

8. Ancillary services obligations would be based on a load ratio share of the CAISO ancillary services requirement.

9. Control area services would be provided by the CAISO.

Under the CAISO MSS proposal, SNR would, in essence, be a sub-control area operating within the CAISO control area with the AGC system operating in the flat tie-line mode. This means that the AGC algorithms would not contain a component to assist in the frequency support of the interconnection. SNR would regulate generation internal to the MSS so that the net actual interchange (net power flows to the CAISO and interconnected control areas) matches the net scheduled interchange.

From a transmission scheduling perspective, the MSS option requires SNR to schedule deliveries across the COTP line but not the Malin-Round Mountain line. Currently, these schedules are done between the CAISO and the Bonneville Power Administration (BPA). Implementation of the MSS option, including scheduling the use of transmission from the Pacific Northwest, will require coordination between SNR, CAISO, and BPA.

Forming a New Control Area

A control area is a specifically defined geographic region where responsibility for continuously matching generation and load is in accordance with NERC and WECC planning and operating criteria. A control area operator is responsible for continuously monitoring and balancing its resources against its load obligations and providing frequency support to the interconnected system. The control area operator must meet scheduled interchange requirements with other control areas, assist in maintaining the frequency of the electric power system, and provide sufficient generating capacity to maintain operating reserves. The control area operator must also ensure that it operates its transmission system in concert with other transmission providers in the area to maintain the reliability of the interconnected electric system.

Under this alternative, SNR would establish boundary and interface points with neighboring control areas; e.g., BPA, CAISO, the Sacramento Municipal Utility District, and others, and install the appropriate metering and communication telemetry systems. In addition to the 24-hour merchant desk and the AGC desk identified under the MSS option previously, a transmission scheduling and security desk is also needed. Implementation of this option

requires negotiating and executing additional agreements with the reliability coordinator, as well as inter-control area agreements with neighboring entities and intra-control area agreements with proposed control area participants. In the event that significant changes occur to the operation of the three-line California-Oregon Interconnect (COI) system, it may also be necessary to negotiate modifications to the COI's Coordinated Operations Agreement.

A control area is responsible for matching its internal load and exports with generation and imports on a second-by-second basis, for maintaining adequate reserves to cover its largest hazard, and to assist in maintaining the frequency of the interconnection. The technical requirements of the control area are contained in various NERC and WECC guidelines and standards; as such, these guidelines and standards may change due to industry consensus.

The control area alternative requires SNR to apply to NERC and WECC to become a certified control area. This requires SNR to demonstrate that it can meet all of the NERC and WECC planning and operational standards and requirements. The control area alternative has, as key principles, the following:

1. The proposed transmission system boundaries for the control area are shown at: <http://www.wapa.gov/sn/P04/PDF/SNR-Boundary-06-02-03.PDF> and initially will include those entities directly connected to the Federal transmission system. These loads include the cities of Redding, Roseville, and Shasta Lake; the Lawrence Livermore National Laboratory; Reclamation's Tracy Pumping Plants; the Sutter Energy Center; the East Contra Costa Irrigation District; and the Contra Costa Water District. The Malin-Round Mountain line and the COTP line would also be included in the proposed control area. All CVP hydro-generation directly connected to the Federal transmission system will be located within the control area.

2. Customers located within the control area will receive their allocation through internal control area schedules and will not experience any of the CAISO charges associated with those deliveries. Customers located on the CAISO grid will be assessed charges for delivery of their allocations associated with the use of the CAISO-controlled grid, ancillary services charges, transmission distribution charges, and other CAISO charges.

3. No PG&E UFE charges will apply to deliveries of Federal power to entities within the control area.

4. SNR will only follow the load for entities located within the control area. After becoming more experienced with control area operations, SNR will dynamically schedule generation through the CAISO system for interested entities to provide load following for customers that are not directly connected. This will minimize the CAISO imbalance energy charges for the off-system customers. Entities for which SNR provides load following services should not experience significant imbalance energy charges from the CAISO. These entities will, however, be charged for load following services.

5. Reclamation will have the flexibility to move water releases around their system as needed and will provide the generation levels scheduled for delivery internal to the control area and to the CAISO control area based on preschedules. There will be no uninstructed deviation charges associated with the control area alternative.

6. SNR expects to be the SC for Reclamation generation and for the loads of some of its customers and, therefore, would still participate in the CAISO markets under the control area alternative.

7. Schedules to customers located within the CAISO control area will be performed as SC-to-SC trades no differently than many of the deliveries of Federal power are made today.

8. SNR's reserve obligations will be shared by entities directly connected to the Federal transmission system in proportion to the load of each of these entities within the control area. This is the same approach (the load ratio share) as proposed by the CAISO in the MSS option. Regulation will be provided to the control area by CVP generation with the energy to be returned by those receiving such services.

9. All of the control area services outlined by the CAISO in the MSS alternative proposal will be provided by SNR under the control area alternative to entities within the control area.

SNR would regulate internal generation so that the net actual interchange matches the net scheduled interchange. Under the control area alternative, scheduling over the Malin-Round Mountain and the Captain Jack-Tracy paths would be done by SNR. SNR would begin load following for its internal customers when control area operations begin (January 1, 2005), and would request dynamic scheduling capability for off-system customers through the CAISO approximately 6 months later.

Transmission scheduling for deliveries across the COTP line and for