

SMUD. Western would schedule the use of the CVP transmission system and Western's Malin-Round Mountain transmission line. If Western continues in its roles as the operating agent for COTP, this line would also be included within the Western control area and Western would assume responsibility for its operational control. As long as it continues as COTP's operating agent, Western would continue to provide services to maintain and replace these facilities. Western would schedule use of the CVP transmission system, the COTP, and the Malin-Round Mountain transmission line. The ISO would remain as the single path operator for the entire COI.

#### Operating Scenario To Evaluate the Control Area Alternative

Under the Control Area Alternative, Western would establish a physically defined contiguous system. As a control area operator, Western would manage the net power flows through its interconnection points with the ISO, BPA, and SMUD under NERC and WECC criteria and guidelines. Western would schedule energy deliveries to Project Use load, First Preference customers, and other customers, match its generation and load, provide reserves, and provide frequency support for the WECC interconnection under NERC and WECC criteria and generation schedules developed by Reclamation and Western.

Western would self-provide imbalance energy and ancillary services and could participate in the ISO markets whenever excess generation or reserves are available. Although off-system customers would not be included in the initial control area formation phase, Western contemplates discussing the possibility of dynamically scheduling to off-system customers with the ISO after sufficient experience is gained as a control area operator and the ability of Reclamation's generation to follow loads dynamically is ascertained.

Western's customers directly connected to Western's system would not be subject to use of the ISO grid for deliveries of Federal power. However, off-system Project Use loads and Preference customers would incur all of the ISO transmission and related charges associated with the deliveries of Federal power. Western would market transmission service to its customers on an open access and non-discriminatory basis.

From an operational perspective, Western would have a 24-hour Merchant Desk to purchase energy required for Western's Variable Resource and Full Load Service

customers and would act as the SC for Reclamation's generation and Project Use loads, as well as for interested customers. The 24-hour staffing of the Merchant Desk is required by the ISO for Western to maintain its SC status, as well as to implement its post-2004 Marketing Plan. Western would also 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 interconnected systems in restoring the system following a disturbance. Since Western would schedule the use of its transmission system and those elements of the COI it owns or is responsible for under contract, Western would have to maintain a 24-hour Transmission Scheduling Desk. To regulate the control area, Western would maintain a 24-hour AGC Desk.

From an organizational perspective, Western would continue to need a power accounting, billing, and settlements function to account for services purchased and sold, reconcile billings from the ISO and others to the accounting records, and issue invoices to Western's customers and the ISO. Current staffing levels in the settlements function would need to increase by an additional two positions to support the additional workload for the Control Area Alternative.

#### Evaluation of the Flexibility Criteria Under the Control Area Alternative

Under the Control Area Alternative, Western would be required to physically establish its boundaries and become a stand-alone unit within the WECC interconnection. In forming a control area, Western would need to have operational agreements with neighboring control areas to assure it would operate its system in concert with neighboring systems. These arrangements typically include metering and communication agreements, emergency operations procedures, normal operating procedures, data exchange arrangements, and power accounting procedures. These arrangements comply with NERC and WECC standards.

As NERC and WECC industry wide standards change, Western would have to change its procedures and structure its inter-control area agreements to accommodate such industry wide changes. Therefore, short-term flexibility would be provided for within the construct of the inter-control area agreements.

When, and if, Western chooses to join an RTO, it could do so as a stand-alone entity, without the need to terminate

any agreement. The operating agreements between Western and the neighboring control areas would not change, because from a physical standpoint, nothing changes if Western joins an RTO. Operational protocols may change, but the physical operation of the system must continue. Changes in operational protocols would still have to comply with the applicable NERC and WECC reliability standards.

Because of the absence of the need to terminate any agreement, and the intended construct of the inter-control area agreements with neighboring control areas, Western concludes the Control Area Alternative meets the flexibility criteria.

#### Evaluation of the Certainty Criteria Under the Control Area Alternative

Under the Control Area Alternative, neither Western nor the direct-connected customers would be subject to ISO charges except for those services purchased from the ISO. Western, however, would charge the direct-connected customers for capacity, energy, transmission, and ancillary services with rates determined through a public process. Western's off-system Project Use loads and Preference customers would be subject to ISO charges for transmission and delivery of Federal power and ancillary services. Under this alternative, Western intends to implement dynamic scheduling after it has sufficient experience operating as a control area. Consequently, non-direct connected customers may be able to avoid some of the imbalance energy and reserve charges of the ISO shortly after the control area is established and operational.

Costs associated with the Control Area Alternative are expected to be fairly predictable and include charges for labor and equipment to operate, maintain, and replace the CVP transmission facilities of Western and the costs allocated to hydropower generation facilities owned and operated by Reclamation. These costs have historically been included in CVP power rates established by Western. CVP rates are cost based and established at the lowest possible rates consistent with sound business principles. Additional costs associated with operating a control area are purchased power costs necessary to balance the control area during the fall and winter months when insufficient generation is available to meet Project Use and First Preference loads. Power purchased for these purposes is expected to be purchased in the forward markets as blocks, rather than purchased on the spot market, to reduce price volatility