



Department of Energy

Bonneville Power Administration
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EXECUTIVE OFFICE

OCT 27 2006

In reply refer to: GR-3

TO: Our Customers and Interested Parties

As explained in my letter dated July 20, 2006, Bonneville Power Administration (BPA) has been actively supporting the development of ColumbiaGrid since the beginning of this year. We believe this organization presents a valuable opportunity for improving the long-term reliability of the Northwest transmission system. It may do so by moving the region closer to one-utility coordinated planning and operation of the region's transmission system.

After months of work by many parties, ColumbiaGrid is preparing to offer transmission owners, operators and developers a Planning and Expansion Functional Agreement. This agreement is intended to provide a coordinated regional approach to transmission capacity planning and expansion. ColumbiaGrid has published a draft Functional Agreement and will be accepting public comment through December 7, 2006. After comments received by ColumbiaGrid are considered, it will formally offer its Planning and Expansion Functional Agreement to regional parties, including transmission owners such as BPA.

While ColumbiaGrid is taking comments on regional impacts, BPA would appreciate hearing your thoughts on the impacts that implementation of this proposal may have, particularly on BPA and its customers. Our goal is to be well informed when we submit our final comments on this proposal to ColumbiaGrid. We also will consider your comments in deciding whether to sign the final version of the Agreement.

This letter outlines the primary components of the Functional Agreement, describes why BPA has participated in the development of this proposal and poses several questions to guide your comments to BPA. Attached for your information is a more detailed description of the proposal and an analysis of the benefits and risks BPA might face if it were to sign this Agreement. The full proposed Functional Agreement can be found at <http://www.columbiagrid.org>.

The Proposal

The proposed Planning and Expansion Functional Agreement will give ColumbiaGrid responsibility for developing a Transmission Plan covering a 10-year planning horizon on a biennial basis, with additional Plan updates as needed. Transmission solutions will be planned in the best interest of the Northwest transmission system as a whole. These Plans will be developed through an open public planning process and will identify five types of projects on the transmission systems of the parties participating in the process. Those five types of projects are described in Attachment A.

ColumbiaGrid planning staff will facilitate and coordinate planning studies among Transmission Owner Planning Parties (TOPPs) and other regional stakeholders. This collaborative planning process will identify expected reliability problems that affect the systems of more than one party to the agreement and preferred solutions to such problems. In developing solutions, alternatives to transmission construction such as demand response and distributed generation will be considered.

ColumbiaGrid will seek voluntary agreement on who among affected transmission owners should be responsible for developing and funding reliability projects. A project need not be on the system of a TOPP if the one-utility approach indicates that it would be more efficient to build on another system. Where agreement cannot be reached on responsibility for building reliability-based projects, ColumbiaGrid will propose a solution based on its own analysis of the transmission alternatives. It will also propose construction responsibilities and a cost allocation based on causation of the expected reliability problem.

The ColumbiaGrid Board (Board) will provide policy guidance to its staff and formally approve the Biennial Plan. Plans will be reviewed by ColumbiaGrid at least once during each biennial planning cycle. Further information on the proposal is provided in Attachment A.

Any entity that owns, operates, or proposes to build physical facilities in the Pacific Northwest for the sale of power or transmission, or that has a legal obligation to engage in transmission planning or expansion in the Pacific Northwest, would be eligible to sign this Functional Agreement.

Why BPA Participated in Developing this Proposal

For many years, BPA has supported the development of an independent assessment of the region's transmission needs and timely grid enhancements appropriate to satisfy these needs. BPA's viewpoint on this matter was outlined in an April 2005, Keeping Current, entitled "Wanted, One Utility Transmission for the Pacific Northwest" (<http://www.bpa.gov/corporate/pubs/Keeping/05kc/kc0305.pdf>).

