California Independent
System Operator Corporation

October 14, 2011

Honorable Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

Re: California Independent System Operator Corporation
Filing of Transition Agreement – Original Rate Schedule No. 70
Docket No. ER11____-000

Dear Secretary Bose:

The California Independent System Operator Corporation ("CAISO") submits for filing and acceptance this Transition Agreement between the CAISO and Valley Electric Association, Inc. ("Valley Electric").[1] The Transition Agreement sets forth the terms and conditions under which Valley Electric will make the transition from the Nevada Power Company dba NV Energy ("NV Energy") balancing authority area to the CAISO balancing authority area. In addition to the general terms and conditions applicable to the transition, the Transition Agreement provides specific procedures for the merger of generator interconnection queues, the treatment of transmission projects initiated or completed prior to the transition, the determination of Valley Electric's resource adequacy requirements, and the allocation of congestion revenue rights to Valley Electric.

With Valley Electric as part of the CAISO balancing authority area, the CAISO will be able to achieve efficiencies in providing renewable resources in the Valley Electric service area to California and will be able to enhance the regional transmission grid. Valley Electric will become the first CAISO participating transmission owner, utility distribution company, and load serving entity located primarily outside of California. CAISO operational control of Valley Electric's transmission facilities will also provide CAISO market participants with greater access to the NV Energy and Western Area Power Administration, Desert Southwest Region ("Western - DSR") systems.

The CAISO and Valley Electric are prepared to commence the transition as soon as is practicable in order to complete all of the activities necessary to transition Valley Electric to the CAISO balancing authority area effective January 1, 2013, the targeted transition date. In order to achieve this transition date, the

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[1] This CAISO makes this filing Pursuant to section 205 of the Federal Power Act, 16 U.S.C. § 824d and Rules 205 and 207 of the Commission's Rules of Practice and Procedure (18 C.F.R. §§ 205,207).

CAISO and Valley Electric must begin the transition process set forth in the Transition Agreement during the 1st quarter of 2012. The CAISO therefore requests that the Commission accept the Transition Agreement as CAISO Original Rate Schedule No. 70 effective December 15, 2011.

I. BACKGROUND

Valley Electric is a member-owned electric cooperative based in Pahrump, Nevada, with a service territory that borders California and extends into a small portion of California. Valley Electric owns and operates approximately 288 miles of 230 kV and 138 kV transmission facilities. Its system is interconnected with the Western - DSR and NV Energy at various locations.[2] Valley Electric's service territory contains approximately 120 MW of load, which Valley Electric currently serves through imports into its system at the Mead point of interconnection. Valley Electric is currently part of the NV Energy balancing authority area.

Importantly, Valley Electric's interconnection with Western-DSR at the Mead substation, at which Valley Electric has approximately 400 MW of contractual rights, is adjacent to the CAISO balancing authority area's interconnection with Western – DSR at the Mead substation. Valley Electric also has about 58 miles of 230 kV transmission facilities under construction, with an interconnection at the NV Energy Northwest substation scheduled to be in-service sometime in the 4th quarter of 2012.

Several large solar generation projects have applied to the Valley Electric interconnection queue. Of the nine projects totaling approximately 2490 MW of nameplate capacity active in the Valley Electric queue, two of those, totaling approximately 1620 MW of nameplate capacity, have also applied to the CAISO queue (Cluster 4).[3] At least one of the two projects also in the CAISO interconnection queue will be located in California.

The Valley Electric interconnection customers seek deliverability status to enable them to provide resource adequacy capacity to CAISO load serving entities. To accommodate these projects, Valley Electric concluded that joining the CAISO was the most cost-effective and efficient solution and approached the CAISO in early 2011 to initiate consideration of such a move. Toward that end, Valley Electric has submitted a transmission interconnection request to Southern

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[2] A publicly available map of Valley Electric's southern transmission system is included as Attachment A for reference. The Valley Electric system also includes a non-contiguous segment of low voltage transmission to the north connected to SCE's system that is not reflected in this map.

[3] The Memorandum of Understanding entered into between Valley Electric and the CAISO referenced approximately 2980 MW of renewable generation in the Valley Electric queue. The difference is due to approximately 490 MW of generation interconnection requests have withdrawn from the Valley Electric queue since that time.

California Edison Company ("SCE") for a 230 kV interconnection between the Valley Electric system and the SCE-owned facilities at or near the Eldorado substation, which are part of the CAISO controlled grid. Valley Electric and SCE anticipate completion of this interconnection to the CAISO controlled grid in 2015.

Even though the Valley Electric interconnection with the CAISO controlled grid at the Eldorado substation will not be complete until approximately 2015, the CAISO and Valley Electric intend to incorporate Valley Electric into the CAISO balancing authority area on January 1, 2013 utilizing Valley Electric's contractual rights at the Mead substation. These rights, with the coordination and cooperation already expressed by Western - DSR, are sufficient to interconnect the CAISO controlled grid and the Valley Electric system and to allow CAISO market participants to schedule transactions using Valley Electric's existing transmission facilities. Agreements between the CAISO and Western – DSR to support this arrangement will be agreed upon and filed with the Commission prior to the transition.

As discussed below, because Valley Electric currently operates outside the CAISO markets, outside the CAISO balancing authority area, and, for the most part, outside of California, the integration of Valley Electric as a CAISO participating transmission owner and load serving entity presents a number of issues that must be addressed prior to the transition date. Following extensive discussions, the CAISO and Valley Electric entered into a Memorandum of Understanding, dated August 1, 2011, regarding the resolution of these issues.[4]

The CAISO posted the Memorandum of Understanding on its website on August 5, 2011 and held a telephone and web stakeholder conference regarding the issues addressed in the memorandum on August 12, 2011. The CAISO posted responses to questions raised during the conference on August 24, 2011. In addition, also on August 24, the CAISO posted a response to a letter from Solar Express Transmission, LLC ("Solar Express") regarding the Valley Electric integration. Solar Express sent a follow up letter dated September 8 to which the CAISO responded on October 13.[5] Solar Express's concerns are discussed in connection with stakeholder comments below.

The Memorandum of Understanding targets January 1, 2013 for completion of all agreements and regulatory approvals necessary to recognize

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[4] The Memorandum of Understanding can be found on the CAISO website at: http://www.caiso.com/Documents/CaliforniaISOandValleyElecricMemorandumofUnderstanding.pdf.

[5] These stakeholder materials can be found at the CAISO website at: http://www.caiso.com/informed/Pages/StakeholderProcesses/ValleyElectricAssociation.aspx. Issues raised in this process are discussed further in Section IV of this transmittal letter.

Valley Electric as a CAISO participating transmission owner and utility distribution company. According to the memorandum, the earlier of the date that the CAISO assumes operational control of Valley Electric's transmission facilities through its Mead contract rights or that the planned SCE transmission interconnection is operational, but no earlier than January 1, 2013, shall be the date on which Valley Electric will become a participating transmission owner, utility distribution company, and load serving entity within the CAISO balancing authority area.

On August 25, 2011, the CAISO Board of Governors authorized CAISO management to enter into a transition agreement with Valley Electric consistent with the Memorandum of Understanding and to file such an agreement with the Commission. The memorandum presenting the matter to the CAISO Board of Governors is included as Attachment B. Since that time the CAISO and Valley Electric concluded negotiation of the Transition Agreement presented here for approval by the Commission.

II. THE NEED FOR TRANSITION PROCEDURES

Beyond the matters typically addressed when a transmission owner becomes a participating transmission owner in the CAISO, the integration of Valley Electric presents four specific issues, the resolution of which requires certain activities to be performed prior to the transition date: (1) the merger of the CAISO and Valley Electric generator interconnection queues; (2) coordination of the CAISO and Valley Electric transmission planning processes; (3) Valley Electric's satisfaction of its resource adequacy requirements; and (4) issuance of congestion revenue rights for Valley Electric to hedge congestion costs to serve its load. Each of these four areas is outlined below in support of the corresponding provisions of the Transition Agreement.

1. Generator Interconnection Queues.

The CAISO and Valley Electric currently conduct their own interconnection queues and study processes. Once Valley Electric becomes a CAISO participating transmission owner, generation projects currently in Valley Electric's queue that achieve commercial operation will become CAISO-connected generators. These generation projects need to be able to participate in the CAISO's interconnection process prior to the transition so that, after the transition, they will not be unfairly disadvantaged (or unfairly advantaged) relative to generation projects currently in the CAISO queue with regard to the network upgrades needed for their desired deliverability status, their financial posting requirements for these upgrades, and other costs associated with the CAISO's interconnection process. The Transition Agreement therefore includes provisions that appropriately coordinate the CAISO's and Valley Electric's interconnection procedures in order to provide comparable treatment of the CAISO's and Valley Electric's interconnection customers in anticipation of the transition. In addition, the Transition Agreement provides for Valley Electric to perform studies to identify network upgrades on its own current system needed to meet the needs of its interconnection customers and for these upgrades to be treated comparably to network upgrades on the CAISO system identified through the CAISO's studies once the transition occurs.

The CAISO tariff provides for administration of interconnection requests to the CAISO controlled grid through a cluster study process, under which all requests submitted to the CAISO within a "cluster window" are assessed together to determine the collective reliability and delivery network upgrades needed on the CAISO system and each interconnection customer's cost responsibility for those upgrades. Valley Electric, in contrast, administers a generator interconnection queue through a serial study process, which studies interconnection requests individually in order of their queue position.

Valley Electric's interconnection queue currently includes approximately 2490 MW of renewable generation, of which two interconnection customers, accounting for a total of about 1620 MW, have also applied to the most recent CAISO generator interconnection cluster, cluster 4.

Valley Electric's transmission facilities will not become part of the CAISO controlled grid until the date upon which Valley Electric becomes a participating transmission owner. Until that date, the approximately 870 MW of proposed generators currently in Valley Electric's queue which have not also submitted an interconnection request to the CAISO, have no existing mechanism by which to request full capacity deliverability status on the CAISO controlled grid. Absent the provisions included in this Transition Agreement, the only option under the CAISO tariff prior to Valley Electric becoming a participating transmission owner would be for the interconnection customers in Valley Electric's queue to apply to the CAISO to interconnect directly to the CAISO controlled grid through construction of a generator tie-line (as the two interconnection customers in cluster 4 noted above have already done) and to meet all the financial posting and other requirements associated with delivery network upgrades on the CAISO system. The schedule of the CAISO's interconnection process, however, does not offer an opportunity for these 870 MW of customers to be studied for deliverability upgrades until the CAISO studies queue cluster 5 after that cluster window closes at the end of March 2012. This delay would adversely impact these customers by placing them behind all the projects in cluster 4. It is therefore necessary to implement procedures so that generators in Valley Electric's queue can be treated as generators seeking connection to the CAISO-controlled grid in a manner that is comparable to generators currently in the CAISO's queue. This will ensure that when the transition occurs, these Valley Electric interconnection customers are not being unduly disadvantaged or advantaged as compared with similarly situated interconnection customers in the CAISO queue.

In addition, Valley Electric will need to identify the network upgrades on its transmission system through a cluster study process that is comparable to and approximately contemporaneous with the CAISO's upcoming phase II study process for clusters 3 and 4, so that interconnection customers in the Valley Electric queue will be informed in a timely manner of the reliability and delivery network upgrade costs associated with both the Valley Electric system and the CAISO system. This will allow all interested interconnection customers in Valley Electric's queue to obtain full capacity deliverability status on the CAISO controlled grid following the transition and completion of the reliability and delivery network upgrades on both the CAISO and Valley Electric systems.

2. Transmission Planning

The CAISO and Valley Electric each regularly perform transmission planning activities to ensure that their respective systems meet applicable reliability standards. Because the CAISO and Valley Electric are not within the same balancing authority area, they currently do not engage in joint planning. The development of Valley Electric's planned transmission interconnection to the CAISO grid and reliability upgrades currently in progress, as well as planning for any additional network upgrades that may be needed to reinforce the transmission grid, must be coordinated with CAISO planning prior to the date upon which Valley Electric becomes a participating transmission owner. There are also points of interconnection with Western-DSR and NV Energy that must be coordinated both with Valley Electric and these adjacent balancing authority areas.

3. Resource Adequacy

Once Valley Electric becomes a load-serving entity in the CAISO balancing authority area, it will be subject to the resource adequacy requirements of the CAISO tariff. The CAISO's current approach to determining compliance with resource adequacy requirements presents certain issues because of Valley Electric's unique situation: it currently serves its load entirely by imports into the Valley Electric system through its Mead contract rights. When Valley Electric becomes a participating transmission owner, the CAISO will assume operational control of those contract rights and make them available under the open access provisions of the CAISO tariff. It is therefore necessary to provide a mechanism for Valley Electric to continue to rely upon its existing import rights in order to meet its resource adequacy requirements.

In addition, the CAISO determines resource adequacy requirements based on an entity's demand forecast. For California load serving entities, the CAISO obtains demand forecasts from the California Energy Commission, but Valley Electric is not currently part of the California Energy Commission forecast process because it is not a California load serving entity. Accordingly, the CAISO and Valley

Electric must obtain a California Energy Commission forecast or develop a mutually acceptable method for forecasting Valley Electric's load.

