Pacific Gas and Electric Company

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August 8, 2003

Tom Carter
Power Operations Manager
Western Area Power Administration
Sierra Nevada Customer Service Region
114 Parkshore Drive
Folsom, CA 95630-4710

Subject: Comments Regarding Operational Alternatives for Post 2004 Operations

Dear Mr. Carter:

This is in response to the Federal Register Notice dated June 24, 2003 (Vol. 68 No. 121, at pages 37484-37490), which invited stakeholders to provide oral and written comments on operational options available to Western Area Power Administration (Western) upon termination of its existing contracts with Pacific Gas and Electric Company (PG&E) on January 1, 2005. As you know, PG&E has previously notified Western that it will not extend Contracts 2948A, 2947A, and other contracts that terminate January 1, 2005. PG&E has been in discussions with Western to assure a smooth transition to the successor arrangements that will put into place upon termination of those contracts.

PG&E understands that Western is considering three options that would be implemented January 1, 2005. Specifically, Western could: (1) form its own control area; (2) join the California Independent System Operator (CAISO) as a participating transmission owner (PTO); or (3) enter into a Metered Subsystems (MSS) Agreement with the CAISO. PG&E would like to raise the following issues for Western's consideration in its decision-making process.

Coordinated Operations Agreement (COA). The COA (PG&E FERC Rate Schedule No. 146) is a contract between PG&E and the owners of the California-Oregon Transmission Project (COTP), including Western. Under the COA, the COTP project was incorporated into PG&E's control area, which is now operated by the CAISO. As mentioned in PG&E's oral comments at the July 30, 2003, Public Comment Forum, the COA will terminate concurrently with the termination of Contract 2947A. Section 8.2.2 of the COA provides that if the COTP is made a part of a new control area, the COA would be revised, but the Pacific Intertie (which includes Western's 500-kV line between Malin and Round Mountain) would remain in PG&E's control area. Thus, any decision by Western to form an independent control area would need to address this provision, and the parties would need to resolve these issues in a timely manner. Renegotiation of the COA would consume time and resources, and this should be factored into Western's decision-making process.

Cost Analysis. PG&E has reviewed Western's analysis of its control area options and the CAISO's evaluation of that analysis. PG&E understands that Western is concerned about future changes to the CAISO's tariff. However, it appears that Western's analysis does not reflect an appropriate balance of both favorable and unfavorable California energy market scenarios. PG&E encourages Western to include a scenario in the analysis that uses favorable future assumptions (i.e., lower congestion costs, RMR costs, and market prices) to balance those included in the current analysis in order to properly weigh the value of flexibility, durability and the other evaluation factors.

In addition, PG&E is concerned about the cost shifts that are likely to occur if Western's final solution results in Western avoiding the appropriate level of cost responsibility associated with operating in the California market. These cost shifts would be borne by a large portion of California consumers served through the CAISO control area. PG&E will continue to monitor Western's progress in this area, as well as the CAISO's efforts to develop an MSS Agreement or a Participating Transmission Owner option, and PG&E may oppose, in the appropriate venues, any proposals that unduly shift costs or operational burdens to PG&E and its customers.

Because the cost impacts of a separate control area could be significant, PG&E respectfully requests copies of any studies conducted by or for Western describing cost impacts of a separate control area on PG&E, the CAISO, or on California customers.

NEPA Analysis. Western's reference in the Federal Register Notice to the National Environmental Policy Act (NEPA) and various environmental studies completed in the mid to late 1990s appears to indicate that Western believes NEPA may apply to its proposed operational options. To the extent NEPA does apply, the prior studies did not evaluate the potential environmental impacts of forming a separate control area, including the impacts of the potential effects on reliability and congestion, such as the concerns expressed in recent analyses by the CAISO. In addition, Western 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. PG&E recommends that Western evaluate such impacts.

Additional Details. In Western's proposal for the creation of a new control area, Western states that it may "be required to purchase, acquire or construct additional facilities. . . . For instance, Western . . . does not own the electrical facilities that interconnect [the Malin-Round Mountain] line to Round Mountain Substation. Western also does not own the transformation facilities between the 500-kV and 230-kV transmission lines at Round Mountain Substation. . . ." As the owner of these facilities, PG&E respectfully requests some clarification by Western regarding the action it proposes to take with respect to these facilities. PG&E also requests clarification of the legal basis for any such action if it requires purchase or acquisition of facilities from PG&E and what regulatory approvals would be required.

In addition, Western lists a number of "Other Considerations" in connection with the new control area proposal. For example, the Notice states that "there still could be impacts to others even through mitigation efforts are undertaken. Scheduling and operational complexity associated with management of the three-line COI system could result." PG&E would like more information on what these impacts could be, and what scheduling and operational complexity, including any possible impacts on reliability, Western believes could result from its exercise of the new control area option. PG&E also requests copies of any reliability studies conducted by Western or its consultants regarding its control area option. Finally, PG&E requests a description of any contractual arrangements that would be required between Western and PG&E (or between Western, the CAISO, and PG&E) that would be necessary to implement a separate control area.

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,

Judi K. Mosley