

Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

EXECUTIVE OFFICE

January 3, 2006

In reply refer to: DKR-7

The Honorable Patty Murray
United States Senate
Washington, DC 20510

Dear Senator Murray:

Thank you for your letter of October 28, 2005, regarding future transmission system operations. Your letter arrived as Bonneville Power Administration (BPA) was approaching Decision Point 2 and considering an appropriate course of action.

As you know, we have been working with other stakeholders in the region for years to develop an approach that would improve the operational efficiency, reliability and planned expansion of the transmission grid. This process has created a lot of discussion, both in the region and in Washington, D.C. I know that you and your staff have received countless communications and diverse views from interested parties about this process. We at BPA have attempted to take all of these views into consideration and are focused on developing an answer that is ultimately best for all citizens of the Pacific Northwest.

The core approach has been to consolidate the management of the region's diversely owned transmission system without transferring ownership of the assets. We described the problems and approach to developing a one-utility vision in our March 2005 Keeping Current (<http://www.bpa.gov/corporate/pubs/Keeping/05kc/kc0305.pdf>).

Until recently, we had been considering three options: TIG, Grid West and status quo. The vast majority of commenters have said the status quo is not a viable option, while the choice between TIG and Grid West evoked strong emotion and divided the region.

In September, we joined with other regional parties on a proposal we hoped would bridge the gap between Grid West and TIG. The integration (formerly "convergence") proposal was designed to implement functions of TIG as quickly as possible under the Developmental Grid West governance structure which, it is important to note, would not be FERC jurisdictional.

Further development of the basic operations of Grid West would have continued under this structure. Approximately two years from now, a choice would be made whether to proceed with implementing those basic operations, which would make Grid West responsible for functions that would be FERC jurisdictional, or to stick with the less expansive transmission functions envisioned by TIG.

Our intent with the integration proposal was to take key elements of Grid West and TIG out for a “test drive” to allow the region to benefit from near-term improvements as an important step toward making a better informed decision about long-term transmission operations. We hoped to establish integration in a manner that did not prejudge whether the functions envisioned under Grid West or TIG were the right answer for the region or whether the region should move to a FERC-jurisdictional, independent board.

Interestingly, the primary complaints lodged against integration are somewhat contradictory. TIG proponents claim that integration endorses Grid West and commits BPA to proceed now and in the future with a Grid West approach. Grid West advocates claim that integration would prejudice the ultimate decision in a manner that BPA would be unlikely to move past implementation of the TIG-like functions. Both TIG and Grid West advocates found the integration proposal prejudicial for exactly the opposite reasons. We are disappointed by the fact that some parties believe this issue must be decided now in favor of one option or the other. However, the integration option is premised on the belief we do not have to make this decision now.

We believe integration works from a substantive standpoint and would be an improvement on the status quo. Within the state of Washington, the Washington Utilities and Transportation Commission, Grant County PUD, Avista, Puget Sound Energy, the Northwest Requirements Utilities (a trade association that includes 14 Washington publicly-owned utilities) and PNGC Power (including two members serving Washington consumers) supported the integration proposal at the October 28, 2005 Regional Representatives Group meeting. In addition, Seattle City Light, Chelan County PUD and Cowlitz County PUD have since indicated support for the continued development of the integration proposal. These utilities represent over half of Washington’s total electric load. However, many of the region’s major transmission owners have rejected the integration option.

Earlier this year, it appeared that TIG might be a viable option. But we have concluded that TIG is not viable today because: (1) key transmission owners have stated they will not participate in a TIG option; and, (2) when asked to sign a non-binding Memorandum of Intent to move forward with key TIG elements, only six of the eight TIG members were willing to commit to funding, and only BPA was willing to commit to the changes necessary to capture the key reliability benefits contemplated under the TIG proposal. We also are concerned that the governance and decision-making structure in TIG is dominated by transmission owners and relies on commitments of regional transmission owners to voluntarily implement decisions even when it is not in their self-interest.

We believe Grid West could work from a substantive standpoint and would likely be an improvement on the status quo. It has substantial support from transmission owners and other stakeholders in the region. However, we also have concerns with Grid West, including the need for greater regional accountability, and the fact that it would involve two more years of costly

development that would then come down to an all or nothing question. If BPA and others then decide not to move forward at that point, the region will have made no progress. It also jumps to a higher-cost solution before testing a lower-cost alternative. Judging from the letters we have received from Members of Congress, including your letter, the region is deeply divided politically, which does not bode well for ultimate implementation of a Grid West option. Recently, BPA declined to provide continued funding of Grid West development and resigned from the Grid West Board to take some time to consider its options.

Our participation in developing the integration option was based on it being the best vehicle for bridging the gap in the region. We continue to believe it is the best hope for moving the region toward a better future for transmission operations. We will remain open to other ideas that can make substantive improvements in transmission operations while generating broader based support. We welcome your help in working with your Pacific Northwest colleagues in fashioning such an option. Lacking such an option today, I continue to support and advocate for the integration option.

Your letter spoke of the unique and long-standing tradition in the Pacific Northwest of regional consensus on energy matters. This tradition is extremely important to me. The quandary we find ourselves in now is that none of the options currently available, including the status quo, meets the test of regional consensus. Yet, if our delay in developing a regional approach runs much longer, then by default we are choosing the status quo. I don't believe our region will believe we have made a wise choice a few years down the road if we remain with the status quo. I also do not believe there is a plausible scenario where BPA can solve the region's transmission shortcomings on its own. We need to find a way to move forward, and I am asking for your help to find a way to make that happen.

Although these issues can be frustrating, one of the wonderful things about working for BPA is that we work on issues that really matter, as evidenced by your letter. I appreciate your deep interest in this issue and intend to work with you and other members of the delegation to solve it. Please be assured that we share a common interest in seeking solutions that best serve the electric power consumers of our region.

Sincerely,

/s/ Stephen J. Wright

Stephen J. Wright
Administrator and Chief Executive Officer

bcc:

Admin. Chron. File – A-7

ECC (05-0152)

BPA-DKN/WASH (2)

C. Brannon – DK

K. Hunt – DKR

C. Ball – DKR-7

P. Zimmer – DKR-7

C. Custer – DKR/Olympia

R. Swedo – DKR/Spokane

S. Berwager – R

R. Roach – L

Official File – DKR (EX-15-12-2)

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The identical letter went to the following:

Senator Patty Murray

Senator Maria Cantwell

Congressman Doc Hastings

Congressman Norm Dicks

Congressman Jim McDermott

Congressman Adam Smith

Congressman Jay Inslee

Congressman Brian Baird

Congressman Rick Larsen