
**Decision to Sign and Support
ColumbiaGrid Planning and Expansion Functional Agreement**

Administrator's Record of Decision

**Bonneville Power Administration
U.S. Department of Energy
February 21, 2007**

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1.0 Introduction/Executive Summary

Bonneville Power Administration (BPA) believes that the Northwest needs an effective one-utility approach to transmission to assure high reliability in the future, to increase efficiency of grid use, and to assure timely construction of needed infrastructure. Since the mid-1990s, BPA has been active in efforts to organize the region around this approach through IndeGo, RTO West, Grid West, Transmission Improvement Group and, for the last year, ColumbiaGrid.¹ This support is born of the agency's belief that the formation of ColumbiaGrid provides a valuable opportunity to move the region closer to our long-sought-after goal of achieving one-utility coordinated planning and operation of the region's transmission system.²

After months of work by many parties, including BPA, ColumbiaGrid has offered transmission owners, operators and developers a Planning and Expansion Functional Agreement (Planning and Expansion Agreement or Agreement). This Agreement provides a coordinated regional approach to transmission system planning and expansion. The ColumbiaGrid Board of Directors offered the Planning and Expansion Agreement on January 17, 2007. This Record of Decision documents the Bonneville Power Administrator's decision to sign this document and commit its resources to working with ColumbiaGrid to develop "one-utility" regional transmission plans.

1.1 What is ColumbiaGrid

ColumbiaGrid is a Washington state non-profit corporation incorporated on March 31, 2006, by a group of Pacific Northwest control area operators. Its purpose includes improving the operational efficiency and reliability and providing cost-effective planning and expansion of the region's transmission grid. ColumbiaGrid is authorized to fulfill its mission through the development of functional agreements that define the organization's roles and responsibilities in regional transmission management.

1.2 What is the Planning and Expansion Functional Agreement

The proposed Planning and Expansion 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 projects are to be analyzed "as if a single utility owned all relevant generating, transmission and distribution facilities to enhance efficiency and reduce duplication of facilities, environmental impacts, and costs; . . ."³ 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 Section 3, below.

For all types of projects, ColumbiaGrid planning staff will facilitate and coordinate planning studies among Transmission Owner or Operator Planning Parties (TOPPs) and other regional stakeholders. This collaborative planning process will identify expected reliability problems that affect the systems of the TOPPs and solutions to such problems that affect more than one entity's

¹ BPA, Administrator Letter to Customers and Interested Parties (July 20, 2006).

² *Id.*

³ Agreement, § 3(i)

transmission system. In developing solutions, alternatives to transmission construction such as demand response and distributed generation will be considered.

For reliability projects (Existing Obligation Projects or EOPs), ColumbiaGrid will seek voluntary agreement on who among affected transmission owners should be responsible for developing and funding such 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 an EOP, ColumbiaGrid will propose a solution based on its own analysis of the transmission alternatives. In this circumstance, ColumbiaGrid 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.

Any entity that owns, operates, or proposes to build physical facilities in the Pacific Northwest⁴ for the sale of power or transmission, or that has a legal obligation to engage in transmission planning or expansion in the Pacific Northwest, is eligible to sign the Agreement.

1.3 Summary of BPA’s objectives in signing the Agreement and how will they be met by the Agreement

For many years, BPA has supported the development of an independent assessment of the region’s transmission needs and timely grid enhancements required to satisfy these needs. This support derives from BPA’s recognition that the increasing use of the Northwest transmission grid cannot be efficiently managed by BPA alone. While several Northwest entities address regional transmission planning issues, none are assigned the systematic task of developing an integrated regional transmission plan. Instead, they primarily address and evaluate important transmission projects and issues as they arise. BPA’s viewpoint on the need for one-utility planning was outlined in an April 2005, document entitled “*Wanted, One Utility Transmission for the Pacific Northwest.*”⁵

In the mid 1990s, BPA first participated in an effort to organize the region around these concepts through an organization called IndeGo. Subsequent efforts yielded a variety of proposals (RTO West, Grid West, Transmission Improvement Group (TIG)). While those proposals did not come to fruition, the work that went into them has been used in developing ColumbiaGrid’s Planning and Expansion Agreement.

The Planning and Expansion Agreement puts ColumbiaGrid in a position to address regional planning on a systematic basis. It will produce regional plans based on a “one-utility” view of

⁴ “Pacific Northwest” is defined in Agreement § 1.32 as “the (i) sub region within the Western Interconnection comprised of Alberta, British Columbia, Idaho, Montana, Nevada, Oregon, Utah, Washington, and Wyoming and (ii) any portions of the area defined in 16 U.S.C. § 839a(14) that are not otherwise included in (i).”

⁵ Keeping Current (BPA, Portland, Oregon) April 2005, *Wanted, One Utility Transmission for the Pacific Northwest*. Available at <http://www.bpa.gov/corporate/pubs/Keeping/05kc/kc0305.pdf>

the Pacific Northwest transmission system and will offer a planning viewpoint that is independent from any one entity in the region. The organization will thus be in a position to identify and facilitate agreement on the lowest cost solutions to system needs, regardless of ownership. It will also be in a position to facilitate solutions to cost-allocation disputes for Existing Obligation Projects (EOPs). It will also coordinate with other regional planning processes. Thus, ColumbiaGrid should be able to overcome existing roadblocks to transmission construction and facilitate timely transmission solutions that improve system reliability, accommodate load growth, and allow for the integration of new generation resources.

1.4 What opportunities for public involvement in this decision have been provided

The Planning and Expansion Functional Agreement has roots in the publicly developed and reviewed proposals associated with RTO West, Grid West and the TIG. Since February 2006, ColumbiaGrid has continued in this tradition, holding open meetings on the subject and making associated documents publicly available.⁶ ColumbiaGrid issued a draft Planning and Expansion Functional Agreement on October 25, 2006. Soon thereafter, BPA began its own public process. BPA sent a letter out to the region on October 27, 2006, soliciting comments on the draft proposal. Bonneville hosted a public meeting to share its perspective on and answer questions about the proposal on November 15, 2006. Responses to the solicitation were supportive of our efforts and contained suggestions for improvement that were largely addressed in the subsequent final functional agreement. Only minor changes have been made to the body of the Functional Agreement since the October draft because the draft already reflected regional concerns as expressed in ColumbiaGrid's public process. There has been an addition of a pro-forma facilities agreement since the previous reviews. Comments received by BPA on the draft Functional Agreement are thus being considered in the BPA decision to sign the final Functional Agreement. Details of the public process are provided in Section 9, below.

2.0 BPA Commitment to One-Utility Planning

BPA has supported one-utility planning for many years. We define "one-utility planning" as planning an interconnected transmission system owned by several entities as though one-utility owned all-relevant generating, transmission and distribution facilities. The foregoing definition is from BPA, Customer Service Policy (July 1, 1984), p. 27, and the same language is used in the ColumbiaGrid Planning Agreement, § 3(i). The benefits of one-utility planning identified in the Customer Service Policy, p. 3, "[j]oint, one-utility, long-range planning will maximize economic efficiency, improve electrical system performance, and minimize environmental impacts," are similar to the benefits described in Section 3(i) of the Agreement.

BPA's support for one-utility planning by an independent entity was summarized in BPA, Keeping Current, "*Wanted, One Utility Transmission for the Pacific Northwest*" (April 2005).⁷ BPA's 2006 Annual report stated: ". . . BPA believes the optimal solution to stress on the grid is one-utility transmission planning and operation for the Pacific Northwest."⁸

⁶ For a list of meeting dates and materials, see www.columbiagrid.org

⁷ Available at <http://www.bpa.gov/corporate/pubs/Keeping/05kc/kc0305.pdf>

⁸ BPA 2006 Annual Report, p. 6-7

2.1 BPA's Reasons for Pursuing One-Utility Planning

The transmission infrastructure in the Northwest is in need of upgrading to support current and future system reliability. There has been an increase in the number and complexity of transmission transactions, as noted in BPA's 2006 Annual Report, pp. 15-16:

BPA handled almost 55,000 transmission transactions in June 2006, versus 30,000 in that month four years ago. This represents a growth rate of about 16 percent a year for the last four years. To measure the impacts of this added volume on operators, we developed a complexity index. It measures a combination of factors such as tagging transaction volume, planned outage minutes, total transmission system load and significant outages to schedule. The result suggests the complexity of operating BPA's transmission system or system stress has been growing by about 13 percent a year over the past three years.

