

additional investment in software and other associated equipment and infrastructure, as well as additional staff to handle ISO business requirements, are all concerns.

Western views the Navigant study as what it was intended to be; a screening study to determine if any one of the alternatives were more or less cost-effective than the other alternatives. The revised comparative economic studies containing updated assumptions, referenced above, continue to indicate that the MSS and Control Area alternatives are comparable. Western, therefore, concludes that the MSS Alternative meets the cost-effectiveness criteria.

Under the terms and conditions of Contract 2948A, PG&E agreed to provide transmission service to Federal Project Use loads and Preference customers instead of the Federal Government constructing its own transmission system. Although this contract expires, 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. 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 customers. Since PG&E is now paying those costs, costs to statewide ratepayers would not increase if the current arrangement continues.

#### Summary Analysis of the MSS Alternative

The MSS Alternative includes operation of the Federal system as a sub-control area within the ISO control area and provides, through accounting mechanisms with the ISO, for Western to follow the loads of Western's MSS participants. Through the "net" settlements treatment of the MSS by the ISO, some of the ISO charges for imbalance energy and reserves could be avoided by MSS participants. However, off-system Project Use loads and Preference customers would still be subject to transmission and related charges by the ISO. With the expiration of Contract 2948A, the expenses previously paid by PG&E would be shifted to off-system customers. These customers would see a significant increase in their costs for transmission service.

Western's off-system Project Use loads 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 Western's off-system customers. Under Contract 2948A, PG&E has an obligation to serve the combined PG&E/Western load under the terms and conditions of the contract. These costs are now being paid to the ISO by PG&E under terms of Contract 2948A but will be charged to Western's off-system customers after January 1, 2005. The "net" settlement treatment, if these Project Use loads and Preference customers are MSS participants, may reduce the total cost impact but some cost shifting will occur. Unless successor arrangements can be successfully negotiated with PG&E, and/or other cost allocation arrangements undertaken, these cost shifts are unavoidable under the PTO, MSS, sub-control area, and control area alternatives. As part of its formal rate process, Western is considering alternatives to minimize these cost shifts to its customers.

From an infrastructure standpoint, the MSS Alternative will still require the development and implementation of all of the systems described previously in the section entitled, "Implementing the post-2004 Power Marketing Plan." In addition to these systems, Western will have to upgrade its Supervisory Control and Data Acquisition (SCADA) system to include an AGC module. 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. Western would have to maintain a 24-hour AGC desk and a 24-hour Transmission Scheduling and Security Desk requiring another estimated 14 positions. Because of the existing staffing levels, Western anticipates that it will need to hire only eight new positions to staff these three desks (AGC, Transmission Scheduling, and Transmission Security) above what is required for the PTO Alternative. Western may also need to add additional staff to the Settlements function to account for and reconcile ISO and Western charges and issue bills to MSS participants for services provided in following load and providing reserves for MSS participants. Western estimates it will need an additional two positions to accommodate these activities.

This table summarizes the relative ratings of each evaluation criteria for the MSS Alternative:

#### MSS ALTERNATIVE EVALUATION SUMMARY

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

#### The Control Area Alternative

Under this alternative, Western would initiate the control area certification process by submitting an application to NERC and WECC. This process requires up to 6 months to complete and requires Western to document its ability to operate its system reliably under all applicable NERC and WECC policies and guidelines. In addition, Western must demonstrate its operations will not affect neighboring control areas. In the event impacts to neighboring control areas are identified, Western must identify and implement sufficient remedial measures to mitigate such impacts.

Once an application is submitted, a review team is selected from the WECC membership. The review process includes interviews and/or questionnaires of neighboring control areas. This process is designed to identify issues that may arise from Western forming a control area. Any issues that are identified during the review process must be resolved to the satisfaction of WECC before a new control area is certified. When the review team is satisfied that Western can operate its system reliably within applicable NERC and WECC criteria, the review team will recommend to the NERC and WECC Boards of Directors that certification status be approved. Western would receive certification to operate as a control area only when the review team's recommendation is approved by the NERC and WECC Boards of Directors.

Under this alternative, Western would continue to be responsible for operating, maintaining, and replacing the CVP transmission facilities. Reclamation would remain responsible for switching, maintaining, and replacing the CVP generating facilities. Under this alternative, Western would operate as a control area and establish control area boundaries with the ISO, the BPA, and