BPA believes the ColumbiaGrid proposal could help achieve the agency's one-utility planning goals. It is also important to BPA that this proposal has been developed through a transparent and open public process. The Planning and Expansion Functional Agreement has roots in the publicly developed and reviewed proposals associated with RTO West, Grid West and the Transmission Improvement Group. Since February 2006, ColumbiaGrid has continued in this tradition, holding open meetings on the subject and making associated documents publicly available. The result is significant agreement among ColumbiaGrid participants and others on this proposal. It is also important to note the cost of implementing this proposal is expected to be minimal.

Guiding Questions

While we are interested in any thoughts you may have on the proposed Functional Agreement, we would particularly like to know your responses to the following questions:

1. What positive impacts do you think the proposal may have on BPA's ability to serve customers reliably and at least cost?
2. What negative impacts do you think the proposal may have on BPA's ability to serve customers reliably and at least cost?
3. Do you have any suggested changes that might improve the effectiveness of this proposal?

Additionally, BPA solicits your comments on any potential environmental effects that implementation of the Planning and Expansion Functional Agreement might cause. Any such comments will be provided to BPA's National Environmental Policy Act (NEPA) compliance staff for consideration in the NEPA analysis that BPA will conduct for the proposal.

Opportunity to Learn More

ColumbiaGrid will be holding open workshops on the Planning and Expansion Functional Agreement in November. At these workshops the details of the proposal will be explained and questions about its content will be entertained. Please refer to the ColumbiaGrid website for more information about these workshops at <http://www.columbiagrid.org>.

BPA will be hosting a public meeting to clarify and answer questions about its perspective on this proposal on November 15, 2006, 8:30 a.m. to 12:00 p.m. PST. The meeting will take place in BPA's Rates Hearing Room, 911 NE 11th Avenue, Portland, Oregon. For details, please see BPA's external calendar at: http://www.bpa.gov/corporate/public_affairs/calendar/.

How to Comment

There are a number of ways you can comment. Comments can be mailed to: Bonneville Power Administration, Public Affairs Office - DKC-7, P.O. Box 14428, Portland, OR 97293-4428, they can be sent via e-mail to comment@bpa.gov, you may submit your comments on-line at: <http://www.bpa.gov/comment>, or you may fax them to (503) 230-3285. You can also call us with your comments, toll free at (800) 622-4519. Please note all comments will be posted in their entirety on BPA's external Web site.

All comments will be considered in BPA's decisions as to what comments BPA will submit to ColumbiaGrid and whether or not to sign the Planning and Expansion functional agreement. Please submit your responses by November 29, 2006.

Sincerely,

/s/ Stephen J. Wright

Stephen J. Wright
Administrator and Chief Executive Officer

2 Enclosures:

Attachment A - ColumbiaGrid Planning and Expansion Functional Agreement Outline
Attachment B - BPA Risk Reward Analysis

ATTACHMENT A:
ColumbiaGrid Planning and Expansion Functional Agreement Outline¹

The proposed ColumbiaGrid Planning process is an open process using the one-utility planning concept. ColumbiaGrid will coordinate its planning with neighboring non-member utilities. It will use the NERC/WECC Planning Standards supplemented by the existing planning criteria of individual utilities until such time that the parties to the planning agreement define a common ColumbiaGrid criteria to replace the existing standards. More specifically:

1. **ColumbiaGrid will produce a biennial plan** with annual updates. The plan will cover a 10-year planning horizon.
2. **Parties eligible to sign the planning functional agreement** include entities that operate or propose to operate an electric system (including electric distribution, generation, and/or transmission facilities), or which have an obligation under law to plan for transmission in the Pacific Northwest.
3. **Termination rights** will allow a party to withdraw from the functional agreement on short notice, subject to fulfilling existing funding obligations.
4. **Types of projects to be addressed in the biennial plan** will include:

Existing Obligation Projects (EOPs): Load service projects and/or projects to meet applicable NERC, WECC and local planning criteria to maintain transfer capability for existing firm obligations (where transmission capacity will be insufficient during the planning horizon to serve existing long-term PTP, NT from Network Resources, legacy contracts, and native load if applicable) where multiple participating transmission system owners or operators would be impacted by the problem or the transmission solution. This type of project will be developed in the ColumbiaGrid study team process described below.