Similar observations were made in BPA's 2006 white paper, *Challenge for the Northwest – Protecting and Managing an Increasingly Congested Transmission System*.⁹

While BPA has invested more than \$1 billion to improve our high voltage system in recent years, it is not enough. Problems facing the transmission grid today go beyond the borders of any one utility. More than 20 generating and transmitting utilities rely on a single Northwest grid that is managed by 17 control area operators. Transmission plans made by one owner acting independently may affect the needs and solution sets for another transmission system. In the absence of coordinated planning, transmission owners are limited in their ability to consider alternative plans that might make use of a more efficient modification on another system. BPA believes the Northwest needs an effective one-utility approach to planning in order to sustain its highly reliable and cost-effective transmission system.

2.2 Roots of BPA's Interest in One Utility Planning

The need for regional one-utility transmission planning by an independent entity is rooted in changes to the way that the utility industry does business. Prior to adopting an Open Access Transmission Tariff (OATT),¹⁰ BPA provided transmission service to Pacific Northwest utilities and Direct Service Industrial customers either as part of bundled power sales or as transmission-only service. BPA's adoption of a reciprocity OATT in response to market and statutory changes has resulted in a continuous increase in the use of BPA's transmission system. This cause was noted in BPA's March 2002, *Keeping Current* publication which stated that deregulation "has increased the amount of transmission system transactions nearly 5 percent annually. . ."¹¹ (See discussion in 2.1, above).

⁹ White Paper, (BPA, Portland, Oregon) April 2006, pp. 1-9. Available at http://www.bpa.gov/corporate/pubs/Congestion_White_Paper_April06.pdf

¹⁰ See discussion in Legal Guidelines, below

¹¹ *Keeping Current* (BPA, Portland, Oregon) *BPA Infrastructure Projects: Ensuring Reliable Delivery of Power* March, 2002, pp.2

Because of the increased use of BPA's transmission system resulting from deregulation and load growth, BPA and the region must find ways to more efficiently manage the regional transmission system, including use of system-wide planning. As BPA has said:

With deregulation, our electricity infrastructure has become highly complex and, in some cases, more fragile. BPA cannot support the entire regional infrastructure, and the region needs to take an integrated approach in key areas such as conservation and renewable resource acquisition, reliability and adequacy standards, and transmission.¹²

BPA has recognized in recent publications that one-utility planning without an independent organization is insufficient: "At this point, BPA believes neither it nor any other existing entity can best plan and operate the full spectrum of Northwest transmission facilities by itself. BPA believes the region needs a new approach to operation and planning of its transmission grid to assure reliability and increase efficiency."¹³ BPA has also described the benefits of an independent regional transmission planning entity as follows: "Put simply, an independent entity is probably necessary to define the need for new transmission projects and allocate the costs, get the most ATC out of the system as possible, distribute it equitably, and improve reliability."¹⁴ Similarly, BPA documents have stated:

An independent entity could design the least-cost solution for the region, including non-wires solutions such as demand response or distributed generation. Transmission rates should be lower than otherwise because a more regional approach should produce the cheapest solution for the region as a whole. With the ability to make sure construction is done, a regional transmission planner could ensure that needed facilities are built at the lowest overall cost and allocate costs to the beneficiaries.¹⁵

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 need and benefit). A transmission plan that meets the needs of the Northwest region as a whole—a plan which approaches solutions as if there were a single owner of the entire transmission system—is what is needed to meet the region's long-term energy requirements.

2.3 Other Existing Regional Transmission Planning Bodies

There are a number of existing regional transmission planning bodies, namely, the Northwest Power Pool's Transmission Planning Committee (TPC), the Northwest Transmission Assessment Committee (NTAC), the Western Electricity Coordinating Council's (WECC) Transmission Expansion Planning Policy Committee (TEPPC), and the newly-developed Northern Tier

¹² BPA, Administrator Address to Seattle City Club, April 2, 2004, available at <http://www.bpa.gov/corporate/docs/2004/cityclubspeech.pdf>, p. 6.

¹³ *Keeping Current*, "Wanted: One-Utility Transmission for the Pacific Northwest" (March 2005), pp. 7-8

¹⁴ BPA, Letter to Customers and Interested Parties, Close-Out on Grid West Bylaws (Dec. 22, 2004) ("Close-Out Letter"), p. 2

¹⁵ *Keeping Current*, "Wanted: One-Utility Transmission for the Pacific Northwest" (March 2005), p. 7

Transmission Group (NTTG). While these organizations facilitate some voluntary coordination of transmission planning, they lack independence and effective systems for developing joint plans for facilities which meet the needs of multiple parties. They were not established with the charge of systematically coordinating region-wide plans that satisfy reliability criteria and allocate cost and system capacity. The TPC addresses regional transmission planning issues but primarily addresses and evaluates important specific transmission projects and problems as they arise.¹⁶ In 2003, the TPC formed the NTAC as a forum to include expansion planning but only “at a broad conceptual level.”¹⁷ The TEPPC has a role with regard to “economic” transmission system expansion projects, but does not develop regional integrated transmission plans.¹⁸ The Northern Tier Transmission Group (NTTG) charter does not propose formation of an independent entity.¹⁹

2.4 BPA’s Regional Planning Objectives

In summary, BPA has the following regional planning objectives:

2.4.1 Ensure the timeliness and adequacy of transmission construction in the Northwest through “one utility” planning such that:

- a) Transmission needed to support reliable electricity delivery in the Northwest gets built.
- b) Transmission projects constructed are the least cost response to transmission needs.
- c) Responsibility for payment for transmission projects is attributed to system owner(s) who cause needs that are met by the improvements.
- d) Timely coordinated responses are provided to those requesting transmission studies to expand use of the system (*i.e.*, interconnection and transmission service requests).
- e) Transmission needed to support economic generation transactions gets built.
- f) Both transmission and non-transmission alternatives are considered.

2.4.2 In order to accomplish this, BPA seeks to participate in a regional transmission planning organization that:

- a) Provides independent analysis of transmission needs and solutions, particularly with respect to projects that sustain system reliability.
- b) Is responsible for producing region-wide transmission plans developed from a “one-utility” perspective.
- c) Is open to participation by all interested parties.
- d) Ensures confidentiality where sensitive information is being shared.
- e) Facilitates resolutions of disagreements with respect to proposed transmission solutions.
- f) Provides information transparency for non-sensitive transmission information and plans.

¹⁶ See Northwest Power Pool Agreement, § 6.1.1.

¹⁷ Northwest Power Pool website, <http://209.221.152.82/ntac/>

¹⁸ See Charter of the Transmission Expansion Planning Policy Committee (undated, at <http://www.wecc.biz/documents/library/board/TEPPC/TEPPC%20Charter.pdf>)

¹⁹ See NTTG Charter (http://www.nttg.biz/docs/nttg_plngrp_charter_0107.pdf)

- g) Provides a forum for vetting economic transmission expansion plans.

3.0 The Columbia Grid Planning and Expansion Functional Agreement

As is described more fully in Section 6.1, previous efforts to develop comprehensive organizations in the Northwest to manage transmission operations and planning did not come to fruition. However, BPA's efforts to merge aspects of these prior organizations into an "integration proposal" piqued the interests of some parties. This interest resulted in the creation of ColumbiaGrid as a not-for-profit corporation and the intensive public development of a transmission planning and expansion process. ColumbiaGrid's Board offered the Planning and Expansion Functional Agreement to the region on January 17, 2007. Below, the provisions of that agreement are reviewed.

3.1 The Basics

- The ColumbiaGrid Planning process is an open process using the one-utility planning concept. ColumbiaGrid will coordinate its planning with neighboring non-signing utilities.
- ColumbiaGrid will use the NERC/WECC Planning Standards supplemented by the existing planning criteria of individual utilities until such time that the parties to the Agreement define common ColumbiaGrid criteria to replace existing individual utility standards.
- ColumbiaGrid will produce a biennial plan with annual updates. The plan will cover a 10-year planning horizon.
- 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.
- Termination rights will allow a party to withdraw from the functional agreement on written notice, subject to completing one Biennial Planning cycle and fulfilling existing funding obligations.
- 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, *i.e.*, where transmission capacity will be insufficient during the planning horizon to serve existing long-term point-to-point, network transmission, pre-OATT contracts, and native load, where multiple participating transmission system owners or operators would be impacted by the projected failure to meet planning criteria

or the transmission solution. This type of project will be developed in the ColumbiaGrid study team process described below.

