

purchase, acquire, or construct additional facilities to establish the electrical boundaries of its system and provide a contiguous path between facilities owned by Western. For instance, Western owns the 94-circuit-mile Malin-Round Mountain 500-kilovolt (kV) transmission line (an integral section of the Pacific Northwest-Pacific Southwest Intertie) but does not own the electrical facilities that interconnect this line to Round Mountain Substation. Western also does not own the transformation facilities between the 500-kV and 230-kV transmission lines at Round Mountain Substation or the interconnection facilities for the 230-kV transmission lines at the Cottonwood Substation. Interconnection facilities for a number of Western-owned transmission lines at the Cottonwood Substation are also not owned by Western. The scope of the acquisition or construction of new facilities will be determined in large part by the point at which SNR defines its control area or sub-control area boundaries.

Description of Alternatives

SNR has identified the following alternative post-2004 operating scenarios:

1. The no-action alternative;
2. Executing a Transmission Control Agreement (TCA) and becoming a CAISO Participating TO;
3. Executing a sub-control agreement with CAISO similar to its MSS concept; or
4. Forming a Western Electricity Coordinating Council (WECC)/North American Electric Reliability Council (NERC) certified control area with the U.S. Department of the Interior, Bureau of Reclamation (Reclamation) generation and load, and certain other generation and load within the proposed control area boundary.

Factors To Be Considered During Decision-Making

In making a decision as to which post-2004 operational scenario to implement, SNR has identified factors that it will use in its decision-making process. These factors include, but are not limited to:

1. *Flexibility*: Preserves the ability of SNR to join a Federal Energy Regulatory Commission (FERC) approved and certified Regional Transmission Organization (RTO) in the future and to implement other industry changes;
2. *Certainty*: Assures that cost-of-service rates are stable and predictable;
3. *Durability*: Operating protocols are well established and subject to minimal changes over time;

4. *Operating Transparency*: Minimizes operating impacts to third parties;

5. *Cost-Effectiveness*: Cost shifts are minimized and relative cost-benefit ratios to SNR's customers will be considered.

FERC is actively encouraging the formation of RTOs. An RTO is an independent transmission system operator, governed by an independent board of directors. The RTO is responsible for operating a geographically discrete and interconnected regional transmission system consistent with prudent utility practices as defined by NERC and WECC. The selected alternative must have sufficient flexibility to allow SNR to accommodate the possibility of joining an RTO as well as modifying its operations to implement other changes in the electric utility industry. Although Western is not required to undertake a formal public process to select an operating configuration for post-2004 operations, Western has determined that it serves the public interest to allow interested stakeholders an opportunity to provide comments as Western goes through its decision-making process. In arriving at its final decision, SNR will accept and evaluate all comments received from interested stakeholders and ensure that its decision-making process is consistent with all applicable Federal laws, regulations, and procedures.

No-Action Alternative

If this alternative is selected, SNR and Reclamation would not execute successor transmission arrangements with PG&E or the CAISO. Since a basis for transactions or business relationships necessary to carry out deliveries of power to customers does not exist, substantial business uncertainty would result. One or more of the parties could pursue litigation to determine the respective positions of Western and its individual customers, Reclamation, CAISO, and PG&E. This alternative creates business uncertainty and operational impediments which would result from not having successor agreements in place with PG&E and the CAISO.

CAISO Participating Transmission Owner

Under this alternative, SNR, at a minimum, would need to execute a TCA, thus transferring operational control of the Federal transmission system to the CAISO. SNR would, however, retain responsibility for continuing to maintain all of its transmission facilities. Execution of the

TCA would obligate SNR to conform its maintenance, operations, business, and administrative practices to all applicable CAISO protocols and procedures provided they do not conflict with existing Federal law.

Transmission revenue requirements associated with annual maintenance and capital repayment obligations for the Federal transmission system on behalf of SNR would be recovered through the CAISO Transmission Access Charge (TAC). In lieu of utility-specific cost-of-service rates, Federal transmission system beneficiaries would transition to a statewide rate, which represents the melded cost of all statewide Participating TO transmission revenue requirements.

To participate in the CAISO markets, and as the owner of the Federal generation assets, Reclamation would have to execute a Participating Generator Agreement (PGA). Execution of the PGA would allow the CVP to contribute energy and/or ancillary services in excess of SNR's existing contractual obligations into the market, if available.

Scheduling power across the Federal system would be done by the CAISO under terms governed by the CAISO tariffs. These tariffs are intended to afford equal opportunity use of all the existing transmission under CAISO control to all market participants. Under the existing CAISO Tariff, transmission of CVP generation to Project Use loads and SNR's customers will not be afforded any preference. In addition, if transmission is constrained; e.g., inter-zonal or intra-zonal congestion exists, non-Federal generation may be re-dispatched to cover loads. As the anticipated Scheduling Coordinator (SC) for Reclamation's Project-Use loads and resources, SNR would pay the market clearing price for any power deliveries associated with energy imbalance costs. Under this scenario, assuming that SNR is the SC for both CVP generation and Project-Use loads, power would be scheduled from CVP generation to its customers and any excess generation, if available, would be bid as reserve (unloaded) capacity into the CAISO markets. Any imbalances caused by load deviations would be paid for by the SC for Project Use loads and SNR's customers. All revenues from sales to the CAISO markets would be applied to meet the repayment requirements of the CVP. The revenue requirement for CVP transmission will be collected by the CAISO under terms of the TCA.

From an operational perspective, CVP generation would be scheduled into the CAISO control area and the CAISO-controlled grid, including Federal