

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 expressed concern 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. Western views the Navigant study as a screening study to determine the comparative differences between the alternatives and to determine which alternatives, if any, are clearly better or worse than the others. The study looked at the cost of delivering Federal Base Resource to Variable Resource customers, and Federal Base Resource and Custom Product power for Full Load Service 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. As a comparative benefit study, the results were never intended to be used to identify and allocate cost repayment responsibilities. Western is undertaking a separate rate process to support the post-2004 operations alternative. The rate process is the appropriate forum to discuss cost allocation and financial repayment obligations. Western has analyzed the comments and determined that the Control Area 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 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. Therefore, any cost increases for transmission service beyond those already established under the terms and conditions of Contract 2948A constitute a cost-shift to Project Use loads and Preference customers. Since PG&E is now paying those costs, costs to statewide ratepayers would not increase if the current arrangements continue.

Summary Analysis of the Control Area Alternative

Implementing the Control Area Alternative would allow the Federal transmission system to be operated as a NERC and WECC certified control area. Customers directly connected to Western's system would avoid ISO charges for transmission and related services but would incur similar charges from Western. Off-system Project Use loads and Preference customers would, however, incur ISO transmission and related charges. This would represent a cost shift from the transmission service presently provided to off-system Project Use loads and Preference customers under Contract 2948A. As discussed under the PTO option, these customers are currently provided such transmission service by PG&E for Federal power at embedded cost rates. 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 off-system Project Use loads and Preference customers. These costs are now being paid to the ISO by PG&E currently under terms of Contract 2948A but will be charged to Western's off-system 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 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 Project Use loads and Preference customers.

From an infrastructure standpoint, the Control Area Alternative would still require the development and implementation of all of the systems described earlier in the section entitled, "Implementing the post-2004 Power Marketing Plan." In addition to these systems, Western would have to upgrade its 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. This requires 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 existing staffing levels, Western anticipates that it will need to hire only eight new positions to staff these three desks (AGC, Transmission Switching, and Transmission Security) above what is required for the PTO Alternative. Staffing within the settlements function to account for, reconcile ISO and Western charges, and issue bills to customers is expected to increase by two additional positions.

The comparative economics of the Control Area Alternative are described above in the analysis of the PTO Alternative and will not be repeated here. That discussion showed that the Control Area Alternative is comparable to the MSS Alternative.

The relative ratings for the Control Area are summarized:

CONTROL AREA ALTERNATIVE EVALUATION SUMMARY			
Evaluation factors	Meets	Almost meets	Does not meet
Flexibility .....	XX		
Certainty .....	XX		
Durability .....	XX		
Operating Transparency .....	XX		
Cost-Effectiveness .....	XX		

Other Operational Alternatives

A number of commentors recommended Western consider the possibility of integrating its operations within an already established WECC certified control area such as SMUD. Commentors suggested that such an alternative would be similar in concept to the ISO's MSS template, except the arrangement would be contract-based, and not tariff-based. Western discussed the possibility of a contract-based sub-control area with SMUD. SMUD indicated an interest in pursuing additional discussions. As part of Western's proposed decision, Western will continue discussions with SMUD on forming a contract-based sub-control area. Reclamation, as well as the City of Palo Alto, suggested that Western consider approaching the ISO to ask about the possibility of getting a contract-based sub-control area agreement.

Sufficient detailed information is not now available to make a fully informed judgment to determine how the evaluation criteria would apply to this specific alternative and the relative benefits and burdens associated with its