

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

6 September 2005

MEMORANDUM

TO: Council Members

FROM: Wally Gibson

SUBJECT: Council Action on Regional Transmission Issues: Decision on response to Bonneville and recommendation on Grid West - decision point 2

PROPOSED ACTION:

The Council has two potential actions before it.

1. Act on the draft letter to Bonneville that answers a set of questions posed by Bonneville to aid it in making its decision on whether to support the further development of Grid West, TIG, or some other outcome.
2. Give the staff guidance on what to recommend to the Grid West Interim Board, on behalf of the Council as a member of the Regional Reliability Group (RRG), at the RRG meeting on September 29. The question will be whether the Interim Board members (the filing utilities) should commit to funding a further two-year development of Grid West in preparation for a subsequent decision to become an operating entity, or whether the Interim Board should not fund any further development. The Council may also abstain if it is unable to reach agreement on either of the first two alternatives. The RRG recommendations to the filing utilities are advisory.

The attached draft letter is for the first action. It consists of a cover letter and a set of draft answers to the questions asked of the region by Bonneville. The base draft of the answers was written by staff and circulated to the Council members. The attached draft incorporates all the comments from the Council members and will serve as the basis for the discussion.

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**DRAFT COUNCIL ANSWERS TO BPA QUESTIONS ON GRID WEST AND TIG
6 September 2005**

[NOTE: The following draft includes, and separately highlights, all the substantive changes proposed by the Power Committee members. Grammatical corrections are have been included in the base text. Text indented, bracketed and in italics is for drafting reference only. It is not intended to be included in the final text.]

Introduction

The Council's 5th Power Plan recognized several serious problems in the operation, planning, and expansion of the region's transmission system. The Council encouraged Bonneville and the region's utilities to address these problems. Council staff has participated in the two regional efforts that have been underway and has briefed the Council regularly on their progress.

The Council has highlighted the following regional transmission problems in its 5th Power Plan:

- Difficulty in managing unscheduled electricity flows over transmission lines leading to increased risks to electric system reliability;
- Lack of clear responsibility and incentives for planning and implementing transmission system expansion resulting in inadequate transmission capacity;
- Inadequate consideration of non-construction alternatives to transmission;
- Inability to monitor wholesale electricity markets, identify market power abuse or provide mitigation and accountability;
- Difficulty in reconciling actual physically available transmission capacity with that available on a contractual basis, resulting in inefficient utilization of existing transmission and generation capacity;
- Transaction and rate pancaking, i.e. contracting and paying for the fixed costs of multiple transmission segments on a volumetric basis to complete a power sale, resulting in inefficient utilization of generation; and
- Competitive advantage of control area operators over competing generation owners causing inefficient utilization of generation and potentially a proliferation of control areas with greater operational complexity.

The Council strongly believes that these problems need to be addressed and solved by the region.

The [\[Idaho: \]Transmission Improvements Group \(TIG\) proposal, a "one-utility" counter to Grid West, was not developed at the time the Council's 5th Power Plan was adopted. This being said, the Council believes that both the Grid West and the TIG processes have the potential to improve](#)

significantly the planning and operation of the region's transmission system. [Oregon:]Because of the potential for significant convergence between the two proposals on the technical side, the Council believes that it is important to highlight the criteria on which the choice should be made, if there can be no further progress in achieving broad regional agreement on a single approach to decision making. The choice between the two should weigh heavily the following considerations:

- the current level of progress,
- the likely contribution to solving the problems listed in the Council's power plan,
- the likely success of implementation, and
- the ability to draw the cooperation of the supporters of the path not chosen.

The Council is not prepared at this time to recommend to Bonneville, or to the region, whether the governance model of Grid West or of TIG should be chosen. "Governance" refers to issues surrounding the independence of the Grid West Board, whether or not FERC jurisdiction is something to be avoided, and the contractual structure chosen by TIG as its preferred implementation model.

Within these constraints, the Council offers the following comments to Bonneville on the substantive (i.e., non-governance) issues posed by Bonneville's questions to the region regarding the Grid West and TIG proposals.

Answers to Bonneville's Questions

1. *Do you agree with BPA's goal of applying the "one utility" vision to the region's transmission system?*

The Council agrees with Bonneville and believes that the "one-utility" vision for addressing the region's transmission system offers the best way of dealing with the problems highlighted in the Plan. In particular, because of the electrical characteristics of the transmission grid, a "one-utility" approach would provide the best mechanism for addressing the flow management, planning and available transmission capacity (ATC) issues noted in Bullets 1, 2 and 4 above. As Bonneville notes, this vision could be implemented to varying degrees in either of the two proposals.

