

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

September 26, 2005

MEMORANDUM

TO: Council Members

FROM: Wally Gibson

SUBJECT: Transmission Issues Update

Based on an article in Clearing Up, it appears that Bonneville has announced that it intends to call for a postponement of Grid West Decision Point 2, to enable a very sketchy convergence proposal to be further fleshed out. The fate of this proposal is unclear at this point, as is the outcome of the RRG meeting this Thursday, September 29. Of the other large transmission owners, PacifiCorp was not a participant in the discussions, and Idaho Power has withdrawn from them.

The text of the convergence proposal is attached to this memo. I will provide further information as it becomes available, and will discuss the status at the Council meeting.

Attachment

A Straw Proposal for Convergence of the TIG and Grid West Concepts

September 23, 2005

A group of 14 regional consumer-owned, public-owned and investor-owned utility representatives with varying levels of support for TIG, Grid West or both gathered to determine if there exists a transmission policy alternative to the competing proposals. If such an alternative exists, we are hopeful it can garner support from more of the region's stakeholders and reduce the divisiveness that currently ensnares the region. To find an alternative we had to sift through the differences in the proposals at the fundamental level. We intentionally avoided the detail.

The Discussions

The biggest concern with Grid West is the potential for scope creep. An independent Board can undertake scope changes beyond the basic features identified by the Transmission Service Liaison Group (TSLG) in the Grid West development effort despite opposition by the stakeholders in the region. Another major concern with Grid West is the potential for a Board without adequate experience with or commitment to regional concerns.

The biggest opposition to TIG stems from its lack of independence. The TSLG basic features can't be effectively implemented without assurance that they will be applied consistently to all market participants. Another major concern is that TIG addresses only a subset of the problems and opportunities identified two years ago by the regional representatives group (RRG).

Once the major concerns were identified, we tried to find areas of agreement. First, everyone agreed that the Pacific Northwest is unique and that regional transmission policy experience will be critical to the success of any entity. Furthermore, everyone agreed that some of the low hanging fruit identified in the TIG proposal has real value to the region and should be harvested regardless of the outcome of this whole process, and the sooner the better. Next, while there was unanimous approval at the RRG two years ago as to the list of problems, the priority to resolve any specific problem is likely different among different stakeholders. The TIG proposal was not designed to address all of the problems identified by the RRG. It was designed to address the issues most important to those that participated in the development of the proposal. Finally, very few of the stakeholders in the region have the resources to participate actively in competing parallel processes attempting to address the same problems.

As we focused on the independence conundrum, we found that TIG supporters acknowledge that oversight by an entity that is independent of market participants would be necessary to effectively implement the TSLG basic features. We found further that Grid West supporters believed it would be unlikely that the Grid West independent

Board would make scope changes if the Members Representative Committee (MRC) formally voiced its opposition, especially if there were substantial regional transmission policy experience on the Board.

With a common understanding of the most critical concerns and points of agreement, we developed the following proposal. While containing elements of both, this concept is neither Grid West nor TIG. Although we acknowledge that this proposal will not be acceptable to parties firmly entrenched in their respective philosophical camps, we are hopeful that it will serve as a platform that can be supported by more of the region's stakeholders than currently support exclusively Grid West or TIG.

The Proposal

A non-profit, non-FERC-jurisdictional, member organization (the "Charter" entity to be named later) will implement valuable near term services identified by TIG in its proposal¹ while simultaneously continuing the activities to ultimately implement the TSLG basic features, including the negotiation of transmission agreements among transmission owners for that purpose. The continuing activities will follow the schedule contemplated in the Grid West proposal with regional review at Decision Points 3 and 4.

Because the Charter entity will be performing services that are contemplated to continue indefinitely, it will need to continue to exist in the event that the region determines at either Decision Point 3 or 4 to cease further work toward implementation of the TSLG basic features. If at Decision Point 4 the regional decision is to go forward with implementation of TSLG basic features, the transmission agreements would be executed and a tariff filed at FERC governing TSLG basic features.

Unlike the Grid West governance proposal, the Charter entity will be independent only within a defined scope limited to its initial purposes and ultimately, implementation and management of the TSLG basic features. The Charter Board will not be permitted to adopt scope changes defined as the special issues without approval of the MRC. Furthermore, members of the Charter Board will be required to have regional transmission policy experience.

While we did acknowledge that the existing bylaws for Grid West were thoroughly vetted in the region and thus are a logical starting place, details on how to implement this proposal was beyond the scope of our discussions and is best left to regional dialogue.

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¹ Transmission planning and expansion modeled on the concept developed by TIG with the Charter Board filling the role of the Transmission Expansion Review Committee (TERC); interim market monitoring building to the extent practicable upon the work done by SSG-WI that will serve its purpose until such time as a west-wide market monitor exists that fulfills the needs of the members; common OASIS; others as determined by the members