Single system Projects: Load service projects where only a single participating transmission system owner or operator is impacted by the inability to meet existing firm obligations or its solution. The single participating transmission system owner or operator will be responsible for developing this type of project.

Requested Service Projects: Projects which are proposed in response to an Interconnection or Transmission Service Request to a participating transmission system owner or operator, and for which there is a signed construction agreement will be added to the plan. ColumbiaGrid will coordinate the study efforts for those projects that affect more than one system, including formation of a study team.

¹ The complete proposed Columbia Grid Planning and Expansion Functional agreement can be found on the web at <http://www.bpa.gov/corporate/pubs/Keeping/05kc/kc0305.pdf>

Capacity Increase Projects. Projects undertaken voluntarily by parties (not necessarily functional agreement parties) to increase transfer capability and reduce congestion. If a Capacity Increase Project sponsor requests a study team, and there is sufficient interest, a study team will be formed.

Expanded Scope Projects. This type of Project is an expansion of any of the foregoing types of projects where the service that would have been provided by the original project is preserved, the expanded scope is fully funded, and all affected parties have reached agreement. A study team will be formed to study these types of projects if there is sufficient interest.

Non-Transmission Alternatives that delay or eliminate the need for an Existing Obligation Project or a Single System Project will be included in the Plan for informational purposes.

- **Biennial Plan Development Process for Existing Obligation Projects:**

1. *ColumbiaGrid (CG) staff will prepare a NW system assessment* that anticipates deviations from planning criteria during the 10-year planning horizon on systems of parties to the agreement. This will assess the ability to meet network load, any native load, and other long-term firm transmission obligations (Existing Obligation Projects). Problems occurring on a single participant's system will be turned over to the relevant utility for further action (Single System Projects). This assessment will identify problems associated with meeting existing obligations, not new transmission or interconnection service requests or capacity increase projects.
2. *From the system assessment, CG staff will develop need statements* for anticipated transmission problems affecting more than one owner's system, which will be addressed by EOPs and/or Non-Transmission Alternatives. The problem/need statement will:
 - Describe the problem and the date by which a solution is needed; identify the systems that are affected.
 - Determine whether a non-transmission solution would be electrically feasible to solve the deficiency without specifying any particular non-transmission conceptual solution.
 - Propose a conceptual transmission solution as a base against which to compare costs of a non-transmission solution.
 - Be submitted to the ColumbiaGrid Board for review and comment.
3. *CG Staff will assemble study teams for each problem/need statement* that will, at a minimum, include the impacted participants. Participants will attempt to reach consensus regarding an EOP, including plan of service, schedule, cost allocation, project construction/ownership and transmission capacity allocation. Non-transmission solutions may also be proposed by a system owner to solve these problems. Staff will monitor progress, and if necessary, will actually plan the project and resolve these issues. Projects must be planned in an open process and mitigate adverse system impacts. Cost

allocation is by agreement of the impacted parties or in the absence of agreement, determined by ColumbiaGrid based on the causation for the defined need for the project. The ColumbiaGrid planning process is designed to encourage contractual agreement by system owners to build EOPs.

