

Malin-Round Mountain transmission line. Western currently is the operating agent for COTP. Depending on the arrangements that would ultimately be made for this line, the ISO may also assume operational control of this transmission line. Under its current COTP agreements with TANC, Western would retain responsibility for furnishing technical services associated with the long-term maintenance and replacement of these facilities. The ISO would assume scheduling responsibility for the entire three-line COI system south of the Oregon border and would continue in its role as the single path operator.

#### Operating Scenario To Evaluate the PTO Alternative

Under the PTO Alternative, Western would not have a physically discrete and defined transmission system. From an operational perspective, Western's transmission system would be integrated with the ISO control area. Western would schedule energy deliveries for Project Use loads, First Preference customers, and other Preference Power customers with the ISO under generation schedules developed by Reclamation and Western. Western would act as the Scheduling Coordinator (SC) for these deliveries and pass through ISO charges associated with generation, including imbalance energy charges, reserve charges, and other charges required to meet the ISO's costs of operating the control area. Western's customers, including those that are directly connected to the Federal transmission system and those served through PG&E facilities, would be billed all of the appropriate ISO charges associated with those energy deliveries. Western would identify its transmission revenue requirements which would be collected by the ISO.

From an operational perspective, Western would need a 24-hour Merchant Desk to purchase energy required to support Project Use energy requirements, as well as to meet the supplemental energy needs of Western's Variable and Full Load Service customers under its post-2004 Marketing Plan. Western would provide SC services for Variable or Full Load Service customers requesting this service, as well as for Reclamation's generation facilities. Under its current operating procedures, the ISO requires each SC to maintain a 24-hour Merchant Desk in order to maintain SC certification status.

Western would also have to maintain a 24-hour Switching Desk to perform switching for outages of system elements (such as transmission lines

and breakers) for maintenance, repair, or replacement, or to assist the ISO in restoring the system following a disturbance. Since the ISO would schedule the use of Western's transmission system, Western would not have to maintain a 24-hour Transmission Scheduling Desk. Western would also not have to maintain a 24-hour Automatic Generation Control (AGC) Desk because Reclamation's generation would be dispatched by the ISO under a PGA. As a third party to this transaction, Western could face increased risk and uncertainty as it implements its new marketing plan since it would not necessarily have direct real-time knowledge about the operation and generation status of Reclamation's hydropower facilities.

From an organizational perspective, Western would still need to retain its power accounting, billing, and settlements functions to monitor and credit/bill for products and services purchased and sold under to its marketing plan, as well as to reconcile ISO billings. Staff would be required to verify the accuracy and integrity of the accounting records and issue invoices to Western's customers and the ISO as appropriate. The ISO now has more than 100 separate charge types. Depending on the nature and complexity of the future financial settlements, this function may require additional staffing above current levels.

#### Evaluation of the Flexibility Criteria Under the PTO Alternative

Implementing the PTO Alternative would subject Reclamation and Western to the terms of the ISO Tariff for the term of the PGA and the TCA, respectively. Western and Reclamation would conform their business practices to those required under the ISO Tariff. If a new RTO is established and the ISO chooses to join, any changes that the ISO would need to make to its existing operating and business protocols would also have to be made by Reclamation and Western. Western and Reclamation would have to either comply with any changes required within the time frames established by the ISO or choose to terminate the TCA and PGA, respectively. Because of the present 2-year notice requirement, the effective date of the termination is not immediate. In the interim, as a PTO, Western and Reclamation would need to conform their business practices to the extent not precluded by Federal law.

If the ISO is certified by the Commission as an RTO, any changes that the ISO would need to make as a result of its new role would presumably be incorporated in its tariff. Reclamation

and Western could choose to either undertake the necessary changes in their respective business processes or choose to terminate the PGA and TCA, respectively. Because of the notice requirement, the effective date of the termination would not be immediate. In the interim, as a PTO, Western and Reclamation would need to conform their business practices to the extent not precluded by Federal law.

The electric utility industry is in a state of ongoing change. New policies, procedures, and practices are being adopted to reform and restructure the energy markets. NERC and WECC are coordinating industry wide changes to existing operating standards and protocols to ensure the continued reliable operation of the electric power grid. As industry wide consensus is achieved, under the PTO Alternative, the ISO would presumably modify its tariff as needed.

The flexibility to join whatever RTO that Western chooses is of concern to some of the commentors. For instance, the TID commented "A [Federal Control Area] FCA allows for choice concerning which Regional Transmission Organization (RTO) Western [Sierra Nevada Region] SNR joins. Other alternatives require that Western joins the RTO that the CAISO desires."

The TID continued:

TID believes that the customers of Western should be able to choose what business environment they prefer to operate within. Customer choice was the linchpin in many arguments advocating competitive markets and California's electric industry restructuring. A Western FCA will give customers a choice between operating under the volatile CAISO market structure and a cost based, relatively predictable model. Under a Western FCA, customers will have the choice of participating and being a part of the CAISO if they choose. If Western chooses any of the options that make it subordinate to the CAISO or the CAISO Tariff, Western will have made the choice for many Western customers.

Under Contract 2948A, transmission and ancillary services are provided by the ISO to PG&E on behalf of Western. Western's off-system customers receive transmission service from the ISO and through Western under Contract 2948A. Direct-connected customers receive transmission service and ancillary services from Western and the ISO through PG&E, respectively, under Contract 2948A. When Contract 2948A terminates on January 1, 2005, under this alternative, these services would be provided by the ISO to all of Western's customers unless the customer can self-provide some of these services. In essence, all of Western's customers will be, by default, subject to the charges