



**Pacific Gas and
Electric Company**

Judi K. Mosley
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VIA E-MAIL

December 31, 2003

Overnight Mail:
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Mr. Tom Carter
Power Operations Manager
Sierra Nevada Region
Western Area Power Administration
114 Parkshore Drive
Folsom, CA 95630-4710

Re: Comments Regarding Operational Alternatives for Post 2004 Operations

Dear Mr. Carter:

This letter presents the comments of Pacific Gas and Electric Company (PG&E) in response to the Federal Register Notice of Proposed Decision dated December 2, 2003, (68 Fed. Reg. 67417-67437) (Notice), which invited oral and written comments on operational alternatives available to the Western Area Power Administration (Western) upon termination of its existing contracts with PG&E on January 1, 2005. As you know, PG&E and Western are engaged in continuing discussions intended to assure a smooth transition to the successor arrangements that will be put into place upon termination of those contracts. As an initial matter, PG&E agrees with Western's analysis that the "no-action" alternative here is unacceptable, given the expiration of the contracts.¹

PG&E understands that, since Western's June 24, 2003, Notice of Intent (June Notice), Western has added a new alternative to the three options it initially considered for implementation January 1, 2005. Western initially considered: (1) forming its own control area; (2) joining the California Independent System Operator (CAISO) as a participating transmission owner (PTO); or (3) entering into a Metered Subsystem (MSS) Agreement with the CAISO. PG&E understands that, instead, Western is now considering entering into negotiations with the Sacramento Municipal Utility District

¹ Certain statements in the Notice concerning Contract 2948A need correction, in order to present an accurate record upon which Western's decision can be based. In the Notice, Western implies that the "terms and conditions" of that contract "precluded" Western from constructing its own transmission facilities and that therefore PG&E is bound by the contract for an unspecified period beyond the contract's unambiguous expiration date, which Western acknowledges is January 1, 2005. PG&E is unaware of any such "terms and conditions" in Contract 2948A. PG&E has previously requested that Western provide cites to the authority(ies) it relies on in making statements similar to that in the Notice that some or all PG&E obligations outlive Contract 2948A. PG&E again respectfully requests that Western provide citations to authority for its statements in the Notice to that effect. Additionally, while the Notice repeats the statement: "costs to statewide ratepayers would not increase if the current arrangements continue," (see, e.g., Notice at 67427), it neglects to state that when the contract ends, electricity costs to ratepayers statewide will decrease.

(SMUD) and the CAISO pursuant to its decision to implement a contract-based sub-control area with either SMUD or the CAISO.

PG&E would like to raise the following issues for Western's consideration in its decision-making process:²

Lack of Detail in the Sub-Control Area Proposal. This is a new alternative that PG&E understands has yet to be defined by contract negotiations between Western and either of its possible partners. Accordingly, neither PG&E nor other interested parties can evaluate any potential effects, such as cost-shifting, that this proposal may have on PG&E, its electric system or customers. PG&E looks forward to the opportunity to review and comment on Western's proposal once detailed information becomes available on this option. As a general matter, PG&E respectfully requests open access at uniform cost-based rates, consistent with Western's open-access tariff, remain in the forefront of any such negotiations. These contract negotiations need to take place swiftly, as any new arrangement would need to be in place by January 1, 2005.

Reliability. While PG&E appreciates Western's comment that reliability will necessarily be considered in the implementation of any option, it remains important to fully evaluate reliability issues before choosing an option, because different options may have considerably different reliability effects, requiring potentially more or less costly or effective implementation measures. For example, a sub-control area within SMUD that controlled the California/Oregon Transmission Project (COTP) and Western 500kV lines would result in three control areas at the California/Oregon Intertie (COI), rather than the two there now. This situation may add operational complexity and reliability issues significantly affecting one of the most critical interconnections in the Western Electricity Coordinating Council (WECC) region. If Western is proposing there continue to be a single path operator at COI, the roles, responsibilities and authority of the path operator need to be clearly defined relative to those of the control-area operators in order to adequately assess the impacts on operations and reliability. PG&E requests Western define and provide descriptions of these relationships as soon as possible for review and comment.

