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Montana

June 27, 2007

MEMORANDUM

TO: Council Members

FROM: Terry Morlan

SUBJECT: Briefing by Columbia Grid

Action Items in the Fifth Power Plan called for the region to resolve a list of transmission related problems. The active effort at the time of the Power Plan was Grid West; however the Grid West effort failed to achieve enough regional support to go forward. Subsequently, Columbia Grid was formed by Bonneville and a group of Washington utilities to address transmission problems incrementally through contractual agreements among its members.

The current members of Columbia Grid are: Avista Corp., Bonneville, Chelan County PUD, Grant County PUD, Puget Sound Energy, Seattle City Light, and Tacoma Power.

Lloyd Meyers, Chairman of the Board, and Jon Kaake, CEO, will brief the Council of Columbia Grid transmission planning and other activities. Al Wright, consultant to Columbia Grid will also be present.

A copy of Columbia Grid's June 2007 newsletter, GridLines, is attached as background information. Additional information about Columbia Grid is available at its website <http://www.columbiagrid.org/>.

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GridLines

News from ColumbiaGrid

Volume 1, Number 1
June 2007

Serving the interests of the Northwest Grid

ColumbiaGrid: Up, Running and Gaining Ground

Welcome to the inaugural edition of *GridLines*, a publication of ColumbiaGrid that aims to keep our members and other constituents informed. We will be bringing you news as well as insights into policy developments that affect our mission of improving the region's transmission grid.

Building upon the efforts of transmission owners and stakeholders, ColumbiaGrid was incorporated in March 2006. There are currently seven members: Avista Corporation, Bonneville Power Administration (BPA), Chelan County PUD, Grant County PUD, Puget Sound Energy, Seattle City Light and Tacoma Power. Other entities are eligible – and welcome – to join ColumbiaGrid or to sign and participate in the organization's "functional agreements," without becoming a member.

ColumbiaGrid is an operationally independent non-profit corporation. The bylaws call for the organization to:

- improve reliability and efficiency

- provide cost-effective planning and expansion
- improve use and expansion of the transmission system, and
- support market monitoring in the West.

These are our broad objectives, and other agreements spell out the specifics.

Hot Off the Grid!

Board adopts policy statement on FERC Order 890 compliance for workshop June 13 in Park City, UT. Details at www.columbiagrid.org.

Simply put, ColumbiaGrid's members believe the transmission grid that serves the Northwest will benefit most from joint and integrated action in several important areas. They have constructed bylaws that set up a framework for single-system planning and have entered into a planning agreement that recently won the endorsement of the Federal Energy Regulatory Commission (FERC). More on that agreement is reported in this newsletter.

ColumbiaGrid is out of the blocks and on its way. Stay tuned as we maneuver the course and pull together solid benefits for the Northwest.

FERC Greenlights ColumbiaGrid Planning Pact

ColumbiaGrid celebrated its first anniversary with good news from FERC. On April 3, 2007, FERC accepted ColumbiaGrid's transmission planning and expansion agreement, a detailed proposal that puts the organization at the epicenter of efforts to improve the efficiency, reliability and expansion of the Pacific Northwest's transmission grid.

FERC's approval of the agreement gave ColumbiaGrid the green light to provide

independent single-system planning and expansion services. In accepting the pact, known officially as "ColumbiaGrid Planning and Expansion Functional Agreement" or PEFA, the federal agency signaled its support for this type of coordinated regional and single-system planning. (cont. on p. 2.)



A Word from the CEO, Jon Kaake



I have been in the CEO's chair at ColumbiaGrid for six months now. From this vantage point, I see significant progress on transmission issues that have bedeviled the region for a decade. ColumbiaGrid is moving ahead with these issues on a steady and forward course.

We now have two major agreements in place, one that lays out a way to identify and plan for projects that will enhance power delivery in the Northwest. This agreement, now endorsed by FERC, represents a milestone in ColumbiaGrid's progress. The second agreement defines our near-term reliability work products. In addition, we are heading toward an agreement on OASIS, the Open Access Same-Time Information System. And we are getting a leg up on FERC's latest directive, Order 890, which includes a call for coordinated and open transmission planning.

Complexity is nothing new in the electricity industry. But the language of transmission is in a league of its own. With the launch of *GridLines*, we hope to communicate with our members and others in a way that is easy to digest. We are working to put everyday clarity to the technical and legal information we bring to you.

Give me a call or drop me a line if you have suggestions for our new publication. You can reach me at (503) 595-3343 and at kaake@columbiagrid.org. We invite guest opinions and may be calling on experts in the region to provide them once we get an edition or two under our belt.

ColumbiaGrid is positioning itself to be a productive and credible leader. In our first year, we have tallied up a respectable list of accomplishments. I am confident that list and the scope of participation will continue to grow.

FERC Greenlights Pact (continued from p.1)

The agreement calls for ColumbiaGrid to develop a biennial transmission plan for the Pacific Northwest. The plan will include an independent system assessment and need statement, as well as recommendations for various categories of projects. The agreement also lays out the requirements for ColumbiaGrid's planning process, which will emphasize cooperation, coordination, openness, transparency and participation.

Nine entities have signed the planning and expansion agreement. In addition to ColumbiaGrid and its members, Snohomish County PUD has also become one of the PEFA parties. Others may choose to sign and become agreement parties.

PEFA offers multiple benefits to the region and individual systems that participate, according to Jon Kaake, ColumbiaGrid CEO. First, the structure of the agreement increases the likelihood transmission issues will be resolved and needed infrastructure built in a timely manner. And for individual systems, ColumbiaGrid will help assess whether they are meeting planning standards. In addition, parties to PEFA have the opportunity to propose

and champion projects that best meet their needs, he stated.

