

questioned some of the underlying assumptions used in the Navigant study. The ISO submitted a separate economic analysis showing that both the PTO and MSS options were the least cost options. Navigant reviewed the assumptions used in its initial comparative economic benefits study. A number of the suggested changes were accepted and incorporated into a revised comparative economic benefits study. The revised study continues to indicate that from an overall comparative economic standpoint, the PTO option continues to remain the least cost-effective of the three alternatives.

During the public process, some views expressed on the comparative economic benefit studies performed by Navigant and the importance of the cost-effectiveness criteria included:

The TANC commented:

\* \* \* given the rapid escalation of the CAISO costs, numerous inaccuracies of CAISO settlements, and extreme complexity and variability of CAISO market design, assumption-based cost forecasts in the CAISO environment are difficult to estimate and cannot be the most important evaluation criteria for Western and its Customers.

The TPUD stated:

The Navigant study and the forthcoming Cal ISO study, which will no doubt repudiate most, if not all, of Navigant's work, are a waste of time, money and effort. A prediction of how many tariff amendments the Cal ISO will file over the next twenty years would be more certain than anyone's prediction of the Cal ISO costs just two years from now.

The TID commented:

Western should not be persuaded to forego the FCA [Federal Control Area] option because some indicate that it *may* not be the low cost option. If, as the CAISO, and perhaps others, purport, participating in the CAISO is the most cost effective approach, then over time, Western customers will migrate to the CAISO market. The CAISO has a mission of being the preferred transmission provider. If they meet the goal, Western customers will find ways to participate and join the CAISO.

The ISO and a number of other commentors were concerned that Western has the information it needs to make a fully informed decision, and that the decision recognize and incorporate the needs of all the parties, and not just a small subset of users. Although Western is aware of the issue of impacts to statewide ratepayers, under Reclamation law, Western's legal obligations are to Project Use and Preference Power customers. Western views the Navigant study as a screening study to determine the comparative differences between the alternatives and to determine which alternatives, if any, were significantly more or less cost-

effective than the others. The study looked at the cost of delivering power to Federal Base Resource and Custom Product customers to the customers' delivery point(s). Western believes that the study used reasonable assumptions and cost data based on information available at the time. Western analyzed the comments and determined that since the PTO Alternative is the most expensive from the comparative economic benefits perspective, the PTO Alternative almost meets the cost-effectiveness criteria.

Under the terms and conditions of Contract 2948A, PG&E agreed to provide transmission service to Federal Project Use and Preference Power customers instead of the Federal Government constructing its own transmission system. Although this contract contains an expiration date, since PG&E's actions precluded the Federal Government from constructing its own facilities, Western asserts that PG&E is responsible for assuring the delivery of Federal power at rates consistent with its embedded cost of service. Therefore, any cost increases for transmission service beyond those already established under the terms and conditions of Contract 2948A constitute a cost shift to Reclamation's Project Use loads and Western's Preference Power customers. Since PG&E is presently paying these costs, costs to statewide ratepayers would not increase if the current arrangements continue.

#### Summary Analysis of the PTO Alternative

The PTO Alternative integrates the Federal generation and transmission system with the ISO-controlled grid. Under this alternative, Western's customers would be subject to all of the ISO charges associated with transmission and delivery of Federal power at their delivery points. For off-system Project Use loads and Preference customers, the resulting increase in ISO transmission and related charges would result in a cost shift from the transmission service now provided by PG&E under Contract 2948A. These customers are currently provided transmission service by PG&E for Federal power at embedded cost rates. Western's off-system Project Use and Preference customers would be subject to all of the ISO charges associated with transmission and delivery of Federal power to them. These charges represent a significant increase in costs to off-system Project Use loads and Western's Preference customers. These costs are now being paid to the ISO by PG&E under terms of Contract 2948A but will be charged to off-system Project Use

loads and Preference customers after January 1, 2005. Unless successor arrangements can be successfully negotiated with PG&E, and/or other cost allocation arrangements undertaken, these cost shifts are unavoidable not only under the PTO, but also for the MSS, sub-control area, and control area alternatives. Western will consider alternatives to minimize these cost shifts to its customers as part of its formal rate process.

For Project Use loads and Preference customers directly connected to the Federal transmission system, the cost-of-service rates would increase substantially, as transmission access charges would increase from cost-of-service rates associated with Federal transmission facilities to include the cost of statewide transmission. This would result in a significant cost shift to these users without a corresponding increase in service or benefits.

As the SC for Reclamation's generation and for customers who have contracted for this service, Western's overall cost to deliver Federal power to the ISO grid may not significantly increase if it is able to operate to minimize the need to purchase significant amounts of imbalance energy and/or ancillary services under the PTO Alternative. From an infrastructure standpoint, the PTO Alternative will still require development and implementation of all of the systems described previously in the section entitled, "Implementing the Post-2004 Power Marketing Plan," except for the reliability support function portion of the Scheduling system. Implementing the PTO Alternative would eliminate the need for a scheduling system to support the reliability function. However, additional programming would be required to assure that data would be appropriately collected and shared between Western's Power Marketing and Power Operations functions and the ISO.

From a staffing standpoint, Western would have to maintain a 24-hour Merchant Desk and a 24-hour Transmission Switching Desk, requiring an estimated 15 positions. The Transmission Switching Desk already exists. Western intends to hire the Merchant Desk positions from within the organization to the maximum extent possible to minimize the need for new staff and to continue transforming its organization to meet the needs of its new Marketing Plan. In addition, Western may need to add staff to the Settlements function to reconcile ISO charges and issue bills to customers for SC services provided to some of the customers as charged by the ISO to