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July 28, 2005

MEMORANDUM

TO: Council Members

FROM: Terry Morlan

SUBJECT: Grid West Issues and Approaching Decisions

The Grid West process is approaching a key milestone in its development. On September 29 the Regional Representatives Group (RRG) will make an assessment of whether to progress to the next phase of Grid West development. This next phase would consist of a 2-year commitment to funding the continued development of Grid West and the seating of a developmental board. The Council, as a member of the RRG, will have a chance to voice its recommendation.

The staff will provide information to help the Council reach its recommendation. The Council has already given its guidance to the region in the 5th power plan that transmission operation and management needs to be changed to meet a growing list of problems. There are two efforts underway to do this. One is Grid West and the other is the Transmission Improvements Group (TIG). Although these two efforts are perceived to be significantly different approaches to solving the transmission problems, they have in fact been moving closer together in several important aspects. Staff will provide as much information as feasible about these two approaches, comparing their features and their advantages and disadvantages.

Not all of the information of the two approaches is available at this time. Additional information will become available following the Council meeting. Staff will update the analysis and comparisons as new information becomes available. Hopefully this will enable the Council to reach a position and some recommendations by the September Council meeting.

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August 1, 2005

MEMORANDUM

TO: Council Members

FROM: Wally Gibson

SUBJECT: High Level Comparison of Grid West and TIG Proposals

The primary difference between the Grid West and Transmission Improvements Group (TIG) proposals is governance. Grid West is governed by an independent board, selected by the members of Grid West. TIG functions are governed by a series of multilateral contracts among responsible parties, with the exception of a planning review body with some decision-making ability, which consists of both independent and stakeholder representatives. TIG has made avoidance of FERC jurisdiction central to its proposal, but recent events have made it unclear whether this should be as important as it has been in the past.

It appears at this time that there has been significant convergence and that TIG and Grid West would generally perform many of the same functions, with a few notable exceptions. However, this judgment about similarity is based in part on extrapolation, since the TIG proposal is somewhat thin and sketchy in parts. This is understandable since the TIG work groups have been developing proposals for significantly less time, and with substantially less regional input, than the Grid West work groups. At the same time, this judgment also presumes that there would continue to be convergence between the two sets of proposals as the TIG proposal is further fleshed out, if it were chosen for continued development (again, with a few notable exceptions).

The primary exception to the general functional convergence is the limitation in the TIG proposal on development of any market entity, which would be FERC jurisdictional. TIG's decision to preclude any new FERC-jurisdictional entity in the Northwest has led it into some areas where it may end up forgoing useful functions, simply because they cannot be performed without FERC jurisdiction.

The cost estimate for the TIG proposals has not been released yet, but very preliminary indications are that it could be in the range of 50 - 70 percent of the cost of Grid West (though this is subject to change, as the TIG cost estimate has not been released as of the date of this

memo). The difference is likely to depend mostly on the difference in the functions performed by TIG, rather than on any significantly different efficiencies of implementation. The difference in the functions will show up as a difference in the benefits as well as in the costs.

The TIG cost estimate is largely based on the Grid West work, which consisted of an extensive bottom-up development of organizational, building and systems requirements, coupled with cost estimates based on experience at similar organizations and confidential vendor price quotes.

BACKGROUND PAPER

INTRODUCTION

This paper will provide an overview of the key issues raised by the choice between whether to go forward with Grid West or to pursue the path described in the TIG proposal. It will describe them at a high level and evaluate their relative importance. It will highlight the question whether FERC still presents a significant threat to regional control of an independent transmission organization.

The issues to be described will be 1) governance, 2) how big a problem FERC jurisdiction is likely to be, 3) the difficulty TIG may face in gaining regional consensus and 4) whether TIG has constrained itself too highly.

A set of links to Grid West background material is presented at the end of the paper. TIG background material, including the entire proposal package and the cost estimate will be public by the end of this week, and links to that material will be passed on.

More detailed comparisons between Grid West and TIG will be prepared for the Council as the material becomes available, along with any material prepared by Bonneville in aid of its decision whether to support further development of Grid West or to pursue the TIG approach.

ISSUES

Governance

Grid West will be a FERC-jurisdictional transmission provider and will be governed by an independent Board of Trustees. The Board will oversee all of the staff and activities of Grid West. The Grid West staff will perform all the functions laid out for Grid West, except for functions that may be outsourced. Market monitoring is an example of the latter function, which is increasingly being outsourced to specialist consulting firms.

TIG, on the other hand, has set itself the goal of not being FERC jurisdictional or creating new or expanded jurisdiction in the region. In addition it has focused on using existing organizations to the extent possible. The mechanism chosen to implement its functions within these constraints is a set of multilateral contracts (Implementation Agreements) in specific functional areas¹ to be signed by the responsible entities (who will be transmission owners). The Implementation Agreement parties would also establish and fund a committee of customers and other stakeholders to provide technical and policy advice on implementation.