Single System Projects: Projects where only a single participating transmission system owner or operator is impacted by the inability to meet planning criteria or its solution. The single participating transmission system owner or operator will be responsible for developing this type of project.

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

Capacity Increase Projects. Projects undertaken voluntarily by parties to increase transfer capability or create new paths 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 are sponsored by a TOPP to delay or eliminate a need being studied by a study team will be included in the Plan for informational purposes.

3.2 Biennial Plan Development Process for Existing Obligation Projects (EOPs):

1. *ColumbiaGrid (CG) staff will prepare a System Assessment Report* 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.²⁰ Needs occurring on a single participant's system will be turned over to the relevant utility for further action (Single System Projects).²¹ This assessment will identify needs associated with meeting existing obligations, not new transmission or interconnection service requests or capacity increase projects.
2. *From the System Assessment Report, CG staff will develop Need Statements* for needs affecting more than one owner's Transmission System.²² The problem/need statement will:

²⁰ Agreement, App. A, § 3.

²¹ *Id.*, § 7.

²² *Id.*, § 3(v).

- Describe the need and the date by which a solution is needed; identify the systems that are affected.
 - Determine whether a non-transmission solution would be feasible to delay or solve the need 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 posted for review before being submitted to the ColumbiaGrid Board for review and comment.²³
3. *CG staff will assemble a Study Team for each need or solution to a need, that affects more than one Transmission System.*²⁴ Each Study Team will, at a minimum, include the affected TOPPs.²⁵ Participants will attempt to reach consensus regarding an Existing Obligation Project or EOP to solve the need, including plan of service, schedule, cost allocation, project construction/ownership and transmission capacity allocation.²⁶ Non-transmission solutions may also be proposed by a system owner to delay or solve needs.²⁷ Staff will monitor progress and, if necessary, will actually plan the project to resolve any elements of the EOP for which there is not agreement.²⁸ 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, ColumbiaGrid will make a determination 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 system negative impacts resulting from any type of project.*²⁹
5. *Study Team Recommended EOPs and Staff-Recommended EOPs (where parties cannot agree) will be submitted to the ColumbiaGrid Board for approval.*³⁰ 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.³¹

²³ *Id.*, §§ 3(i), 3(v), 3(vi), and 3(viii).

²⁴ *Id.*, §§ 4.4.1

²⁵ *Id.*, § 4.1.2.

²⁶ *Id.*, § 5.2

²⁷ *Id.*, § 5.3.

²⁸ *Id.*, § 5.4.

²⁹ *See Id.*, § 10.4.1.

³⁰ *Id.*, §§ 5.4, 10.1.1(i)a.i., 10.4.1.1.

³¹ *Id.*, §§ 10.2 and 10.4.4.

3.3 Study Teams for Other Types of Projects:

Other types of projects may also have study teams.³² Study teams will consider whether Non-Transmission Alternatives proposed by an affected TOPP in the planning process will solve or delay the system needs. Staff will include in the plan those Non-Transmission Alternatives that eliminate or defer a need.³³

3.4 Biennial Plan Approval Process:

ColumbiaGrid staff will submit a draft Biennial Plan to the Board for review and adoption.³⁴ The Board will use an open review process.³⁵ Once the Biennial Plan is approved by the Board, a short reconsideration window will allow those who are materially impacted by the Board's decision and have participated in the related study team to request reconsideration.³⁶

3.5 Forcing Mechanism for EOPs:

For EOPs that have been finally approved by the Board and for which there has not been agreement by the necessary parties, ColumbiaGrid will tender facility agreements for the approved Existing Obligation Projects to affected parties.³⁷ There will be no contractual requirement for utilities to sign a facilities agreement. However, if a party who is offered a facilities 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.³⁸ ColumbiaGrid would not file the petition but would intervene if a petition were filed (this helps ColumbiaGrid maintain its independent neutral position).³⁹ If the best single-utility plan of service is for a non-Agreement party to build, this mechanism could be used to seek relief as to that party.⁴⁰ A statutory basis for FERC action is not specified in the Agreement, and Agreement parties and other parties remain free to contest FERC jurisdiction or action on any matter.⁴¹

3.6 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.⁴² Although participants hope to have this queue in place within two years, ColumbiaGrid will provide value to its members in the interim by coordinating certain study requests that originate from the individual TOPP queues.⁴³

³² *Id.*, §§ 6.2, 8.2, and 9.2.

³³ *Id.*, § 5.3.

³⁴ *Id.*, § 10.1.2.

³⁵ *Id.*, 10.2.

³⁶ *Id.*, § 10.4.4

³⁷ Planning and Expansion Agreement, § 6.1.1.

³⁸ *Id.*, §§ 6.2 and 6.3.

³⁹ *Id.*, § 6.3.

⁴⁰ *Id.*, § 6.1.1.

⁴¹ *Id.*, § 19.16.

⁴² Agreement, § 5

⁴³ *Id.*, § 1.50; Agreement, App. A, § 6.

3.7 Capacity Increase Projects:

Any Planning Party can bring a Capacity Increase Project to ColumbiaGrid for joint study.⁴⁴

3.8 Expanded Scope Projects:

For any of the foregoing types of projects for which there is interest in expanding the scope, CG staff shall form a study team, and an Expanded Scope Project that has been agreed upon will be included in the draft plan.⁴⁵

3.9 Independent Staff:

The ColumbiaGrid planning staff will work for ColumbiaGrid and be independent of any transmission owners or other market participants.⁴⁶

3.10 Funding the Planning Process:

This planning process will cost initially about \$2 million annually.⁴⁷ Funding will be allocated among the Planning Participants based on control area load and net transmission plant plus a fixed fee.⁴⁸ ColumbiaGrid and eight other entities, including BPA, have currently indicated that they intend to sign the Functional Agreement. If those entities sign the Functional Agreement, BPA's cost would be 49.9 percent of the total. Planning process costs are capped and indexed for inflation. Budget increases would require a two-third majority vote of participating organizations.⁴⁹

3.11 Liability of ColumbiaGrid

ColumbiaGrid is subject to claims by Planning Parties for actual, direct damages.⁵⁰ If, with respect to its activities under the Planning Agreement, ColumbiaGrid acts or fails to act in a way that results in FERC imposing a penalty on a Planning Party, the Planning Party may assert a direct damage claim for the penalty against ColumbiaGrid. The Agreement also provides that ColumbiaGrid shall maintain liability insurance,⁵¹ which should be available to cover such claims.

⁴⁴ *Id.*, App. A, §§ 8.1 and 8.2.

⁴⁵ Agreement, App. A, § 9.

⁴⁶ ColumbiaGrid, Second Amended Bylaws, Article IX.

⁴⁷ Agreement, § 8.1.1.

⁴⁸ *Id.*, § 8.4.

⁴⁹ *Id.*, §§ 8.1 and 8.2.

⁵⁰ Agreement, § 13.6(ii).

⁵¹ *Id.*, § 13.1.1.

3.12 Clarification of BPA Understanding

The following explains how BPA interprets and intends to implement certain provisions in the Functional Agreement and its appendices:

1. The environmental review work that is described in Section 3.2.1 of the Facilities Agreement includes preliminary design work (such as line routing and the need for maintenance roads) that is necessary to perform an adequate environmental review.
2. During the performance of each Facilities Agreement for which BPA is a Constructing Party, BPA intends to invite the other contractual parties to design review meetings to share the technical aspects of the project because BPA believes this type of meetings is beneficial for project development. BPA encourages others to adopt this same practice.
3. Section 3.2.2 of the Facilities Agreement speaks to changes to a plan of service that may occur as a result of an environmental review. BPA's understanding is that the Agreement does not preclude BPA from adopting the no-action alternative after NEPA review. BPA believes this was the intent of the drafters, especially in view of the language in Section 3.2.1 stating "environmental review before deciding to construct or pay. . . ." and similar language in Section 10.4.5 of Appendix A to the Agreement.

4.0 BPA Minor Corrections to the Functional Agreement

In the process of conducting a final review of the Functional Agreement, BPA identified several errors that require correction or language that need clarification. BPA understands that the nine parties who intend to sign the Functional Agreement have agreed that these minor corrections will be made before activity under the Agreement begins.

4.1 Corrections to the Planning Agreement

Section 1.57 – add the following sentence at the end of the definition: "For purposes of this Agreement, an "owner" includes, but is not limited to, a Party that has a leasehold interest in or other beneficial use of the subject facilities, where, for financing purposes, legal title is held by another entity."