4. Congestion Revenue Rights

Like other load-serving entities in the CAISO balancing authority area, Valley Electric will be entitled to an allocation of congestion revenue rights in order to hedge against the cost of transmission congestion. The CAISO allocates congestion revenue rights according to a load-serving entity's load metric, which is calculated based on historical load data for the CAISO's annual congestion revenue rights allocation process, and on the entity's load forecast for the monthly allocation processes. As noted above, because Valley Electric is not part of the California Energy Commission forecast process, the CAISO and Valley Electric must obtain a California Energy Commission forecast or develop a mutually acceptable method for forecasting Valley Electric's demand.

In addition, Tier 1 of the CAISO's annual congestion revenue rights allocation process (the priority nomination process) is restricted to load serving entities' nominations to renew congestion revenue rights that they were allocated the previous year. Because Valley Electric will not have been allocated congestion revenue rights for periods prior to its becoming a participating transmission owner, it would be ineligible under the CAISO tariff to participate in the priority nomination process for its first calendar year as a CAISO load serving entity, which may adversely affect its ability to acquire sufficient congestion revenue rights to hedge the congestion cost of serving its load. It is therefore necessary to develop a mechanism for Valley Electric to participate in Tier 1 of the congestion revenue rights allocation process in order to ensure equitable treatment of Valley Electric's load when it transitions to the CAISO. To that end the Transition Agreement provides a mechanism comparable to that used prior to the implementation of the CAISO's new market structure in 2009 for the first annual allocation of congestion revenue rights to load-serving entities.

III. THE TRANSITION AGREEMENT

The Transition Agreement addresses the particular transitional issues discussed above, as well the general matters that are implicated by the addition of a new participating transmission owner, utility distribution company and load serving entity. These matters are summarized below. The summary should not be considered an exhaustive identification and discussion of all terms and conditions of the Transition Agreement, but is intended to provide an overview.

Because of differences between the CAISO's and Valley Electric's markets and procedures and the need for the CAISO to have the authority to take certain actions with respect to Valley Electric prior to the transition date, the transitional provisions vary in certain manners from the CAISO tariff. For this reason, the Transition Agreement provides that in the case of conflict with the

CAISO tariff, the Transition Agreement prevails. These differences are identified and discussed below.

The only provisions of the agreement that differ from the CAISO tariff are certain provisions in section 5 (Interconnection Queue Merger), section 6 (Transmission Planning), section 7 (Resource Adequacy Requirements) and section 8 (Congestion Revenue Rights). These provisions must prevail over the CAISO tariff because they require the CAISO to take certain actions that are not otherwise included in the tariff procedures. Absent such provision, Valley Electric and the generators in its queue would be unfairly disadvantaged or potentially unfairly advantaged in comparison with other similarly situated CAISO market participants. For example, the CAISO will allow “special” interconnection requests to be included in the cluster 4 phase II studies, even though they were not included in the phase I studies, a situation not contemplated in the tariff. Similarly, the CAISO will make a determination with respect to application of its transmission planning procedures with respect to network upgrades on the Valley Electric system prior to the transition date. The CAISO will consider a portion of Valley Electric’s Mead import capacity as a Pre-RA Commitments under the resource adequacy import allocation rules, even though the tariff refers to existing delivery contracts that existed at the commencement of the resource adequacy requirements. The CAISO will also allow Valley Electric to nominate a proportional amount of Tier 1 congestion revenue rights, even though, under the tariff, load serving entities can only nominate those congestion rights that they held during the previous year. These variations from CAISO tariff procedures are discussed in greater detail below. The only transitional provision of the Transition Agreement that extends for an additional period beyond the transition date concerns the Pre-RA Commitment and is specifically identified as such in section A.3 below.

In all respects other than those discussed below, Valley Electric will be treated in accordance with the applicable provisions of the CAISO tariff. Accordingly, the Transition Agreement defers to the CAISO tariff for matters referenced therein. The Commission has approved provisions whereby an agreement prevails over the CAISO tariff in circumstances where, as here, the agreement addresses particular circumstances of limited scope. For example, the CAISO’s Metered Subsystem Agreements with various California municipal utilities and its Operating Agreement with PacifiCorp include such provisions.[6]

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[6] *See, e.g.,* Section 3.3, Metered Subsystem Agreement between California Independent System Operator Corp. and Northern California Power Agency, filed June 15, 2002 in Docket No. ER02-2321, approved *Cal. Indep. Sys. Operator Corp.*, 100 FERC ¶ 61,234 (2002); Section 1.2, Operating Agreement Between California Independent System Operator Corp. and Pacificorp, submitted in Offer of Settlement, November 21, 2007, Docket No. ER07-1373, approved *Pacificorp*, 121 FERC ¶ 61,278 (2007).

Equally important, the Commission has recently ruled that, where a transition requires procedures that differ from the filed tariff, the appropriate course of action is a filing under section 205 of the Federal Power Act rather that a request for a waiver of the tariff.[7]

The Commission has noted the importance of encouraging the participation of new transmission owners in regional transmission organizations[8] and independent system operators and has approved transitional mechanisms that facilitate the integration of new transmission owners.[9] In this instance, the CAISO submits that these transitional provisions are particularly appropriate because (a) the addition of Valley Electric as a participating transmission owner will benefit both Valley Electric and the CAISO's market participants and (b) the transmission provisions impose no significant financial costs or other adverse impacts on existing CAISO market participants. CAISO market participants will have new paths for access to the Western – DSR balancing authority area at the Mead point of interconnection and the NV Energy balancing authority area at the Northwest substation, with increased available transfer capability after completion of the transmission interconnection between the Valley Electric system and the ISO controlled grid at the Eldorado substation. Correspondingly, Valley Electric will have additional opportunities to access the CAISO markets to meet their customer needs. Interconnection customers in Valley Electric's queue will have the opportunity to be interconnected to the CAISO controlled grid and deliver power to CAISO load serving entities with which they may have a signed power purchase agreement.

A. RESOLUTION OF TRANSITION ISSUES

1. Interconnection Queue Merger

Under Article 5 of the Transition Agreement, Valley Electric will revise its generator interconnection procedures and perform a cluster study process, in accordance with a timeline set forth in the Transition Agreement, which includes all interested interconnection customers with valid interconnection requests in Valley Electric's queue as of August 1, 2011. The cluster study will, among other things, identify the reliability and delivery network upgrades required on the Valley Electric system for generating facilities seeking full capacity deliverability status on the CAISO-controlled grid. Customers in Valley Electric's

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7 *See Midwest Indep. Transmission Sys. Operator Inc.*, 136 FERC ¶ 61,212 PP 28-29. (2011).

8 *See, e.g., Midwest Indep. Transmission Sys. Operator Inc.*, 122 FERC ¶ 61,067 P 9 (2008).

9 *See, e.g., Cal. Indep. Sys. Operator Corp.*, 109 FERC ¶ 61,301 P 64-74 (2004), *reh'g denied*¸111 FERC ¶ 61,337 (2005).

interconnection queue will fund the cost of this cluster study, as well as other necessary costs. The CAISO will coordinate with Valley Electric with respect to this cluster study process to, among other things, ensure the results are compatible with the CAISO cluster 4 phase II interconnection studies. Generators in Valley Electric's queue seeking interconnection after August 1, 2011 must submit an interconnection request to the CAISO in the next cluster application window.

Article 5 provides that Valley Electric and the CAISO may enter into interconnection agreements with Valley Electric customers in connection with Valley Electric's cluster study results prior to the transition date, but that any such interconnection agreement must be consistent with the interconnection agreement in the CAISO tariff (Appendix CC) and would not become effective until Valley Electric becomes a participating transmission owner. This will ensure that all cluster 4 interconnection customers are treated consistently and will avoid the need to reconcile or unwind interconnection agreements that Valley Electric might otherwise have entered without the CAISO prior to the transition.

Customers in the Valley Electric queue as of August 1, 2011 that have not already submitted an interconnection request to the CAISO must submit a "special" interconnection request to the CAISO within thirty days following the release of the CAISO's cluster 4 phase I interconnection study results (by approximately January 31, 2012 as currently anticipated) in order to be included in the CAISO's cluster 4 phase II interconnection studies. Once the CAISO completes the cluster 4 phase II study process, the CAISO will enter into an interconnection agreement with each interconnection customer that submitted a "special" interconnection request and the applicable participating transmission owner with respect to network upgrades on the CAISO controlled grid (in contrast to upgrades on the Valley Electric system, for which Valley Electric would be the applicable participating transmission owner) on the same basis as with interconnection customers who participated in the cluster 4 phase I interconnection studies.

Interconnection customers submitting a "special" interconnection request to the CAISO must comply with all study deposit and other requirements of the CAISO generator interconnection procedures as if the interconnection customer had submitted an interconnection request in the CAISO application cluster window for cluster 4 and participated in the cluster 4 phase I interconnection studies. Specifically, in accordance with Appendix Y, Section 3.5.1(i) of the CAISO tariff, the study deposit will be $50,000 plus $1,000 per MW up to a maximum of $250,000, and the interconnection financial security posting requirement for these interconnection customers will be determined in accordance with Appendix Y, Section 9 of the CAISO tariff. The initial interconnection financial security posting provided in Appendix Y, Section 9.2.3 shall be determined at the rate of $20,000 per megawatt electrical output of the generating facility, up to a maximum of $7.5 million. Projects greater than 20

MW will have to post a minimum of $500,000. Projects less than 20 MW would be able to post less depending upon their MW value, with a minimum required posting of $50,000.

One of the issues presented by the transition is the cost allocation of network upgrades on the CAISO controlled grid, if any, that may be required to make Valley Electric interconnection customers fully deliverable. These will not be known until the CAISO completes its cluster 4 phase II interconnection studies including projects currently in the Valley Electric queue that were not already included in the CAISO cluster 4 phase I interconnection studies and that submit a “special” interconnection request to the CAISO. The two projects in both the CAISO and Valley Electric interconnection queues, accounting for over half the MW in the Valley Electric queue, have already been accounted for in the CAISO cluster 4 phase I interconnection studies. In contrast, the “special” interconnection customers that did not participate in cluster 4 phase I would represent additional generation capacity that did not contribute to the need for upgrades in the phase I study process but that could trigger incremental upgrades on the CAISO controlled grid through the phase II study process.

Under the provisions of the Transition Agreement, incremental costs due to network upgrades identified in the cluster 4 phase II interconnection studies that arguably might be associated with the “special” interconnection requests that were not included in the cluster 4 phase I interconnection study will not be separately identified in the cluster 4 phase II interconnection study results. The CAISO believes that it would be unfair to treat the “special” interconnection requests differently from the interconnection customers that have participated in cluster 4 phase I for purposes of identifying needed network upgrades and allocating the associated cost and funding obligations. The CAISO’s interconnection request window for cluster 4 closed on March 31, 2011, when discussions between Valley Electric and the CAISO about joining the CAISO were still at a preliminary stage and had yet to fully identify, much less develop solutions, to issues regarding integrating our interconnection queues. Thus, it is not reasonable to expect that all interconnection customers in Valley Electric’s queue should have anticipated participating in the CAISO’s cluster 4 phase II process and had the foresight to submit a request to the CAISO’s cluster 4 window. Yet the timing of their interconnection requests to Valley Electric – for all those generation projects in Valley Electric’s queue that entered the queue prior to August 1, 2011, some of whom entered well before then – would make it unfair to require them to enter the CAISO’s cluster 5, which is scheduled to close to requests at the end of March 2012, and be assigned queue positions behind the entirety of the rest of cluster 4.

The Transition Agreement therefore provides that the CAISO’s cluster 4 phase II study will identify the network upgrades needed for the entire cluster without distinguishing the needs of those customers that participated in phase I from those that did not. The cost responsibilities that result from the phase II process will then be allocated to all interconnection customers in accordance with the CAISO tariff. Importantly, however, the exposure of these interconnection customers to possible incremental costs associated with the addition of the "special" interconnection requests to the phase II process will be limited to the maximum cost responsibility that was established in the cluster 4 phase I interconnection study results. In other words, any costs identified in the phase II study results that are in excess of the CAISO interconnection customers' maximum cost responsibility identified in the phase I study results would be paid for by the participating transmission owner, not the interconnection customer. In contrast, interconnection customers in the Valley Electric queue seeking full capacity deliverability status on the CAISO controlled grid through the "special" interconnection request process described above would not have the benefit of a phase I maximum cost responsibility and would therefore be required to pay their full share of their cost responsibility established in the cluster 4 phase II study results. Although this could expose such customers to additional costs compared to an otherwise similarly-situated cluster 4 phase I customer, the CAISO and Valley Electric believe that such cost exposure is reasonable in view of the fact that these customers did not participate in the cluster 4 phase I process and is consistent with cost causation. As a final note, it must be recognized that the inclusion of the "special" interconnection requests in cluster 4 phase II does not necessarily mean that any customer's costs would be higher than they would be without these customers included. Even if the additional MWs of generating capacity from the "special" requests do create a need for incremental network upgrades, there will also be an increase in the total MW volume of customers that share the costs of such upgrades.

Article 5 also provides that interconnection customers who submitted a "special" interconnection request will be entitled to a refund of the interconnection financial security they posted with the CAISO if the Transition Agreement terminates for any reason and as a result they wish to terminate their interconnection requests with the CAISO. Alternatively, these interconnection customers and those who also participated in the CAISO cluster 4 phase I interconnection study process may elect to remain in cluster 4 of the CAISO queue to use the network upgrades on the CAISO-controlled grid through construction of alternative interconnection facilities (i.e., a generator tie-line from the generation facilities to the CAISO-controlled grid).

