

Western's Summarization of Comments Presented  
at the July 30, 2003 Public Comment Forum  
Operational Alternatives Post-2004 Operations  
[\(For a verbatim copy, contact Capitol Reporters @ \(916\) 923-5447\)](tel:9169235447)

**Maury Kruth – Transmission Agency of Northern California (TANC)**

TANC supports Western in its endeavor to consider forming a control area. It is prudent for Western to either pursue formation of a new control area or consider the possibility of joining an adjacent control area in order to assure flexibility, certainty, durability, operating transparency, and cost-effectiveness for its customers.

Cost containment, market design problems, and frequent tariff changes are ongoing issues when dealing with the California Independent System Operator (CAISO). TANC supports the concept of honoring existing contracts and is not enamored with tariff changes, which alter the balance of burdens and benefits. Western has demonstrated in its other service areas, that it can operate durable, reliable, and cost-effective control areas. Locally governed entities can provide reliable and cost-effective services to its customers and can deal effectively with cost containment related issues. Cost forecasts should not be the most important criteria when considering forming a new control area.

TANC will submit detailed comments on Western's operational alternatives for post-2004 operations before the August 8 deadline.

**George Fraser – Northern California Power Agency (NCPA)**

NCPA receives approximately 1/3 of its power from Western. Some of its members are direct connected to the Federal transmission system. Other members receive their power deliveries through the PG&E integrated system. NCPA's biggest concern is the need for firm transmission at cost-based rates. Western has successfully operated control areas in other parts of the Western United States.

In addition to cost, another factor that Western needs to consider when examining its post-2004 operations is predictable cost-based rates. Additionally, Western will need to ensure that its transmission system continues to work in tandem with PG&E's. Post-2004 operational configurations include the possibility of joining an existing control area. Many of NCPA's members will still be in a Metered Sub System (MSS) agreement with the CAISO even if Western forms a control area. Accordingly, NCPA recommends Western and NCPA get together with CAISO and negotiate at the appropriate time.

### **Greg Pohl – Modesto Irrigation District (MID)**

MID serves electric power to a 160 square mile area encompassing parts of San Joaquin and Stanislaus Counties and is a customer of Western by virtue of being a 21% shareholder of capacity rights on the California-Oregon Transmission Project (COTP) and having a 5-megawatt allocation of power from the Central Valley Project.

MID supports Western's endeavor to form a new control area. Flexibility, certainty, durability, operating transparency, and cost-effectiveness are all important factors to consider as Western moves forward. MID supports the policy of honoring existing contracts and agreements and respecting the concept of preservation of local control.

MID will submit detailed comments on Western's operational alternatives for post-2004 operations before the August 8 deadline

### **Steve Boyd – Turlock Irrigation District (TID)**

TID provides electricity to 13 communities. TID supports the five factors enumerated in the Federal Register Notice. TID believes that the only option which meets all of those factors is the control area alternative.

### **Ray Camacho – Silicon Valley Power (SVP)**

SVP is one of Western's larger customers. SVP is owned by its 100,000 customer-owners, and has many prominent customers in the computer industry. In its 106-year history, SVP has focused on reliability and attractive rates. SVP is financially sound and Western power deliveries are an important part of its 700-megawatt resource portfolio.

The three points SVP would like to make are as follows:

- (1) It is good to explore the control area option. Cost and reliability risk increase whenever they are co-mingled with market operations. A Western control area offers protection against further market/cost risks. A control area enhances reliability and avoids market disasters.
- (2) A Western control area provides flexibility, certainty, durability, operating transparency, and cost-effectiveness. SVP currently operates under an MSS agreement with the CAISO. The MSS agreement does not meet the five factors identified in Western's Federal Register Notice.

- (3) SVP is concerned with cost shifts. However, the parties are better served if the costs in existing contracts are maintained, even though many market reformers may disdain this.

SVP will submit detailed comments on Western's operational alternatives for post-2004 operations before the August 8 deadline.

### **Dick Buckingham – Pacific Gas and Electric Company (PG&E)**

PG&E would like to include the following brief item for the record. PG&E notes that in Western's Federal Register Notice, reference is made to the Coordinated Operating Agreement (COA). PG&E would like to point out that Section 8.2.2 of the COA says:

8.2.2 Separate Control Area. Nothing in this Agreement shall prevent the COTP Participants from joining or forming a new Control Area in northern California and making COTP a part of that new Control Area. In such event, this Agreement shall be revised as appropriate to reflect such change in Control Area operations; provided, that the PACI shall remain in the PG&E Control Area, and that the rights in Sections 8.1 and 8.3.3 shall be preserved.