Section 6.3 – next to last paragraph, replace reference to "section 1.20" with "section 1.19".

4.2 Corrections to Appendix A – Planning Process

Section 5.4;

Line 2 – replace "a related" with "the".

Line 4 – replace "or" with "and".

4.3 Corrections to Appendix B, the Facilities Agreement

1. Page 1, line 2 – insert “and” at the end of the line.
2. Sections 1.9(iii), line 2, and 1.26(iii), line 2 – replace “and” with “or”.
3. Section 3.1(ii) – clarify that “ownership” includes beneficial or leasehold ownership in situations where a financing party holds legal title. Clarification could be made in section 5, as discussed below.
4. Section 3.2.2 - references to “section 10.4.5 of the Planning Agreement” should be changed to “section 10.4.5 of Appendix A to the Planning Agreement”.
5. Section 5 – add the following sentence: “For purposes of this Agreement, an “owner” includes, but is not limited to, a Party that has a leasehold interest in or other beneficial use of the subject facilities, where, for financing purposes, legal title is held by another entity.”
6. Section 6.4, line 1 – No change, but the Parties interpret this section to mean that if there is a dispute between the Constructing Party and its contractor(s) at the time the work is completed, the Constructing Party will provide an accounting of any undisputed items within a reasonable time, but there will not be a full accounting relating to any disputed items until the completion of dispute resolution. (For example, the fact that certain items were under dispute could be footnoted in the initial accounting.) Once dispute resolution is completed between the constructing party and its contractors, and once the Constructing Party has provided a full accounting relating to any disputed items, “. . . the Constructing Party shall remit to the Paying Party any credit balance, and the Paying Party shall promptly after such accounting pay to the Constructing Party any debit balance” relating to the disputed items.
7. Section 6.6, line 10 – delete “of”.
8. Section 8.1 – “Designs” are normally done much later than the Plan of Service and so would not be completed when the Facilities Agreement is offered. Designs are constantly being revised, including “as built” design revisions as construction is being performed. Constructing Parties need the flexibility to prepare designs or make design changes within the Plan of Service without being in breach of the agreement for having done so. The phrase “plans and designs” will be deleted from the four places it appears in section 8 (three in section 8.1 and one in section 8.2) and the proviso in section 8.1 will also be deleted.
9. Section 10.1
 - a. line 3 – insert “notice” after “written”.
 - b. 10.1(i), line 4 – delete the comma after “attorneys’ fees”.

10. Section 15.2, line 4 – after “monetary damages” insert “for breach of this Agreement”.

11. Section 15.4 – delete this section.

5.0 How the ColumbiaGrid Planning and Expansion Proposal Is Expected to Meet BPA Objectives

BPA believes that the ColumbiaGrid Planning and Expansion agreement will help the agency meet its one-utility planning goals, as described in Section 2 of this document. The ways that it will do so are listed below.

5.1 The Agreement positions ColumbiaGrid to provide independent assessments of reliability problems on the transmission systems of parties to the Agreement.

ColumbiaGrid’s bylaws ensure its independence. Directors are prohibited from having financial interests or connections with Pacific Northwest utilities and other market participants.⁵² Directors may not be connected to ColumbiaGrid consultants.⁵³ Bylaws Article IX provides additional requirements for independence of directors, officers and employees.

The ColumbiaGrid planning process includes an independent assessment of the transmission systems of Agreement participants by ColumbiaGrid staff.⁵⁴ As a result, the ColumbiaGrid planning process will focus planning efforts on needs that are determined by an independent planning staff in an open process in coordination with Planning Parties and Interested Persons.⁵⁵

5.2 The agreement commits parties to work together in an open and transparent process in developing a regional plan.

Agreement parties are obligated to participate in the planning process, especially on study teams which involve projects that affect them.⁵⁶ The Agreement requires that the study-team process be open.⁵⁷ The Agreement requires the Board to develop policies to allow third parties access to planning data.⁵⁸

5.3 The Agreement delineates a process for assigning responsibility for payment for and construction of reliability projects (EOPs), and for allocating capacity resulting from such projects. It also defines a process and forum for resolving disputes between parties concerning reliability projects.

⁵² ColumbiaGrid, Second Amended Bylaws (“Bylaws”), § 6.2.4.

⁵³ Bylaws, § 6.13.

⁵⁴ Agreement, App. A, § 3.

⁵⁵ *Id.*, § 5.

⁵⁶ Agreement, § 4.1.

⁵⁷ *Id.*, §§ 4.2-4.5.

⁵⁸ *Id.*, § 4.7

If the affected parties are unable to reach agreement on EOPs, ColumbiaGrid staff will recommend plans for such projects, including construction responsibilities, cost and capacity allocations when necessary.⁵⁹ If ColumbiaGrid allocates costs, it will base such allocation on causation of the need giving rise to the project, which is consistent with BPA's objectives. The Board must review study team and staff-recommended plans, after an inclusive, open public process that will allow interested parties additional opportunities to provide input and will allow more opportunities to reach agreement among affected parties.⁶⁰ The Board's decision on a plan must be based on the record.⁶¹ Finally, the Board's decision is subject to reconsideration.⁶² Affected parties express their agreement with the Board's allocation by signing a facilities agreement for an EOP. If disputes arise after the initiation of a facilities agreement, the agreement provides a process for resolution in section 17.

5.4 The ColumbiaGrid planning process may make it easier for IOUs to get state approval for transmission construction projects, and for all Planning Parties to obtain financing for projects, as proposals will be publicly vetted and the elements of the plan will either be agreed to by the parties or developed by a body that is independent of any particular transmission owner or market participant. This should, in turn, speed the process of getting transmission built in the region.

As explained above in 4.2, the planning process is open. Because the planning horizon is 10 years, identification of needs should occur long enough before an EOP is needed to allow collaborative development of projects in the study-team process. In addition, the Agreement provides that ColumbiaGrid is to develop a protocol for the collaborative involvement of key state agencies.⁶³ Further, the Board's review and approval process for the plan will provide additional opportunities for affected parties to state their views and time to work on reaching agreement. Finally, when ColumbiaGrid offers a facilities agreement, named parties will have another opportunity to attempt to reach agreement on its terms, since a facilities petition may not be filed until 60 days after offering a facilities agreement.⁶⁴ In addition to the opportunities to reach agreement, the public nature of the process will focus public attention on needs and projects and is likely to result in pressure to address the needs. For Capacity Increase Projects, as well as for EOPs, the public focus and openness of issues may create further pressure to resolve problems jointly.

5.5 The agreement provides a mechanism to enhance the construction of multi-system reliability-related projects (forcing mechanism).

Although there is no contractual obligation to build a project approved by the Board, the open process should result in pressure on utilities to build. If, however, they do not, the Agreement provides that any entity who is responsible for building, paying for, or sharing capacity of an

⁵⁹ Agreement, App. A, § 5.4

⁶⁰ *Id.*, § 10.2.

⁶¹ *Id.*, § 10.3.

⁶² *Id.*, § 10.4.4.

⁶³ Agreement, § 4.5.

⁶⁴ Agreement, § 6.3.

EOP that fails to do so, may be subject to the filing of a petition for relief at FERC by a party other than ColumbiaGrid.⁶⁵ The possibility of a party being subject to a FERC petition should provide increased incentive to participate in a Board-approved EOP. The Agreement, however, does not create a basis for FERC action.⁶⁶

5.6 The ColumbiaGrid planning process will provide a forum for sponsors of new transmission capacity projects (Capacity Increase Projects) to work with transmission owners, other market participants, and ColumbiaGrid to develop their projects in a coordinated fashion.

Market participants with proposals for new transmission capacity often seek participation in their proposed projects. The ColumbiaGrid planning process will allow those project sponsors a forum to refine the plans for their projects with interconnected system owners, to meet with potential participants, to publicize their projects, and to test the level of interest. Such a forum will provide an incentive for the development of additional capacity.

5.7 The Agreement commits parties to devise a system for creation and management of a single transmission queue.

The planning process for transmission or interconnection requests that affect more than one owner's transmission system should help speed joint study of such projects and enable them to be completed more thoroughly. Section 5 of the Agreement provides that the parties will work on developing a common queue, which would provide added efficiency in processing transmission and interconnection requests.

5.8 The Agreement 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). This should, in turn, encourage broad participation.

