

ColumbiaGrid

Multi-System Open Season Scoping Process

Multi-System Open Season Concepts

December 14, 2011

On September 10, 2009, ColumbiaGrid initiated a public process to scope the potential for a multi-party open season consistent with the terms and conditions of the Planning and Expansion Functional Agreement.¹ The scoping process was exploratory, and none of the PEFA Parties or ColumbiaGrid committed to adopt or implement a multi-party open season process. A wide-range of stakeholders and interested parties participated in the process.² This paper contains the concepts that were developed through the discussion. While this activity was limited to a scoping process, a number of participants believe that a multi-system open season would be a valuable tool to ensure needed transmission expansion and that their work in this process will be useful to future efforts to establish such an open season.

Need

In the Northwest, there is currently not a repeatable, consistent, upfront process for consolidating and confirming transmission customers' and equity interests' financial and commercial support for financing transmission infrastructure across two or more transmission providers' systems. If successful, filling this void could provide commercial and economic benefits and may have regulatory compliance benefits as well. A Multi-System Open Season Process (MSOS) could be designed and implemented to reduce risk and efficiently finance new transmission infrastructure and capacity across two or more transmission providers' systems.

A MSOS is not meant to supplant the transmission planning processes currently established in the Northwest. Planning information will help guide the commercial and financial decisions in the MSOS and will ultimately determine the configuration of any new infrastructure that is successfully financed through the MSOS.

Many of the important questions surrounding the MSOS are purposely left unanswered because individual processes will need to be tailored to the proposed transmission projects (for example, participating entities, types of interest, location, etc.) The entities ultimately participating in the MSOS will likely have unique perspectives on many of the key questions.

¹ See ColumbiaGrid Board Resolution (Attachment A).

² Active participants included (but were not limited to) Dave Arthur, Avista, Bonneville Power Administration, ColumbiaGrid, Ann Fisher, MSR, Puget Sound Energy, Renewable Northwest Project, Snohomish County PUD, Seattle City Light, and Tacoma Power, and Tilghman Associates.

Multi-System Open Season “Products”

1. A decision to go forward with construction of specific facilities with agreements amongst project sponsors regarding cost, construction responsibilities, and transmission rights. Although it is ultimately up to each project sponsor to determine how to recover its costs, it is possible that MSOS would result in agreements between project sponsors and transmission customers. (For example, traditional transmission providers could coordinate with and enter into agreements with transmission customers with respect to new transmission service).
2. A decision not to move forward - either there is not a need as understood by the potential project sponsors or the project was not the right solution for the need. The open season process, however, would nonetheless provide valuable information regarding specific needs, including information to help refine future projects and information to demonstrate that inter-regional planning concerns are sufficiently addressed.

Assumptions

- 1) If current OATT language is a barrier, the participating transmission providers would need to seek FERC approval of appropriate OATT modifications to enable the MSOS.³
- 2) Some of the underlying principles of the MSOS are modeled after BPA’s original Network Open Season (NOS) Process. However, depending on the details of the MSOS project in question and the participants involved, the MSOS may require considerable departure from BPA’s single system approach.
- 3) It is unlikely that new multi-system facilities could be funded within participating Transmission Providers’ current embedded rates. The rate treatment of new facilities (embedded or incremental) would be handled on a case-by-case basis and could be different for each participating TP.
- 4) This process assumes coordination with existing and evolving regional planning processes.

Overview

The MSOS Process could be a regularly scheduled activity or called upon as needed. Funding for the administrative expenses of the process could be provided through a MSOS Coordination Agreement (participation - and funding responsibility - could be open to all interested parties or interested potential project sponsors with recovery of their costs to be determined, as appropriate, through tariffs, provisions of the MSOS or other mechanisms).