Fundamentally, the Transition Agreement differs from the CAISO tariff only in the three respects described above: (i) the opportunity for Valley Electric interconnection customers to obtain full capacity deliverability status through the cluster 4 phase II process without having gone through phase I by submitting a "special" interconnection request to the CAISO, (ii) the ability for interconnection customers that submitted a "special" interconnection request to obtain a full refund in the event the Transition Agreement is terminated and as a result they decide to terminate their interconnection requests with the CAISO, and (iii) the obligation for interconnection customers not included in the cluster 4 phase I interconnection studies to fund the full amount of their proportionate share of network upgrades identified in the cluster 4 phase II interconnection study results, without the protection of a phase I cap on their cost responsibility. Nonetheless, as provided in section 3.10 of the Transition Agreement, to the extent that the provisions of Article 5 of the Transition Agreement are inconsistent with those of Appendices Y (the CAISO's generator interconnection procedures) and T or CC (the CAISO's small and large generator interconnection agreements) of the CAISO tariff, the provisions of Article 5 will govern.

2. Transmission Planning

Article 6 of the Transition Agreement provides for joint transmission planning by Valley Electric and the CAISO. The CAISO's transmission planning process currently allows the CAISO to work with transmission owners outside of its balancing authority area to coordinate planning efforts and to plan transmission development jointly. Valley Electric and the CAISO will use this process to engage in joint transmission planning activities prior to the Valley Electric's becoming a participating transmission owner. In particular, during the CAISO's 2012/2013 transmission planning cycle, which begins in January 2012, the CAISO and Valley Electric will confer and coordinate to consider any potential needs that may be identified for additions or upgrades to Valley Electric's system, beyond the interconnection-driven upgrades that result from Valley Electric's upcoming cluster study and the two transmission projects discussed in the next paragraph. Longer term transmission planning activities on the Valley Electric system that may commence during the transition process would ultimately be folded into the CAISO's transmission planning process once Valley Electric becomes a participating transmission owner.

Because Valley Electric is currently not within the CAISO balancing authority area, the transmission interconnection between Valley Electric and the CAISO at the Eldorado substation and the approximately 58 mile 230 kV upgrade of the Valley Electric system that is currently under construction were not included in the CAISO transmission planning process. Nonetheless, Article 6 of the Transition Agreement provides that the CAISO will consider these facilities new high voltage facilities under the CAISO tariff when placed into service regardless of the fact that they were not studied as part of the CAISO's transmission planning process. Such treatment is appropriate because these two projects are essential to ensure the Valley Electric system is reliable and that CAISO market participants are provided the full benefit of access to the Valley Electric system following the transition.[10] These projects are discussed in Article 4 of the Transition Agreement.

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[10] It is important to distinguish these transmission projects from any network upgrades on Valley Electric's system necessary for interconnection customers in the Valley Electric queue to obtain full capacity deliverability on the CAISO controlled grid. In

In addition, Article 6 of the Transition Agreement provides for consideration of network upgrades on the Valley Electric system identified during its cluster study process under the transmission planning procedures of the CAISO tariff for the 2012/2013 planning cycle. Specifically, The CAISO will review such network upgrades that meet the criteria under CAISO tariff section 24.4.6.5 and reach determinations 30 days prior to the transition as to whether further consideration of enhancements to these network upgrades is warranted. The CAISO will enter into interconnection agreements only with respect to any such network upgrades that are not identified for further consideration in the CAISO transmission planning process for the 2012/2013 planning cycle. Interconnection agreements with respect to any such network upgrades that are identified for further consideration in the CAISO transmission planning process would not be entered into until such network upgrades have completed the review process consistent with CAISO tariff. Once the CAISO enters into interconnection agreements with respect to network upgrades on the Valley Electric system they will not be subsequently considered as part of the comprehensive transmission plan. This obligation of the ISO to consider network upgrades identified in the Valley Electric cluster study process before entering into interconnection agreements assures comparable treatment between those network upgrades and any network upgrades identified in the CAISO cluster 4 phase II study results with which the Valley Electric interconnection customers will be merged.

As provided in section 3.10 of the Transition Agreement, to the extent that the provisions of Article 6 are inconsistent with those of section 24 of the CAISO Tariff (Transmission Planning), the provisions of Article 6 will govern. The Transition Agreement, however, fundamentally differs from the CAISO tariff only with respect to the application of section 24.4.6.5 to network upgrades identified in the Valley Electric cluster study process as described above.

3. Resource Adequacy

Under Article 7 of the Transition Agreement, consistent with the CAISO tariff, the CAISO will recognize Valley Electric, a non-CPUC jurisdictional entity, as its own local regulatory authority, which can reasonably establish its own resource adequacy requirements based on its share of CAISO system peak demand. The CAISO and Valley Electric will rely mainly on the California Energy Commission coincident peak demand forecast for the entire CAISO system, in which the California Energy Commission has agreed to include the Valley Electric system, as needed for purposes of the resource adequacy process. Valley Electric will provide sufficient historical load data to enable the California Energy Commission and the CAISO to determine Valley Electric's share of

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the latter case, the facilities will be identified through the Valley Electric cluster study in coordination with the CAISO and treated as provided in Articles 5 and 6 of the Transition Agreement.

CAISO system coincident peak demand. The CAISO will also determine whether Valley Electric has local resource adequacy requirements not later than six months prior to the date on which Valley Electric is expected to become a participating transmission owner, which Valley Electric will satisfy in accordance with the CAISO tariff.

To enable Valley Electric to continue its long standing reliance on imports using its Mead contract rights after those rights are turned over to CAISO operational control, Article 7 provides that the CAISO, through the resource adequacy import allocation on the Mead intertie, will assign Valley Electric an appropriate share of the import capacity for resource adequacy counting purposes in accordance with CAISO tariff section 40.4.6.2. This assignment to Valley Electric will not compromise allocations of Mead import capacity for resource adequacy purposes to other CAISO load-serving entities. The CAISO and Valley Electric will determine the extent to which Valley Electric's Mead import supplies are expected to fulfill Valley Electric's resource adequacy obligations. Article 6 provides a methodology according to which, for a period of ten years, the CAISO will consider a pre-determined amount of Mead import capacity up to 150 MW as "Pre-RA Commitments" under the resource adequacy import allocation rules provided in CAISO tariff section 40.4.6.2. Even though such an allocation to Valley Electric does not strictly fit the tariff definition of Pre-RA Commitments because the transition date will occur after the initiation of CAISO resource adequacy requirements, the CAISO believes this approach is consistent with the intent of this tariff provision, which was to enable load-serving entities that have previously relied on imports to serve their load to continue to use such imports to meet their resource adequacy requirements.[11]

As provided in section 3.10 of the Transition Agreement, to the extent that the provisions of Article 7 are inconsistent with those of section 40 of the CAISO Tariff (Resource Adequacy), the provisions of Article 7 will govern. The Transition Agreement, however, fundamentally differs from the CAISO tariff only with respect to the allocation of the import capacity at the Mead substation for resource adequacy purposes described above. This provision survives for a period of ten years beyond the transition of Valley Electric to the CAISO balancing authority area and is the only significant provision of the Transition Agreement to do so. This extended transition provision raises no issues of undue discrimination because Valley Electric is differently situated from other CAISO load serving entities in connection with CAISO resource adequacy rights.

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[11] It is important to distinguish this allocation for resource adequacy from the transfer capability made available for open-access transmission service through the CAISO's market scheduling systems. While up to 150 MW of the approximate 400 MW of Valley Electric contract rights at the Mead substation will be assigned to Valley Electric for resource adequacy counting purposes, all 400 MW of rights will be made available to CAISO market participants as available transfer capability in its day-ahead and real-time market scheduling systems.

Because Valley Electric was not a CAISO (or California) load-serving entity when the resource adequacy requirements went into effect, it did not have the opportunity to identify its energy procured through its Mead contract rights, upon which it heavily relies, as “Pre-RA Commitments.” This provision will place Valley Electric on equal footing with other CAISO load serving entities and allow adjustment of its procurement practices over time to continue and meet its resource adequacy requirements.

4. Congestion Revenue Rights

Article 8 provides that, consistent with the CAISO tariff, Valley Electric will be eligible for an allocation of congestion revenue rights at a quantity based on its load metric, which is based on historical load data for the annual allocation process and on load forecast data for the monthly allocations. The CAISO will use the monthly demand forecast provided by the California Energy Commission for determining Valley Electric’s eligibility for monthly congestion revenue rights.

According to Article 8, in anticipation of Valley Electric’s first year as a CAISO load-serving entity, the CAISO will permit Valley Electric to participate in Tier 1 of the annual allocation process, which is reserved for load-serving entities to nominate renewal of previously-allocated rights, as if Valley Electric held a portfolio of previously-allocated congestion revenue rights. The CAISO and Valley Electric will develop a historic proxy portfolio of Congestion Revenue Rights consistent with the quantity and source-sink combinations of congestion revenue rights that Valley Electric would be eligible for based on the historical analysis of Valley Electric’s load.

Valley Electric will participate in the CAISO’s annual congestion revenue rights allocation process for the 2013 calendar year under the assumption that Valley Electric will become a participating transmission owner on January 1, 2013. If the date on which Valley Electric becomes a participating transmission owner is delayed, any rights allocated to Valley Electric otherwise applicable prior to its becoming a participating transmission owner will be ineffective for the intervening period.

The CAISO will modify its congestion revenue rights network model to reflect the planned incorporation of the Valley Electric system based on its Mead contract rights, effective January 1, 2013, for purposes of the 2013 annual congestion revenue rights allocation process. Since the initial congestion revenue rights annual allocation process that Valley Electric participates in will be prior to the direct physical interconnection to the CAISO controlled grid at the Eldorado substation, only Valley Electric will be able to request congestion revenue rights related to the new Mead scheduling point or related to new Valley

Electric pricing nodes.[12] Should the transition not occur on January 1, 2013, the CAISO will not calculate locational marginal prices for any locations associated with the Valley Electric system and will not settle on any associated congestion revenue rights until the transition occurs.[13] Any annual CRRs allocated to Valley Electric will become active for settlement purposes as of the effective date for Valley Electric's transition to the CAISO. Once the transmission interconnection at the Eldorado substation is in service, then the CAISO will follow its tariff-specified procedure for making new transmission capacity available for release of congestion revenue rights. The next available monthly congestion revenue rights process will include the Valley Electric system and the Mead import rights, and the associated scheduling locations will be available in both the allocation and the auction processes in accordance with the normal tariff provisions.

Here the Transition Agreement fundamentally differs from the CAISO tariff only with respect to the proxy portfolio of congestion revenue rights developed for Valley Electric participation in tier 1 of the annual allocation process prior to becoming a load serving entity, and the limitation on bids for congestion revenue rights on the Valley Electric system and at the new Mead scheduling point until after completion of the transmission interconnection at the Eldorado substation. The approach the ISO will use for the proxy portfolio for Valley Electric's tier 1 participation is similar to the process approved by the Commission for the initial allocation of congestion revenue rights to load-serving entities prior to the start of the CAISO's current markets. Nonetheless, as provided in section 3.10 of the Transmission Agreement, to the extent that the provisions Article 8 are inconsistent with those of section 36 of the CAISO Tariff (Congestion Revenue Rights), the provisions of Article 8 will govern.

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[12] The CAISO tariff provides that congestion revenue rights allocated to a load-serving entity must sink at that entity's load location; in the case of Valley Electric, the CAISO will define a new default load aggregation point that corresponds to Valley Electric's load location. In addition, the nature of Valley Electric's Mead import rights and the electrical characteristics of the Mead substation dictate that energy imported using these rights can only flow into Valley Electric's system and not into the rest of the CAISO controlled grid, until the new interconnection of Valley Electric at Eldorado is placed into service. The result of these facts is that Valley Electric will be the only load-serving entity eligible for allocation of congestion revenue rights whose source is the new Mead scheduling point representing Valley Electric's existing rights at Mead, and these congestion revenue rights must sink at Valley Electric's default load aggregation point.

[13] Due to the electrical limitations described in the previous footnote, which will prevail prior to the completion of the Eldorado interconnection, the CAISO will not designate the new Mead scheduling point or the Valley Electric default load aggregation point as eligible sources or sinks for nominating congestion revenue rights in the CAISO auction processes until the Eldorado interconnection is in service. Thus only Valley Electric will be able to hold congestion revenue rights with these source and sink locations, and therefore only Valley Electric's congestion revenue rights holdings will be affected by any delay in the transition date.

B. TRANSITION PROCESS

The remainder of the Transition Agreement sets forth the procedures and timeline under which Valley Electric will become a part of the CAISO balancing authority area.

Article 1 provides definitions and rules of interpretation. Among other matters, it establishes the "transition date" as the date Valley Electric becomes a participating transmission owner, utility distribution company and load serving entity in the CAISO balancing authority area. Under the transition plan, attachment 1 to the Transition Agreement, Valley Electric will become a participating transmission owner on the earlier of the date that the CAISO assumes operational control of Valley Electric's transmission facilities through its Mead contract rights or that the planned SCE transmission interconnection is operational, but no earlier than January 1, 2013. Article 1 also defines the transition plan as milestones and associated dates described in Attachment 1 to the Transition Agreement.