PG&E indicated that depending on how this contract language is read and interpreted, in the event Western moves forward to implement a control area, the language could affect control area boundaries.

### **Kyle Hoffman – California Independent System Operator (CAISO)**

The CAISO's full set of comments are posted at its Website at [www.aiso.com](http://www.aiso.com)

CAISO has four primary concerns with Western's proposal

- (1) Adverse implications to grid reliability and operations,
- (2) Increased complexity of operating the California-Oregon Intertie (COI),
- (3) Increased costs to both Western's customers and California's consumers if a Western control area is implemented, and
- (4) Inconsistency of Western's proposal with existing Federal policy and proposed direction

#### **Adverse implications to grid reliability and operations**

Because CAISO and Western's transmission system are extensively interconnected, carving out the proposed new control area would further complicate transmission operations in Northern California and in bordering control areas.

### Increased complexity of operating the COI

Breaking the COI path into three control areas would unnecessarily complicate coordinated operations with neighboring control areas and increase the complexities of reliably operating the grid in Northern California. The Western proposal would also create different market rules for market participants, depending on which specific line they are deemed to use at COI and produce seams and configuration issues within the CAISO control area, the Western control area, and neighboring control areas that could affect reliability, reduce market efficiency, and increase costs to all of California's consumers.

### Increased costs to both Western's customers and California's consumers if the Western control area is implemented

CAISO is concerned that Western is proposing to establish a transmission charge for use of the line that would likely be significantly higher than today's transmission rates for the use of the line. Rather than using cost causation principles, Western proposes to cross-subsidize its customer's costs by creating a tollbooth to collect pancaked transmission charges from customers served by the CAISO. Western's plan shifts this cost (estimated by the CAISO to be \$80 to \$100 million over the next ten years) from Federal preference power customers to the rest of California's electric consumers.

### Inconsistency of Western's proposal with existing Federal policy and proposed direction

It is poor public policy to support further fragmentation and further pancaking of the Western transmission grid. Adoption of Western's proposal is contrary to the Federal policy goal of striving for better integration and coordination among electric systems and transmission rate de-pancaking to foster regional trade, and will further balkanize the transmission grid in the Western United States.

In addition to the four points, CAISO would like to point out what it views as being flaws in the Navigant Study:

- (a) The Navigant report misinterpreted the CAISO settlements treatment of self-provided Ancillary Services (A/S). The report assumed that Western's load would incur a 6.2 percent A/S operating reserve obligation under the CAISO options and only 5 percent under the Western control area option. This assumption is inconsistent with CAISO Tariff.
- (b) The Navigant report incorrectly assumed that Western's customers would be fully liable for PG&E's Reliability Services costs if Western became a Participating Transmission Owner (PTO)
- (c) The Navigant report assumes that Westerns customers would incur congestion costs on the Pacific AC Intertie (PACI) only if Western becomes a PTO. This overlooks the firm transmission rights that Western

- would be allocated under the CAISO commensurate with its existing contract rights on the PACI.
- (d) The Navigant report assumes that the MSS option would require significant additional costs, including acquisition of an Automatic Generation Control infrastructure, new settlement software, and additional personnel. Western is essentially operating as an MSS and does not require the assumed additions of equipment, software, and personnel. If Western operated as an MSS with full 10-minute load following capability, it would not need AGC hardware, software, or personnel, a Market desk, or new settlements software.
  - (e) Western's Transmission Revenue Requirements appear to be understated
  - (f) The Navigant report does not include payments that Western would make to the CAISO in its role as COI path operator.

### Discussion of CAISO Proposal to Western on MSS

Benefits include:

- (a) cost allocation/settlements on cost causation principles
- (b) load following allowed in real-time
- (c) dispatchability of multiple Bureau of Reclamation generating units (System Unit concept)
- (d) exemption from non-contingency firm load shedding
- (e) full access to CAISO real-time energy and A/S markets
- (f) control area services at lower cost than the Western control area option

### Conclusion

CAISO is committed to continuing to work with Western. Any final decision on Western's 2005 Power Marketing Plan needs to be made on an informed basis. A decision at this time is premature. What is needed, is a decision, on an alternative, which provides all California customers with safe/reliable transmission service at the lowest equitable cost.

CAISO will submit detailed comments on Western's operational alternatives for post-2004 operations before the August 8 deadline.