4. *ColumbiaGrid will determine if there are any unmitigated negative impacts to member systems resulting from any type of new project.*
 5. *Study team EOPs and staff-developed EOPs (where parties cannot agree) will be submitted to the CG Board for approval. The Board can then approve, disapprove, or send a proposed project back to staff. Parties will have the opportunity to provide input to the Board and can seek reconsideration of adverse decisions.*
 6. *Study teams will consider non-transmission alternatives (in coordination with utilities' IRPs and other processes) in the planning process to solve system needs. Staff will include in the Plan those non-transmission alternatives on which there is agreement.*
- **Biennial Plan Approval Process:** ColumbiaGrid Staff will submit a draft Biennial Plan to the Board for review and approval. The Board will use an open review process. Once the Biennial Plan is approved by the Board, a short reconsideration window will allow those disagreeing with the Board decision to raise disputed issues.
 - **Forcing Mechanism for EOPs:** Once the reconsideration window has passed, ColumbiaGrid will tender Facility Agreements for the approved Existing Obligation Projects and offer them to affected parties, including any non-Functional Agreement parties. There will be no contractual requirement for utilities to sign a Facilities Agreement. However, if a party who is offered an agreement fails to sign, any entity other than ColumbiaGrid may file a petition at FERC requesting relief in respect to the non-signing party's failure to sign. ColumbiaGrid would not file the petition but would intervene if a petition were filed (this helps ColumbiaGrid maintain its independent neutral position). If the best single-utility plan of service is for a non-ColumbiaGrid party to build, this mechanism could be used to seek relief as to that party. Any statutory basis for FERC action is not specified in the Functional Agreement, and Functional Agreement and other parties remain free to contest FERC jurisdiction or action on any matter.
 - **Transmission Service and Interconnection Request Study Process:** It is envisioned that ColumbiaGrid will ultimately provide a Queue for Transmission Service and Interconnection Requests for its members. This is not ready to implement at this time. Although participants hope to have this Queue in place within two years, ColumbiaGrid will provide value to its members in the interim by coordinating the study requests that originate from the individual member Service Queues.
 - **Capacity Increase Projects:** Any Planning Party can bring a Capacity Increase Project to ColumbiaGrid for joint study.

- **Staffing:** The ColumbiaGrid planning staff will work for ColumbiaGrid and be independent of any transmission owners or other market participants. It is anticipated that this work can be accomplished by a manager and a staff of five.
- **Funding the Planning Process:** This planning process is estimated to cost about \$2 million annually. Funding would be split among the Planning Participants based on control area load and net transmission plant plus a fixed fee. If only the seven current members of ColumbiaGrid entered into the Functional Agreement, BPA's cost would be just under 50% of the total; if additional parties entered into the Agreement, BPA's share of the costs would be less. Planning process costs are capped. Budget increases would require a 2/3 majority vote of participating organizations.

ATTACHMENT B
ColumbiaGrid Planning and Expansion Functional Agreement
BPA Risk Reward Analysis

A BPA decision to participate in a regional transmission planning effort would be made because of expected benefits to BPA, its customers, and the region as a whole. Speaking in very general terms, BPA would sign onto ColumbiaGrid's Planning and Expansion Functional Agreement when and if the agency was convinced that doing so would improve the long term reliability of the Northwest transmission system in a least cost manner. However, as with any important endeavor, joining such an organization would also expose the agency to new risks.

Below, the expected rewards to BPA and the region associated with signing the ColumbiaGrid Planning and Expansion Functional Agreement are outlined. Next, the risks that signing this agreement might expose BPA to are outlined together with the provisions in the Agreement that might mitigate these risks.

Prior to making a final decision on whether to sign the Planning and Expansion Functional Agreement, BPA will make a final assessment as to whether the potential rewards outweigh the risks of signing.

Planning and Expansion Objectives Associated with the CG Planning and Expansion Functional Agreement

Ensure the timeliness and adequacy of new transmission construction in the Northwest through "one-utility" planning.

- Transmission needed to support reliable electricity delivery in the Northwest gets built.
- Transmission projects constructed are the least cost response to transmission needs.
- Responsibility for payment for transmission projects is attributed to transmission owner(s) whose needs are met by the improvements.
- Timely coordinated responses provided to those requesting transmission studies to expand use of the system (*i.e.*, interconnection and transmission service requests).

Secondary Objectives:

- Transmission needed to support economic generation transactions gets built.
- Both transmission and non-transmission alternatives are considered.
- A single queue for new transmission requests is established.