As an independent transmission entity, ColumbiaGrid includes seven utility members, including BPA. All seven members and another utility, Snohomish County PUD, intend to sign the Agreement. Thus, the Agreement has a significant degree of regional commitment. The Agreement allows additional parties within the footprint of the Pacific Northwest as defined in the Agreement. BPA believes that the planning process described in the Agreement is consistent with the planning provisions in FERC Order 890. The parties who are expected to sign the agreement have expressed willingness to discuss any necessary amendments to implement the details of Order 890.

5.9 The planning process for reliability projects specifically includes consideration of non-transmission alternatives.⁶⁷ This provision addresses an important environmental consideration for BPA.

⁶⁵ Agreement, § 6.3.

⁶⁶ Id., § 19.16.

⁶⁷ See section 5.3 of Appendix A to the Agreement

6.0 Procedural History of Functional Agreement

6.1 Historical efforts to establish an independent entity responsible for one-utility planning.

The Planning and Expansion Agreement is the end product of years of effort. Starting in the mid '90s, a regional effort was made to establish an independent transmission organization responsible for congestion management and transmission planning. The first such effort was called IndeGo, the second was RTO West which was followed by Grid West, and TIG (Transmission Improvements Group). Agreement was difficult to reach in these previous efforts due to questions having to do with FERC jurisdiction, the high costs of other RTOs in the United States, and regional disagreement as to the need for organized electricity markets. However, throughout these previous efforts there was consistent agreement that regionally-coordinated transmission planning is necessary to ensure the long-term reliability of the Northwest grid. Each of these efforts, which were sequential in time, built upon the planning proposals developed in the previous organization effort. Each of these efforts was conducted in open processes where all interested parties in the region were invited to comment on and contribute to the proposals. The extensive work and long public processes that went into these efforts has significantly contributed to a robust and well-considered ColumbiaGrid Planning and Expansion Agreement.

6.2 Establishment of ColumbiaGrid

In late 2005, BPA proposed to merge, under the auspices of Grid West, aspects of Grid West and TIG into an “integration proposal.” Although this proposal failed to gain full regional support, it did pique the interests of some parties. In January of 2006, several Northwest control area operators, including BPA, began meeting to better define the integration proposal. After a series of meetings involving sponsors and other regional stakeholders and the development of Bylaws, the group formed ColumbiaGrid as a non-profit corporation in the State of Washington on March 31, 2006. In June 2006, a letter was sent to all control area operators in the region inviting them to become members of ColumbiaGrid. In July 2006, BPA joined ColumbiaGrid and agreed to a two-year funding plan, as did six other Northwest control area operators (Avista Corp, Chelan County PUD, Grant County PUD, Puget Sound Energy, Seattle City Light and Tacoma Power). The first Board of Directors was elected on August 1, 2006, and their terms officially began on August 17, 2006. A president and CEO were appointed by the Board on December 11, 2006.

6.3 Development of the Planning and Expansion Functional Agreement

Once ColumbiaGrid was incorporated, work groups were formed to develop detailed proposals for transmission planning and expansion and for reliability. Development of the planning and expansion proposal has been relatively speedy as members were building on the significant work that went into previous proposals. The different aspects of this Agreement’s development are described below.

The first Planning and Expansion small group meeting was held on March 24, 2006, in Wenatchee, Washington. ColumbiaGrid issued a Draft Functional agreement for review on

October 25, 2006. The Board offered a final Agreement to interested parties on January 17, 2007. This Agreement was filed with FERC on February 2, 2007.

6.4 Public Nature of Meetings and Materials

The ColumbiaGrid work groups posted their meeting times and working documents on a publicly accessible website so that any interested person could attend and address matters under consideration in a timely fashion.⁶⁸ ColumbiaGrid forum meetings and Board meetings were also open to the public so as to obtain stakeholder input. The Planning and Expansion small group combined efforts with the legal drafting small group in the summer. This combined effort derived the proposal at hand.

7.0 Impacts of Planning Agreement on BPA Internal Operations

By signing this Agreement, BPA is committing to support the ColumbiaGrid planning process. BPA will need to provide technical information on the BPA system and its operation on an ongoing basis. It will also need to provide its Reliability Standards, Planning Guidelines and other methodologies and assumptions. It will also require attendance at planning meetings, most of which will be held locally in the Portland area. BPA will need to provide updates for base cases used in assessments and study teams. BPA will need to train the ColumbiaGrid staff to become the Northwest Area Base Case Coordinator for WECC. BPA will need to review ColumbiaGrid work products such as the system assessment and provide feedback in the analysis of the problems that result.

Once the needs are defined, BPA will need to participate in study teams to resolve multi-system problems. BPA may be required to lead some of these teams due to the expanse of the BPA system. BPA will need to run studies, review others' studies and attempt to resolve differences and develop projects.

BPA will need to participate in the Board decision process on projects affecting BPA and present BPA positions on issues involving such projects. For projects for which BPA has construction or funding responsibility, BPA will need to ensure that any necessary environmental studies have been completed along with project design. BPA will also need to submit project to Congress as part of BPA's normal budget process. BPA will then need to provide for financing the projects, which could involve third-party sources. BPA will need to adhere to construction schedules.

For long-term transmission and interconnection requests that BPA receives, BPA will need to inform ColumbiaGrid whenever these requests impact other systems. BPA will need to participate in any study teams that ColumbiaGrid creates to resolve them. If other planning parties have study requests that involve the BPA system, BPA will need to participate in those study teams to ensure that impacts are properly mitigated.

BPA will be solely responsible for its Single System Projects and must inform ColumbiaGrid of its resolution of those needs.

⁶⁸ www.columbiagrid.org

BPA will have a choice as to whether or not to get involved in ColumbiaGrid Capacity Increase Projects.

8.0 Risk Analysis

A BPA decision to participate in the ColumbiaGrid regional transmission planning effort has been made because of expected net benefits to BPA, its customers, and the region as a whole. BPA believes that ColumbiaGrid's Planning and Expansion Agreement will improve the long-term reliability of the Northwest transmission system in a least-cost manner. However, as with any important endeavor, it would also expose the Agency to new risks.

Below, the risks to which BPA might be exposed to by signing the Agreement are outlined together with an explanation of how those risks have been mitigated.

8.1 Dry Hole

Risk: BPA invests in the planning effort but ColumbiaGrid does not produce a different planning outcome than the status quo.

Relevant Objective: 2.4.1.(a)

Risk Evaluation and Treatment:

- Creation of an independent entity should engender enough trust to get new projects built, minimizing dry-hole risk.
- A “go-slow” philosophy has been adopted that mitigates investment risk, so financial effects of a dry hole would be small if they materialized.

8.2 BPA Pays Too Much

Risk: BPA pays a greater share of transmission construction costs compared with the status quo.

Relevant Objective: 2.4.1.(c)

Risk Evaluation and Treatment:

- If BPA believes a proposed cost allocation is unreasonable, it remains free not to execute a facility agreement. BPA does not believe it can be forced to pay an unreasonable share.
- Some BPA staff believe BPA overpays under status quo and that ColumbiaGrid can only help.
- BPA staff will help develop plans.
- If results are persistently unacceptable, BPA can withdraw from ColumbiaGrid.

8.3 Limited Ability to Borrow

Risk: BPA's limited ability to borrow is inappropriately consumed by transmission construction as result of the ColumbiaGrid plan. Visibility of plans leads to more construction than would be the case in the status quo.

Relevant Objective: 2.4.1.(b) and (c)

Risk Evaluation and Treatment:

- Cost of increased construction of transmission developed in a robust regional planning process is unlikely to qualify as an inappropriate use of BPA's limited ability to borrow.
- Regional planning may facilitate increased ability to borrow third party or other creative financing arrangements, possibly muting effects of construction on BPA's limited ability to borrow.
- BPA had extensive input in developing the planning process. The process is unlikely to result in plans with which BPA does not agree.
- Any BPA obligation is subject to the availability of sufficient capital.

8.4 Unneeded Plan of Service

Risk: ColumbiaGrid process pressures BPA to enter into a plan of service it does not support and the region does not need. This effect might materialize as a result of the "backstop" construction process. The ColumbiaGrid Board may step in to allocate project costs if affected planning parties cannot come to agreement. The Board is not in a position to force investment, but it can exert public pressure on parties that are in disagreement, and other parties may attempt to submit disagreements to FERC for resolution.

Relevant Objective: 2.4.1.(a), (b), (e), and (f)

Risk Evaluation and Treatment:

The ColumbiaGrid Planning process will be open to any interested party. This increases the likelihood that unneeded construction projects and costs will be identified and exposed.