Article 2 provides the term and termination provisions for the Transition Agreement. The Transition Agreement becomes effective when accepted for filing and made effective by the Commission. It remains effective through the transition date, after which either party may terminate upon 30 days notice if the covenants of the agreement have been fulfilled. The Transition Agreement may be terminated early if a party defaults, if they are unable to resolve an adverse Commission ruling, or if the parties are unable to reach agreement with Western – DSR or NV Energy for changes necessary to move Valley Electric into the CAISO balancing authority area and to provide the CAISO operational control over Valley Electric's transmission system.

Article 3 sets forth general terms and conditions of the Transition Agreement, including (1) the scope of the agreement; (2) the general responsibilities of each of the parties under Western Electric Coordinating Council and North American Reliability Corporation standards and their respective tariff and charter; (3) that the obligations under the agreement are severable, and not joint; (4) the cost responsibility of each party; (5) provisions for the exchange of information; (6) the obligation to staff implementation of the agreement adequately; and (7) provision for the revision of milestones and dates in the transition plan, as necessary.

Section 3.9 provides that, if and to the extent a matter is specifically addressed by a provision of the Transition Agreement, the provisions of the Agreement shall prevail over any inconsistent provision of the CAISO tariff. As discussed above, this section is necessary in order to allow the CAISO to implement the procedures in Articles 5, 6, 7, and 8 of the Transition Agreement.

Sections 3.10 and 3.11 provide that, to the extent a matter in the Transition Agreement is to be determined by the CAISO tariff, the CAISO tariff, including amendments subsequent to the effective date of the agreement, shall govern, and nothing in the agreement shall affect the authority of the CAISO to modify its tariff.

Article 4 sets for the timeline and milestones for the transition. The transition plan, attached to the Transition Agreement as Attachment 1, provides the additional milestones and specific dates. Under Article 4 --

- Valley Electric will submit an application to become a participating transmission owner no later than six months before the transition date.

- The parties will subsequently amend the Transmission Control Agreement accordingly and submit the amendment to the Commission.

- Agreement with Western-DSR regarding Valley Electric's Mead contract rights is a condition precedent to Valley Electric's becoming a participating transmission owner based on those rights, as well as establishing new points of interconnection with NV Energy. If the CAISO is unable to reach agreement with Western-DSR or NV Energy, the parties will consider other options, including termination of the agreement.

- Valley Electric will file its transmission revenue requirement and transmission owner tariff for the Valley Electric system with the Commission with a requested effective date concurrent with the transition date.

- Valley Electric is responsible for necessary metering for the relevant interconnections.

- Valley Electric will complete the transmission interconnection with SCE and the related upgrades as soon as possible after the transition date.

- Valley Electric will enter into a Utility Distribution Company Agreement with the CAISO, to be filed with the Commission to become effective on the date Valley Electric becomes a participating transmission owner.

- Valley Electric will become or retain a certified scheduling coordinator. If Valley Electric wishes to itself become a certified scheduling coordinator, it must apply to the CAISO at least six

> months prior to the date Valley Electric becomes a participating transmission owner.

Article 5 addresses the interconnection queue merger, as discussed above.

Article 6 addresses transmission planning, as discussed above.

Article 7 addresses resource adequacy, as discussed above.

Article 8 addresses congestion revenue rights, as discussed above.

Article 9 provides that the parties will cooperate among themselves and with relevant California agencies to ensure that sufficient procedures and practices are put in place such that Valley Electric will not incur a California specific carbon obligation for its Nevada load.

Article 10 provides for cooperation and coordination in the exchange of technical information and the development of agreements necessary to integrate Valley Electric's facilities and load into the CAISO balancing authority area and markets.

Article 11 describes the parties need to enter into agreements with third parties, including Western - DSR, NV Energy, and Valley Electric's interconnection customers, as necessary to implement the Transition Agreement.

Articles 12, 13 and 14 address liability, indemnification, uncontrollable forces, and dispute resolution in a manner consistent with the CAISO tariff, except that references in these provisions of the CAISO tariff to the CAISO Tariff itself shall be deemed references to the Transition Agreement, as appropriate, and references to market participants are to be deemed references to Valley Electric. Article 12 also provides that in the event of termination, the CAISO will refund any study deposit or financial security that is not necessary to account for actual costs incurred in connection with interconnection agreements in accordance with Article 5 and Valley Electric will refund such amounts in accordance with the agreements it has entered into with customers in its interconnection queue.

Article 15 provides for the treatment of confidential information and is modeled on the CAISO's interconnection agreement since most of the information exchanged likely will be information associated with interconnection studies and other transmission related information.

Article 16 provides representations and warranties regarding each party's authority to enter into the Transition Agreement.

Article 17 addresses miscellaneous issues: assignment, notice, waivers, governing law, integration, severability, amendment, and counterparts.

IV. STAKEHOLDER COMMENTS

Comments provided in public session to the CAISO Board of Governors prior to its approval of the Memorandum of Understanding, including from the transmission owner with which Valley Electric will be interconnected, SCE, were generally favorable. No stakeholder expressed opposition to the Board in this meeting.

As discussed above, however, Solar Express has written the CAISO expressing concern that its proposed 500 kV transmission line would not be given equal consideration as an alternative to possible network upgrades on the Valley Electric system that may be required to interconnect renewable resources in the Valley Electric queue. These concerns are misplaced.

The Transition Agreement includes no term or condition that would limit application of the CAISO transmission planning process to network upgrades that may be necessary for interconnection of renewable generation in the Valley Electric queue. In fact, Section 6.3 of the Transition Agreement expressly provides that network upgrades on Valley Electric's system identified in the Valley Electric cluster study process will be subject to the CAISO's transmission planning process on the same basis as the network upgrades identified in the CAISO cluster 4 phase II interconnection studies. Namely, network upgrades identified in the Valley Electric cluster study process that meet the tariff criteria for assessment in the CAISO transmission planning process would be considered and, if the CAISO determines that those network upgrades should be enhanced, or replaced or supplemented by other network upgrades, the CAISO tariff would apply to determine which entities would be eligible or obligated to build and own those upgrades.[14]

14 *See* CAISO Tariff, Section 24.4.6.5 (describing the circumstances under which generator interconnection network upgrades may be assessed in the transmission planning process and the determination of which entities may be eligible to build and own any additional or alternative network upgrades that may result from this assessment).

In addition, it is simply unknown at this time what network upgrades, if any, will be required on Valley Electric's system to deliver renewable generation to the CAISO controlled grid. It may turn out that interconnection customers withdraw from the process, limiting the amount of network upgrades required for deliverability. It may also be that the results of the Valley Electric cluster study process identify a generator tie-line as the most appropriate solution under the circumstances, in which case other entities would have the opportunity to propose their transmission projects as alternative solutions to the interconnection customers in the Valley Electric queue. In particular, any preliminary steps that may have been taken by Valley Electric, e.g., submitting a right of way filing with the BLM for a 500 kV line, are not determinative of any outcome.

The CAISO also notes that Valley Electric has not proposed a transmission project to the CAISO, but rather seeks to join the CAISO as a participating transmission owner based on its existing (and under construction) transmission entitlements and facilities (and as a utility distribution company to continue service to its end-use customers). To the extent that Valley Electric wishes to propose a new transmission project, it will need to do so pursuant to the transmission planning process of the CAISO tariff, which provides extensive opportunities for independent transmission providers and which the Commission has approved as just, reasonable and not unduly discriminatory.[15]

IV. EXPENSES AND REQUEST FOR WAIVER OF COMMISSION REGULATIONS

No expense or cost associated with this filing has been alleged or judged in any judicial or administrative proceeding to be illegal, duplicative, unnecessary, or demonstratively the product of discriminatory employment practices.

The information submitted with this filing substantially complies with the requirements of Part 35 of the Commission's regulations applicable to filings of this type. The CAISO requests waiver of any applicable requirement of Part 35 if necessary in order to permit this filing to become effective as proposed.

15 *Cal. Indep. Sys. Operator Corp.,* 133 FERC ¶ 61,224 (2011), *re'h pending.* The CAISO is, of course, subject to a compliance filing for Order No. 1000, demonstrating that its transmission planning process is consistent with Order No. 1000 or making any necessary revisions. *Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities,* 136 FERC ¶ 61,051 (2011).

V. EFFECTIVE DATE

The CAISO asks that the Transition Agreement become effective on December 15, 2011 as CAISO Original Rate Schedule No. 70.

VI. SERVICE

The CAISO has served copies of this filing upon SCE, Valley Electric, Western – DSR, NV Energy, the California Public Utilities Commission, and the California Energy Commission. In addition, the CAISO has posted the filing on the CAISO website.

Enclosed for filing are each of the following:

(1) this letter of transmittal;

(2) a map of the Valley Electric Southern Transmission System (Attachment A);

(3) the CAISO Board of Governors memorandum and resolution authorizing management to enter into the Transition Agreement (Attachment B); and

(4) the Transition Agreement (Attachment C).

VII. CORRESPONDENCE

The CAISO requests that all correspondence, pleadings, and other communications concerning this filing be served upon the following:

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VIII. CONCLUSION

For the reasons set forth above, the CAISO respectfully requests that the Commission accept the Transition Agreement for filing effective as of December 15, 2011.

Respectfully submitted,

/s/ John C. Anders

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Attorneys for the California Independent System Operator Corporation

Attachment A

Map of the Valley Electric Southern Transmission System

Valley Electric Association, Inc.®

Legend

VEA 138 kV Transmission Line	VEA Sub Station
VEA 230 kV Transmission Line	VEA Switching Station
VEA 55 kV Transmission Line	Other Substations
VEA 230 Kv Transmission Line (Under Construction)	Towns
Other Transmission	

Valley Electric Association Interconnects Southern California Edison, Nevada Energy, WAPA

March 7, 2011

THIS MAP IS FOR ILLUSTRATIVE PURPOSES ONLY. NO LIABILITY IS ASSUMED BY VALLEY ELECTRIC ASSOCIATION AS TO THE ACCURACY OF THE INFORMATION SHOWN.

Map created By: The VEA Mapping Department

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Attachment B

CAISO Board of Governors Memorandum and Resolution Authorizing Management to Enter into the Transition Agreement

Memorandum

To: ISO Board of Governors

From: Karen Edson – Vice President, Policy & Client Services

Date: August 18, 2011

Re: **Decision on Valley Electric Association Transition**

This memorandum requires Board action.

EXECUTIVE SUMMARY

Valley Electric Association, a member-owned electric cooperative based in Nevada, and the California Independent System Operator Corporation have taken the first step towards a long-term relationship, setting the stage for Valley Electric to become a participating transmission owner, utility distribution company and load-serving entity in the ISO balancing authority area effective January 1, 2013. The first step is the memorandum of understanding (MOU) executed between ISO Management and Valley Electric that outlines the activities necessary to prepare for the January 2013 transition. The memorandum of understanding is provided as Attachment 1.

With Valley Electric as part of the ISO balancing authority, the ISO will be able to achieve efficiencies in providing renewable resources to California and enhance the transmission grid regionally. Specifically, Valley Electric's interconnection rights at the Mead substation and a new interconnection planned at the Eldorado substation will increase the ISO's ability to access renewable resources to meet California's renewable objectives. The additional transmission capacity will also be available generally to the ISO market.

Valley Electric's shift to participating transmission owner status on January 1, 2013 is based on their rights at the Mead substation. These rights exceed Valley Electric's load, but must be supplemented to provide the capability to move the large volume of renewable energy from Valley Electric into California. Valley Electric's interconnection at the Eldorado substation, planned for 2015, is vital for California's access to the renewable resources that will be built in Valley Electric's territory.

The MOU addresses three key areas to facilitate the transition of Valley Electric, each requiring action by the ISO and Valley Electric, and approval by FERC by the end of 2011.

- Merger of the generator interconnection processes of Valley Electric and the ISO;
- Recognition of Valley Electric's import rights to satisfy its resource adequacy obligations; and
- Issuance of congestion revenue rights for Valley Electric to hedge costs to serve its load.

The ISO and Valley Electric currently conduct their own interconnection queue and study processes. Once Valley Electric becomes an ISO participating transmission owner, interconnection customers currently in Valley Electric's queue that achieve commercial operation will become ISO-connected generators. As a result, the MOU specifies steps in advance of the transition that allow Valley Electric's interconnection customers to obtain full capacity deliverability status as of the transition date of January 1, 2013.

Additionally, Valley Electric must meet the resource adequacy requirements of the ISO tariff upon its transition to the ISO balancing authority area. Valley Electric serves its load via imports over the Mead interconnection using its interconnection rights with the Western Area Power Administration – Desert Southwest Region. As a result, the MOU contemplates that Valley Electric will receive an appropriate share of the import allocation on the Mead intertie for resource adequacy purposes.

Valley Electric also will be eligible for an allocation of congestion revenue rights based on historical load data and forecast data for each monthly congestion revenue rights process. For California load serving entities, the ISO obtains load forecasts from the California Energy Commission, but Valley Electric may not be part of the California Energy Commission forecast process because it is not a California load serving entity. Accordingly, the parties will work together to develop a mutually acceptable method for forecasting Valley Electric's load as needed for both the allocation of congestion revenue rights and the resource adequacy process discussed above.

