

Consulting, Inc., (Navigant) presented results from its comparative economic benefits study performed on behalf of the Bureau of Reclamation (Reclamation) and Western. Following the presentations, Western and Navigant staff answered questions from the attendees. A summary of the questions and answers at the July 9, 2003, Public Information Forum are at <http://www.wapa.gov/sn/initiatives/post2004/opScenarios/July9P1responses.pdf>. Western received additional questions after July 9, 2003, and posted responses at <http://www.wapa.gov/sn/initiatives/post2004/opScenarios/pifq-as1.pdf>.

Western held a Public Comment Forum in Folsom, California, on July 30, 2003, during which representatives from 12 entities commented on the proposed alternatives and decision-making factors. As individual stakeholders asked more detailed questions about Navigant's comparative economic benefit analysis, responses were prepared and posted to Western's external Web site throughout the comment period, which closed on August 8, 2003. Western received written comments from twenty-six (26) different entities. Western posted the comment letters at <http://www.wapa.gov/sn/initiatives/post2004/opScenarios/Comments08-08-03/> on August 13, 2003.

Throughout the public comment period, Western received and considered comments from existing power and transmission customers, joint powers agencies, water districts, irrigation districts, the ISO, the California Electricity Oversight Board, the ISO's Market Surveillance Committee, an investor-owned utility, and an independent consumer group. The comments provided the unique perspective of each entity on the various alternatives, provided suggestions concerning the selection of an alternative, commented on the decision-making factors proposed by Western, and raised issues and concerns about implementing an operational alternative.

#### Decision-Making Criteria

The criteria used by Western to reach its proposed decision are described in the June 24, 2003, **Federal Register** notice and were described in further detail at the July 9, 2003, Public Information Forum. The five criteria are flexibility, certainty, durability, operating transparency, and cost-effectiveness.

Flexibility preserves the ability of SNR to join a Federal Energy Regulatory Commission (Commission) approved and certified Regional Transmission

Organization (RTO) in the future and to adapt to ongoing changes in the electric utility industry. At the July 9, 2003, Public Information Forum, Western stated that whatever alternative was chosen, Western must retain its ability to be able to adapt its operations to future changes in the electric utility industry to minimize business uncertainty and impacts to Western's customers.

Certainty assures cost-of-service rates remain stable and predictable. Western further defined certainty at the July 9, 2003, Public Information Forum as having stable rates and charges so Western and its customers will be able to continue engaging in long-term business planning and to undertake prudent long-term commitments under a reasonable risk management planning horizon.

Durability assures operating protocols are well established and subject to minimal changes over time. Western stated at the July 9, 2003, Public Information Forum that this definition also included business processes and observed that major changes in business processes can significantly impair the efficiency and the ability of individual organizations to respond effectively because of the need for increased staffing and resources.

Operating transparency minimizes operating impacts to third parties. Western defined this factor as the ability for Western to change the operation of the Federal system with minimal impacts to third parties.

Cost-effectiveness minimizes cost shifts and considers the relative cost and benefits to SNR's customers. Western stated at the July 9, 2003, Public Information Forum that cost effectiveness included the concept of ensuring that the overall cost of operation of the system and that the delivery of Federal power is kept as low as possible consistent with sound business principles.

#### Public Comments

Several comments indicated support for Western using the above criteria. Some comments also provided information concerning the relative weighting of the criteria that Western should use. The Transmission Agency of Northern California (TANC) commented that, given the relative instability of the electric utility industry, it is important for Western not to use costs as the only criteria for evaluating each post-2004 operational alternative. Comments from other public agencies such as the Calaveras Public Power Agency, the Modesto Irrigation District (MID), the SMUD, the Silicon

Valley Power (SVP), the Trinity Public Utilities District (TPUD), and the City of Redding, indicate a preference for selecting an alternative that is the most flexible, durable, and cost-effective. The Lawrence Livermore National Laboratory (LLNL) commented that Western should further define the above criteria and provide interested parties with the relative weighting Western would use in selecting the operational alternative.

The ISO commented:

Western initially stated that the decision to form its own control area would be cost based. Now that the real impact of the costs of the various Market Plan options is being understood more clearly, the criteria for this decision seems to have changed. It wasn't until the June 24, 2003, **Federal Register** notice that the public learned for the first time that the factors that it [SNR] will use in its decision-making process are now flexibility, certainty, durability, operating transparency and cost-effectiveness.

The ISO and several other commentors also indicated concerns with grid reliability and complexity of operations and expressed a desire to include reliability as an additional evaluation category. Western did not receive any other suggested additions or changes to its proposed evaluation criteria.

#### Western's Response

The decision-making factors outline the business reasons Western must consider as it analyzes impacts associated with implementing each specific alternative. These business reasons include the ability to respond to industry changes, having a voice in its own future, providing customers with as stable an environment as possible as industry wide changes occur, and providing customers with products and services at the lowest possible rates consistent with sound business principles. Consequently, when making a decision on its future operations, it is not wise for Western to rely on a single factor. Thus, Western developed additional factors to allow it to continue meeting its statutory requirements and address its long-term strategic goals and objectives.

Western considered the request to include reliability as an additional evaluation category. Western decided not to include reliability as a separate evaluation category because, under existing Western Electricity Coordinating Council (WECC) and North American Electric Reliability Council (NERC) operating guidelines, Western must demonstrate negative impacts will either not occur or will be mitigated before a selected alternative is