The exposure decreases the likelihood that ill-advised projects will be adopted.

BPA staff will be actively involved in development of plans and be able to argue against any unnecessary projects before planning is far advanced.

Board's ability to suggest cost allocation and intervene at FERC only applies to reliability (existing obligation) projects. This limits the Board's reach and BPA's risk.

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 ColumbiaGrid.

8.5 Backstop Fails

Risk: The backstop mechanism is not strong enough to facilitate adequate construction.

Relevant Objective: 2.4.1.(a), (b) and (c)

Risk Evaluation and Treatment:

Few if any EOP projects are likely to require a backstop—the increased visibility of the ColumbiaGrid planning process should, in and of itself, create pressure to build without resorting to FERC intervention.

A determination that FERC does not have jurisdiction or authority to order construction will result in the negotiation of a new backstop mechanism.

8.6 Excessive Planning Costs

Risk: The cost of the ColumbiaGrid planning function exceeds expectations.

Relevant Objective: 2.4.1.(b)

Risk Evaluation and Treatment:

This risk is limited by the agreement’s spending cap of roughly \$4 million for each two-year funding cycle. This cap may not be increased without a two-thirds majority vote of Functional Agreement parties. Anyone who disagrees with a two-thirds majority vote may withdraw from ColumbiaGrid and pay its remaining commitment at the original cost.

8.7 Excessive Construction Costs

Risk: The cost of building to meet regional transmission needs under the ColumbiaGrid planning process exceeds status quo costs.

Relevant Objective: 2.4.1.(b)

Risk Evaluation and Treatment:

As described earlier in this ROD, the greater system visibility engendered through one-utility planning should expand the set of transmission solutions from which to choose. This should lead to more technically-sound and cost-effective transmission solutions.

Additional construction may be a good thing to the degree it meets needs that are not being met in the current planning environment.

BPA staff will actively participate in the planning process to ensure that construction meets BPA needs and is cost-effective.

8.8 Inadequate Participation

Risk: Inadequate participation in the ColumbiaGrid Planning and Expansion Agreement leads to an ineffective regional planning process.

Relevant Objective: 2.4.1.(a), (c), (e)

Risk Evaluation and Treatment:

Adequate participation is anticipated based on the current ColumbiaGrid membership and intended Agreement parties.

The ColumbiaGrid planning process is unique in the region—it provides an independent forum for resolving regional transmission plans and supports FERC OATT planning requirements as defined in Order 890. This should provide incentive (over time) for broader participation.

BPA and ColumbiaGrid are actively working to encourage participation by other parties in the region.

8.9 Unnecessary Layers of Bureaucracy

Risk: The ColumbiaGrid planning process adds a layer of bureaucracy to the planning process which slows transmission construction as compared with the status quo.

Relevant Objective: 2.4.1.(a), (b)

Risk Evaluation and Treatment:

The Agreement is written in such a way that ColumbiaGrid is not a gatekeeper. Participants can choose not to enter into a facilities agreement (should the process take too long) or to withdraw from the functional agreement altogether if it proves too cumbersome. After entering into a facilities agreement, opportunities to withdraw from an individual agreement exist if timelines and/or budgets change.

Participants control the planning process (*i.e.*, they control the ColumbiaGrid planning budget and process add-ons). This reduces the risk of unchecked bureaucracy.

8.10 Inadequate Information Security

Risk: Security of critical information is compromised by the planning process (violation of Standards of Conduct or use by competitors, vandals, terrorists, etc.).

Relevant Objective: 2.4.2. (d)

Risk Evaluation and Treatment:

ColumbiaGrid is obligated to protect confidential and Critical Energy Infrastructure Information and abide by Standards of Conduct Regulations.

Planning process participants must sign non-disclosure agreements for sensitive information. This should pose no additional risk over status quo, given the availability and visibility of existing transmission data and facilities.

8.11 Loss of Critical BPA Staff

Risk: ColumbiaGrid recruits essential BPA planning staff, leaving BPA short on experienced transmission planners.

Relevant Objective: 2.4.1.(a)

Risk Evaluation and Treatment:

Highly-trained, BPA-savvy ColumbiaGrid planning staff will provide benefits to BPA in the form of good planning that is cognizant of BPA's operating parameters.
If BPA staff are hired by ColumbiaGrid, it is unlikely to be more than one or two full-time equivalent.
BPA can mitigate this risk through good succession planning.

8.12 Runaway Board or Staff

Risk: The ColumbiaGrid Board or staff oversteps its bounds, expanding ColumbiaGrid roles and authorities beyond what is presently envisioned.

Relevant Objective: 2.4.2.(a), (c) and (e)

Risk Evaluation and Treatment:

The Board cannot expand its authority without a two-thirds weighted vote of ColumbiaGrid members to adopt new functional agreements.
Board members have limited terms. They have staggered three-year terms and must win two-thirds of the weighted ColumbiaGrid member vote for re-election.
The best protection against undue Board or staff influence is for Agreement parties to agree on solutions. ColumbiaGrid staff and Board members only act independently when parties cannot agree on an EOP solution.
Board can terminate staff if they are not supporting the Agreement.
BPA staff will be actively involved in ColumbiaGrid processes.

8.13 Environmental Risks

Risk: The forcing mechanism for EOPs contained in the ColumbiaGrid Planning and Expansion Agreement (see Sections 3.4 and 4.5 of this document) results in BPA not being allowed to meet its environmental obligations for specific EOPs.

Risk Evaluation and Treatment:

The Agreement recognizes that environmental concerns should be taken into consideration in planning and expanding the transmission system (see Recital "A").

The Pro Forma Facilities Agreement recognizes and provides for the fact that parties may be required to conduct environment reviews prior to deciding to construct or pay for any portion of an EOP (see Agreement, Appendix A at section 10.4.5 and Appendix B at section 3.2).

For reliability projects for which BPA will have construction or funding responsibility, BPA is committed to ensuring that any necessary environmental studies have been completed along with project design.

The planning process for reliability projects specifically includes consideration of non-transmission alternatives, which ensures adequate consideration of options that would avoid actual transmission construction where appropriate.

9.0 Legal Guidelines

The Federal Columbia River Transmission System Act, 16 U.S.C. § 838, *et seq.* (“Transmission Act”), includes provisions regarding BPA’s operation, maintenance, and construction of the Federal transmission system to integrate and transmit power from generation, provide service to BPA’s customers, and provide interregional transmission facilities, in the Pacific Northwest. The Bonneville Project Act, 16 U.S.C. § 832, *et seq.* (“Project Act”), authorizes BPA to enter into contracts necessary to carry out its authority. The Project Act also provides that BPA is authorized to build transmission facilities to interconnect with other systems. The Flood Control Act of 1944, 16 U.S.C. § 825s, the Pacific Northwest Electric Power Planning and Conservation Act, 16 U.S.C. § 839, *et seq.* (“Northwest Power Act”), and the Transmission Act provide that BPA recover its costs in accordance with sound business principles. The United States Court of Appeals for the Ninth Circuit has held that BPA’s interpretation of its organic statutes is to be given great weight. *Dept. of Water and Power of the City of Los Angeles v. BPA*, 759 F.2d 684, 690 (9th Cir. 1985). The court has also said that “[t]he statutes governing BPA’s operations are permeated with references to the ‘sound business principles’ Congress desired the Administrator to use in discharging his duties. . . . Accordingly, it seems particularly wise to defer to the agency’s actions in furthering its business interests, especially when the agency is responding to unprecedented changes in the market resulting from deregulation.” *Association of Public Agency Customers v. BPA*, 126 F.3d 1158, 1171 (9th Cir. 1997)(“APAC”).

The APAC case involved part of BPA’s response to reduced market costs of generation and increased access to the transmission system by BPA’s customers due to the Energy Policy Act of 1992, Pub.L. No. 102-486 (“1992 Act”). APAC at 1165-1169. Another part of BPA’s response was that BPA voluntarily adopted an Open Access Transmission Tariff (“OATT”) (*see* BPA, 1996 Terms and Conditions Proceeding, Administrator’s Record of Decision, TC-96-A-01, p. 2.), based on the *pro forma* open access transmission tariff adopted by the Federal Energy Regulatory Commission (“FERC”) in Order 888. *U.S. Dept. of Energy – BPA*, 80 FERC ¶ 61,119 (1997), *order on compliance filing*, 86 FERC ¶ 61,278 (1999); *U.S. Dept. of Energy – BPA*, 113 FERC ¶ 61,008 (2005).

