

implementation. Western intends to approach the ISO and SMUD to initiate discussions and collect additional data to determine the feasibility of this alternative. If either alternative is feasible, Western will then initiate the appropriate steps to implement it. As part of an initial overall review, the following general statements can be made.

From a flexibility viewpoint, the analysis of a contract-based sub-control area would be similar to the analysis for the MSS Alternative. Flexibility would be limited to the termination provisions of the agreement putting this alternative in place. Therefore, this alternative would probably satisfy the flexibility criteria.

From a certainty viewpoint, the rates and charges for products and services purchased from either control area operator are assumed to be contract- and cost-based, rather than market- and tariff-based. Therefore, rates should be generally stable and predictable. From that perspective, this alternative would probably meet the certainty criteria.

Since this alternative is contingent upon executing a contract-based agreement, and not dependent on changes to a tariff, the terms and conditions should be relatively stable and participants should be able to engage and commit to long-range planning activities. This alternative would probably meet the durability criteria.

The operating transparency of an arrangement with either control area under this alternative should be seamless. As a contract-based sub-control area, Western would operate its facilities within a host control area. The host control area must conform its operations to the reliability standards outlined by NERC and WECC. Consequently, any changes in operational protocols and procedures would have to minimize and/or mitigate any impacts and be accomplished in close coordination with neighboring control area operators. This alternative would probably meet the operating transparency criteria.

Insufficient information is available to make a preliminary determination as to the relative cost-effectiveness of this alternative. However, since the SMUD control area operates on a cost-based orientation, we assume that, at a minimum, it probably meets the cost-effectiveness criteria.

A number of commentors suggested that Western consider a contract-based MSS arrangement with the ISO. The ISO currently operates under a tariff-based system. However, consistent with Western's proposed decision, Western

intends to initiate discussions with the ISO to investigate the feasibility of pursuing this type of an agreement.

#### **Comparison of the Operational Alternatives**

Implementing each alternative under consideration would result in a different operational configuration and would result in a different relationship with the ISO. Each alternative also subjects Western to different staffing levels because of the needs for different functions associated with that alternative.

The No Action Alternative may create a situation where Western is unable to perform under its power contracts and places Western in a position of scrambling to put arrangements in place to operate the Federal system within the ISO control area. Western may also not be able to assure project repayment under this alternative. Western would essentially be a price and service taker without the ability to negotiate favorable terms and conditions because of the impermanent nature of the operational agreements. Western has determined that this is not a preferable alternative.

The PTO Alternative would result in Western's system being integrated with the ISO control area and all of Western's customers being subject to all of the ISO charges for scheduling and delivery of Federal power to their delivery points. Western's transmission revenue requirement would be met, and its staffing levels under this alternative would be the lowest of any of the alternatives. Western's rates would have to be set to cover all of the ISO charges associated with Western's role as the SC for Reclamation generation.

The MSS Alternative would allow Western to operate within the ISO control area as a sub-control area and would provide accounting mechanisms for Western to include all customers desiring to participate in the MSS to be included in the MSS. Western's customers may avoid some ISO ancillary service charges depending on the ability of the CVP generation to follow the combined load of Western's MSS participants. The direct-connected Project Use loads and Preference customers would also be able to avoid some transmission and related charges, but the off-system Project Use loads and Preference customers would not avoid transmission and other ISO charges. The charges for the MSS Alternative may be lower than under the PTO Alternative because of the "net" settlements feature of the MSS.

The Control Area Alternative would allow Western to function as an interconnected control area with BPA,

the ISO, and SMUD under NERC and WECC criteria and guidelines. Direct-connected customers would avoid all ISO charges associated with delivery of Federal power, but the off-system Project Use loads and Preference customers would not avoid these charges.

From an infrastructure viewpoint, all of the systems necessary to support the post-2004 Marketing Plan are needed and are independent of the alternative chosen. The MSS, control area, or sub-control area alternatives all require the addition of an AGC module to Western's SCADA system. The MSS, control area, and sub-control area options also require the creation of two new 24-hour desks (AGC and the Transmission Scheduling and Security Desks) as well as the addition of two staff positions in the settlements function. These positions would not be required under the PTO option.

During the public comment period, Western received numerous comments from customers and interested stakeholders indicating their respective preferences for, or against, a specific post-2004 operational alternative. A common thread of the comments received from Western's customers encouraged Western to choose an alternative that did not place Western's relationship with the ISO under the ISO Tariff. Reasons cited were the frequency of changes to the ISO Tariff and the costs associated with possible litigation over proposed ISO Tariff modifications.

The PTO option subjects Project Use loads and Preference customers to all ISO charges. While this option requires the least amount of Federal investment in infrastructure and staffing, it subjects all of the Project Use loads and Preference customers to all ISO charges. This substantially increases cost-of-service rates because the relatively low cost of Federal transmission facilities would be blended with higher statewide transmission facility costs under this alternative. This option also raises concerns related to the operation and control over Federal facilities. Specifically, Reclamation and Western would have to assure the operation of CVP water and hydropower facilities would be consistent with the project's statutory authorizations. Based on these factors, Western is removing the PTO option from further consideration.

The MSS option presents some favorable characteristics for Project Use loads, Preference customers, and Western. The ability to provide some ancillary services to Project Use loads and Preference customers that participate in the MSS, subject to the availability of CVP generation, and the