2. *Please describe how well you think each alternative achieves the six benefits described on pages 2-3 of this letter (planning and expansion, reliability, ATC, congestion management, market monitoring, and "one stop" shopping).*
 - (i) *More efficient and equitable system-wide "one utility" planning for grid expansion supported by a backstop authority that would support the implementation of projects important to reliable grid operation.*

The two proposals are largely similar in their planning processes, openness to stakeholder participation and scope. Where they primarily differ is in the extent of the backstop authority for reliability projects. The Grid West proposal offers the stronger backstop, in that Grid West can [Oregon:]initiate ~~cause~~ construction and allocate costs afterwards; the TIG planning review panel (under the Transmission Expansion Review Council, TERC), can ultimately only advocate

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for a project that might be rejected by the appropriate sponsor in front of the appropriate regulatory entity, including local boards, state regulators and FERC.

Both proposals contemplate an open-season process for expansion to remedy commercial congestion. Grid West has an additional backstop authority that can only be exercised in limited circumstances: overcoming the thresholds of the Bylaws Special Issues list and demonstrating that the chronic commercial congestion cannot be resolved with the regular process due to market structure failures. *[Washington:]Of course, backstop authority raises the question of how much new transmission Grid West will order and who they will require to pay for it. [Oregon alternative:]Grid West will determine when new transmission is needed and how it will be funded.*

- (ii) Voluntary consolidation of control areas. This would enhance reliability over time because operators would have greater visibility of the consolidated grid and would improve the efficiency of providing required ancillary service.*

Both proposals will likely provide equivalent enhancements to grid reliability. The TIG proposal (the Reliability Authority/Balancing Authority, RABA) *[Washington:]is somewhat more limited in the efficiency of ancillary service provision because it* does not provide for a single open market by which the generation services used for ancillary service provision can be offered to the control area operator. Consolidating control areas in the TIG proposal would be responsible for procuring their own allotted amount of these generation services and providing them to the RABA operator. Grid West, as the operator of the consolidated control area, would operate a market for the required generation services, into which any generator, including IPPs, meeting the technical requirements could offer to sell. *[Washington:]The cost of running such a market contributes to the overall higher costs of Grid West. [Oregon alternative:]The cost of running such a market contributes to the overall costs of Grid West.*

TIG does propose an enhanced bilateral market for sharing contingency reserves, one of the ancillary services, among Northwest Power Pool members (NWPP), and suggests that it could be expanded to include IPPs. This would operate as an enhancement to the current NWPP reserve-sharing program, and would be available to the RABA operator as well as other control areas.

- (iii) Better management of Available Transfer Capacity (ATC) through application of a common, flow-based methodology to support additional transactions without having to invest in additional facilities.*

Both proposals for using a flow-based approach to ATC aim to do the same thing. The TIG proposal *[Washington:]is less well defined but probably due only to the had* more limited development time and regional participation. With a comparable effort, the proposals are likely to converge. *[Oregon alternative:]The TIG proposal developed over less time and with less regional participation. Strike this sentence: With a comparable effort, the proposals are likely to converge.*

The Grid West proposal would also provide access to ATC using the forward reconfiguration markets for transmission rights, which would allow released existing rights and ATC available

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from the transmission owners to be reconfigured into the highest valued package for those who need new or additional rights. The TIG proposal does not have any analog to the reconfiguration market, though the write-up notes that it might well be provided within the TIG governance framework.

- (iv) *Better management of congestion on the grid. This should achieve more economical voluntary redispatch of generation and less curtailment of transmission schedules.*

Both proposals start with flow-based analysis of the acquisition of new rights and the proposed scheduling of all transactions, which is a significant improvement over the current approach in reducing the likelihood of congestion and increasing the ability to manage it.

The Grid West proposal would manage congestion using the voluntary inc/dec redispatch in the real-time balancing market for the consolidating control area parties only. It chose to limit the approach in this way to avoid creating even a limited forward energy market available to all the Grid West parties and to focus only on managing the transmission system in real time as a control area operator for the consolidated control area. It did this in response to perceptions of regional concern over organized spot-energy markets, even implicit ones such as that created by an inc/dec congestion management market.