The next step in this process is for Valley Electric and the ISO to enter into a transition agreement based on the MOU. The agreement will include mechanisms to resolve any tariff issues, such as those associated with aligning Valley Electric's interconnection queue with the ISO's queue. Management seeks authorization to enter into such an agreement with Valley Electric, file the agreement with the FERC, and to submit any other appropriate filings with FERC, including any tariff amendments or temporary waivers.

Management recommends approval of the following motion:

> ***Moved, that the ISO Board of Governors authorizes Management to enter into a transition agreement with Valley Electric Association consistent with the parties' Memorandum of Understanding dated August 1, 2011, and to make all necessary and appropriate filings with the Federal Energy Regulatory Commission to implement the transition agreement, as described in the memorandum dated August 18, 2011.***

BACKGROUND

Valley Electric is a member-owned electric cooperative based in Pahrump, Nevada, with a service territory that borders California and extends into a small portion of California. Valley Electric's service territory contains approximately 120 MW of load currently served through imports into their system over the Mead interconnection. A map of Valley Electric's service area is provided as Attachment 2. Several large solar projects have applied to the Valley Electric interconnection queue, and over half of these projects have submitted projects into the ISO interconnection queue. At least one of these projects will be located in California.

Early in 2011, Valley Electric approached the ISO to explore transitioning to the ISO balancing authority area and becoming a participating transmission owner. Valley Electric interconnection customers are seeking deliverability into California consistent with California state guidelines. To accommodate these projects, Valley Electric concluded that joining the ISO was the most cost-effective and efficient solution.

Valley Electric and the ISO have worked to identify potential issues that must be addressed to facilitate the transition on January 1, 2013. The proposed approaches and activities are included in the MOU that has been executed by Valley Electric and ISO Management. Because the transition activities must begin in January 2012, Management seeks board authorization now to file the transition agreement and any other appropriate filings to obtain FERC approval by the end of 2011.

DISCUSSION AND ANALYSIS

There are three critical elements of the transition that require action by the ISO and Valley Electric prior to the targeted transition date of January 1, 2013. These elements were the focus of the MOU and will again be essential features of the transition agreement. Without a binding agreement and authorization from FERC, the parties would not be able to move forward in advance of the transition to address these matters. Accordingly, this section outlines the essential features in each of these three areas as described in the MOU.

1. Merger of the generator interconnection processes

The tariff provides for administration of interconnection requests to the ISO controlled grid through a cluster study process. Under this process all requests within a specific “cluster window” are assessed together to determine the reliability and delivery network upgrades needed on the ISO system and each interconnection customer’s cost responsibility for those upgrades. In particular, phase I study results establish a maximum cost responsibility for each interconnection customer’s cost share within the same cluster.

Valley Electric administers a generator interconnection queue through a serial study process. This process currently includes approximately 2980 MWs of renewable generation, of which two interconnection customers accounting for a total of about 1620 MWs have also applied to the most recent cluster-- cluster 4 -- of the ISO’s generator interconnection process. Some of this capacity is under contract with California load serving entities through power purchase agreements.

The ISO closed the application window for the cluster 4 study process, and is expecting to produce phase I study results in November 2011. The ISO expects to begin work on the phase II studies beginning in January 2012 and complete them during summer 2012. Given the need for the ISO to start the cluster 4 phase I studies almost immediately (they are now underway), as compared to the expected timing of FERC decision on the transition agreement, the ISO must perform its cluster 4 phase I studies including only the approximate 1620 MWs of Valley Electric’s interconnecting generators that are already in cluster 4 to establish the maximum cost responsibility for those resources. Those interconnection customers in the Valley Electric queue that desire full capacity deliverability status on the ISO system, and have not already entered the ISO interconnection queue, are not included in the phase 1 studies.

The ISO proposed to perform the phase II studies including up to an additional 1360 MWs in Valley Electric's queue to determine the incremental transmission impacts of those resources interested in full capacity deliverability status on the ISO controlled grid. All of the approximate 2980 MWs of Valley Electric interconnection customers, if they satisfy the requirements of the ISO interconnection process and elect to participate in Valley Electric's planned cluster study process, will be eligible to obtain full capacity deliverability status when the new transmission interconnection facility and associated network upgrades are placed into service.

To address possible concerns of existing interconnection customers in the ISO queue, the MOU provides assurance that these existing customers will be protected from additional costs by holding to the cost cap provided in their phase 1 study results. If interconnection customers in the Valley Electric not already included in the ISO phase 1 study results trigger additional network upgrades in excess of this cost cap, i.e., the 1360 MW projects described above, those projects would be required to fund the amount in excess of the cost cap.

The above approach is prudent for determining the network upgrades needed on the ISO controlled grid and the associated costs to merge Valley Electric's queue into the ISO's cluster 4 process. This is true because the impacts on the current ISO controlled grid are the same irrespective of whether the generation is modeled as (a) connecting to Valley Electric's system and then delivering to the ISO controlled grid via the planned new 230 kV interconnection facility, or (b) connecting directly to the ISO controlled grid via a new generator tie line.

2. Recognition of Valley Electric's import rights for resource adequacy

The second key area in the MOU involves how Valley Electric will meet its resource adequacy obligations as of the transition date. Valley Electric is unique in that its load is currently served entirely by imports into its system. It is therefore necessary and appropriate to provide a mechanism for Valley Electric to count a portion of its Mead import rights to meet its resource adequacy requirements. To do this, the ISO will establish a methodology that will count a portion of Valley Electric's existing import rights as "pre-resource adequacy commitments".

Valley Electric will provide sufficient historical load data to enable the ISO to perform a historic load analysis for purposes of determining the Valley Electric share of ISO system peak load. Additionally, the parties will work together to develop a mutually acceptable method for forecasting Valley Electric's load as needed for both the resource adequacy process and, as discussed below, the allocation of congestion revenue rights, which will be described in the transition agreement.

Valley Electric may or may not have local resource adequacy requirements, which ISO engineers will assess not later than six months prior to the transition date. Valley Electric may be able to estimate what its local resource adequacy requirement would be after transitioning to the ISO system, by doing its own local congestion study that follows the process to be specified by the ISO prior to the transition date.

Valley Electric, through its scheduling coordinator will need to participate in the year-ahead and month-ahead demonstrations that it has met its resource adequacy requirements. Moreover, the entities that supply resource adequacy capacity to Valley Electric will need to file supply plans with the ISO. All resources within the Valley Electric system and included in Valley Electric's resource adequacy plan will be evaluated with respect to resource adequacy requirements under the ISO tariff.

3. Issuance of Congestion Revenue Rights

As a load serving entity, it will be necessary to provide a transition mechanism for Valley Electric to obtain congestion revenue rights that will be effective as of the transition date. The ISO's congestion revenue rights allocation process starts in the summer of every year and first allows entities to nominate their prior year congestion revenue rights for a priority renewal in the current year process. For the 2013 allocation process, the ISO will specify a hypothetical congestion revenue rights portfolio based on historical data that Valley Electric can nominate for renewal. This will occur during the summer of 2012, with preparations beginning in the January-February 2012 timeframe. Provisions have also been identified to make needed corrections if the congestion revenue rights allocation and auction occurs and the transition date does not occur precisely on January 1, 2013.

ECONOMIC ESTIMATES

Valley Electric's move into the ISO provides benefits as noted above. They include enhanced access to renewable resources including some located in California and increased import capability which benefits both reliability and the ISO market. The ISO has estimated preliminary economic impacts as shown below:

	Annual cost to ISO participants ($ millions)
January 1, 2013 – transmission revenue requirement estimate based on facilities Valley Electric turns over to ISO control	$7.5
Valley Electric contribution to ISO transmission access charge	($3.0)
Transmission access charge cost recovery for the 230 kV interconnect at Eldorado (capital cost estimate $5 - $10 million)	$0.5 - $1
Valley Electric contribution to ISO grid management charge	($0.4)
Valley Electric contribution to market uplift charges, e.g. real-time imbalance energy offset	($0.3)
Total estimated initial cost to ISO ratepayers	$4.3 - $4.8*

* This total will be offset to some extent by benefits associated with greater liquidity and greater access to markets.

Future development in Valley Electric's area may require additional transmission upgrades. To this end, Valley Electric has submitted an initial right-of-way request for a 62-mile, 500kv line. The ultimate need for this line depends on the progression of the fleet of projects currently in Valley Electric's interconnection queue.

POSITIONS OF THE PARTIES

After the MOU execution on August 2, the ISO posted the MOU on its website and issued a market notice announcing the MOU on August 5. On August 12, the ISO hosted a call with stakeholders to explain the MOU and proposed transition process, and to answer questions.

The stakeholder discussion on August 12 was constructive and informative. The ISO answered a broad range of stakeholder questions and asked stakeholders to submit any additional questions by email. Those additional questions and ISO responses will be posted on the ISO website.

If this proposal is approved, the ISO will maintain a web page dedicated to information and Q&A regarding the Valley Electric MOU and related transition agreement. Additional stakeholder outreach will be provided as the transition agreement is being developed and finalized, before filing in mid-October.

MANAGEMENT RECOMMENDATION

Management recommends approval of this proposal to develop and file the Valley Electric - ISO transition agreement with FERC as described in the memorandum. The relationship between Valley Electric and the ISO is an exciting new partnership that provides increased access to renewables and also adds new capability to the transmission system.

Board of Governors **August 25-26, 2011** **Decision on Valley Electric Association Transition**

<u>Motion</u>

Moved, that the ISO Board of Governors authorizes Management to enter into a transition agreement with Valley Electric Association consistent with the parties' Memorandum of Understanding dated August 1, 2011, and to make all necessary and appropriate filings with the Federal Energy Regulatory Commission to implement the transition agreement, as described in the memorandum dated August 18, 2011.

Moved: Galiteva Second: Bhagwat

Board Action: **Passed**	Vote Count: **4-0-0**
Bhagwat	Y
Foster	Y
Galiteva	Y
Maullin	Y

Motion Number: 2011-08-G1

Attachment C

Transition Agreement

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

AND

VALLEY ELECTRIC ASSOCIATION, INC

TRANSITION AGREEMENT

TRANSITION AGREEMENT

This transition agreement ("Agreement") is entered into as of October 13, 2011 between the California Independent System Operator Corporation ("CAISO") and Valley Electric Association, Inc. ("Valley Electric"). The purpose of this Agreement is to establish the terms and conditions for Valley Electric's transition into the CAISO Balancing Authority Area as a Participating Transmission Owner, Utility Distribution Company, and Load Serving Entity. The CAISO and Valley Electric are each referred to herein as a "Party," and jointly as the "Parties."

WHEREAS, Valley Electric is a Nevada nonprofit cooperative corporation without stock that operates as a non-generating distribution cooperative, providing retail electric service to members within its service area located in Nevada and California.

WHEREAS, the CAISO is a nonprofit public benefit corporation organized and existing under the laws of the State of California that operates transmission facilities under its Operational Control and wholesale electricity markets pursuant to the CAISO Tariff on file with the Federal Energy Regulatory Commission ("FERC").

WHEREAS, Valley Electric submitted a request to interconnect its transmission system with the transmission system of Southern California Edison Company ("SCE") at or near the Eldorado Substation, with the intent of becoming a CAISO Participating Transmission Owner pursuant to the Transmission Control Agreement and the CAISO Tariff.

WHEREAS, Valley Electric has existing contract rights with the Western Area Power Administration – Desert Southwest Region ("Western – DSR") associated with the Mead Point of Interconnection that will allow Valley Electric to become a Participating Transmission Owner prior to completion of the Transmission Interconnection.

WHEREAS, the CAISO and Valley Electric entered into a Memorandum of Understanding, dated August 1, 2011, which addresses issues related to the Transition Plan.

WHEREAS, Valley Electric and its customers will be treated as other similarly situated entities pursuant to the CAISO Tariff and Transmission Control Agreement following the Transition Date, except as may be required to implement the terms of this Agreement.

NOW, THEREFORE, in consideration of the covenants set forth herein, and intending to be legally bound thereby, and for other good and valuable consideration the receipt of which is hereby acknowledged, the Parties agree as follows:

ARTICLE 1
DEFINITIONS AND INTERPRETATION

1.1 Master Definitions Supplement. Unless defined in the introduction above or Section 1.2 of this Agreement, all terms in this Agreement with initial capitalization shall have the same meaning as those contained in the Master Definitions Supplement, Appendix A to the CAISO Tariff.

1.2 Special Definitions for this Agreement. In this Agreement, the following terms shall have the meanings set opposite them:

Adverse Order shall mean any order meeting the criteria for an Adverse Order set forth in Section 2.5, Section 4.1 or Section 4.2.

Effective Date shall have the meaning provided in Section 2.1.

Eldorado Substation shall mean those facilities jointly owned by SCE that are commonly referred to as the Eldorado substation and that form part of the CAISO Controlled Grid.

Mead Point of Interconnection shall mean the point of Interconnection at the Mead substation between the Valley Electric System and Western– DSR, which is further described in a one-line diagram included as an Exhibit to Contract No. Contract No. 94-PAO-10569.

Mead Rights shall mean Valley Electric's existing contract rights with the Western – DSR associated with the Mead Point of Interconnection pursuant to Contract No. 94-PAO-10569, relating to the "Ownership, Operation, Maintenance, Replacement and Financial Responsibilities of the Facilities and Points of Interconnection at Mead Substation."

