

## Description of Alternatives

### *The No Action Alternative*

Under the No Action Alternative, Western would not undertake any actions before January 1, 2005, to establish a successor operational configuration or to develop and establish permanent new business arrangements with the ISO or PG&E, based on PG&E's position that it will not extend the terms of Contract 2948A. Under Reclamation law, Western is responsible for marketing and transmitting Federal power, but because it would not have a long-term business arrangement in place with the ISO or PG&E, Western would not be able to guarantee delivery of Federal power to Project Use loads from delivery points in the ISO control area.

Deliveries on the California-Oregon Intertie (COI) lines could also be affected negatively as successor interconnection and/or transmission arrangements would not be in place. Western recognized the problems associated with this alternative before publishing its June 24, 2003, **Federal Register** notice. With no successor interconnection and/or transmission arrangements in place, under the No Action Alternative, the parties may have no other alternative but to seek the clarification and resolution of their respective interests through litigation. The June 24, 2003, notice stated:

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.

### Operating Scenario To Evaluate the No Action Alternative

Under the No Action Alternative, Western would be a contiguous electrical system with most of Reclamation's generation and Reclamation's single largest Project Use load (Tracy Pumping Plant), as well as some Preference customer loads directly connected to the Federal transmission system. Reclamation's off-system generation at San Luis and New Melones would continue to operate under terms of existing contracts with PG&E that do not expire until 2016 and 2028, respectively. Western's northern boundary for its transmission system would be uncertain because of the lack of successor transmission arrangements

to Contract 2947A at Round Mountain and Cottonwood substations.

Since Western would not undertake actions to implement a post-2004 successor operational alternative, it would continue to reside within the ISO control area. Under the No Action Alternative, Western would not have long-term business arrangements that would allow it to deliver Federal power to Project Use loads, First Preference, and Preference Power customer loads not directly connected to Western's transmission system. Western would execute short-term (non-firm) transmission arrangements with the ISO, typically one day at a time, and would be subject to curtailments whenever congestion or other operational constraints arise.

Without long-term business arrangements, the ISO would not be obligated to provide services to Western. The converse is also true for Western. In the absence of long-term arrangements, Reclamation would not execute a Participating Generator Agreement (PGA) with the ISO. Revenues associated with generation or ancillary services excess to the needs of direct-connected Project Use loads and Preference Power customers and sold to the ISO for its needs would not be available to Western. Western would exist within the ISO control area without specific boundaries, and without the ability to collect revenues associated with services provided to the ISO, or to deliver power on a sustained basis to meet Western's statutory and contractual obligations to off-system Project Use loads, First Preference customers, and Preference Power customers, respectively.

### Evaluation of the Flexibility Criteria Under the No Action Alternative

The No Action Alternative would give Western very little certainty in conducting its day-to-day business operations. Without long-term business arrangements, Western would have to rely on short-term arrangements with the ISO and others after January 1, 2005, to continue to do its business. Although these short-term arrangements do not commit Western to a long-term relationship and allow Western to modify its operations, the arrangements are inherently unstable and create significant business uncertainty. Thus, the No Action Alternative does not meet the flexibility criteria.

### Evaluation of the Certainty Criteria Under the No Action Alternative

The No Action Alternative does not assure a stable business environment for Western or its customers. With no long-

term business arrangements, Western would have no basis for requiring the ISO or PG&E to deliver power to Western's off-system Project Use loads or Preference Power customers served using the ISO-controlled grid. On January 1, 2005, Western would not have negotiated long-term mutually beneficial business arrangements with the ISO or PG&E and, consequently, would have to undertake short-term and potentially unstable business arrangements to deliver Federal power to Project Use and Preference Power loads not interconnected to the Federal transmission system. There would be no long-term rate certainty and, in the event rates increase faster than Western's ability to undertake changes through its formal rate-setting process, Western would face the potential of significantly reducing its power deliveries to avoid any potential violations of the Federal Anti-Deficiency Act. The underlying uncertainty would also inhibit long-term business planning and, as a result, Western concludes that the No Action Alternative does not meet the certainty criteria.

### Evaluation of the Durability Criteria Under the No Action Alternative

Under the No Action Alternative, Western would not have any operational protocols or business processes in place as of January 1, 2005. Effective this date, Western would put interim business procedures in place to continue operating in the ISO control area. Because short-term arrangements are by their nature unstable, given the unique nature of the CVP hydropower system, unsettled rights on the COI, and the lack of a northern boundary for Western's transmission system, Western concludes that the No Action Alternative does not meet the durability criteria.

### Evaluation of the Operating Transparency Criteria Under the No Action Alternative

Under the No Action Alternative, as of January 1, 2005, Western would have no long-term business arrangement with the ISO for operation of Western's transmission system within the ISO control area. Since Western would not have a long-term business arrangement with the ISO, every transaction would be accomplished on an interim, short-term basis. Under this scenario, Western would not be able to guarantee delivery of Federal power to Project Use loads and meet its contractual commitments to First Preference and Preference Power customers to deliver energy to delivery points on the ISO-controlled grid since