TIG proposes to manage congestion through a voluntary inc/dec brokering arrangement after schedules are final and shortly before real-time operation, using a mechanism that would be available to all control areas, not just the consolidators. At the same time, however, the TIG proposal notes that the broker concept may be getting into a jurisdictional gray area, and may invite FERC to assert jurisdiction, in which case it presumably would not be acceptable to TIG proponents. ~~[Washington: If this proposal were desirable regionally, Grid West might be in a better position to implement it than TIG, because of the jurisdiction problem.]~~

- (v) *Market monitoring to provide effective grid-wide detection of market abuse.*

The Grid West market-monitoring proposal is not fleshed out to the extent TIG's is, though it is likely to be very similar (contracting out the market-monitoring function to a specialist consulting firm is contemplated in the Grid West cost study and is becoming an increasingly widespread practice in the industry). ~~[Oregon: The TIG market monitor may be likelier to be capable of early implementation than the Grid West market monitor.]~~

- (vi) *"One stop shopping" for transmission service to ease and simplify access to the multiple transmission systems and reduce the administrative costs of doing business on the grid.*

The Grid West proposal is an integrated approach to acquiring access to and scheduling on the multiple systems making up the grid in the Northwest Power Pool footprint. The TIG proposal potentially could be that as well, but it is not that now. One of the reasons is that the scheduling proposal is extremely sketchy (due primarily to the limited time for development so far). Substantially more work will be needed, involving all of the major transmission owners, to ensure that the pieces, addressed by several different TIG work groups (flow-based approach and Northwest OASIS) will fit together into an integrated solution.

3. *How well do you believe the Grid West and TIG proposals meet the goal of effective decision-making that is not unduly influenced by market participants?*

Grid West, with its balanced stakeholder membership class structure electing a Board of Trustees that is independent of market participants, meets that goal. [Washington:]However, the quality of decision-making will ultimately depend on FERC since they will have jurisdiction over Grid West decisions. Historically, FERC has not been consistently responsive to Northwest interests. [Oregon alternative:]However, the quality of decision-making will ultimately depend on the quality of Grid West member decisions. Because the TIG proposal is primarily structured around contracts among the parties responsible for implementing the functions except for planning), it will be heavily weighted toward decisions of the transmission owners. [Washington:]Other market participants, particularly the independent generation sector, but also other transmission customers, will not be in a position to have a comparable impact on decisions. Decisions in the TIG framework, however, cannot be overridden by FERC. [Oregon alternative to last sentence of Washington proposal:]Grid West's board is made up of classes that include stakeholders, including a broad category representing state and tribal governments, environmental groups and others. As a contract-based forum, TIG is made up of transmission owners.

4. *If BPA supports the TIG proposal, are you committed to all of the elements of the TIG proposal? If not, which ones are troubling? And why?*

The Council is not prepared at this time to take a position regarding the appropriateness of Grid West's governance compared to that of the TIG proposal. As noted elsewhere, the substance of the two proposals appears to be converging, with some limited exceptions.

5. *If the TIG proposal were to be chosen, how likely would it be that the proposal would be successfully implemented?*

[Washington:]Because the TIG proposal was developed without the participation of any of the largest transmission owners in the Northwest Power Pool, except for Bonneville, it likely faces a difficult time getting the support of those other owners in its current form. What changes would be needed to gain their support is unknown at this point. Several of these other major owners are the ones with whom Bonneville is discussing control area consolidation under the Grid West umbrella. See answer to #4. [Oregon:]TIG does not enjoy the participation and support of two large transmission owners, which makes its success difficult to predict.

6. *If BPA supports Grid West, are you committed to all of the elements of the Grid West proposal? If not, which ones are troubling? And why?*

[Washington:]The Council is not prepared at this time to take a position regarding the appropriateness of Grid West's governance compared to that of the TIG proposal. As noted elsewhere, the substance of the two proposals appears to be converging, with some limited exceptions. See answer to #4. [Oregon:]Yes.

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7. *If the Grid West proposal were to be chosen, how likely would it be that the proposal would be successfully implemented?*

[Washington:] To the extent it has the support of all the other major transmission owners in the Northwest Power Pool area, including Bonneville's potential partners in control area consolidation, the Grid West proposal will have less difficulty going forward than the TIG proposal. See answer to #4. [Oregon:] Grid West's footprint includes the larger geographic area and more market participants. Its governance structure is the more refined of the two proposals, suggesting more likely success.

8. *If you are a supporter of the TIG alternative, please explain why adopting the TIG alternative will be in the collective best interests of all of BPA's customers who depend on the Northwest transmission grid and of other stakeholders who have an interest in regional transmission issues.*

Putting aside the question of governance structure, on which the Council is not prepared to take a position, the substantive proposals of TIG, assuming they would be further developed along the lines currently described, will be in the best interests of the region because they will increase the reliability of system operation, increase the efficiency with which the existing system can be used and enhance the ability of the region to get needed transmission (or non-transmission alternatives to transmission) planned and constructed.