### **Jim Shetler – Sacramento Municipal Utility District (SMUD)**

SMUD is one of California's largest public power agencies, and encompasses 900 square miles. Western furnishes 20 percent of their needs. SMUD is concerned about cost and durability. Transmission service is important. Absent a continuation of existing arrangements, it is important to develop successor agreements, which are flexible, predictable and durable. SMUD understands

why Western would consider forming a control area. Western should evaluate all alternatives and respond thoroughly to the comments received.

SMUD will submit detailed comments on Western's operational alternatives for post-2004 operations before the August 8 deadline.

### **Rick Coleman – Trinity Public Utilities District (TPUD)**

TPUD serves 6,500 meters over a geographic territory the size of the state of Vermont. For TPUD, it is important to keep the power component of control area operations affordable. Operating a control area is not rocket science. History and politics have stopped the efficient use of the Central Valley Project (CVP) hydropower system on behalf of its customers. Others have benefited from the flexibility offered by the CVP system. TPUD hopes that history does not repeat itself.

Locally elected boards working to protect their customer owners have worked over time. A Federal control area will keep costs low, stable, and predictable. CAISO needs to work on reducing its costs. CAISO is structured to benefit for profit-generators and the large consumer. PG&E operated the control area with 40 employees. He understands that CAISO has significantly more.

Cost numbers are not relevant. How many amendments is CAISO going to file and what costs will they be charging next year? With Western, TPUD has an opportunity for meaningful dialogue. Interacting with CAISO will result in significant new costs. TPUD will need to hire attorneys and accountants to have meaningful input into CAISO process. TPUD will also need to hire additional office staff due to the billing complexities posed by the CAISO. In addition, TPUD will require additional metering equipment.

Cross subsidies will always exist. Customers need the ability to have choice. They need competition and choice in the area of control area operators. TPUD trusts Western to care and to meet the needs of small consumers.

### **Stuart Robertson – Agricultural Customer Group (ACG)**

As an aggregate group, the ACG comprise 10 percent of the Western load. The ACG is concerned about an increasing and unstable rate structure. As part of Western's effort, they need to look at the possibility of joining Bonneville Power Administration's control area, or another alternative control area configuration, which makes economic sense. ACG says that Western needs to take the tight to make the right choice.

The ACG believes that Western will consider their needs. Cost shifting, as pointed out by the CAISO are fees on existing customers. Western's independence does not affect other customers. The cost shift associated with receiving services from CAISO encourages the thought of joining other control areas. Western needs to balance customer equity and tariff complexity as it moves forward to make an informed and objective decision.

ACG will submit detailed comments on Western's operational alternatives for post-2004 operations before the August 8 deadline

### **Shivas Swaminathan – City of Palo Alto**

Palo Alto supports Western's effort to provide transmission service to its customers. Palo Alto supports the five evaluation criteria cited by Western in its Federal Register Notice as it determines which post-2004 operational alternative configuration to implement.

Palo Alto believes that the control area and contract based option is the most reasonable option for customers and will submit detailed comments on Western's operational alternatives for post-2004 operations before the August 8 deadline.

### **Jim Feider – City of Redding**

Nestled in the shadow of Shasta Dam, Redding serves 40,000 customers. Redding is interested in serving the needs of its customers and not interested in blackouts (economic or otherwise). Redding's goal is to provide reliable service. Redding supports formation of a control area as this alternative provides flexibility, certainty, cost-effectiveness, durability, and operating transparency.

The CAISO model does not fit the business model for public entities. Public entities must serve customers reliably and cost effectively and not the markets. Public entities have always wanted choice and have argued for these points in stakeholder forums where tariff amendments are debated. Public utilities have argued these points in other forums before and most recently on the MD02 filing and locational marginal pricing. The customer seems to have been forgotten in the exchange.

A Western control area meets Redding's business needs. Western has operated control areas in other areas of the country. There is no reason to believe that Western cannot resolve the operational issues raised by the CAISO. Western may want to consider other options presented in the Federal Register Notice. A sub control area option, which is based on a contractual, and not a FERC tariff based approach, may be workable. Joining neighboring control areas such as SMUD or others may be a solution.

Finally, absent a contractual agreement Redding recommends that Western take all steps to perfect ownership at Round Mountain and Cottonwood Substations. Control area formation activities by Western should not affect its rights on the Intertie.

Redding noted that Western's capacity rights on the Pacific AC Intertie have remained fixed at 400-megawatts even though the capacity of the path has been upgraded significantly. Redding will submit detailed comments on Western's operational alternatives for post-2004 operations before the August 8 deadline.