Why a Regional Effort is Needed to Meet the Stated Objectives:

The transmission infrastructure in the Northwest is in need of upgrading to support current and future system reliability. The Northwest Power Pool 10 year forecast estimates a 12% increase in load between 2004 and 2012, but only a 3% increase in transmission. While BPA has been investing and developing plans to meet those needs, there is limited new transmission construction in the Northwest other than that funded by BPA.

The Northwest Transmission system is owned by several utilities. This system is highly interconnected and thus flows cannot be contained within originating control areas. Thus, many

transmission needs and solutions cannot be defined from the perspective of only one owner's system. Furthermore, design plans for one party acting independently may affect the needs and solution sets for another transmission system. Neither BPA nor any other single transmission owner can plan for all Northwest transmission facilities by itself. Despite this fact, there are currently no legal requirements to coordinate transmission on a regional basis. (Though BPA is the largest transmission owner in the potential geographic footprint of ColumbiaGrid, it only owns about 40% of this system on a capacity basis and is not immune from these issues.)

While existing regional transmission planning bodies (the Northwest Power Pool's Transmission Planning Committee and Northwest Transmission Assessment Committee, and WECC's Transmission Expansion Planning Policy Committee) facilitate some voluntary planning coordination between transmission owners, they lack effective systems for developing joint plans for facilities which meet the needs of multiple parties. This is especially true when the parties find it difficult to reach agreement on the joint plans and related cost-sharing arrangements. The region needs an independent organization that can effectively coordinate regional transmission planning, identify projects that are least cost solutions to transmission problems (from a region-wide perspective), and identify responsibility for developing these projects (based on causation, need and benefit).

How the CG Planning and Expansion Proposal Is Expected to Meet Objectives and Provide Regional Benefits

1. Provides an independent assessment of reliability problems on the transmission systems of parties to the agreement.
2. Commits Functional Agreement parties to work together in an open and transparent process in developing a regional plan.
3. Delineates process for identifying system needs and assigning responsibility for transmission construction (amongst transmission owners).
4. Provides process and forum for resolving disputes between parties concerning reliability projects.
5. May make it easier for IOUs to get state approval for transmission construction projects, as proposals have been publicly vetted and the elements of the plan have either been agreed to by the parties or developed by a body that is independent of any particular transmission owner or market participant.
6. Visibility of plans (through public process) likely to raise awareness of transmission issues and exerts pressure on affected parties to share the burden of investment.
7. Provides a mechanism to enhance the construction of multi-system reliability-related projects (transmission backstop).
8. Provides a forum for sponsors of new transmission capacity projects to work with transmission owners and ColumbiaGrid to develop their projects.

9. Commits Functional Agreement parties to devise a system for creation and management of a single transmission queue.
10. Constitutes a pro-active regional response to national pressure for coordinated regional transmission planning (as expressed in FERC's proposed reforms to its Open Access Transmission Tariff).

Risk Considerations and Treatments

While ColumbiaGrid's Planning and Expansion Functional Agreement is intended to reduce the transmission risks associated with business as usual, it may in fact introduce risks of its own. Some of these possible risks are listed below, along with descriptions of how those risks have been "treated" (mitigated) in the development process.

	Risk	Risk Treatment & Notes
1	<i>Dry Hole</i> – BPA invests in planning effort but CG doesn't produce different planning outcome than status quo.	<p>A "go-slow" philosophy has been adopted that mitigates investment risk.</p> <p>Creation of independent entity should engender enough trust to get new projects built.</p>
2	<i>BPA pays more than its fair share of transmission construction (as compared w/ status quo).</i>	<p>If BPA believes the proposed cost allocation is unfair, it remains free to not execute the transmission plan agreement. BPA does not believe it can be forced to pay an unfair share.</p> <p>Some BPA staff believes BPA overpays under status quo and that CG can only help.</p> <p>BPA staff will help develop plans.</p> <p>If results are persistently unacceptable, BPA can withdraw from ColumbiaGrid.</p>
3	<i>BPA's Treasury borrowing authority inappropriately consumed by transmission construction as result of CG plan. Visibility of plans leads to more construction than would be the case in the status quo.</i>	<p>Regional planning may facilitate third party or other creative financing arrangements, possibly muting effects of construction on borrowing authority.</p> <p>BPA has influence over plans, given its ColumbiaGrid voting strength, BPA's recognized expertise and the fact that BPA staff will be actively involved in CG process. In any case, any BPA obligation is subject to the availability of sufficient capital.</p>

