

transmission assets, would be used to deliver Federal power and/or purchases to Project Use loads and SNR's customers. Under this alternative, the costs associated with energy deliveries to Project Use loads and SNR's customers are subject to the hourly CAISO market prices, transmission congestion charges, imbalance energy charges, and all other charges that the CAISO imposes to cover its costs or to collect revenue it must collect for transmission owners. Whenever actual load requirements exceed the scheduled amounts, the energy would be provided by the CAISO under its energy imbalance program.

From an organizational perspective, this alternative appears to be the easiest to implement. SNR would not need a real-time transmission scheduling or an automatic generation control (AGC) desk; however, to retain its status as an SC, a 24-hour merchant desk would still need to be established. A real-time transmission switching desk to monitor the Federal system, perform outage coordination and switching for maintenance activities, and coordinate system restoration activities would be needed. SNR would also have to maintain a settlements organization to account for and bill various charges associated with purchases and deliveries for customers for which SNR is designated as the SC and to reconcile and account for revenues associated with generation sales into the CAISO markets.

The impact of implementing this alternative would effectively increase the cost of transmission to all SNR customers. The differential would be most pronounced for those entities directly connected to the Federal transmission system. Integrating the Federal transmission system into the CAISO-controlled grid would result in an integrated TAC. However, since many of the direct-connected transmission users' transactions do not involve the use of the CAISO-controlled grid, direct-connected customers could end up paying for service that they would not necessarily need under other alternatives. Non-direct-connected customers would pay the non-discriminatory rate associated with the use of the CAISO-controlled grid. The net effect is that the overall average cost of transmission service could decrease for the rest of the existing CAISO market participants.

Executing an MSS Agreement With the CAISO

In lieu of becoming a Participating TO, the CAISO has offered SNR the option of becoming an MSS. The CAISO

defines an MSS as the system of a transmission owner bounded by CAISO-certified revenue quality meters at each interface point and generating units internal to that metered system. Under this alternative, SNR and Reclamation will need to define the physical boundaries of the MSS, ensure the appropriate revenue quality meters are present at each interface point and the generators, and ensure the appropriate communications and telemetry are in place. Since the MSS concept recognizes internal generation, Reclamation will not need to execute a PGA. To minimize the cost of receiving services from the CAISO markets, SNR will need to balance its energy and ancillary services obligations on a continuous basis. This function will require a 24-hour per day balancing authority or an AGC desk. To minimize costs associated with deviations between actual loads and resources, a 24-hour merchant desk is required. To become an MSS, SNR would need to negotiate and execute an MSS agreement with the CAISO.

The MSS and the control area alternatives are very similar from an operational perspective. Both a control area and an MSS must define their boundaries at interconnections with others and both must have the ability to use the physical electrical path across these boundaries. The proposed transmission system boundaries for both the control area and the MSS can be viewed at the following Web site location: <http://www.wapa.gov/sn/P04/PDF/SNR-Boundary-06-02-03.PDF>

The northern boundary for the MSS alternative could change. Under the MSS alternative, Western would propose to put its Malin-Round Mountain transmission line in the CAISO control area and put its northern boundary at the 230-kV at the Round Mountain Substation on the Round Mountain-Cottonwood transmission line. Transmission scheduling between Malin and Round Mountain under the MSS alternative could be done by the CAISO while scheduling of transmission between Captain Jack and Tracy could be done by SNR. Western would still retain its existing capacity rights under a successor arrangement. The CAISO would remain the path operator for Path 66, the interface between the California-Oregon Border and Northern California, with the ability to curtail schedules on these paths if reliability is jeopardized.

An MSS is responsible for matching its internal loads and exports with generation and imports on an interval defined in the MSS agreement with the CAISO (not necessarily second-by-

second). The MSS must maintain reserves in an amount that the MSS load bears to the entire load of the CAISO control area as defined in the MSS Agreement with the CAISO multiplied by the CAISO control area largest hazard (not necessarily the MSS largest hazard). The MSS does not have any responsibility to maintain the frequency of interconnection. This responsibility rests with the CAISO as the control area operator. The technical requirements for MSS performance are defined by the MSS Agreement with the CAISO. These requirements may change due to the CAISO Tariff revisions.

The CAISO's April 8, 2003, MSS proposal to SNR included the following key principles:

1. The MSS methodology would model SNR's service territory to include the entities directly connected to its transmission system unless these entities did not want to be included for scheduling and settlement purposes. The California-Oregon Transmission Project (COTP) line would also be included in SNR's MSS. An accommodation would have to be made for CAISO's share of COTP capacity rights currently owned by PG&E.

2. The CAISO would provide "Net" Settlements treatment for various CAISO market charges, as appropriate, based on cost causation principles.

3. No PG&E Unaccounted-for Energy (UFE) charge would be applied to load within SNR's territory.

4. SNR has the option of choosing to follow MSS load with MSS generation to minimize uninstructed energy deviation costs. Penalties would apply to all uninstructed deviations. The CAISO has also suggested that SNR could include entities not directly connected to its transmission system within the MSS and follow those loads with CVP generation.

5. SNR and Reclamation would have the ability to schedule customized combinations of MSS resources on a System Unit basis (aggregating resources for scheduling and settlements) to provide Reclamation with flexibility in dispatching individual generating resources.

6. Reclamation would not have to file a PGA, and Reclamation and SNR would have full access to all CAISO markets and associated services.

7. SNR would have the option of using multiple individual scheduling identifiers, as required, to facilitate and simplify CAISO settlements for SNR SC customers located on the CAISO grid but which are external to, and scheduled separately from, the Western MSS.