; rather the issue was carried forward as an open on in the bylaws.

This memo will review the major work expected to be done over the summer, which includes, in addition to the Bonneville review, further work on cost control, a review of lessons to be learned from other transmission organizations, work by the Risk/Reward group and contractor work filling out the technical details of the Regional Proposal.

BONNEVILLE REVIEW

Bonneville will be consulting with regional parties and the Congressional delegation over the coming several months on the bylaws decision to be made by the filing utilities in mid-October. Regional consultations will include Bonneville's customers, the states (and particularly the state commissions), RRG participants and other interested parties. The consultations will focus on key governance concerns and whether the draft bylaws treat and balance those concerns appropriately.

In addition to the consultations, Bonneville has contracted with the National Academy of Public Administration, an independent, Congressionally chartered research organization, to review the workability of the balance created in the bylaws between an independent Board of Trustees and

the regional stakeholder reviews and checks on its actions. The NAPA review will be finished by early September and Bonneville will present the results of the overall review, including the NAPA work, to the RRG in late September.

COST CONTROL AND LESSONS LEARNED

One of the issues that has received substantial attention is cost control, because it is widely perceived that existing US RTOs have either been unable to control the costs or scope of the organizations or that the initial cost estimates were well under what was needed to perform the tasks that they took on. There are several kinds of issues:

- What sort of cost control provisions are needed,
- Whether there are adequate cost control provisions in the bylaws as they currently stand,
- Where else besides the bylaws might be appropriate places to consider cost controls,
- What have been the drivers of increased costs for other transmission management organizations, especially US RTOs.

Currently, the operational bylaws contain several provisions that provide mechanisms for controlling the costs of Grid West:

- The Board must present the current and following fiscal year's budgets to the members at one of the biannual member meetings (Sec. 5.9.1),
- The standards of care to be considered by the Board include: (a) the benefits (qualitative or quantitative) of a proposed change in the provision of transmission service are likely to be greater than the anticipated burdens of the change and (b) the proposed change is reasonably designed to minimize or mitigate cost shifts (Sec. 7.12.2),
- The Board must consider the business plan required to be adopted by the Developmental Board prior to the membership vote (advisory or binding to be determined) to go to the operational state. After it considers the business plan, it has to either adopt it or adopt an alternative business plan, which must be submitted, along with a cost estimate, to the Board Advisory Committee for review and comment (Sec. 7.12.4),
- The Board Advisory Committee (made up of the members) and the Governmental Committee (state and tribal representatives) can advise the Board on the annual budget "including potential budget reductions and financial controls when a proposed budget materially exceeds the expenses for the prior audited fiscal year" (Sec. 8.5.3),
- There is a special voting process, including mandatory review by the Member Representative Committee and a higher threshold for Board approval for the five issues on the special issues list (Sec. 7.16), and
- The annual financial report must include "specific descriptions of actual performance results in terms of cost management and other performance targets adopted by the Board." Quarterly financial reports must include a "thorough comparison to the budget adopted by the Board" as well as a status report on "accomplishing the performance targets adopted by the Board of Trustees" (Sec. 10.203).

The contractor that was hired to help with the technical work of fleshing out the details of the Regional Proposal will also be providing a brief review of the major cost drivers for cost

increases in the various existing US RTOs as well as some perspective on how the issue is handled in some foreign grid organizations. That report should be available later this month.

Some work has already been done, and some more will be done, by the Bylaws work group in comparing the Grid West bylaws to the bylaws and governance institutions created in other RTOs. For instance, the New England ISO has a self-perpetuating Board, which would provide a much more limited scope for regional accountability than the Grid West Board, which is elected by the members. That information should be available over the next two months.

OTHER TECHNICAL WORK

The Risk and Reward work group has only recently begun work; it will continue through the summer and on into the fall. The contractor that was hired by the filing utilities to flesh out the technical side of the Regional Proposal, under the supervision of the Transmission Services Liaison Group (TSLG), has only begun working. Its work will continue through the summer and into the fall as well.