All parties to each of the Implementing Agreements would also sign a Coordinating Agreement, committing them to coordinate implementation of all the TIG proposals and creating an Executive Committee to do the coordination. Five of the Executive Committee members would be chosen by the five sets of parties to the Implementation Agreements and two members would be chosen by a separate Coordinating Committee, broadly made up of regional stakeholders.

¹ The functional areas called out are flow-based approaches; planning and expansion; reliability and security; common Northwest OASIS (a computer based reservation and information system) and market monitoring.

In addition, the planning and expansion proposal calls for an additional decision-making body, with a mixed stakeholder and independent board, to approve the regional plan and planning standards and to advocate on behalf of the plan before regulatory bodies in certain circumstances. The advocacy would be in aid of convincing the regulatory body to compel a party to construct pursuant to the plan.

The effort to write and adopt the Grid West bylaws, which was necessary to create Grid West, was a long and difficult process for the region. Grid West, should it go forward, still has the negotiation of Transmission Agreements (between the transmission owners and Grid West) before it. The effort to negotiate these will probably be easier than the bylaws, but will still take time and hard work.

TIG, should it go forward, faces what will likely be an equally, if not more difficult, process. It will have to both bring its functional designs to a much higher level of detail in several key areas, and negotiate multiple multilateral contracts to implement those functions.

FERC Jurisdiction

Concern about what FERC might do if given regulatory authority over previously non-jurisdictional facilities and actions by the creation of Grid West was one of the main instigators of the TIG effort. Avoiding creating new FERC-jurisdictional entities or expanding FERC jurisdiction in the region has been central to the TIG proposals, and is the main reason for the complex set of contracts that are required to fully implement them.

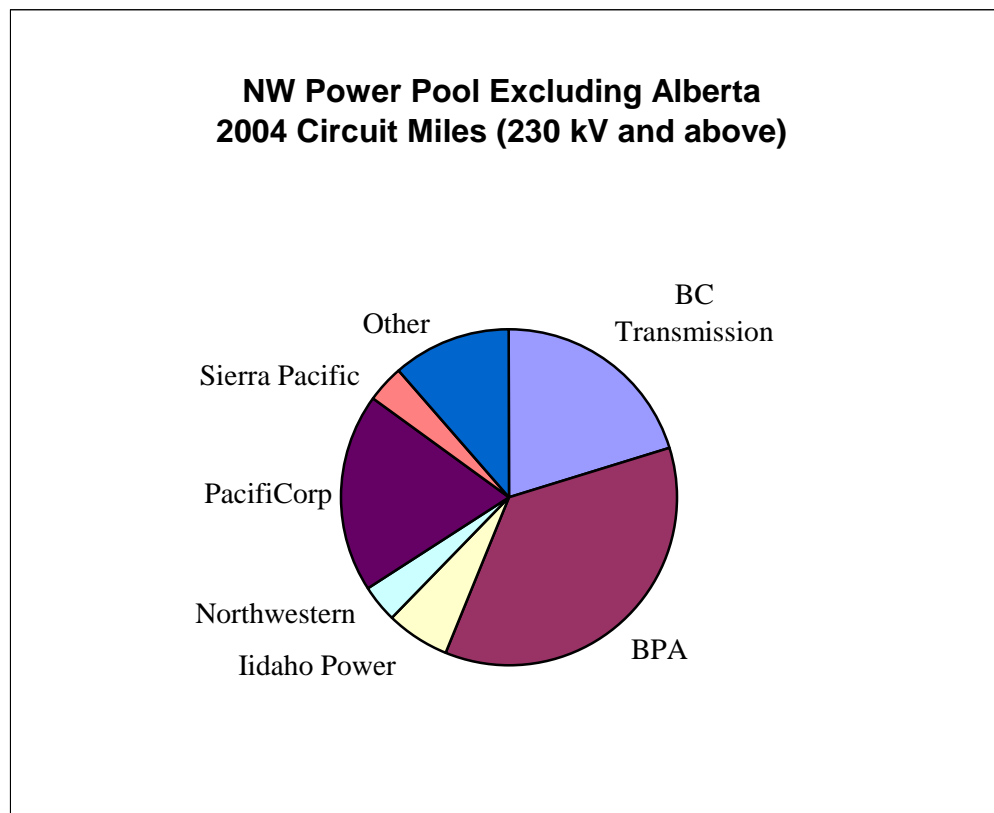
The likelihood of FERC extending its jurisdiction beyond what is inherent in the basic Grid West proposal has changed significantly in the last month, however. In responses to a petition for a declaratory order, FERC declared that it would treat Grid West no differently than any other jurisdictional entity filing an open access tariff under Order 888, would not treat Grid West as a RTO or apply the requirements of the RTO order, and could not assert jurisdiction over non-jurisdictional entities simply because of participation in Grid West. Subsequently, FERC terminated its SMD docket, which was the source of a number of regional concerns.

