

it could buy transmission on only a non-firm basis.

In addition to the uncertainty associated with Western's business relationship with the ISO, other uncertainties include the lack of successor transmission arrangements to Contract 2947A for continued transmission access to the PACI line, lack of successor operational arrangements (Coordinated Operations Agreement) for the coordinated operations of the three-line COI, and potential new business arrangements on the California-Oregon Transmission Project (COTP). As a result of these business uncertainties under the No Action Alternative, Western cannot guarantee that its operations will not negatively impact the operations of third parties and, consequently, Western concludes that this alternative does not meet the operating transparency criteria.

Evaluation of the Cost-Effectiveness Criteria Under the No Action Alternative

Under the No Action Alternative, since Western will not have long-term successor business arrangements with the ISO or others, the cost of conducting its day-to-day business activities is highly uncertain. In addition, since no business relationship exists with the ISO, Western may not be able to realize the benefits of providing products for use in the ISO's markets. For instance, because of the lack of a long-term business arrangement such as a PGA, revenues associated with excess generation and ancillary services provided to, and which may be used by the ISO, may not be fully realized by Western. The ISO may furnish products and services to Western and its customers without a contractual relationship that would allow the ISO to bill Western for the use of such products and services.

Other business arrangements including the acknowledgment of Western's rights to transmission capacity on the PACI, potential new business arrangements on the COTP, successor arrangements for the coordinated operations of the COI, as well as receiving credits associated with self-provision of ancillary services remain uncertain under the No Action Alternative. Without a vehicle to bill or to be paid for services, the economics of Western's operations associated with this alternative are unknown. Because of the uncertainty associated with the cost structure that Western would experience under the No Action Alternative, this alternative does not meet the cost-effectiveness criteria.

Summary Analysis of the No Action Alternative

The No Action Alternative outlined during this public process is unlike other no action alternatives usually associated with a proposed project or policy. In a normal no action alternative, the status quo is preserved and proposed project/policy alternatives are compared with the status quo. In this case, the status quo does not represent the no action alternative as existing contracts with PG&E terminate while Western is simultaneously implementing a new marketing plan. PG&E has explicitly stated that it is not interested in extending or renewing these contracts. With the status quo not available as an option, Western must move toward establishing a new business identity and/or business operating arrangement that will allow it to continue doing its day-to-day business. Taking no action prior to January 1, 2005, will require Western to put in place some type of arrangement to operate within the ISO control area as soon as possible after January 1, 2005.

The No Action Alternative will place Western in a highly undesirable business posture. Without long-term business arrangements in place, Federal power resources cannot be delivered reliably and cost-effectively to Project Use, First Preference Power, and Preference Power delivery points located on the ISO-controlled grid and not directly connected to the Federal transmission system. Lack of any permanent business arrangements would not allow Western to participate in the ISO markets and allow excess generation and ancillary services to be sold and the revenues used to accelerate repayment on the Federal investment. The No Action Alternative impacts Western's ability to meet its statutory obligations to provide energy to Project Use loads on the ISO-controlled grid and meet its contractual obligations to deliver Federal power to First Preference and Preference Power customers who use the ISO-controlled grid. Western has determined that it is not prudent to implement the No Action Alternative.

Western's analysis of the five evaluation factors is summarized in the table below:

NO ACTION ALTERNATIVE EVALUATION SUMMARY

Evaluation factors	Meets	Almost meets	Does not meet
Flexibility	XX
Certainty	XX

NO ACTION ALTERNATIVE EVALUATION SUMMARY—Continued

Evaluation factors	Meets	Almost meets	Does not meet
Durability	XX
Operating Transparency	XX
Cost-Effectiveness	XX

The Participating Transmission Owner Alternative

Western would execute a Transmission Control Agreement (TCA) with the ISO under the PTO Alternative. Executing a TCA would transfer operational control over Western's transmission system to the ISO. Reclamation would execute a PGA with the ISO. Executing a PGA would allow the ISO to control Reclamation's generation and allow Western to fully participate in the ISO markets by receiving revenues associated with any excess generation.

The CVP was authorized primarily as an irrigation project. Therefore, Project Use energy requirements have first priority for the hydropower generated from the facilities. Hydropower generation in excess of Project Use energy requirements is available to be sold to CVP Preference Power customers. This legislative requirement would need to be appropriately accommodated in any future agreement executed between Reclamation, Western, and the ISO. The specific terms and conditions relating to ISO operational jurisdiction over Federally owned generation and transmission facilities would also need to be carefully evaluated to assure that as a result of implementing this alternative, the authorized project purposes of the CVP are not impaired.

If the appropriate arrangements were worked out with the ISO, at a minimum, Western would need to retain responsibility and operational control over switching operations and the maintenance and replacement of its transmission facilities. Similarly, Reclamation would also, at a minimum, need to retain responsibility and operational control over its hydropower facilities/operations and the maintenance and replacement of its generating facilities. Under existing authorizations, the responsibility and operational control over the water and power operations of the CVP cannot be impaired.

The ISO would become responsible for scheduling the use of the CVP transmission system and Western's