Transition Date shall mean the date on which Valley Electric becomes a Participating Transmission Owner, Utility Distribution Company, and Load Serving Entity in the CAISO Balancing Authority Area.

Transition Plan shall mean the milestones and associated dates described in Attachment 1 to this Agreement.

Transmission Interconnection shall mean the transmission facilities that will physically interconnect the CAISO Controlled Grid with the Valley Electric System at or near the Eldorado Substation, or at such other location as may be mutually agreed by the Parties.

Transmission Register shall mean the register of all transmission lines, associated facilities, and Entitlements under CAISO Operational Control that is further described in Section 4.2 of the Transmission Control Agreement and defined as "CAISO Register" in the CAISO Tariff.

Transmission Upgrade shall mean the approximately 58 mile 230 kV reliability network upgrade of the Valley Electric System currently under construction, which travels generally on the East side of Mt. Charleston and near US-95, and will ultimately interconnect with Valley Electric's Vista substation and NV Energy's Northwest substation.

Valley Electric System shall mean the approximately 288 circuit miles of 230 kV and 138 kV transmission facilities owned and operated by Valley Electric as of the Effective Date, which is generally depicted in Attachment 2 to this Agreement.

1.3 Rules of Interpretation. The following rules of interpretation and conventions shall apply to this Agreement:

(a) the singular shall include the plural and vice versa;

(b) the masculine shall include the feminine and neutral and vice versa;

(c) "or" is used in the conjunctive sense;

(d) “includes” or “including” shall mean “includes (or including) without limitation,” unless the context otherwise requires;

(e) references to a Section, Article, or Schedule shall mean a Section, Article, or a Schedule of this Agreement, as the case may be, unless the context specifies otherwise;

(f) any reference to the CAISO Tariff or any provision of the CAISO Tariff will mean a reference to the CAISO Tariff or provision then in effect, unless otherwise specifically provided;

(g) unless the context otherwise requires, references to any law shall be deemed references to such law as it may be amended, replaced, or restated from time to time;

(h) unless the context otherwise requires, any reference to a “person” includes any individual, partnership, firm, company, corporation, joint venture, trust, association, organization, or other entity, in each case whether or not having separate legal personality;

(i) unless the context otherwise requires, any reference to a Party includes a reference to that Party’s permitted successors and assigns;

(j) any reference to a day, week, month, or year is to a calendar day, week, month, or year;

(k) the captions and headings in this Agreement are inserted solely to facilitate reference and shall have no bearing upon the interpretation of any of the terms and conditions of this Agreement; and

(l) no rule that a contract shall be construed against the drafter shall be applied to the construction or interpretation of this Agreement.

ARTICLE 2
TERM AND TERMINATION

2.1 Effective Date. This Agreement shall be effective as of the date it is accepted for filing and made effective by FERC, and shall remain in full force and effect until terminated pursuant to Section 2.7, or upon such other date as the Parties shall mutually agree.

2.2 Limitation on Withdrawal. Except as provided in this Article 2, neither Party shall have the right to terminate this Agreement after the Effective Date. Any attempt to terminate this Agreement shall be deemed a default under this Agreement in accordance with this Article 2.

2.3 Expiration Date. This Agreement shall remain in full force and effect through the Transition Date, at which time, either Party may give the other Party thirty (30) days written notice that all covenants in this Agreement have been fulfilled and that termination by virtue of expiration is appropriate. Any disagreement over whether all covenants in this Agreement have been fulfilled shall be resolved in accordance with the dispute resolution provisions in Article 14.

2.4 Termination by Default. Either Party (the terminating Party) may terminate this Agreement by giving written notice in the event that the other Party (the defaulting Party) commits any default under this Agreement or the CAISO Tariff that is incapable of being remedied or which, if capable of being remedied, is not remedied within thirty (30) days after the terminating Party has given the defaulting Party written notice of the default, unless excused by reason of Uncontrollable Forces under Article 13 of this Agreement.

2.5 Termination by Adverse Order. Either Party may terminate this Agreement following an Adverse Order upon thirty (30) days written notice to the other Party. If the FERC rejects, materially modifies or materially conditions its acceptance of this Agreement, within fifteen (15) days of issuance of such FERC order, the Parties shall take one of the following actions: (i) agree to accept any modifications or conditions imposed by such FERC order, (ii) jointly seek further administrative or legal remedies with respect to such FERC order, including a request for rehearing or clarification, or (iii) enter into negotiations with respect to accommodation of such FERC order. If the Parties did not accept such FERC order and have not agreed to an accommodation within thirty (30) days of the date upon which such FERC order becomes a final and non-appealable order, such order shall be deemed an Adverse Order.

2.6 Termination for Failure to Reach Agreement with Third Parties. If CAISO and Valley Electric are unable to reach agreement with any third party, including Western – DSR and/or NV Energy, which is necessary to move Valley Electric to the CAISO balancing authority area or otherwise implement this Agreement, and the Parties are unable to agree after commercially reasonable attempts upon an appropriate resolution, then either party shall have the right to terminate this Agreement upon thirty (30) days written notice.

2.7 Termination Notice. The Parties acknowledge that, with respect to any notice of termination given pursuant to this Article 2, the CAISO is required to file a timely notice of termination with FERC. The Parties acknowledge and agree that the filing of the notice of termination by the CAISO with FERC will be considered timely if the filing of the notice of termination is made after the preconditions for termination have been met, and the CAISO files the notice of termination within sixty (60) days after issuance of the notice of default. This Agreement shall terminate upon acceptance by FERC of such a notice of termination.

ARTICLE 3
GENERAL TERMS AND CONDITIONS

3.1 Scope of Agreement. Except as may otherwise be provided in this Agreement, the provisions of this Agreement apply only to activities necessary to facilitate the transition of Valley Electric to the CAISO Balancing Authority Area as a Participating Transmission Owner, Utility Distribution Company, and Load Serving Entity.

3.2 CAISO Responsibility. The Parties acknowledge that the CAISO is responsible for the efficient use and reliable operation of the CAISO Controlled Grid and the operation of the

CAISO's Balancing Authority Area consistent with achievement of planning and Operating Reserve criteria no less stringent than those established by the WECC and NERC Reliability Standards and criteria and in accordance with the CAISO Tariff. Valley Electric will be included within the scope of these CAISO responsibilities as of the Transition Date.

3.3 **Valley Electric Responsibility**. The Parties acknowledge that Valley Electric has a legal obligation to act in the best interests of its members in accordance with its Articles of Incorporation and Bylaws. The Parties acknowledge that Valley Electric is separately responsible for compliance with the WECC and NERC Reliability Standards and criteria applicable to the functions for which Valley Electric is registered with NERC, and that Valley Electric is currently part of the NV Energy Balancing Authority Area. Any references to WECC and NERC Reliability Standards in this Agreement do not make any alteration or enlargement of the requirements or standards applicable to Valley Electric or to the individual registrations of Valley Electric with NERC. Valley Electric will adjust its individual registrations with NERC effective on the Transition Date and enter into any applicable reliability standards agreement with the CAISO as necessary to reflect any change in its status as a result of this Agreement.

3.4 **Relationship of the Parties.** Except as otherwise may be provided in this Agreement, the covenants, obligations, rights and liabilities of the Parties under this Agreement are intended to be several and not joint or collective. It is the intent of the Parties not to create an association, joint venture, trust, or partnership, and not to impose a trust or partnership covenant, obligation, or liability on, or with regard to, any Party. Each Party shall be individually responsible for its own covenants, obligations, and liabilities under this Agreement. No Party shall be under the control of or shall be deemed to control the other Party. No Party shall be the agent of, or have the right or power to bind, another Party, without its written consent, except as expressly provided for in this Agreement.

3.5 **Costs Incurred.** Each Party shall be individually responsible for all of its own costs, expenses or financial obligations that may be incurred as a result of this Agreement. Specifically, Valley Electric shall be responsible for satisfaction of any obligations associated with its departure from the NV Energy Balancing Authority Area.

3.6 **Requests for Information.** Valley Electric will respond, and at its own cost with a full and timely good-faith effort to all reasonable requests for information or technical support made by the CAISO from time to time as may be necessary for the performance of this Agreement.

3.7 **Staffing Considerations.** The Parties will devote sufficient staff and resources necessary for performance of this Agreement; provided, however, this Agreement shall not be interpreted to require either Party to increase internal staffing or to allocate staff in a manner that such party may consider in its sole discretion to jeopardize its ability to meet legal, regulatory or customer obligations.

3.8 **Transition Plan.** The Parties have developed the Transition Plan in an effort to reach the Transition Date in the most efficient and economic manner. It is recognized that changes to the Transition Plan may be necessary or appropriate to achieve the Transition Date in a more efficient or economic manner or, in some circumstances, to adjust the Transition Date. The Transition Plan may be amended by mutual agreement of the Parties without being considered an amendment to this Agreement. Neither Party may unreasonably withhold consent to reasonable changes to the Transition Plan. Any disagreement over whether a proposed change to the Transition Plan is reasonable shall be resolved in accordance with the dispute resolution provisions in Article 14.

3.9 Precedence in Event of Conflict between the Terms of This Agreement and the CAISO Tariff. If and to the extent a matter is specifically addressed by a provision of this Agreement, the provisions of this Agreement shall govern notwithstanding any inconsistent provision of the CAISO Tariff.

3.10 Precedence of CAISO Tariff for Matters to be Determined In Accordance with the CAISO Tariff. If and to the extent this Agreement provides that a matter shall be determined in accordance with the applicable provisions of the CAISO Tariff, the applicable provisions of the CAISO Tariff shall govern.

3.11 Amendment to CAISO Tariff. Nothing in this Agreement shall affect in any way the authority of the CAISO to modify unilaterally the CAISO Tariff in accordance with Section 15 of the CAISO Tariff or of the Parties to exercise their rights under the Federal Power Act or any other law or to pursue any legal remedies.

ARTICLE 4
TRANSITION DATE UNDERTAKINGS

4.1 Participating Transmission Owner. Valley Electric will submit an application with CAISO to become a Participating Transmission Owner and to turn the Valley Electric System and the Transmission Upgrade over to CAISO Operational Control in accordance with the CAISO Tariff and the Transmission Control Agreement based on the Mead Rights and the Mead Point of Interconnection. This application must be submitted to the CAISO at least six (6) months prior to the Transition Date to allow sufficient time to complete the application process. When Valley Electric's application has been accepted, the Transmission Control Agreement will be amended to include Valley Electric as a Participating Transmission Owner, which amendment will be filed with FERC by the CAISO with a requested effective date concurrent with the Transition Date. The Parties will collaborate in obtaining regulatory acceptance or approval for this amendment to the Transmission Control Agreement. If the FERC rejects, materially modifies, or materially conditions its acceptance of the amendment to the Transmission Control Agreement, then, within fifteen (15) days of issuance of such FERC order, the Parties shall take one of the following actions: (i) agree to accept any modifications or conditions imposed by such FERC order, (ii) jointly seek further administrative or legal remedies with respect to such FERC order, including a request for rehearing or clarification, or (iii) enter into negotiations with respect to accommodation of such FERC order. If the Parties did not accept such FERC order and have not agreed to an accommodation within thirty (30) days of the date on which such FERC order becomes a final and non-appealable order, such order shall be deemed an Adverse Order.

4.1.1 Mead Point of Interconnection. The Parties acknowledge and agree that interconnection of the Valley Electric System to the CAISO Controlled Grid at the Mead Point of Interconnection is a condition precedent to Valley Electric becoming a Participating Transmission Owner based on the Mead Rights. The Parties further acknowledge and agree that this interconnection requires mutual agreement between the CAISO and Western – DSR, most likely as an amendment to the existing Interconnected Balancing Authority Area Operating Agreement between the CAISO and Western – DSR. This amended agreement between the CAISO and

Western – DSR will be filed with FERC by the CAISO with a requested effective date concurrent with the Transition Date. The CAISO agrees to use commercially reasonable efforts to negotiate an amendment to the Interconnected Balancing Authority Area Operating Agreement, or such other arrangements with Western-DSR, as will permit interconnection of the Valley Electric System with the CAISO Controlled Grid at the Mead Point of Interconnection on or before the Transition Date. If CAISO and Western – DSR are unable to reach agreement with respect to this amendment, within fifteen (15) days of such failure, CAISO shall notify Valley Electric and the Parties shall consider options, including termination of this Agreement as provided in Section 2.6. If the FERC rejects, materially modifies or materially conditions its acceptance of the amendment to the Interconnected Balancing Authority Area Operating Agreement (or such other form of agreement as may be agreed to between the CAISO and Western – DSR), within fifteen (15) days of issuance of such FERC order, the Parties shall take one of the following actions: (i) agree to accept any modifications or conditions imposed by such FERC order, (ii) jointly seek further administrative or legal remedies with respect to such FERC order, including a request for rehearing or clarification, or (iii) enter into negotiations with respect to accommodation of such FERC order. If the Parties did not accept such FERC order and have not agreed to an accommodation within thirty (30) days of that date on which such FERC order becomes a final and non-appealable order, such order shall be deemed an Adverse Order.