9. *If you are a supporter of the Grid West alternative, please explain why adopting the Grid West alternative will be in the collective best interests of all of BPA's customers who depend on the Northwest transmission grid and of other stakeholders who have an interest in regional transmission issues.*

Putting aside the question of governance structure, on which the Council is not prepared to take a position, the substantive proposals of Grid West will be in the best interests of the region because they will increase the reliability of system operation, increase the efficiency with which the existing system can be used and enhance the ability of the region to get needed transmission (or non-transmission alternatives to transmission) planned and constructed.

10. *The RRG recently completed an examination of the benefits of the Grid West proposal. Do you have additional views on the benefits of the Grid West proposal that you have not already brought to our attention?*

The Council has no comments at this time.

11. *Do you have additional views on the estimated costs of the TIG and Grid West proposals?*

The Council has no comments at this time.

12. *What 2-3 improvements might you suggest for each alternative?*

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The Council is not prepared at this time to take a position regarding the appropriateness of Grid West's governance compared to that of the TIG proposal. As noted elsewhere, the substance of the two proposals appears to be converging, with some limited exceptions. Most of the Council's suggestions on substantive issues are noted in other answers.

If the TIG proposal for a pre-real time congestion management process were agreed to be desirable for of all the control areas in the region, it could be implemented by Grid West as well.

Most of the concerns about the substantive proposals of TIG have to do with lack of detail, or in some cases, lack of substance, rather than a sense that the proposals are going in the wrong direction.

13. The Grid West and TIG alternatives seem to be quite similar. Please suggest how these alternatives may converge.

The Council believes that the substantive proposals would be likely to converge further than currently if there were more time for the TIG developers to work on their proposal and even further if the TIG proposal made some provision for something such as limited, corporately separated, FERC-jurisdictional entities to operate markets for some of the TIG processes to use.

The question of convergence on the governance side is more difficult and the Council is not recommending any of the following suggestions but is merely suggesting ways in which the governance proposals might be brought closer together.

From the perspective of modifying the Grid West proposal, further convergence could happen through changes to the Bylaws that would further constrain the flexibility of the independent Board to modify the scope of Grid West functions. Another approach would be to modify the composition of the Grid West Board to incorporate stakeholder representatives directly. Neither of these would, in itself, change the FERC-jurisdictional status of Grid West, though the former approach could potentially further limit the changes FERC might be able to make in Grid West's operation.

There was extensive discussion of increasing stakeholder input last summer and substantial modifications to the Bylaws were made in response to that discussion. Whether any further modifications would be acceptable to other stakeholders, especially the other Grid West transmission owners, is unknown.

[Washington:] Another possibility is to modify Grid West bylaws to limit its functions so that it is not FERC jurisdictional. Changes could be considered in the future is serious transmission problems persist. [Oregon alternative:] Another possibility is to modify TIG participation to broaden its membership so that it is more representative of regional stakeholders.

From the TIG side, further convergence could happen if, as noted above, the proposal were allowed to make provision for something such as limited, corporately separated, FERC-jurisdictional entities to operate markets for some of the TIG processes to use. Whether they would be acceptable to TIG proponents is unknown.

14. *Where do you think the region will be in ten years under each alternative?*

[Idaho, with slight rephrasing because exact language was not suggested:] The Council does not have a view on this question, other than to note again that applying the “one-utility” vision to regional transmission is more likely to solve the regional transmission problems identified in the Council’s 5th Power Plan than would be continuing the lack of regional leadership and failing to move beyond business as usual.

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Idaho

Bruce A. Measure
Montana

Rhonda Whiting
Montana

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Steve Wright, Administrator
Bonneville Power Administration
P.O. Box 3621
Portland, OR 97208-3621 P.O. Box 3621
Portland, OR 97208-3621

Dear Mr. Wright:

Thank you for the opportunity to comment on the matter of whether Bonneville should provide additional funding to Grid West to seat a Grid West Developmental Board and further develop that proposal or, alternatively, support further development of the separate proposal by the Transmission Issues Group. The Council's answers to the questions in your August 4, 2005, letter to customers and interested parties are attached.

At this time the Council has not committed to support the governance model in either proposal, but we do offer comments on other issues addressed in the proposals. The Council supports your continued efforts to identify areas of agreement between the two proposals. The Council believes that the best resolution of transmission problems in the Northwest would be one that incorporates the best aspects of each proposal, and does so at the lowest cost.

Please contact me if you have questions about our comments. Thank you again for the opportunity to comment.

Very truly yours,

Melinda S. Eden
Chair

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