



Memorandum

To: ISO Board of Governors
From: Randy Abernathy, Vice President Market Services
Kyle Hoffman, Manager Client Relations
cc: ISO Officers; ISO Board Assistant
Date: May 30, 2003
Re: *Western Area Power Administration Formation of Federal Control Area*

This memorandum is for information only – no Board Action is required.

EXECUTIVE SUMMARY

This memo updates the Board on recent developments related to the Western Area Power Administration – Sierra Nevada Region (Western) consideration of the formation of an independent federal Control Area, as part of its 2005 Marketing Plan. Western is also considering creation of its own transmission wheeling charge on one of the two Pacific AC Intertie (PACI) 500 kV lines, between Malin, Oregon and Round Mountain. This transmission line segment, owned by Western, is part of the California-Oregon Intertie (COI).

The ISO's primary concern remains the potential adverse cost and grid reliability impacts of Western's plan on California electricity customers and the ISO's Market Participants. Carving out a federal control area from the highly integrated ISO and Western transmission systems would complicate coordinated operations of the California Oregon Intertie and the ISO Controlled Grid in northern California. As the ISO understands the current plan, it would cross-subsidize Western's customers by creating a "toll booth" to collect \$8+ million in inappropriately "pancaked" transmission charges from customers served by the ISO.

STATUS AND ISSUES

Activity since the last Board update April 24, 2003;

- California ISO representatives met with officials of the U.S. Department of Energy, the federal agency with jurisdiction over Federal Power Administration agencies, to express concern for the impact of Western's plan on the cost, reliability and integrity of grid operations.
- Western hosted an informal "rates" session, primarily for its Federal Power customers, on May 14, 2003 in Folsom, California. ISO staff was in attendance. Western presented its preliminary plans for rate design and outlined the development of its 2005 Marketing Plan. The preliminary rate design includes provisions

for Energy Services, Scheduling Coordinator Services, Portfolio Management Services, Transmission Services and Control Area Services. Western reinforced that any of the “control area” related charges presented were solely for information and that a decision to become an independent federal control area had not yet been made.

- The process for completion of the 2005 Marketing Plan was announced and it commences with a “Federal Register Notice” in July. Two formal meetings are planned for early 2004, one focused on “rates” and one on “operating issues”. These meetings will be followed by the issuance of an “Advance Notice of Proposed Rates”, a Public Information Forum in February 2004, and a Public Comment Forum in March 2004.
- We understand that Western’s attorneys have advised Western management not to apply to the Western Electricity Coordinating Council (WECC) for control area status until after the public review process has been completed.
- The Navigant study, intended to assess the cost and benefits of Western’s plan, has still not been officially released, months after Western first indicated to the ISO that it would be completed. A preliminary version of the study was presented to Western and United States Bureau of Reclamation (USBR), May 19, 2003, but not released pending final internal review by Navigant management.

Western’s local management seems intent on pursuing the federal control area option.

NEXT STEPS

The ISO remains committed to working with Western, specifically on terms of a Metered Subsystem (MSS) agreement that would address Western, USBR, and their federal power customers’ needs. The MSS option was presented to Western twice in 2002 and formally offered on April 8, 2003.

The ISO would welcome any formal Western response and opportunity to further address any outstanding concerns with the ISO MSS proposal. The ISO’s goal is to provide all California customers, including Western’s customers, with safe and reliable transmission service at the lowest equitable cost.