

Melinda S. Eden
Chair
Oregon

Joan M. Dukes
Oregon

Frank L. Cassidy Jr.
"Larry"
Washington

Tom Karier
Washington



Jim Kempton
Vice-Chair
Idaho

Judi Danielson
Idaho

Bruce A. Measure
Montana

Rhonda Whiting
Montana

July 28, 2005

MEMORANDUM

TO: Power Committee

FROM: Terry Morlan

SUBJECT: Grid West Issues and Approaching Decisions

There are two approaching decisions for the Council relating to Grid West. One is the September 29 assessment by the Grid West Regional Representatives Group (RRG), of which the Council is member, whether or not to proceed to the next stage of Grid West development. The second, which came up at the July Power Committee meeting, is whether the Council should provide guidance to Bonneville on their decision on proceeding to the next stage.

The staff recommends that the Council not tell Bonneville what to decide, and rather should focus on its own decision on September 29. The reasons for this are:

- The Council already provided appropriate guidance to Bonneville and the region in the power plan and the power plan carries more authority than a letter of comment.
- Both Grid West and TIG are viable regional processes that are attempting to do what the Council asked, and it seems appropriate to let the region continue the process of deciding how to proceed.
- From a practical perspective, Bonneville's questions and request for comments will not be available until after the Council meeting packet is mailed making direct comments difficult to coordinate in the time allowed. Further, not all the information will be available by the time of the Council meeting. Finally, it may not be possible for the Council to agree on what the comments should be within the time we have.

Regardless of the Council decision about comments to Bonneville, the staff will continue to prepare Council members to reach an agreement at the September Council meeting on the Stage 2 decision. The same information would be needed to provide Bonneville comments on their decision should the Council decide to do that. More information will be available between the Council meeting and the due date for Bonneville comments, so should the Council want to comment, an additional Council conference call or some other process might be required.

Staff will provide a side-by-side comparison of the major features of the Grid West and TIG proposals. We will point out the weaknesses and strengths of each proposal. Some information on costs and benefits is becoming available and we will share some information about those.

The power committee needs to have time to work through these issues in order to develop a position.

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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.

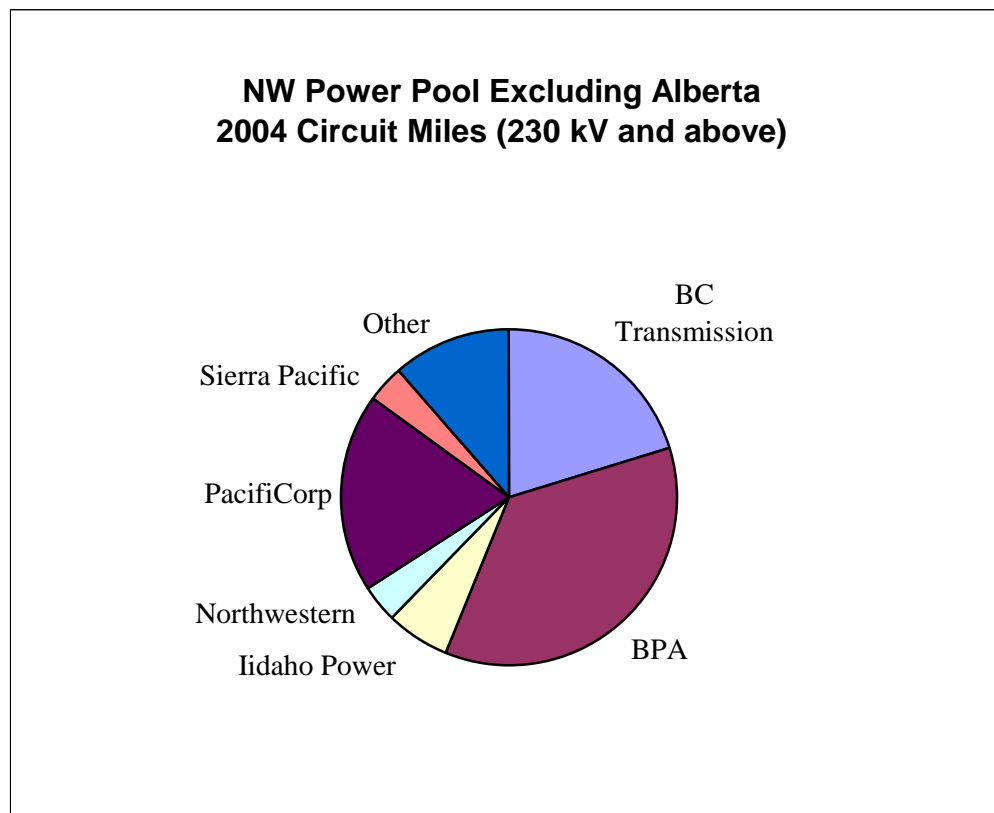
The likelihood of FERC extending its jurisdiction beyond what is inherent in the basic Grid West proposal has changed significantly in the last month, however. In responses to a petition for a declaratory order, FERC declared that it would treat Grid West no differently than any other jurisdictional 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.