4.1.1.1 Metering or Other Facilities at Mead. Metering or other facilities may be necessary for the ISO to assume Operational Control of the Valley Electric System based on the Mead Rights. Valley Electric will coordinate with Western – DSR to install such metering or other facilities to interconnect the CAISO Controlled Grid with the Valley Electric System. CAISO will coordinate with Valley Electric and Western – DSR to determine the appropriate metering or other facilities, but shall have no direct responsibility for installation of these metering or other facilities. Valley Electric will be solely responsible for completion of the metering or other facilities reasonably necessary to connect the Valley Electric System with the CAISO Controlled Grid based on the Mead Rights.

4.1.2 Points of Interconnection with Other Balancing Authority Areas. The Parties acknowledge and agree that Points of Interconnection other than the interconnection based at Mead Rights are necessary to account for the Valley Electric System as part of the CAISO Balancing Authority Area. The Parties further acknowledge and agree that these additional Points of Interconnection require mutual agreement between the CAISO and Western – DSR or NV Energy, most likely as an amendment to the existing Interconnected Balancing Authority Area Operating Agreement or Interconnected Control Area Operating Agreement between the CAISO and Western – DSR or NV Energy, respectively. The CAISO agrees to use commercially reasonable efforts to negotiate an amendment to the Interconnected Balancing Authority Area Operating Agreement, or such other arrangements with Western-DSR or NV Energy, as will permit interconnection of the Valley Electric System with the CAISO Controlled Grid on or before the Transition Date. These agreements between the CAISO and Western – DSR or NV Energy will be filed with FERC by the CAISO with a requested effective date concurrent with the Transition Date. If CAISO and Western – DSR or NV Energy are unable to reach agreement with respect to this amendment, within fifteen (15) days of such failure, CAISO shall notify Valley Electric and the Parties shall consider options, including termination of this Agreement as provided in Section 2.6. If the FERC rejects, materially modifies or materially conditions its acceptance of the amendment to the Interconnected Balancing Authority Area Operating Agreement (or such other form of agreement as may be agreed to between the CAISO and Western – DSR or NV Energy), within fifteen (15) days of issuance of such FERC order, the Parties shall take one of the following actions: (i) agree to accept any modifications or conditions imposed by such FERC order, (ii) jointly seek further administrative or legal remedies with respect to such FERC order, including a request for rehearing or clarification, or (iii) enter into negotiations with respect to accommodation of such FERC order. If the Parties did not accept such FERC order and have not agreed to an accommodation within thirty (30) days of issuance of such FERC order, or if the Parties jointly seek further administrative or legal remedies with respect to such FERC order, within thirty (30) days after a final non-appealable order is received from FERC or any court having jurisdiction, such order shall be deemed an Adverse Order.

4.1.2.1 Metering or Other Facilities at Points of Interconnection with Other Balancing Authority Areas. Metering or other facilities may be necessary to establish additional Points of Interconnection between the CAISO Balancing Authority Area and the Western – DSR or NV Energy Balancing Authority Areas. The Parties will coordinate with Western – DSR or NV Energy to install such metering or other facilities to establish these additional Points of Interconnection. Valley Electric will be solely responsible for installation of the metering or other facilities that are reasonably necessary to establish these additional Points of Interconnection between the CAISO Controlled Grid and Western DSR or NV Energy.

4.1.3 Encumbrances on the Valley Electric System. Valley Electric represents and warrants that it has not entered into any arrangement that would constitute an Encumbrance on the Valley Electric System. In addition, Valley Electric agrees that it will not enter into any arrangement prior to the Transition Date that would constitute an Encumbrance on the Valley Electric System.

4.2 Transmission Revenue Requirement. Valley Electric will file its Transmission Revenue Requirement with FERC with a requested effective date concurrent with the Transition Date. The Parties anticipate that the costs associated with the Valley Electric System will be included in Valley Electric’s Transmission Revenue Requirement. Valley Electric will have sole responsibility for obtaining regulatory approval of its Transmission Revenue Requirement, except to the extent the CAISO may be requested to provide related support based on this Agreement. FERC conditional approval of the Transmission Revenue Requirement with respect to the Valley Electric System is required as a condition precedent to the Transition Date. If the FERC rejects, materially modifies, or materially conditions its acceptance of the Transmission Revenue Requirement for the Valley Electric System within fifteen (15) days of such FERC order, the Parties shall take one of the following actions: (i) agree to accept any modifications or conditions imposed by such FERC order, (ii) jointly seek further administrative or legal remedies with respect to such FERC order, including a request for rehearing or clarification, or (iii) enter into negotiations with respect to accommodation of such FERC order. If the Parties did not accept such FERC order and have not agreed to an accommodation within thirty (30) days of issuance of such FERC order, or if the Parties jointly seek further administrative or legal remedies with respect to such FERC order, within thirty (30) days after a final non-appealable order is received from FERC or any court having jurisdiction, such order shall be deemed an Adverse Order.

4.3 Transmission Interconnection. Valley Electric will complete the Transmission Interconnection and place it in service as soon as commercially reasonable after the Transition Date. The Parties anticipate that the costs associated with the Transmission Interconnection will be included in Valley Electric's Transmission Revenue Requirement. Valley Electric will be solely responsible for the costs and regulatory approvals associated with the Transmission Interconnection. Valley Electric will have sole responsibility for obtaining regulatory approval of the associated costs in its Transmission Revenue Requirement, except the CAISO may be requested to provide related support based on this Agreement. CAISO agrees to update the Transmission Register to include the Transmission Interconnection effective as of the in-service date.

4.4 Transmission Upgrade. Valley Electric will complete the Transmission Upgrade and place it in service as soon as commercially reasonable. The Parties anticipate that the costs of the Transmission Upgrade will be included in Valley Electric's Transmission Revenue Requirement. Valley Electric will be solely responsible for the costs and regulatory approvals associated with the Transmission Upgrade. Valley Electric will have sole responsibility for obtaining regulatory approval of the associated costs in its Transmission Revenue Requirement, except the CAISO may be requested to provide related support based on this Agreement. CAISO agrees to update the Transmission Register to include the Transmission Upgrade effective as of the in-service date. If the Transmission Upgrade is placed in service prior to the Transition Date and FERC rejects, materially modifies, or materially conditions its acceptance of the of the Transmission Revenue Requirement for the Transmission Upgrade within fifteen (15) days of such FERC order, the Parties shall take one of the following actions: (i) agree to accept any modifications or conditions imposed by such FERC order, (ii) jointly seek further administrative or legal remedies with respect to such FERC order, including a request for rehearing or clarification, or (iii) enter into negotiations with respect to accommodation of such FERC order. If the Parties did not accept such FERC order and have not agreed to an accommodation within thirty (30) days of issuance of such FERC order, or if the Parties jointly seek further administrative or legal remedies with respect to such FERC order, within thirty (30) days after a final non-appealable order is received from FERC or any court having jurisdiction, such order shall be deemed an Adverse Order.

4.5 Utility Distribution Company Operating Agreement. Valley Electric will enter into a Utility Distribution Company Operating Agreement with the CAISO to address operational issues associated with reliably serving its Load in the CAISO Balancing Authority Area, which will be filed with FERC by the CAISO with a requested effective date concurrent with the Transition Date.

4.6 Scheduling Coordinator. Valley Electric will become or retain the services of a CAISO certified Scheduling Coordinator to interface with the CAISO systems effective as of the Transition Date. If Valley Electric wishes to itself become a certified Scheduling Coordinator, it shall submit an application to the CAISO at least six months prior to the Transition Date.

ARTICLE 5
INTERCONNECTION QUEUE MERGER

5.1 Purpose and Assumptions. This Article 5 specifies steps the Parties will take in advance of the Transition Date so that the CAISO may treat generators in Valley Electric's queue as CAISO Interconnection Customers. In particular, this Article 5 allows customers in Valley Electric's interconnection queue as of August 1, 2011 to elect Full Capacity Deliverability Status as CAISO Controlled Grid connected Generating Facilities. For this purpose, the Parties assume that Valley Electric will become a Participating Transmission Owner and complete the Transmission Interconnection.

5.2 Interconnection Queue and Study Process Status. The CAISO and Valley Electric each conduct their own interconnection queue and study processes. Valley Electric administers a generator interconnection queue through a serial study process, which includes approximately 2980 MW of renewable generation as of August 1, 2011. Two projects in Valley Electric's queue accounting for a total of about 1620 MW have also submitted an Interconnection Request to the most recent CAISO Cluster Application Window, Cluster 4, of the CAISO's Generator Interconnection Procedures. The remaining approximate 1360 MW of customers in Valley Electric's interconnection queue have not submitted an Interconnection Request to the CAISO. Once Valley Electric becomes a Participating Transmission Owner in the CAISO Balancing Authority Area, customers currently in Valley Electric's interconnection queue, who achieve Commercial Operation, will be CAISO Controlled Grid interconnected Generating Facilities.

5.3 Valley Electric Generator Interconnection Procedures. Valley Electric will revise its generator interconnection procedures and initiate a cluster study process consistent with the timeline set forth in the Transition Plan. This cluster study process will include all interconnection customers with a valid interconnection request as of August 1, 2011, who enter into an agreement to participate in the cluster study process. This cluster study process will be completed consistent with the timeline set forth in the Transition Plan but no later than thirty (30) days prior to completion of the CAISO Cluster 4 Phase II Interconnection Studies. The CAISO will advise Valley Electric in a timely manner of the expected completion date of the CAISO Cluster 4 Phase II Interconnection Studies, including any changes to the expected completion date. This cluster study process will, among other things, identify the network upgrades required on the Valley Electric System for generating facilities seeking Full Capacity Deliverability Status on the CAISO Controlled Grid. All customers in Valley Electric's interconnection queue will be required to execute an agreement to participate and fund the cost of this cluster study process, as well as other costs determined by Valley Electric, consistent with the timeline in the Transition Plan. This cluster study process will replace the existing Valley Electric serial interconnection study process. The CAISO will coordinate with Valley Electric with respect to this cluster study process in accordance with the Transition Plan and review results to ensure they are compatible with the ISO Cluster 4 Phase II Interconnection Studies.

5.3.1 Customers Entering Valley Electric Queue after August 1, 2011. Interconnection customers that submit interconnection requests to Valley Electric after August 1, 2011 will be required to submit an Interconnection Request to the CAISO in the next CAISO Generation Interconnection Process Cluster Application Window. Any interconnection request received by Valley Electric after August 1, 2011 and before the Transition Date may also need to be included in a second cluster study conducted by Valley Electric as necessary to identify the network upgrades required on the Valley Electric System for generating facilities seeking Full Capacity Deliverability Status on the CAISO Controlled Grid. This second cluster study would be conducted as provided in this Section 5.3, if required. Alternatively, the Parties may elect to merge the second cluster study conducted by Valley Electric into the ISO's Generator Interconnection Procedures and conduct a single study with respect to these interconnection customers if that would be more efficient and effective under the circumstances.

5.4 Valley Electric Generator Interconnection Agreements. Upon the request of a Valley Electric interconnection customer, Valley Electric and the CAISO will offer to enter into a three-party agreement with the interconnection customer for network upgrades on the Valley Electric System that are identified in the Valley Electric cluster study process. These agreements will be consistent with the Interconnection Agreement included in the CAISO Tariff and will be made effective on the Transition Date.

5.5 Costs Associated with Network Upgrades on the Valley Electric System. Network upgrades on the Valley Electric System will be separately indentified through the Valley Electric cluster studies that Valley Electric will conduct pursuant to the new Valley Electric interconnection process described in Section 5.3 above. Any interconnection customer cost responsibility and transmission owner cost responsibility associated with network upgrades on the Valley Electric System necessary for customers in the Valley Electric queue seeking to obtain Full Capacity Deliverability Status on the CAISO Controlled Grid shall be treated consistent with the CAISO Generator Interconnection Procedures as provided in the CAISO Tariff, except as may be specifically provided below in Section 5.6.

5.6 Network Upgrades on the CAISO Controlled Grid, the CAISO Generator Interconnection Procedures, and Special Interconnection Requests. Any customer in the Valley Electric queue as of August 1, 2011 that is not already a CAISO Interconnection Customer and that desires Full Capacity Deliverability Status on the CAISO Controlled Grid will be required to submit a "special" Interconnection Request to the CAISO within thirty (30) days following the release of the Cluster 4 Phase I Interconnection Study results. This Interconnection Request will enable these Interconnection Customers to be included in the CAISO Cluster 4 Phase II Interconnection Studies as provided below. This "special" Interconnection Request will afford the Interconnection Customer all rights and obligations of the CAISO Tariff. Any customer seeking interconnection to the Valley Electric System after August 1, 2011 will be required to submit a standard Interconnection Request to the CAISO in the next Cluster Application Window, if such customer desires Full Capacity Deliverability Status on the CAISO Controlled Grid. The CAISO will follow its Generator Interconnection Procedures with respect to all such Interconnection Requests except as provided below in this Section 5.6.