The first order of business for the PEFA parties is to describe for FERC how the planning agreement satisfies the principal issues in the agency's Order 890. The FERC order will be the subject of intense discussions this spring and summer.



The ColumbiaGrid Contingent

ColumbiaGrid is seven members strong. The members provide service to loads throughout the Northwest, and both public power and private systems participate. ColumbiaGrid's members span the region and interconnect with every major transmission provider in the West. They are:

Avista Corporation, headquartered in Spokane, WA, operates and manages generation, transmission and distribution facilities in four western states. Avista serves more than 346,000 electric customers in eastern Washington and northern Idaho and owns eight hydroelectric installations, as well as coal, natural gas and wood-waste combustion plants.

BPA, headquartered in Portland, OR, markets electricity produced at 31 federal dams and one nuclear plant in the Northwest. The agency sells power to over 140 utilities throughout the region, including northern California and Nevada. BPA also operates a high-voltage transmission grid, made up of over 15,000 miles of lines and substations in Washington, Oregon, Idaho, Montana and Wyoming.

Chelan County PUD, headquartered in Wenatchee, WA, serves all of Chelan County (over 43,000 electric customers) and delivers power to long-term purchasers serving seven million customers around the Northwest. Chelan has three hydro projects, totaling nearly 2,000 MW capacity, including Rock Island, the first dam on the Columbia River.

Grant County PUD, headquartered in Ephrata, WA, serves all of Grant County, about 42,000 customers, and also delivers power to purchasers that serve millions of customers throughout the

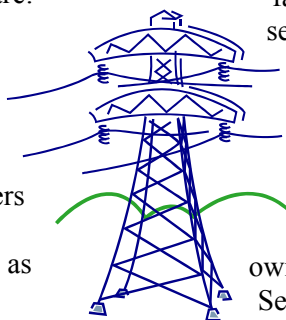
Northwest. Grant owns and operates the two-dam Priest Rapids Project on the Columbia River in central Washington, which includes Priest Rapids and Wanapum dams.

Puget Sound Energy, headquartered in Bellevue, WA, serves electricity and natural gas to more than 1.7 million customers, primarily in the Puget Sound region. PSE owns and operates three hydropower projects, several gas-fired plants and two wind farms that provide enough renewable energy to serve about 100,000 homes. The utility also has shared ownership of a four-unit coal-fired power plant in Eastern Montana, along with associated transmission.

Seattle City Light, headquartered in Seattle, WA, is the nation's seventh largest publicly owned utility and serves about 375,000 customers. Seattle owns and operates hydroelectric projects on the Upper Skagit and Pend Oreille Rivers that provide about half the power to serve its customers. Seattle purchases power from Stateline Wind Farm and BPA to meet the rest of its needs.

Tacoma Power, headquartered in Tacoma, WA, serves about 163,000 customers. Tacoma Power owns and operates seven dams at four projects: Cushman, Cowlitz, Nisqually and Wynoochee. These projects are located in western Washington and provide approximately 50 percent of the power needed to serve Tacoma Power customers. Tacoma Power purchases power from BPA and others to meet the rest of its needs.

In addition to ColumbiaGrid's seven members, **Snohomish County PUD** is a signatory to ColumbiaGrid's planning and reliability agreements. Snohomish, the Northwest's second largest publicly owned utility, serves about 310,000 customers. It owns and operates the Jackson Hydroelectric Project on the Sultan River and partners on a cogeneration project on the Everett waterfront. The rest of its power comes from BPA and other sources.



The Transmission DEBATE:

OATT Reform Takes Shape in Order 890



After a year in the FERC incubator, Order 890 hit the streets in February. The agency hailed the order, which took effect May 14, 2007, as a reform

that remedies "opportunities for undue discrimination" that still existed under Orders 888 and 889 issued over a decade ago. FERC said provisions in Order 890 will assure (cont. on p. 4)

OATT Reform Takes Shape (continued from p. 3)

transmission services are provided without discrimination and on “a just and reasonable basis.”

According to FERC, Order 890 addresses several problematic issues, including the need for greater consistency and transparency in calculating a system’s available transmission capacity (ATC) and more open, transparent and coordinated transmission planning. Experience over the past decade showed, as well, that there was a need for tightening up and clarifying some areas of the tariff, the agency said.

What does the order mean for ColumbiaGrid? So far, ColumbiaGrid’s focus is on what the order says about transmission planning. Under the order, each transmission provider’s planning process must meet certain principles, including coordination, openness, transparency, information exchange and comparability.

The planning principles outlined in Order 890 are mostly good news for ColumbiaGrid. “The principles are largely consistent with what we already have in our planning and expansion agreement. When you take our agreement and put

it side by side with Order 890, we measure up quite well,” Paul Arnold, ColumbiaGrid’s corporate vice president, said.

ColumbiaGrid is well on its way to the type of regional process Order 890 contemplates. The organization will be describing its progress to FERC at a June 13 workshop on Order 890 in Park City, Utah.



GridSpeak

Visibility Tools (viz' ə-bil' ī-tē tūlz): One of ColumbiaGrid’s future orders of business will be to help develop *visibility tools*. *Visibility*, in the context of the transmission grid, refers to the ability to monitor, understand and predict the state and condition of the greater interconnected transmission operating system. Visibility tools are sophisticated computer programs that provide enhanced means for system operators to see what is going on in real time and gather information they need to do their jobs more effectively.

For more information about ColumbiaGrid, including our monthly meetings calendar, visit www.columbiagrid.org or call (503) 595-3343.



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