



February 6, 2004

Via Facsimile and U. S. Mail

Mr. Richard A. Weingart
Manager
Policy and Strategy Development
Pacific Gas and Electric Company
P.O. Box 770000
San Francisco, California 94177-0001

Dear Mr. Weingart:

Thank you for your letter of January 27, 2004 regarding the Participating Transmission Owner Application ("Application") of the Western Area Power Administration - Sierra Nevada Region ("Western"). As a preliminary matter, the California Independent System Operator ("ISO") believes that Western's application is in accordance with the ISO Tariff, Transmission Control Agreement ("TCA"), and the Participating TO Application process. All applications are conditioned upon approval by the ISO Governing Board, execution of the TCA by the applicant, and approval by the Federal Energy Regulatory Commission ("FERC"). The ISO firmly believes that Western is committed to completing the Application process and intends to become a Participating TO for the Path 15 Upgrade Project ("Project"). With that understanding, I have set forth below the ISO's responses to the questions and concerns raised in your letter.

Regarding your questions about Section 8 of the Application, as Pacific Gas and Electric Company ("PG&E") is well aware, at this time, Western anticipates that it will not have a Transmission Revenue Requirement ("TRR") due to the relationship among PG&E, Trans-Elect NTD Path 15, LLC ("Trans-Elect"), and Western. Absent changes in the contracts executed by PG&E, Trans-Elect, and Western, it is the ISO's understanding that Western will not have a TRR because both the initial capital investment in the Project and the operation and maintenance expenses incurred by Western are being paid by Trans-Elect and will be included in Trans-Elect's TRR. However, to the extent the contractual relationship changes, and Western is incurring costs for the transmission that has been turned over to ISO Operational Control, the ISO does not believe that there is anything in the ISO Tariff or TCA that would prevent Western in the future from filing a TO Tariff, including a TRR with the FERC.

The ISO understands that the statement in the Application regarding treatment of the Project as a "merchant transmission line" is a reference to ISO Tariff Section

3.2.7.3, whereby a Project Sponsor that does not recover the investment cost for a transmission addition or upgrade under a FERC-approved rate is entitled to Wheeling revenue, FTR auction revenue and Congestion revenue. The distribution of these revenues is determined in accordance with ISO Tariff Section 3.2.7.3(d). Consistent with this section of the ISO Tariff, a Project Sponsor is not required to have a Transmission Owner ("TO") Tariff. Consequently, if Western does not have a TRR, one of the issues to be determined is whether Western would be required to have a TO Tariff for any other reason. The ISO does not believe that this decision needs to be made until the TCA revision to add Western as a New Participating TO has been negotiated and executed. Because the Project is not projected to be energized until January 2005, if it is determined that a TO Tariff is required, the ISO believes there will be sufficient time for any process Western would undertake to further develop its TO Tariff after that TCA revision.

With respect to the TO Tariff, Western has attached a draft TO Tariff as required by the Application. Section 2.2.1(viii) of the TCA only requires the applicant to provide a proposed TO Tariff. The decision discussed above will determine whether a TO Tariff is ultimately required. The ISO does not believe the process outlined by Western in Section 8 will have any impact on the Application process. Any comments that PG&E may have should be supplied based on the proposed TO Tariff posted on the ISO website. Additionally, any Participating TO may at any time file a revised TO Tariff. Neither the ISO Tariff nor the TCA requires that the New Participating TO file a TO Tariff simultaneously with the ISO's filing of the TCA.

With regard to your concern about the reference to Firm Transmission Rights ("FTRs") in the Application, PG&E is correct that Western will not receive an allocation of FTRs in accordance with Section 9.4.3 of the ISO Tariff.

As required by the TCA and Participating TO Application process, comments from stakeholders are due February 16, 2004. Once those are received, and the ISO has responded to them, then the ISO will work with Western and the other signatories to the TCA to execute the TCA as mutually agreed. The ISO intends to start this process as soon as possible after the comments are received and responded to. Due to FERC's rejection of the ISO's proposed addition of a new ISO Tariff Section 3.1.3 in Amendment 49, the ISO desires to file the amended TCA as soon as possible because a waiver of ISO Tariff Section 3.1 will be required.

The ISO looks forward to PG&E's comments on Western's Application that are due on February 16, 2004. If you have any additional questions or concerns, I can be reached at (916) 351-2144.

Kindest regards,



Deborah A. Le Vine
Director of Contracts

DAL/ac

cc: *Via U. S. Mail*
Tom Boyko, Western
Koji Kawamura, Western
Jeanne Haas, Western
Rod Maslowski, PG&E
Judi Mosley, PG&E
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Geoff Gaebe, SDG&E
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