Since the 1992 Act, FERC has issued policies and rules regarding open access to the transmission system, and the Energy Policy Act of 2005, Pub.L. No. 109-58 (“2005 Act”), gave FERC added authority regarding transmission access and transmission system reliability. The 2005 Act made BPA and other bulk-power system users, owners, and operators subject to

mandatory reliability standards and included other provisions that potentially affect BPA transmission.

FERC recently issued *Preventing Undue Discrimination and Preference in Transmission Service, Notice of Proposed Rulemaking*, 115 FERC ¶ 61,211 (2006) (“NOPR”). FERC stated that in the 2005 Act, Congress directed FERC to “‘exercise its authority’ . . . ‘in a manner that facilitates the planning and expansion of transmission facilities to meet the reasonable needs of load-serving entities’” and that the 2005 Act “also authorized the Commission to require unregulated transmitting utilities . . . to provide access to their transmission facilities on a comparable basis.” NOPR, P. 18 (citations omitted). The NOPR included proposed principles for coordinated, open, and transparent transmission planning that would be applicable to jurisdictional public utilities. NOPR, P. 214. FERC has issued its final rule, Order 890 and BPA will decide whether to adopt any parts of the rule. Although the ColumbiaGrid Planning and Expansion Agreement was largely developed before FERC issued the NOPR, BPA believes that the ColumbiaGrid planning process is consistent with the planning provisions in Order 890 and would also help BPA meet requirements of proposed mandatory reliability standards relating to transmission planning. See *Mandatory Reliability Standards for the Bulk-Power System, Notice of Proposed Rulemaking*, 117 FERC ¶ 61,084 (2006), PP. 1037-1117.

10.0 Public review process

10.1 Public review opportunities

The ColumbiaGrid Planning and Expansion Agreement was developed through an open and public process. Information about its development has been available on the ColumbiaGrid website;⁶⁹ meetings on its development were open to the general public (see section 6, above); announcements of its development were made at public meetings and through BPA publications;⁷⁰ and draft documents were made available on the ColumbiaGrid website.

After ColumbiaGrid issued a draft Functional Agreement on October 25, 2006, BPA publicly solicited comments on whether the Agency should sign the Agreement. A letter asking for such comments was sent out to the public on October 27, 2006—comments were due by November 29, 2006. BPA hosted a public meeting in Portland, Oregon, on November 15, 2006, to explain its perspective on the proposed Agreement. The comment solicitation letter and attachments, together with the public meeting presentation, are attached as Appendices A and B.

ColumbiaGrid conducted its own public comment process beginning on October 25, 2006, and ending on December 7, 2006. ColumbiaGrid hosted public meetings to explain the proposal and receive comments on November 9, 2006, in Idaho Falls, Idaho, and November 15, 2006, in Portland, Oregon.

⁶⁹ www.columbiagrid.org

⁷⁰ BPA Journal, 3/06; 5/06; 6/06; 7/06; 8/06; 9/06; 10/06; 11/06; 12/06; 1/07; 2/07

10.2 Comments Received

BPA received nine letters in response to its request for comments on its potential participation in the ColumbiaGrid Planning and Expansion Functional Agreement. These comments have been considered by BPA in its decision as to 1) whether to support ColumbiaGrid's formal offer of the Agreement and 2) ultimately, whether to sign on as a party to the Agreement.

Comments fell into two categories—those that expressed support without any suggested changes (Grant County PUD, Snohomish County PUD, Tacoma Power, Seattle City Light) and those that expressed support and suggested improvements (Public Power Council, Pacific Northwest Generating Cooperative, Affiliated Tribes of Northwest Indians, Renewable Northwest Project, Northwest Energy Coalition and Tom Foley, and the Washington Utilities and Transportation Commission).

Two themes, in addition to outright support, emerged in the comments. One was the need to reinforce the transparency/accessibility of planning information to all relevant parties. The other was the need to broaden participation in the Agreement beyond the existing membership. Other suggestions included a variety of non-substantive changes to the agreement (e.g., adding certain definitions, etc.). The renewables community, who joined forces to submit one letter (Foley, Renewables Northwest and the Northwest Energy Coalition) expressed guarded support and requested that BPA provide transmission planning training for non-transmission solution aggregators.

10.3 BPA Response to Comments

BPA read the comments it received and conveyed them to ColumbiaGrid as part of the agency's response to ColumbiaGrid's comment solicitation. The letter sent to ColumbiaGrid is attached as Appendix C.

BPA's responses to each suggested change are summarized in an attached matrix, Appendix D, which also summarizes changes that were subsequently made to the functional agreement in response to these comments.

11.0 NATIONAL ENVIRONMENTAL POLICY ACT ANALYSIS

11.1 Introduction

BPA has assessed the potential for environmental effects from the ColumbiaGrid Planning and Expansion Functional Agreement, consistent with the National Environmental Policy Act (NEPA). 42 U.S.C. § 4321, *et seq.*

BPA has previously evaluated the environmental impacts of a range of business structure alternatives that included, among other things, transmission system development options. (Business Plan Final Environmental Impact Statement, DOE/EIS-0183, June 1995 (Business Plan EIS)) In August 1995, the BPA Administrator issued a Record of Decision (Business Plan

ROD) that adopted the Market-Driven alternative from the Business Plan EIS. As discussed in more detail below, the ColumbiaGrid Planning and Expansion Functional Agreement falls within the scope of the Market-Driven alternative and is not expected to result in environmental impacts that are significantly different from those examined in the Business Plan EIS. The decision to sign the ColumbiaGrid Planning and Expansion Functional Agreement thus is tiered to the Business Plan ROD.

11.2 Business Plan EIS and ROD

The Business Plan EIS was prepared in response to a need for an adaptive business policy that would allow BPA to be more responsive to the evolving and increasingly competitive wholesale electricity market, while still meeting both its business and public service missions. Accordingly, BPA designed the Business Plan EIS to support a wide array of business decisions, including decisions to establish a policy for transmission system development. (Business Plan EIS, § 1.4). BPA identified several purposes for consideration, including: achieving strategic business objectives; competitively marketing BPA's products and services; providing for equitable treatment of Columbia River fish and wildlife; achieving BPA's share of the NWPPC conservation goal; establishing rates that are easy to understand and administer, stable, and fair; recovering costs through rates; meeting legal mandates and contractual obligations; avoiding adverse environmental impacts; and establishing productive government-to-government relationships with Indian Tribes. (*Id.*, § 1.2; Business Plan ROD, §§ 5 and 6).

BPA's Business Plan EIS evaluates six alternative business directions: Status Quo (No Action); BPA Influence; Market-Driven; Maximize Financial Returns; Minimal BPA; and Short-Term Marketing. Each of the six alternatives provides policy direction for deciding 19 major policy issues that fall into five broad categories: Products and Services, Rates, Energy Resources, Transmission, and Fish and Wildlife Administration. (Business Plan EIS, § 2.4). Four policy options, or modules, were also developed in the EIS to allow variations of the alternatives in key areas. The alternatives and modules are designed to cover the range of options for the important issues affecting BPA's business activities, as well as the impacts of those options, and variations can be assembled by matching issues and substituting modules among the six alternatives. (*Id.*, § 2.1.2). All of the alternatives and modules are examined under two widely different hydrosystem operations strategies that served as "bookends" for reasonably possible operations of the FCRPS. These alternatives thus represent a range of reasonable alternatives for BPA's business activities and BPA's ability to balance costs and revenues.

The Business Plan EIS focuses on BPA's business relationships to the market. BPA's business decisions, such as setting a policy for planning transmission system development, do not have a direct effect on the environment. Previous environmental studies for key BPA actions have shown that actual environmental impacts are determined by the market responses to BPA's marketing and business decisions, rather than by the actions themselves. (*Id.*, §§ 2.1.5 and 4.1.2). Four types of market responses are identified: resource development; resource operations; transmission development and operation; and consumer behavior. These market responses determine the environmental impacts, which include impacts to natural resources such as air, land, and water, as well as socioeconomic impacts. (*Id.*, Figures 2.1-1 and 2.6-9). For transmission system development, the Business Plan EIS describes how transmission planning

and construction can affect the environment through market responses. (*Id.*, § 2.4.4.1 and figure 2.4-1.)

