

Prepared Comments of Elliot Mainzer, Manager of Transmission Policy and Strategy, Bonneville Power Administration

Good afternoon. Thank you for the opportunity to comment.

I am going to briefly outline the key aspects of a Network Open Season cluster study process that BPA has developed with stakeholders in the Pacific Northwest and explain why we think the proposal, while not a panacea, does address several of the more intractable problems associated with transmission service request queues.

Like other Transmission Providers with large geographical footprints facing growing loads and renewable portfolio standards, it has become clear to BPA that we need a mechanism to identify the most mature and viable generation resources in the transmission service request queue.

In Order 890 the Commission required Transmission Providers to conduct clustering studies if requested by customers and deemed feasible. At BPA, we're taking clustering a step further and embracing it as our basic way of doing business to support system expansions.

Borrowing from the natural gas industry with an eye on several Transmission Providers that have experimented with a similar approach, we have developed an Open Season process for the BPA Transmission Network.

During the Network Open Season, we will offer all parties with transmission service requests in the BPA Network queue an opportunity to sign a Precedent Agreement.

A Precedent Agreement is a binding contractual commitment to take transmission service from BPA contingent on BPA's ability to deliver that service at our embedded cost rate and complete required environmental work prior to construction of any required new facilities.

We are structuring the Precedent Agreement as a good faith offer of transmission service.

Those parties who do not sign Precedent Agreements will have their requests withdrawn from the queue.

BPA will then aggregate all of the requests that have signed Precedent Agreements and conduct a cluster study. The cluster study will model the net impact of multiple new, geographically dispersed generation resources dispatching to meet existing loads and expected future load growth.

The cluster study will determine which, if any, new facilities will be required to accommodate the requests as well as the timing and costs of the new facilities.

With signed precedent agreements and a completed cluster study, BPA will then conduct a financial evaluation as part of a new commercial infrastructure policy that has also been heavily vetted with regional stakeholders.

This financial analysis will determine whether there is sufficient present value, in the form of contractual commitments to take long-term firm service plus future beneficial uses and collateral reliability benefits, to proceed with construction of new facilities and offer the new ATC at BPA's embedded cost rate.

For BPA, this new commercial infrastructure policy marks a shift away from the requirement that generators provide up-front financing for new transmission lines and addresses the long-standing problems associated with such an approach.

Once BPA has met the terms of the precedent agreement -- i.e. offering transmission service at embedded cost and completion of environmental work in support of new lines -- it will execute agreements for the transmission service in the customers' original transmission service requests.

There are strong indications that two major upgrades -- the Interstate 5 Corridor linking Seattle and Portland and a line connecting to high wind-resource areas in Eastern Oregon and Washington -- will be required to accommodate all executed agreements.

We are in the process of finalizing terms and conditions for the Precedent Agreement through a stakeholder process. Although close, we are still working on a few final issues related to minimum contract term and how conditional firm service might be integrated into the Open Season process as a bridge product between requested service commencement dates and the time when construction of new facilities is complete.

While recognizing the rights of parties to submit requests of any duration of at least one year in length, we are structuring the Precedent Agreement to incentivize contracts of at least ten years in duration.

We are deliberately minimizing the amount and complexity of allocating study costs in our initial Network Open Season to minimize obstacles to widespread participation. We have yet to design the procedures associated with developing an incremental cost rate if we are unable to offer service at our embedded cost.

Our plan is to describe our Network Open Season cluster study process in our 890 tariff to be filed in early 2008.

We are moving aggressively and aiming to conduct the first Network Open Season in the first half of 2008. It will be a repeatable process that will be coordinated with other regional transmission and integrated resource planning efforts. It will to some extent replace, and to some extent complement, the existing process for conducting system facility studies.