The Commission itself has a new chairman who is much more sympathetic to regional evolution in the industry than Pat Wood was, and the remaining strong proponent of RTOs, Nora Mead Brownell, is not expected to be reappointed when her term expires in June 2006. Overall, the threat of aggressive action by FERC, which has been dormant since the significant national pushback against SMD several years ago, has disappeared.

It should also be noted that the TIG proposal itself relies heavily on past FERC interpretations of its authority, specifically in cases involving the Mid-Continent Area Power Pool (MAPP) and the Southwest Power Pool (SPP), for its conclusions that it can achieve the proposed functions without becoming jurisdictional. Where Grid West is relying on FERC's declaration that it will not exert jurisdiction beyond what is offered to it by Grid West, TIG is relying on FERC's not changing its interpretation of jurisdictional limits in similar circumstances in other areas of the country when faced with the facts of the TIG proposals. Each proposal is relying on the precedential value of past FERC decisions.

Who will participate?

One of the key problems that the TIG proposal will face will be regional acceptance. TIG, like Grid West, has explicitly targeted its proposal at the transmission owners in the Northwest Power Pool footprint. The chart below shows the shares of transmission ownership in the Power Pool area for six of the seven biggest owners, plus all the rest (“others”).² Only one of them, Bonneville, was involved in the TIG discussions; all, however, are filing utilities in Grid West.



Bonneville, Pacific and Idaho are the main participants in the control area consolidation discussions of Grid West, and Northwestern is a possible additional participant. Control area consolidation is a key goal for Bonneville, and it was included in the TIG proposal largely as a requirement of Bonneville’s participation.

The TIG proposal recognizes that some issues may need to be revisited because of the broader range of participants required should it be chosen as the vehicle for going forward to address the region’s transmission problems. Whether there is any flexibility on the part of current TIG participants on the central issue of FERC jurisdiction, even if it constrains the ability to implement the TIG proposals, is unclear.

² Alberta was excluded from the total because it currently has a relatively small market relationship to the rest of the Pool, since its only interconnection is through BC Hydro. If additional connections are built through Montana in the future, as is likely, the importance of Alberta to the rest of the Northwest and Western market will increase. Alberta’s system is about 75 percent of the size of Pacific’s.

Is TIG too constrained?

There are several areas where the TIG proposal may be so constrained by the rejection of FERC jurisdiction that the specific proposal or the function it was intended to address cannot be implemented. The market-like congestion clearing functions and the control authority for the consolidated control area (the TIG term for this is RABA, for Reliability Authority and Balancing Authority, which are NERC terms for two control area functions) are the most likely candidates for this to happen.

Part of the TIG mechanism to provide enhanced usability and increased reliability of the transmission system is an entity that accepts offers to increase or decrease generation (“incs” and “decs”) to relieve system congestion ahead of and during real time operation. Depending exactly on how that entity functions and whether it is deemed to be operating a market or simply accumulating and passing on information, it may or may not be FERC jurisdictional. Whether it is or not, however, it is an important function (and one that Grid West includes), for which there is no clear substitute. Lack of it is likely to mean that current inefficient, inequitable and often ineffective means of clearing congestion would continue.

Similarly, the entity performing the NERC reliability and balancing control area functions needs to have the ability to make decisions about real-time operational problems without having to refer back to some other entity or entities before it can act. A key for an “agent” relationship, where the goal is for the agent to avoid FERC jurisdiction, is that the agent not take independent decisions, but operate under strict guidance and control of some other entities (which would remain jurisdictional or non-jurisdictional by their own characteristics). Whether RABA can be an agent that avoids jurisdiction and still qualifies to perform the NERC control area functions is not entirely clear at this point (though that is the aim of the TIG proposal).

If the region goes forward with the TIG proposals, it will need to decide whether the lack of new or expanded FERC jurisdiction will be a hard constraint on solution development or whether accommodation can be made in those circumstances in which it is deemed necessary. This issue is likely to come up early if Grid West is rejected at Decision Point 2 by Bonneville, because TIG will necessarily, as noted above, be seeking to expand its list of participants substantially. Many of those participants are committed to the kinds of market solutions that may be at most risk of attracting FERC jurisdiction.

BACKGROUND MATERIALS

There is a substantial set of background materials on Grid West posted on the Grid West web site at the page for Decision Point 2: <http://www.gridwest.org/DP2Info.htm>. Among the materials posted on that page are the following:

- Integrated Proposal Description
http://www.gridwest.org/Doc/IntegratedProposal_July222005.pdf
- A slide set on the same topic
http://www.gridwest.org/Doc/RRG_IntegrPropSlides_27Jul2005.pdf.
- A set of slides describing the cost study
http://www.gridwest.org/Doc/GW_CostEstSlides_July202005.pdf

- Slides describing the preliminary benefits study, in two sets
http://www.gridwest.org/Doc/RRSeminarSlides_July202005_Vol1.pdf and
http://www.gridwest.org/Doc/RRSeminarSlides_July212005_Vol2.pdf.

Background material for TIG will be provided when it becomes available. This is expected to be August 3, and potentially August 5 for the cost estimates.