All types of multi-system projects (e.g., segmented ownership, joint ownership) and all types of potential project sponsors (e.g., transmission provider, merchant project) would be within the scope of the MSOS. The ultimate ownership of a new facility could take at least three forms -

³ If appropriate, this could be through a one-time, up front approval of the open season process.

equity ownership, capacity ownership, or capacity contracts, and a single project could have a mix of these three forms.⁴

There would be two entry points to the MSOS – (1) when a project has been identified for an open season in a regional planning process(es)⁵ and (2) when a project sponsor(s)⁶ has requested that its proposed project be taken through the MSOS. In each instance, proponents will have identified open issues, requirements, and needs that might need to be addressed with respect to the proposed project. For both entry points, the process could include the following elements:

- 1) Project sponsors' commitment to:
 - a. Step up and sponsor a project to the next phase
 - b. Scope and determine more detailed feasibility for projects
- 2) Solicitation for interest:
 - a. Customer transmission service
 - b. Project sponsor participation negotiations
- 3) Commitment to service or participation
 - a. OATT TSRs or long term service agreements
 - b. Joint participation or capacity participation agreements
- 4) Agreements
 - a. Agreements to construct
 - b. Agreements for cost recovery

Example of a 20-Month Multi-System Open Season Process Timeline

While the MSOS Process is intended to be tailored to the individual needs of a situation (transmission customers'/transmission providers'/potential project sponsors'), the following timeline lays out the known necessary steps and identifies key future decision points, but does not attempt to predetermine the terms and conditions of the open season process. Time estimates are approximate and, the first time the process is run, will likely take longer.

⁴The MSOS process is designed to be flexible and, if implemented, could result in a variety of project arrangements. The most simple MSOS project example is: an ownership structure of equity partners with capacity rights proportional to equity participation and identical POR/POD; a single incremental rate for transmission service over the new infrastructure; a single construction plan managed and financed under one joint entity with common financing.

⁵ The majority of this scoping effort was performed before the issuance of FERC's Order 1000, and initially included the possibility of a broader role for the MSOS in bringing together the results of regional planning and determining which multi-system projects should go through an open season process. After the issuance of Order 1000, the Scoping Group decided to rely on Order 1000 inter-regional planning to determine the projects that should go through the multi-system open season (in addition to those projects whose sponsor had requested an open season). Some of the participants believe that Order 1000 will provide an impetus or opportunity for a multi-system open season process as transmission providers might use such a process for compliance purposes.

⁶ The term "project sponsor" is intended to be broader than existing transmission providers, and includes merchant transmission sponsors.

Step One: Solicitation of Interest (will be on-going process, but proposed timeframe is four months)⁷

Interested potential project sponsors (including merchant project sponsors) come together and discuss whether to work together (footprint, proposals, what type of ownership, etc.).⁸ If there is sufficient interest, potential project sponsors would initiate an unofficial solicitation of interest in upgrades across their common infrastructure. This step would result in a comprehensive, albeit loose, estimate of the interest in expanding transmission capacity across the participating systems (who might be involved, who would be the players moving forward?). For example, Avista, BPA, and Northwestern collectively solicit interest in transmission upgrades across their systems.⁹

The potential project sponsors could use a simple Excel sheet with all of the participating TPs' POR/PODs and merchant projects' proposed new POR/PODs listed as request options. There would be no official rights associated with this list. OATT queues and the OATT path to transmission service are not affected (BPA's NOS process is not affected). In addition to requested transmission service, the list could identify all types of ownership interests that are being sought (equity, capacity ownership, merchant). Customers and interested parties would be allowed to submit requests or express ownership interest for any POD/POR combination on any of the participating systems.

Potential project sponsors who are incumbent TPs and any additional equity/capacity interests would examine their own needs and the stated customer interests and make a decision about which general paths and segments are worth proceeding forward with, if any. Customers would still have broad POR/POD options across participating TPs. If there is sufficient interest given specifics of multi-system facilities, the potential sponsors could agree upon a rough plan of services, including estimated costs.