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August 1, 2005

MEMORANDUM

TO: Power Committee

FROM: Wally Gibson

SUBJECT: Selection Process for the Grid West Developmental Board

The executive search firm (Russell Reynolds Associates) hired by Grid West has accumulated an initial list of over 35 potential Board members. The position description used for Board members by the search firm is in the packet with this memo. The search firm will interview the potential candidates, clarifying that they meet all the qualifications for independence, including lack of financial interests in Grid West market participants (these constraints are set out in detail in the Bylaws), that they have the skills required of the position, and that they have the appropriate temperaments to work effectively in a Board setting. Others will be interviewed to help evaluate the potential candidates' ability to work with the stakeholders in the Northwest.

The list will be narrowed down to ten (or perhaps a few more), who will represent the short list to be presented to the Members Representative Committee (MRC), should Grid West development go forward. The MRC, which will be selected by the members of Grid West, will consist of 30 or 31 members in six classes. The election of the MRC at a members' meeting will take place no sooner than 30 days after the Grid West transmission owners sign the two-year funding agreement and notice of the meeting is sent to the members. The election of the Developmental Board has to take place within forty-five days of the election of the MRC.

The MRC will interview the final ten or so candidates and vote to elect five for the Developmental Board. Twenty votes are required to elect a member of the Developmental Board.

Company

Grid West is a not-for-profit membership corporation headquartered in Portland, Oregon. The Company is engaged in development work so that it may act as a one-stop source for wholesale electric transmission services. Its primary service will be coordinating and/or managing the use and expansion of the regional electric transmission grid, wholly independent from buyers and sellers of electricity. Regional issues being addressed include expanding transmission capacity, implementing centralized planning for grid expansion, developing means for financing or cost recovery, and modifying a cumbersome system for reserving and scheduling transmission services. While Grid West will not own electric transmission or generation facilities its services may be offered over 62,000 circuit miles of electric transmission lines which are owned or operated by utilities serving the needs of electric consumers in eight western states and portions of western Canada.

Responsibilities

Grid West seeks to form a Developmental Board of Trustees consisting of five (5) independent members. The Developmental Board of Trustees may designate one of these Trustees to serve as the Company's Chief Executive Officer. The Developmental Board will remain in place until an Operational Board of Trustees is elected. The latter will probably occur within two years. The Developmental Board will have the authority and responsibility to oversee the business and affairs of the Company. This will include borrowing funds, securing lines of credit, hiring and contracting for personnel to perform necessary tasks to prepare for the operational phase of Grid West. In particular, the Developmental Board will participate in the development and negotiation of Transmission Agreements with the owners and operators of the transmission facilities to be used by Grid West along with the tariff and business protocols under which Grid West will offer its services. The Developmental Board will also work closely with outside constituents to develop a regional transmission plan and supplemental business plans that reflect the collective desires of its members.

Given the tasks at hand, a Trustee of the Developmental Board is expected to commit a significant amount of time to this endeavor. Trustees are expected to attend at least six scheduled Board of Trustees meetings, monthly regional stakeholder meetings, quarterly meetings with governmental representatives and biannual member meetings. In addition to these 24 days of meetings, Trustees are expected to actively participate in the development of the Transmission Agreements and tariff noted earlier. This may require an additional 50-75 days or more of involvement.

Qualifications

Individuals serving on Grid West's Developmental Board of Trustees must possess a myriad of skills and talents, along with a shared passion and commitment to move Grid West through its infancy and into its operational phase. Our slate of candidates is expected to include individuals with knowledge of the operational characteristics of the Pacific Northwest power system and executive management experience or Board experience with electric utilities. We also seek individuals with relevant experience in commodities markets (to include risk management), electric bulk power transmission in the Western Interconnection, utilities law, finance, economics, accounting, information technology, engineering, regulation, and public policy. Personal qualities such as integrity, leadership, problem-solving, and consensus building are also critical in each Trustee. Previous experience in business planning, contract negotiation, and dealing with political entities are highly desirable.

Compensation

Grid West's Developmental Bylaws set forth compensation amounts and limitations for members of the Developmental Board of Trustees. Trustees receive base compensation of \$30,000 (U.S.) per year, and additional compensation of \$1,000 (U.S.) per day for attendance at each Board of Trustee meeting and each of its committee meetings. In addition, Trustees receive \$500 (U.S.) per day for any other meetings related to the business of Grid West that the Board of Trustees determines a Trustee should attend. Total compensation for each Trustee cannot exceed \$120,000 in any calendar year, except that a Trustee who also acts as Chief Executive Officer may receive additional compensation.