825 N.E. Multnomah
Portland, Oregon 97232
(503) 813-5000

PACIFICORP

November 16, 2004

Bonneville Power Administration
Transmission Business Line
Comments
P.O. 14428
Portland, Oregon 97293-4428

Attn: Ms Vickie VanZandt
Senior Vice President
Transmission Business Line

Re: BPA Transmission Adequacy Standards : Planning the Future

Dear Vickie:

The Bonneville Power Administration has invited comments on its September 2004, Transmission Adequacy Standards white paper, which proposes a process and timetable for development by Bonneville of transmission adequacy standards. PacifiCorp appreciates the opportunity to respond to the issues raised by this proposal, and we look forward to working with BPA and others on this very important issue. Please see our comments attached.

Sincerely,

Don Furman
Senior Vice President
Regulation and External Affairs

cc: Brian Silverstein

PACIFICORP COMMENTS ON BPA'S TRANSMISSION ADEQUACY STANDARDS WHITE PAPER AND PROCESS

November 16, 2004

The Bonneville Power Administration has invited comments on its September 2004, Transmission Adequacy Standards white paper, which proposes a process and timetable for development by Bonneville of transmission adequacy standards. PacifiCorp appreciates the opportunity to respond to the issues raised by this proposal.

Transmission adequacy is an important issue and a matter of significant concern to PacifiCorp as well as Bonneville. As the owner of over 15,000 miles of transmission lines in six western states, PacifiCorp is keenly aware of the importance of transmission adequacy to maintaining a reliable transmission system. Reliability, as important as it is, is not the only concern, however. Equally important is the operation & maintenance of a transmission system along with adequate resources that allows PacifiCorp, Bonneville and other utilities to serve our respective customers' power needs cost effectively. Without doubt, both transmission adequacy and resource adequacy must be maintained to accomplish these twin goals.

In fact the interrelationship between transmission adequacy and resource adequacy in a region is so great that PacifiCorp believes it is inefficient and potentially costly to consider appropriate transmission adequacy and resource adequacy standards separately. Resource adequacy addresses the sufficiency of generation to serve the power needs of end-use consumers and to support the reliability of the transmission grid. Transmission adequacy looks both to what standards are necessary for reliable operation

of the grid and to meet economic objectives. Recent studies have demonstrated the interrelatedness of generation policy questions such as the value of fuel diversity and environmental and social impacts of building generation near or far from load centers with transmission policy. If transmission adequacy standards are established using one set of economic and policy assumptions and resource standards are established using another, the resulting standards will not accomplish the coordinated planning needed to serve end-use-consumers cost effectively. Moreover, the reliability of the system could be endangered by development of standards based on inconsistent assumptions about generation and transmission needs. For these reasons, PacifiCorp urges Bonneville not to proceed with its own process to set separate transmission adequacy standards but rather to work with PacifiCorp and others to launch a Northwest Power Pool (NWPP)-region-wide or Western Interconnection-wide process to coordinate the development of standards for both transmission and resource adequacy.

Bonneville notes in its white paper that other forums are exploring resource adequacy, but as yet there is not even a clear definition of transmission adequacy. Arguing the importance of moving forward promptly, Bonneville concludes it must move forward on its own to address transmission adequacy. Even if efforts to combine consideration of resource adequacy and transmission adequacy standards together were to fail (and no concerted effort has yet been mounted), PacifiCorp urges Bonneville not to proceed unilaterally but rather to consider how to develop and support a NWPP- or Western Interconnection-wide forum for transmission adequacy standards. The NWPP region is after all the focus of efforts to coordinate reliability and any attempting to develop standards for any smaller region is inappropriate.

Why does PacifiCorp discourage Bonneville from "going it alone" to develop transmission adequacy standards? Simply put, despite good intentions, the imposition of Bonneville-centric transmission standards will impose costs on PacifiCorp and other utilities that are likely be more expensive for BPA transmission customers and less effective than standards developed in a regional forum. If such standards are determined by a narrow look at Bonneville's system and its interests, apart from those of the entire NWPP or the Western Interconnection, the standards will be based on artificial boundaries. The efficiencies that can be gained by looking at a larger geographic area and by looking simultaneously at the resource and transmission side of the adequacy equation will be lost. More worrisome, the very goal of improving reliability and economic planning may not be achieved because other utilities not involved in development of such standards may reject them or simply decide to lean on Bonneville. As a consequence of all these factors, we expect the implementation costs for Bonneville-centric standards are likely to be higher for BPA customers than the cost of implementing transmission and resource adequacy standards for the entire NWPP or Western Interconnection.

When one considers the various interdependencies that exist between Bonneville and PacifiCorp, as well as those with other utilities, the need for regional standards set in a regional forum becomes clear. The PacifiCorp western transmission system is one of the largest systems interconnected with the Bonneville system and has more than 80 separate points of interconnection. Although not as extensively intertwined, Bonneville's transmission is interconnected with many other Northwest utilities as well. PacifiCorp's transmission and distribution systems directly serve many BPA customers and Bonneville

directly serves some of PacifiCorp's load. Other utilities have similar arrangements with Bonneville, whereby one utility serves the load of the other. Moreover, Bonneville, PacifiCorp and other utilities must act as partners with respect to hydro-thermal coordination in the larger region that includes PacifiCorp's western and eastern transmission system. Standards that will affect the operation of both transmission systems and the existing hydro-thermal system in the Columbia River basin footprint are critical to PacifiCorp. Because Bonneville's transmission grid and hydro system are so extensively physically, operationally and economically intertwined with that of other regional transmission and hydro-thermal generation owners, transmission adequacy standards to be effective should be developed on a regional basis.

If the above considerations are not enough to support a regional rather than Bonneville-centric forum for consideration of transmission adequacy, consider the further complexity introduced by the competitive relationships between transmission providers in the region. PacifiCorp is one of BPA's largest power sales competitors and a sometime purchaser of Bonneville energy or seller to Bonneville in the bilateral wholesale power market. Allocation of costs and benefits of transmission expansion may positively or negatively affect various competitors' ability to compete. For this reason guiding standards must be fairly developed and agreed to through regional consensus, and not established by just by one major competitor.

The question posed in Bonneville's September 2004 white paper on Transmission Adequacy Standards is: "How does the region address an aging transmission network facing increasing demands?" That question plainly deserves and requires a regional answer, not a Bonneville answer.

For all of these reasons, BPA and PacifiCorp must work together to involve the NWPP region at a minimum to develop standards that relate to the amount and allocation of costs for transmission expansion. Preferably, resource adequacy would be addressed in the same forum. Instead of the process BPA proposes, the forum selected should be provide for an open and neutral regional process, not one specific to BPA. This is especially true because to be effective the standards should be regional in their application, rather than applying only to Bonneville's footprint.

The specific questions posed in BPA's paper are complex and while much effort over the last few years has begun to address the questions both locally and nationally, there remain no simple answers. Therefore, the process to develop such standards needs to be an ongoing interactive process and should not be limited to a one time process such as Bonneville proposes. To be successful the process must provide for more than a one way flow of concerns from interested and affected parties into an internal Bonneville process.

In fact, there is a dialogue underway in WECC, CREPC, WIEB, and WGA about the most effective means of moving to the next level of work in these areas, and what forum(s) are best suited to these efforts. PacifiCorp invites Bonneville to work with it and others to partake in and influence this dialogue with the goal of identifying a forum and process for developing transmission and, if possible, resource adequacy standards in a coordinated fashion over the coming months.