4	<p><i>BPA is forced into plan of service it doesn't support, region doesn't need.</i></p>	<p>Planning process will be open to any interested party, so unneeded construction (and costs) will be exposed and likely not adopted.</p> <p>BPA staff will be actively involved in creation of plans.</p> <p>Backstop only applies to "reliability" projects, limiting its reach.</p> <p>In any case, BPA can refuse to agree to a plan, can object to a plan of service or to a FERC petition with respect to a plan of service and, if necessary, can withdraw from CG. BPA remains free to contest FERC jurisdiction over construction and other issues.</p>
5	<p><i>Backstop fails - can't impose construction on those who should be constructing.</i></p>	<p>The majority of plans are likely to be carried out without resorting to a backstop – visibility of planning process should, in and of itself, create pressure to build without resorting to a petition at FERC.</p>
6	<p><i>Cost of CG planning function exceeds expectations.</i></p>	<p>Functional agreement has spending cap of about \$4 million for each two-year funding cycle. Cap may not be exceeded without 2/3 majority vote of Functional Agreement parties. BPA has significant weight/influence over such votes.</p>
7	<p><i>Regional cost of construction higher than it would be in absence of CG.</i></p>	<p>One utility planning may produce more optimal decisions than multiple individual utility planning.</p> <p>If additional construction happens, it will likely meet needs that aren't being met under the current plan.</p> <p>BPA staff will actively participate in process to ensure that construction meets such need.</p>

8	<p><i>Inadequate participation</i> to have full effect (including the potential of withdrawal by significant parties).</p>	<p>CG planning is open to any affected party, thus creating a forum where all involved parties can engage.</p> <p>Adequate participation is forecast based on current CG membership.</p> <p>BPA is actively working to encourage participation by other parties in the region.</p>
9	<p><i>Adds more bureaucracy</i> and/or disagreement and further slows construction.</p>	<p>Functional Agreement is written in such a way that ColumbiaGrid is not a gate keeper. Utilities may construct without CG permission.</p> <p>Participants control budget (staffing levels and process add-ons).</p>
10	<p><i>Security of critical information is compromised</i> by planning process (use by competitors, vandals, terrorists, etc.).</p>	<p>Planning process participants must sign non-disclosure agreements for sensitive information that is held back from public planning process.</p> <p>This should pose no additional risk over status quo, given public availability/visibility of data and facilities.</p>
11	<p><i>Loss of critical BPA staff.</i></p>	<p>Immediately focus succession planning on positions with people who might be well suited to staffing CG.</p> <p>Unlikely to be more than 1 or 2 FTE for the P&E function (it is expected that CG staff will come from throughout the region).</p> <p>Having quality staff at CG would be beneficial to BPA even if that staff was lost by BPA.</p>
12	<p><i>Runaway Board.</i></p>	<p>Board cannot expand authority without a 2/3's vote of members to change by-laws. BPA has a strong voting representation, so should be able to limit this risk.</p> <p>Board members have staggered 3 year terms; need to win 2/3rds of weighted member vote for re-election.</p>

13	<i>Runaway Staff.</i>	<p>Best protection is for Functional Agreement parties to agree on solutions. Staff only facilitates so long as parties can agree on a proposal.</p> <p>Board can replace staff if they are not supporting good regional choices.</p> <p>BPA staff actively involved in CG process.</p>
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