Work Product: A comprehensive, albeit loose, estimate of the interest in expanding transmission capacity across the participating systems and project sponsor decision regarding whether to take a proposed project through the MSOS.

⁷ This would need to be fine-tuned depending upon the outcome of Order 1000 regional and inter-regional planning compliance efforts. It is worthy of note, however, that while the principal planning for MSOS projects will take place outside of the MSOS, there may be a need to discuss and further refine projects as they progress through the MSOS.

⁸ Potential project sponsors may come together as a result of sub-regional or regional planning efforts or through informal discussions.

⁹ It is not clear how these initial study costs would be paid for – maybe at this early stage parties interested in facilities would be required to pay. It is intended that this first meeting be open to all interested parties, and one approach would be to require that in order to participate, transmission customers would need to make a transmission service request to a participating provider so the transmission customers would be responsible for a portion of the cost. To the extent OATT amendments are required, each transmission provider would amend their OATT with identical provisions, so each would be responsible for its share of the costs. The MSOS would need to be synced up with the underlying regional planning processes. *Question – if a transmission customer already has a request in a queue and has already paid for studies, is it appropriate to require them to pay for incremental studies?*

Step Two: Design contracts to procure sufficient level of commitment for TPs, sufficient certainty of benefits for TC, sufficient certainty for financiers

Potential project sponsors determine their relationship, rough plan of service, and develop and offer a straw man proposal for transmission service. To continue participation in the MSOS, interested transmission customers pay an upfront deposit, designed to encourage serious participation and to help defray the costs of the process.

The MSOS parties would then determine whether a critical mass of TP/TC agreements can be reached. If so, the potential project sponsors enter into project sponsor construction and performance agreements.

Negotiate Contractual Arrangements Among Project Sponsors (including Equity Partners and Capacity Owners) (6 months)

The project sponsors negotiate terms and conditions of their relationships and decide what type of open season they want to offer to customers. The project sponsor construction and performance agreements would not be executed until they have determined there is a sufficient level of TC interest.

Agreement(s) among project sponsors need to address

- Pre-construction environmental, budgetary, and regulatory processes,
- Responsibility for planning, designing, siting, construction, payment and ownership for the facilities,
- Form and allocation of ownership (segmented or undivided interest; equity or capacity)
- When segmented ownership, what happens if segment(s) get delayed or are not completed
- Allocation of any incremental transmission capacity resulting from the facilities (including how to handle unclaimed capacity and disposition of revenues associated with such capacity)
 - Could have situation where one of TPs sells transmission capacity as agent for all participating sponsors so TCs purchase from a single provider
- O & M
- Obligations (if any) regarding maintaining path ratings
- Dispute resolution (e.g., budgets, etc.)
- Carefully articulated off-ramps (no cost shift amongst participants – if someone exercises off-ramp, others can walk away)

- Off-ramps could relate to obtaining required customer commitments, NEPA compliance, passing other regulatory hurdles (i.e., state regulators and/or local boards for non-federal entities)
 - Commitment would get firmer as the MSOS proceeds and hurdles are successfully resolved - at some point there would be a firm contractual commitment)
- Financing

Transmission Service Precedent Agreements (6 months):¹⁰

With tentative agreement among project sponsors, they can jointly begin to work with TCs to negotiate the terms and conditions of PTSAs.

Draft Terms and Conditions:

1. Transmission customers make firm financial commitment to take service if the transmission provider can meet the goalposts
 - a. Take or pay contract for transmission service
 - b. TC may enter into contract with more than one potential transmission provider
2. 5-to-30 year term length options
 - a. 5-year minimum term length for rollover rights (OATT provision)
 - b. Assumption – capacity ownership is for the life of the facility
3. Upfront cap on cost/rate exposure for TC and TP
 - a. If rate determination is higher than cap, TC has off-ramp
 - b. TPs could choose to have this described as rate or overall project costs (and percentage responsibility for such costs) (assume this will be direct assignment)
4. Other possible off-ramps¹¹

¹⁰ This section is set up with agreements among individual TPs and its TCs. However, while ultimately TCs will purchase service from individual providers, this is a joint open season process and a strong alternative would be for there to be a single joint project sponsor agreement among all sponsors/equity owners and transmission customers. (Once the project was constructed, contracts revert to individual providers/sponsors.) As each provider/sponsor will have its own financing, regulatory, and, as applicable, tariff requirements, a single agreement would be difficult to get into place. However, there would be a lot of efficiencies and certainty for moving forward.