To determine the potential environmental consequences of the various alternatives, the Business Plan EIS identifies general market responses to key policy issues. (*Id.*, Table 4.2-1). The market responses for transmission system development are discussed for each of the alternative business directions. (*Id.*, §§ 4.2.4). These responses are described in light of the “one-utility” planning approach that was integral to BPA’s provision of transmission services at the time of the Business Plan EIS. The market responses and the environmental consequences are discussed both in general terms and in terms specific to each alternative. (*Id.*, § 4.3.2). Table 4.3-1 details the typical environmental impacts from power generation and transmission. Section 4.4 presents the market responses and environmental impacts by alternative, under two “bookend” hydro operation scenarios. Table 4.4-19 summarizes the key environmental impacts by alternative. (*Id.*, § 4.4.3.8).

Each of the alternative business directions examined in the Business Plan EIS was also evaluated against the purposes for the action to determine how well each of the alternatives meets the need. (*Id.*, § 2.6.5). Based on the evaluation of potential environmental impacts and the comparison of each alternative to the identified purposes, the Administrator adopted the Market-Driven alternative as the Agency’s overall business policy in the August 1995 Business Plan ROD. (Business Plan ROD, § 6). The Market-Driven alternative strikes a balance between marketing and environmental concerns. It also assists BPA in maintaining the financial strength necessary to continue a relatively high level of support for public service benefits, such as energy conservation and fish and wildlife mitigation activities, while keeping BPA rates and the costs of other BPA products and services as low as possible.

Recognizing that the Administrator could select a variety of actions, BPA included many mitigation response strategies in the Business Plan EIS and ROD to address changed conditions and allow the Agency to balance costs and revenues. These response strategies include measures that BPA could implement to increase revenues (including rates), decrease spending, and/or transfer costs if its costs and revenues do not balance. (Business Plan EIS, § 2.5; Business Plan ROD, § 7). These strategies enable BPA to best meet its financial, public service, and environmental obligations, while remaining competitive. In the Business Plan ROD, the BPA Administrator decided to implement as many response strategies, or equivalents, as necessary to balance costs and revenues. (Business Plan ROD, § 7).

The Business Plan EIS and ROD also document a decision strategy for tiering subsequent business decisions to the Business Plan ROD. (Business Plan EIS, § 1.4; Business Plan ROD, § 8). For each such decision, as appropriate, the BPA Administrator reviews the Business Plan EIS and ROD to determine whether the proposed subsequent decision falls within the scope of the Market-Driven alternative evaluated in the EIS and adopted in the ROD. If the proposed decision is found to be within the scope of this alternative, the Administrator may tier his decision under NEPA to the Business Plan ROD. (Business Plan ROD, § 8). Tiering a ROD to the Business Plan ROD helps BPA delineate its business decisions clearly and provides a logical framework for connecting broad policy decisions to more specific actions. (Business Plan EIS, § 1.4).

11.3 Environmental Analysis for ColumbiaGrid Planning and Expansion Functional Agreement

The Business Plan EIS and ROD were reviewed to determine whether the ColumbiaGrid Planning and Expansion Functional Agreement is adequately covered within the scope of the EIS and the Market-Driven alternative adopted in the Business Plan ROD. The key policy issues analyzed in the Business Plan EIS included transmission system planning and development.

As can be seen from the environmental analysis presented in the Business Plan EIS, the potential environmental impacts of all business direction alternatives fall within a fairly narrow band, and several of the key impacts are virtually identical across alternatives. In addition, the costs of environmental externalities differ only slightly among alternatives. (*Id.*, Table 4.4-20). Thus, the differences among alternatives in total environmental impacts are relatively small.

The Business Plan EIS identified general market responses to BPA actions such as transmission system development, and these market responses in turn are the source of environmental impacts. The market responses and environmental impacts are discussed throughout Chapter 4 of the Business Plan EIS, and are summarized in Table 4.2-1. The environmental impacts addressed in the EIS include those related to the natural environment, such as impacts to air, land, and water, as well as impacts to the socioeconomic environment.

The primary environmental impacts of transmission system planning and development are through the choices non-BPA suppliers make in developing and operating facilities that transmit power from a generating source to the point of use. (Business Plan EIS, § 2.1.3). For example, a coordinated regional approach to transmission system planning and expansion (*i.e.* planning transmission system development as if a single utility owned all relevant generating, transmission, and distribution facilities) may cause a reduction in duplication of transmission facilities. This market response in turn could decrease various environmental impacts associated with transmission system construction, such as land use, wetland, water quality, fish and wildlife, cultural resource, and health and safety impacts. In addition, there could be a cost savings associated with the avoidance of facility construction.

Based on the review of the Business Plan EIS and ROD, the ColumbiaGrid Planning and Expansion Functional Agreement is within the scope of the Market-Driven alternative. This Agreement furthers BPA's "one-utility" planning approach reflected in the Market-Driven alternative and analyzed in the Business Plan EIS. Under this approach, BPA evaluates the need for transmission facilities with a long-term regional focus, as if the entire transmission and generation system were designed and operated efficiently by a single utility. As a signatory to the Planning and Expansion Functional Agreement, BPA will not be precluded from continuing to plan and construct transmission facilities based on (1) Federal system needs, (2) requests for non-federal power transmission, and (3) market opportunities. In addition, the Planning and Expansion Functional Agreement will uphold regional planning or other reliability or transmission adequacy criteria. However, BPA could elect to have more stringent criteria than the ColumbiaGrid standards for use on its own system.

This Planning and Expansion Functional Agreement thus is consistent with the “one-utility” characteristics of the Market-Driven alternative. The issues related to this Agreement are consistent with the analysis of key policy issues related to transmission system development identified for the Market-Driven alternative. (*Id.*, § 2.2.3). Therefore, the ColumbiaGrid Planning and Expansion Functional Agreement falls within the scope of the Market-Driven alternative that was evaluated in the Business Plan EIS and adopted in the Business Plan ROD. Because of these consistencies, implementation of this Agreement would not be expected to result in environmental impacts that are significantly different from those examined for the Market-Driven alternative in the Business Plan EIS.

12.0 Decision

My decision to sign the ColumbiaGrid Planning and Expansion Functional Agreement is based on the foregoing background and analysis. As reflected in that analysis, the Agreement will enable BPA and the region to take an enormous step toward a more effective and open transmission planning process coordinated by an independent entity based on the one-utility concept. BPA commits to dedicate the resources necessary to fully participate in the ColumbiaGrid planning process so that BPA and the region realize its benefits.

The Agreement requires parties to cooperate in a process facilitated by ColumbiaGrid applying the one-utility concept to transmission planning. The benefits of such a process are clear: more timely and cost-effective system improvements resulting in savings to consumers. Because the Agreement provides a wide geographic scope, such benefits will increase as additional parties sign the Agreement.

The Transmission Planning and Expansion Agreement encourages collaboration through sharing of data and analysis and through the open study team process. In addition to fostering collaboration, the open process will also provide opportunities to develop regional and regulatory support for projects. This support should, in turn, ease the process of obtaining funding for multi-system transmission projects. The Agreement also provides an independent ColumbiaGrid Board with tools to resolve transmission planning disputes—including the ability to recommend construction costs and capacity rights allocations. This dispute resolution mechanism will provide an incentive for parties to reach agreement. Because Need Statements will identify where non-transmission solutions could be effective, the planning process will also enable parties interested in pursuing such solutions to submit proposals to affected transmission owners.

The planning process will provide a forum where market participants with proposals for new transmission capacity projects in the region can gain support.

The Agreement lays the groundwork for developing a common request queue, which would ultimately speed the processing of requests that affect more than one system.

Risks to BPA of signing the Agreement are adequately mitigated by the collaborative nature of the planning process, by BPA retaining the ability to make independent planning decisions, and by the ability to withdraw from the Agreement.

BPA has evaluated the potential environmental impacts of this proposal under NEPA. The environmental analysis contained in the Business Plan EIS has been considered in my decision. The ColumbiaGrid Planning and Expansion Functional Agreement falls within the scope of the Market-Driven alternative that was evaluated in the Business Plan EIS and adopted in the Business Plan ROD. In addition, the Agreement allows for further environmental evaluation under NEPA of specific reliability projects for which BPA will have construction or funding responsibility, as these projects are identified and information about these projects becomes known. BPA will provide the appropriate NEPA evaluation for these projects when this information is available and prior to any decision by BPA to construct or pay for any portion of a specific project.

Issued in Portland, Oregon, this 5th day of March 2007.

/s/ Stephen J. Wright

Stephen J. Wright
Administrator and Chief Executive Officer

Attachments

BPA comment solicitation letters
Actual comments received
Comment summary
Full Agreement