Cost Analysis. PG&E understands Western is concerned about potential costs associated with future changes to the CAISO's tariff. PG&E appreciates that Western has made several changes to its cost analysis since the June Notice and these changes have shown reduced cost differentials among the scenarios. As a screening study, its primary value is in showing where there are large cost differences and to identify the economic factors that potentially affect the choice of a particular operational option. However, PG&E is still concerned that Western's analysis may not reflect an appropriate balance of both favorable and unfavorable California energy market scenarios necessary for sound analysis.

In addition, it appears Western has not estimated the costs that individual customers would incur under each operating scenario (see Notice at 67421), yet many of its conclusions are purportedly aimed at deflecting assumed costs from these individual

² Because the Notice indicates Western does not intend to pursue a new control area at this time, PG&E is not commenting on Western's analysis of that alternative at this time.

customers. PG&E requests Western clarify its analysis of the cited costs and cost-avoidance measures for each alternative, as well as explicitly address and quantify the benefits that offset these costs.

Further, as stated in PG&E's August 8, 2003, comments on the June Notice, PG&E is concerned about the cost shifts that are likely to occur if Western's final decision results in Western avoiding the appropriate level of cost responsibility associated with operating in the California market. As Western is aware (*see, e.g.*, Notice at 67427), certain cost shifts would be borne by a large portion of California consumers, including PG&E ratepayers, served throughout the CAISO control area. The cost details of the proposed contract-based sub-control area scenarios remain unknown, leaving PG&E unable to evaluate potential cost effects on PG&E customers. In particular, Western has not estimated the costs of the COI Path Operator role that is needed in any scenario. Western should not expect to avoid its share of operational costs that are related to the reliable operation of the COI. This could have a significant effect on the choice of the CAISO vs. SMUD as Western's host control area. Without a thorough quantification of the likely cost-shift effects of each alternative, Western will not be able to take into consideration the public interest of all California electricity customers in Western's Sierra Nevada region when making its decision on behalf of the federal government. PG&E may oppose, in the appropriate venues, any proposals that unduly shift costs or operational burdens to PG&E and its customers.

Lastly, PG&E previously requested copies of any studies conducted by or for Western describing cost effects of a separate control area on PG&E, the CAISO, and on California customers, because cost impacts of a separate control area, or sub-control area, could be significant. PG&E never received a response to that request. Accordingly, PG&E respectfully reiterates that request, and asks that Western's response now include any studies made regarding the cost effects of possible sub-control areas, as well.

Acquisition/Investment Decision. In several of its alternatives, Western states it may "be required to either acquire or invest in constructing alternative facilities at, or in the vicinity of, Cottonwood and Round Mountain substations." (Notice at 67421.) Western's June Notice contained similar language. PG&E requested, in its August 8, 2003, comments to the June Notice, that Western provide some clarification of the action it proposes to take with respect to these facilities. PG&E also requested clarification of the legal basis and regulatory approvals required for any such action if it requires purchase or acquisition of facilities from PG&E. Western has not yet provided a response to those requests. As the owner of the referenced facilities, PG&E respectfully reiterates its request for clarification by Western on these points, particularly as such acquisition activity may apply to a possible sub-control area arrangement. PG&E also requests further details regarding Western's proposed investment in construction of alternative facilities, as they may have a significant operational impact on PG&E's electric system and the ISO controlled grid.

NEPA Analysis. As PG&E stated in its comments on the June Notice, Western's reference in the Notice to the National Environmental Policy Act (NEPA) and various environmental studies completed in the mid-to-late 1990s appears to indicate Western believes NEPA may apply to its proposed operational alternatives. To the extent NEPA does apply, the prior studies did not evaluate the potential environmental impacts of

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forming a separate control area or sub-control area, including the potential effects on reliability and congestion, such as the concerns expressed in recent analyses by the CAISO. In addition, Western still has not evaluated whether there are significant new circumstances or information relevant to environmental concerns since these reports were prepared in the 1995-97 time frame, prior to the formation of the CAISO. Western should evaluate such impacts in order to meet NEPA's statutory requirements.

If you have any questions about PG&E's comments or would like to discuss these issues further, please contact me at (415) 973-4408.

Sincerely,

Signed for JK Mosley by RA Weingart

Judi K. Mosley

cc: Deborah Le Vine – CAISO
Karen Shea – CPUC
Brian Jobson – SMUD