From a transmission customer’s perspective, multiple agreements would work, but they would have to be identical to each other (especially with respect to triggers and off-ramps)

- a. If TC purchasing rights from multiple providers, possible TC off-ramp if not all of the needed segments get built
 - b. If environmental requirements increase cost above certain level, possible TP/TC off-ramp or environmental analysis results in a TP decision to select the no action alternative
 - c. If a project cannot be sited in specified time, possible TP/TC off-ramp
 - d. Percentage of subscription could be an off-ramp for the TP (if project is not fully subscribed, it might be deferred)
 - e. Non-feasibility (off-ramp for TP)(regulatory problems, adverse rate impacts, forecasted higher-priority needs for limited capital at the time for construction commitment, significant transmission customer defaults)
5. Pro-forma deferral rights/penalties for late project completion
 6. Bounded flexibility in POR/POD options across participating systems (agreement should specify whether there is optionality and what it is and how it will work)
 7. Transmission service offers for individual TPs are made in queue order for those parties that sign PTSAs with that TP.
 - a. No encumbering of ATC for customers in the queue that do not sign a PTSA
 8. Transition agreements to protect contract rights in case FERC changes things – contractual rights are grandfathered – state that this process can't subsume transmission ownership rights

Step Three: Execute and Implement Agreements (4 months)

Step Four: Construct New Upgrades, Improvements or Facilities

Initial Thoughts Regarding a Business Case

It is likely that participants would want a full business case before establishing a MSOS. The following is the Scoping Group's initial thoughts regarding the potential benefits, costs, and challenges of a MSOS.

Potential Benefits

- Coordinates sub-regional planning efforts and customer service responsibilities to certain degree
 - Coordinates dates/timelines for sub-regional planning efforts

¹¹ Off-ramps in BPA NOS might also be included.

- Thinkers/customers/owners/financers – together at one time working together, better results – good information even if not time to do anything
- Increase odds of getting right transmission built (right time/right place)
- Less risk of duplication or undermining other systems
- Decreases risk of overhanging new capacity
- Potentially more efficient/shared work burden amongst planners
- Potentially faster answers and focus on things that are more realistic
- Avenue to finance major project and recover costs
- Decreases the risks associated with financing new transmission
- Reduces the risk re cost allocation (among sponsors and between different regulatory entities)
- Promotes or facilitates one-utility planning
- Reduces risk and cost of obtaining transmission service across multiple systems
- Creates opportunity for loads to ID resource areas for development
- Even if nothing is built, fulfills or addresses perceived regulatory need to deal with free rider problem and interregional cost allocation
- Communicates information for future – helps identify where people have interest even if not needed right now
- Provides information as to level of interest/distinguishes between degrees of commitment
- Decision made in reasonable timeframe – can make decisions accordingly
- Uses costs wisely for an optimal result – increases chance that costs are ones that are necessary to accomplish the objective
- If benefits for more than one entity – opportunity to share costs amongst all benefitting parties (reducing overall costs)
- Relies on voluntary commitments as opposed to creating new institutional cost allocation authority
- Preserves ability to do my own thing when I need to – not the only way to get transmission built
- Over time, everything is in place (agreements, structure) and more streamlined process
- FERC regulatory coverage – would help with FERC compliance (regional planning)
- Promotes multi-system expansion, including resolution of cost responsibility, outside of the RTO context
- Interconnection and encouragement of renewable resources

