

and ensure stable rates. With the ongoing development of generation optimization tools, Western expects the timing and quantity of purchased power amounts can be predicted with reasonable certainty after Contract 2948A expires.

Using the forward purchase approach, the Control Area Alternative should limit Western's exposure to the spot market. Because the preponderance of Western's costs are within Western's control, CVP rates should remain reasonably stable over time, and rate adjustments should not be needed more often than that which has historically occurred, approximately every 3 years. As a control area, Western would be required to meet WECC and NERC operating criteria. To the extent Western is not able to fully comply with such criteria, it will be subject to financial penalties for non-compliance. Western has considered this risk in its decision-making process.

The ISO is in the midst of implementing new operating guidance for its MD02 initiative. This new initiative would implement the concept of locational marginal pricing to deal with transmission congestion. If MD02 is implemented in its current format during congestion periods, the ISO would re-dispatch all generation based on economic factors. Under this alternative, CVP Preference customers and Project Use loads that remain in the ISO control area could end up paying a different price than the cost-of-service rates associated with Federal hydropower resources. These rates may not be consistent with Reclamation law and policy and Western may need to consider mitigation strategies. Western concludes that for control area participants, the Control Area Alternative meets the certainty criteria.

In addition to implementing a new control area, Western is also considering the possibility of assessing charges on the PACI associated with the cost of off-system deliveries to its customers served via the ISO-controlled grid. The intent of Congress, when it authorized the construction of the PACI, was to assure that Federal Preference customers would receive power as if Federal facilities had been constructed. Although this cost would in effect result in rate pancaking users of the PACI, Western believes these costs are relatively minor and assures that the intent of Congress continues to be met. These costs are outside the scope of this process and will be discussed as part of the rate process for implementation of the post-2004 Marketing Plan and the post-2004 Operational Alternative,

which is scheduled to start February 2004.

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

Under the Control Area Alternative, Western would be subject to industry wide changes in operating protocols and business practices coordinated by NERC and WECC. These changes generally result from policy or standards changes made through industry consensus and approved by the NERC and WECC Boards of Directors and, historically, have not occurred with great frequency.

Changes in Western's business practices are generally determined by changes in Federal or industry wide policies and may be made through a public process designed to assure that the impacts of these changes are fully understood by the agency prior to implementing them. Western contemplates executing contracts with intra-control area participants. These contracts would recognize physical rights and should assure reasonable predictability and allow the participants to manage their risks and make the appropriate long-term business decisions. Because the operating protocols and business practices under the Control Area Alternative are controlled by industry consensus or Western's own actions, Western concludes that the Control Area Alternative meets the durability criteria.

#### Evaluation of the Operating Transparency Criteria Under the Control Area Alternative

To become a certified control area, Western would have to operate under NERC and WECC operating criteria and guidelines. These criteria and guidelines require that the operation of Western's system cannot impact other control areas. If Western were to change the operation of the Federal system, as a control area, it would have to assure such changes would not impact third parties or its operation would not violate NERC and WECC requirements and consequently be subject to financial penalties under the WECC Reliability Management System agreement. Because of the requirements within NERC and WECC criteria and guidelines to assure no impacts on third parties occur as a result of Western's control area operations, Western concludes that the Control Area Alternative meets the operating transparency criteria.

#### Evaluation of the Cost-Effectiveness Criteria Under the Control Area Alternative

Western is considering the possibility of assessing charges on the PACI

associated with the cost of off-system deliveries to its Project Use loads and Preference customers served via the ISO-controlled grid. The intent of Congress, when it authorized the construction of the PACI, was to assure that Federal Project Use loads and Preference customers would receive power as if Federal facilities had been constructed. Although this cost would in effect result in rate pancaking for PACI users, Western believes these costs are relatively minor and assures the intent of Congress continues to be met. These costs are outside the scope of this process and will be discussed as part of the rate process for implementation of the post-2004 Marketing Plan and the post-2004 Operational Alternative, which is scheduled to start February 2004.

Navigant prepared a revised comparative economic benefit analysis for each post-2004 operational alternative, which incorporated comments received from the ISO and others related to the underlying assumptions used in the study. The revised study shows that, comparatively, the relative cost of the MSS and Control Area alternatives remain similar. The PTO option continues to be the least desirable from a cost standpoint of the three post-2004 alternatives under consideration.

Western reviewed the comments on the Navigant study referenced above provided by the ISO and others and made a number of changes to the study which are described in the section entitled "Comparative Economic Benefits Study." The revised study continues to indicate that the MSS and Control Area alternatives are comparable.

During the public process, commentors offered some views relative to the economic studies performed by Navigant and the importance of the cost effectiveness criteria.

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: