

ColumbiaGrid Open Season Scoping Process

Multi-System Open Season Proposal

November 12, 2010

These concepts are still a work in progress and no one has yet adopted or accepted the content of this document

Introduction

This Multi-System Open Season (MSOS) is designed as a process for reducing risk and efficiently financing new transmission infrastructure and capacity across two or more transmission providers' systems.

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 can provide commercial and economic benefits and may have regulatory compliance benefits as well.

This 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.

In short, the MSOS would provide a forum to consider "focus areas" (e.g., Montana to Mid-C) and allow all interested parties (e.g., project sponsors, TPs, TCs, merchant transmission) to raise needs relating to such focus areas and potential solutions to those needs. With respect to needs, potential TCs would provide some indication of source/sink/hub. It is anticipated that many of the potential solutions would have been developed or identified through a sub-regional or regional planning process. Potential project sponsors will confer about needs and whether further study is warranted to determine what project(s) are needed and what they will likely cost. After the potential project sponsors have sufficient information and determined which projects should go forward, they will offer transmission contracts. If a critical mass (as defined by the potential project sponsors) of agreements are signed, the potential project sponsors will enter into construction and performance contracts. The projects sponsors will then do any needed project-specific planning, siting, and rating analysis, and construct the new facilities.¹

¹The 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. The MSOS process is designed to be flexible and, if implemented, could result in a variety of project arrangements.

Assumptions

1. This process is intended to work for all types of multi-system projects (e.g., segmented ownership, joint ownership) and for all types of potential project sponsors (e.g., transmission provider, merchant project).
2. The ultimate ownership of a new facility could take at least three forms - equity ownership, capacity ownership, or capacity contracts and, a single project could have a mix of these three forms.
3. If current OATT language is a barrier, the business case will identify what changes would be needed to make the proposal work.²
4. Many of the underlying principles of this proposal are modeled after BPA’s 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. Specifically, it is very unlikely that new multi-system facilities could be funded within participating Transmission Providers’ current embedded rates (the current NOS model).
5. This process assumes coordination with existing sub-regional planning processes.

Multi-System Open Season “Products”

1. A decision on whether to go forward with construction of specific facilities with agreements amongst project sponsors regarding cost and construction responsibilities and rights. Ultimately, it is up to each project sponsor to determine how to recover its costs. This proposal does, however, include a mechanism for traditional transmission providers to coordinate and enter into agreements with transmission customers with respect to new transmission service.

Project Sponsors

Required Agreements - “Construction” or “performance” agreements among participating Project Sponsors to build/develop capacity (with provisions to address what happens in case of non-performance) (see example below, PEFA facilities agreement)

Optional Agreements – Transmission Service Agreements between Project Sponsors who are Transmission Providers and Transmission Customers relating to long-term firm transmission rights based upon contribution to new facilities with off-ramp if facilities are not built; Funding Agreement (if any are needed) between Project Sponsor who is Merchant Transmission and its Funder(s)

Transmission Customers

² If needed, there would be a one-time, up front approval of the open season process.

Optional Agreements - Agreements between energy producer and purchaser (may be in place prior to Open Season Process); agreements with TPs relating to long-term transmission rights based upon contribution to new facilities with off-ramp if facilities are not built

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

Through the open season process, however, TPs could have obtained valuable information regarding specific needs, including information to help refine future projects and information to demonstrate that inter-regional planning concerns are sufficiently addressed

Multi-System Open Season Process (20-Month Process)

Many of the important questions surrounding the MSOS are purposely left unanswered here because some questions cannot be answered until we have more information about the specific transmission project(s) in question (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. This 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.

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

Interested potential project sponsors (including merchant project sponsors) come together and discuss whether to work together (footprint, proposals, what type of ownership, etc.).³ If sufficient interest, potential project sponsors 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 (what paths, 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.

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, network, merchant). Customers and interested parties

³ Potential project sponsors may come together as a result of sub-regional or regional planning efforts³, or through informal discussions.

are 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 description of the general paths, including a general description of the upgrades/costs/resulting capacity for which the open season will entertain requests.

Step Two: 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

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- 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 - at some point, firm contractual commitment)
- Financing

Transmission Service Precedent Agreements (6 months):

[The following 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. Can the initial TPs/TCs agreements be done jointly – have everyone committed jointly – once constructed, contracts revert to individual providers??? Would like to discuss more.]

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-20 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-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
 - 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)
5. Pro-forma deferral rights/penalties for late project completion
6. Broad, although not unlimited, POR/POD options across participating systems
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) and Construct New Upgrades, Improvements or Facilities