Potential Costs

- De minimis early stage process costs

- Risk of managing costs through process – during construction whoever is building will need to conform with pre-construction agreements (until construction, there are very soft cost estimates that could move around a lot)
- Risk of stranded costs (change in generation/technology)
- Too much transmission might be built, especially transmission that is not the best from a regional perspective

Challenges

- Requires commitment of resources at the same time (planners) to make this a priority
- Easier to do on your own rather than collaborate/compromise (control issue)
- Limitations on independence
- Multiple jurisdictions
- FERC approval may be difficult (although Order 1000 may provide opportunities if the process is consistent with the principles of that order)
- Coordination could take longer – can be foot dragging
- Committed entity supposedly committed may be able to stop
- Fairly allocating costs and risks between TCs and TPs
- Getting the right entities to the table – especially LSEs
- How to pay for unsubscribed capacity (will almost always have)
- How to minimize financing costs
- Timing - when does MSOS start, how will it be kept moving forward, when is it done (especially when it does not result in projects moving forward)
- Timely decisions when diffused decision-making authority
- Least cost denominator
- OATT amendments? (Might satisfy cluster study provisions in OATT)
- If process works, and participants/project sponsors are willing to finance, may be reason to make commitment/outline process in OATT (regarding processing TSR) – have as many TPs have similar provisions in their OATTs, clear this would happen on area-wide basis so people could count on it

Conclusion

While a multi-system open season process should be flexible and tailored to fit the individual needs of a situation, the Scoping Group believes that the general concepts provided in this paper could provide a useful foundation for such a process. In general, the Scoping Group found no fundamental flaw with the MSOS in concept, and believes that this scoping document could be a useful component of ongoing Order 1000 policy discussions (some participants believe the scoping document could be particularly useful with respect to cost allocation issues).

**COLUMBIAGRID
BOARD OF DIRECTORS
RESOLUTION
Adopted September 10, 2009**

WHEREAS, ColumbiaGrid is intended to promote, in the public interest, coordinated and reliable planning, expansion, and operation of the interconnected transmission systems in the Pacific Northwest, taking into consideration environmental concerns, regional interests, and cost-effectiveness; and

WHEREAS, the Planning and Expansion Functional Agreement (“PEFA”) is intended to support and facilitate multi-system planning through a coordinated, open, and transparent process and is intended to facilitate transmission expansion based upon such planning; and

WHEREAS, over the next twelve months, the parties to the PEFA have agreed to participate in a public ColumbiaGrid process to scope the potential for a multi-party open season consistent with the terms and conditions of the PEFA, but have not committed to adopt or implement a multi-party open season process; and

WHEREAS, the purpose of such an open season would be to respond to transmission service requests across multiple systems in an efficient and coordinated manner.

NOW, THEREFORE, BE IT RESOLVED, ColumbiaGrid will facilitate a scoping of a multi-party open season consistent with the terms and conditions of the PEFA (“Scoping Exercise”);

BE IT FURTHER RESOLVED, PEFA Parties, non-PEFA transmission providers and interested stakeholders will be invited to participate in the Scoping Exercise.

BE IT FURTHER RESOLVED, the Scoping Exercise will involve, among other things, identifying the possible structure for such an open season (including guiding principles, participants, roles and responsibilities), feasibility assessment, estimated costs, and anticipated benefits. Such Scoping Exercise will address multi-party open seasons on the PEFA Parties’ transmission systems and the transmission systems of non-PEFA transmission providers who choose to participate.

BE IT FURTHER RESOLVED, the starting point for the Scoping Exercise may be a review of the Bonneville Power Administration’s Network Open Season process and an evaluation of whether some or all of its concepts would be appropriate to apply on a broader sub-regional basis across multiple systems.

BE IT FURTHER RESOLVED, at the request of the Federal Energy Regulatory Commission (“Commission”), ColumbiaGrid will brief the Commission on the progress of the Scoping Exercise in March of 2010 and in January of 2011.