5.6.1 Study Deposits and Financial Security. Interconnection Customers submitting a "special" Interconnection Request to the CAISO as provided in this Section 5.5 will be required to comply with all study deposit, financial security and other requirements of the CAISO Generator Interconnection Procedures as if the Interconnection Customer had submitted an Interconnection Request in the CAISO Cluster Application Window, Cluster 4, and participated in the Cluster 4 Phase I Interconnection Studies. Specifically, in accordance with Appendix Y, Section 3.5.1(i), the Study Deposit will be $50,000 plus $1,000 per MW up to a maximum of $250,000, and the Interconnection Financial Security posting requirement for these Interconnection Customers will be determined in accordance with Appendix Y, Section 9 of the CAISO Tariff and due at the time the **"**special" Interconnection Request is submitted to the CAISO. The initial Interconnection Financial Security posting provided in Appendix Y, Section 9.2.3 shall be determined at the rate of $20,000 per megawatt electrical output of the Generating Facility, up to a maximum of $7.5 million. Projects greater than 20 MW will have to post a minimum of $500,000. Projects less than 20 MW would be able to post less depending upon their MW value, with a minimum required posting of $50,000.

5.6.2 Incremental Network Upgrade Costs. Incremental costs for Network Upgrades on the CAISO Controlled Grid that are identified in the Cluster 4 Phase II Interconnection Studies and were not included in the Cluster 4 Phase I Interconnection Study results will be allocated to all Cluster 4 Interconnection Customers in accordance with the methodology provided in the CAISO Tariff.

5.6.3 CAISO Interconnection Customer Maximum Cost Responsibility for Network Upgrades. The cost responsibility for CAISO Interconnection Customers (as distinguished from Valley Electric interconnection customers) included in the Cluster 4 Phase I Interconnection Studies for Network Upgrades on the CAISO Controlled Grid will be limited to the Maximum Cost Responsibility that was established in their Cluster 4 Phase I Interconnection Study results. For these Interconnection Customers, any costs in excess of an Interconnection Customer's Cluster 4 Phase I Interconnection Study Maximum Cost Responsibility for Network Upgrades on the CAISO Controlled Grid identified in the Cluster 4 Phase II Interconnection Studies shall be funded by the Participating Transmission Owner and included in the Transmission Access Charge consistent with the CAISO Tariff and Generator Interconnection Procedures.

5.6.4 Valley Electric Interconnection Customer Cost Responsibility for Network Upgrades to CAISO Controlled Grid. Costs for Network Upgrades on the CAISO Controlled Grid allocated to Valley Electric interconnection customers who submitted a "special" Interconnection Request to the CAISO would not be limited in any way by the Cluster 4 Phase I Interconnection Study results, since these interconnection customers were not included in the Cluster 4 Phase I Interconnection Studies. These Interconnection Customers would be responsible for their proportionate shares of costs for the Network Upgrades on the CAISO Controlled Grid up to their Maximum Cost Responsibility as determined by the Cluster 4 Phase II Interconnection Study results, in accordance with the CAISO Tariff and Generator Interconnection Procedures.

5.7 CAISO Generator Interconnection Agreements. The CAISO will enter into Interconnection Agreements with Interconnection Customers and the applicable Participating Transmission Owner with respect to Network Upgrades on the CAISO Controlled Grid associated with "special" Interconnection Request as described above on the same basis as with Interconnection Customers who participated in the Cluster 4 Phase I Interconnection Studies (i.e., in accordance with the CAISO Tariff), with the understanding that Network Upgrades on the Valley Electric System will be contracted for in accordance with Section 5.4.

5.8 Reimbursement of Interconnection Financial Security and Interconnection Study Deposits in the Event of Termination. If this Agreement is terminated for any reason, any Interconnection Customer who submitted a "special" Interconnection Request as provided in

Section 5.6 above will be entitled to a full refund of its Interconnection Financial Security, unless such Interconnection Customer utilizes the Network Upgrades on the CAISO Controlled Grid through construction of additional Interconnection Facilities. In this case, the Interconnection Customer would be entitled to a refund of Interconnection Financial Security in accordance with Appendix Y, Section 9.4.2.4 of the CAISO Tariff. If an Interconnection Customer withdraws its "special" Interconnection Request for any reason prior to termination of this Agreement, Interconnection Financial Security would be refunded in accordance with the CAISO Generator Interconnection Procedures. Interconnection Study Deposits will be refunded in accordance with the CAISO Generator Interconnection Procedures under all circumstances. All costs associated with any cluster study conducted by Valley Electric would be treated in accordance with the agreement between the interconnection customer and Valley Electric.

ARTICLE 6
TRANSMISSION PLANNING

6.1 Joint Transmission Planning. The CAISO and Valley Electric each regularly perform transmission planning activities to ensure their respective systems meet applicable Reliability Standards. It is appropriate that development of the Transmission Interconnection, Transmission Upgrade, and the interconnection between the Valley Electric System and the CASIO Controlled Grid based on the Mead Rights, as well as planning for any additional reliability upgrades that may be needed to reinforce the transmission grid, be coordinated prior to the Transition Date. The CAISO's Transmission Planning Process includes the opportunity to work with Transmission Owners outside of its Balancing Authority Area to jointly plan transmission development. It is anticipated that the Parties will utilize this process to engage in joint transmission planning activities prior to the Transition Date.

6.2 Exemption from CAISO Transmission Planning Process. Since the Valley Electric System currently is not within the CAISO Balancing Authority Area, the Transmission Interconnection and the Transmission Upgrade projects are expressly exempt from the CAISO Transmission Planning Process and will not be studied as part of the CAISO Controlled Grid during the Transmission Planning Process cycles that have commenced prior to the Transition Date. As contemplated in Sections 4.3 and 4.4, the CAISO will consider these facilities New High Voltage Facilities when placed into service regardless of the fact they were not considered by the CAISO as part of the Transmission Planning Process or included in the CAISO's Transmission Plans.

6.3 Network Upgrades on the Valley Electric System. Network upgrades originally identified during the Valley Electric cluster study process described in Section 5.3, but for which no Interconnection Agreement has been executed, will be considered equivalent to Network Upgrades originally identified during the Cluster 4 Phase II Interconnection Study Process for purposes of determining whether such network upgrades should be assessed as part of the comprehensive Transmission Plan in accordance with CAISO Tariff section 24.4.6.5. The CAISO will review such network upgrades that meet the criteria under CAISO Tariff section 24.4.6.5 and reach determinations 30 days prior to the Transition Date as to whether further consideration of enhancements to these network upgrades is warranted. The CAISO will enter into Interconnection Agreements pursuant to Section 5.4 with respect to any such network upgrades that are not identified for further consideration in the CAISO Transmission Planning Process as part of the review conducted under this Section 6.3. The CAISO will not enter into Interconnection Agreements pursuant to Section 5.4 with respect to any such network upgrades that are identified for further consideration in the CAISO Transmission

Planning Process until such network upgrades have completed the review process consistent with CAISO Tariff section 24.4.6.5, which will be no later than the timeline for consideration and approval of the comprehensive Transmission Plan by the CAISO Governing Board as provided in the CAISO Tariff and Business Practice Manual, currently scheduled for March of 2013. Network upgrades on Valley Electric's system that are planned or under construction pursuant to an Interconnection Agreement executed pursuant to Section 5.4 or this Section 6.3 will not be subsequently considered as part of the comprehensive Transmission Plan in accordance with CAISO Tariff section 24.4.6.5.

ARTICLE 7
RESOURCE ADEQUACY REQUIREMENTS

7.1 General Resource Adequacy Requirements. Valley Electric will need to meet the resource adequacy requirements of the CAISO Tariff applicable to Load Serving Entities as of the Transition Date. The Parties will rely mainly on the California Energy Commission ("CEC") coincident peak demand forecast for the entire CAISO system, which will include, after the Transition Date, the Valley Electric System for the resource adequacy process. Valley Electric will provide sufficient historical data to enable the CEC and the CAISO to perform a coincident peak historic demand analysis for purposes of determining the Valley Electric share of CAISO coincident system peak demand. Valley Electric will participate in the CEC demand forecasting process for the 2013 forecast year.

7.2 Valley Electric System Resource Adequacy Requirements. Pursuant to the CAISO Tariff, the CAISO will recognize Valley Electric as a non-CPUC jurisdictional Load Serving Entity subject to the jurisdiction of its own Local Regulatory Authority. Valley Electric will establish its own planning reserve margin regarding system resource adequacy requirements for the Loads served by Valley Electric as a fraction of its coincident system peak demand, in accordance with Section 40 of the CAISO Tariff.

7.3 Valley Electric Local Resource Adequacy Requirements. Valley Electric may or may not have local resource adequacy requirements, which the CAISO will determine as required by the CAISO Tariff not later than May 2012 (the year prior to the Transition Date), in accordance with Section 40 of the CAISO Tariff.

7.4 Resource Adequacy Demonstrations. Valley Electric, through its Scheduling Coordinator, will participate in the year-ahead and month-ahead demonstrations in accordance with the CAISO Tariff to demonstrate that it has met its resource adequacy requirements. In addition, entities that supply resource adequacy capacity to Valley Electric will be considered Resource Adequacy Resources in accordance with the CAISO Tariff and will be subject to all applicable requirements related to such status.

7.5 Deliverability of Imports and Use of Mead Rights for Resource Adequacy Purposes. Valley Electric historically has served its Load via imports over the Mead Point of Interconnection, utilizing the Mead Rights. Upon Valley Electric's transition to the CAISO as a Participating Transmission Owner, Valley Electric will turn the Mead Rights over to CAISO Operational Control. To enable Valley Electric to continue its reliance on imports using the Mead Rights for a reasonable period of time to meet its resource adequacy requirements after the Transition Date, the Parties agree that the resource adequacy import allocation on the Mead Intertie should provide Valley Electric an appropriate share of the import capacity without compromising allocations of Mead import capacity for resource adequacy purposes to other CAISO Load Serving Entities. Accordingly, even though the Transition Date will occur after 2006, the CAISO will count a quantity of import capacity at the Mead Intertie as Pre-RA Import Commitments under the resource adequacy import allocation rules provided in the CAISO Tariff. The Mead Pre-RA Import Commitment Capability shall be determined by Valley Electric, in cooperation with the CAISO, in June for the following year's resource adequacy import allocation process, commencing in 2012, and shall adjust annually to account for load growth. Valley Electric's Mead Pre-RA Import Commitment Capability shall not exceed 150 MW in any given year. This amount reasonably covers Valley Electric's existing loads, load growth, and planning reserve margin. The Mead Pre-RA Import Commitment Capability shall expire on the earlier of the tenth anniversary of the Transition Date or the date that Valley Electric no longer has the ability to deliver to and receive power from the Mead substation pursuant to the Mead Rights or any substantially similar contract rights. The Mead Pre-RA Import Commitment Capability is intended to facilitate Valley Electric's transition to the CAISO and, as such, will not be eligible for transfer to other CAISO Load Serving Entities as provided in the CAISO Tariff.

ARTICLE 8
CONGESTION REVENUE RIGHTS

8.1 Eligibility for Allocation of Congestion Revenue Rights. Valley Electric as a Load Serving Entity in the CAISO Balancing Authority Area will be eligible for an allocation of Congestion Revenue Rights ("CRRs") at a quantity based on its Load Metric. Tier 1 of the CAISO's annual CRR allocation process (the Priority Nomination Process) is restricted to Load Serving Entities who want to nominate renewal of CRRs they were allocated the previous year. Because Valley Electric will not have been allocated CRRs for periods prior to the Transition Date, it would be ineligible under the CAISO Tariff to participate in the Priority Nomination Process for its first full year as a CAISO Load Serving Entity. This may adversely affect Valley Electric's ability to acquire sufficient CRRs to hedge the Congestion cost of serving its Loads. In light of this, to provide Valley Electric the opportunity to nominate and obtain CRRs for its first year as a CAISO Load Serving Entity, the CAISO will permit participation by Valley Electric in Tier 1 nominations as if Valley Electric held a previously-allocated portfolio of CRRs.

8.2 Proxy Congestion Revenue Rights Portfolio. The Parties will develop a historic proxy portfolio of CRRs consistent with the quantity of CRRs that Valley Electric would be eligible for based on the historical analysis of Valley Electric's Load. To construct such a CRR portfolio, the Parties will establish the eligible sources, sinks and MW quantities as follows. The sink will be the Valley Electric Custom Load Aggregation Point. Eligible sources will be determined based upon Valley Electric's historic pattern of acquiring energy to serve its Load, including but not limited to relevant energy contracts and the Mead Rights.

8.3 Load Forecast for the Monthly Congestion Revenue Rights Allocation. For California Load Serving Entities wanting to participate in the monthly CRR allocation process, the CAISO obtains demand forecasts from the California Energy Commission. Here, the Parties will also rely upon the CEC demand forecast for the Valley Electric System, which the CEC has agreed to provide. The CAISO will use the monthly demand forecast provided by the CEC to validate demand forecast data submitted by Valley Electric for determining Valley Electric's eligibility for monthly CRRs. In the event the CEC no longer provides a demand forecast for the Valley Electric System, the Parties will develop and apply an alternative equivalent methodology.

8.4 Congestion Revenue Rights Allocation. Valley Electric will participate in the CAISO's annual CRR allocation process for the 2013 calendar year, which is conducted over the summer of 2012, and will receive annual CRRs for 2013 assuming the Transition Date will occur on January 1, 2013, as initially targeted in the Transition Plan. Valley Electric will provide hourly historical Load data, for 2011, to the CAISO to participate in the annual CRR allocation process. Should the Transition Date be delayed past January 1, 2013 for any reason, any rights allocated to Valley Electric otherwise applicable prior to the actual Transition Date will not be settled during the period of delay, and such CRRs will become effective and eligible for settlement upon the actual Transition Date.

8.5 Congestion Revenue Rights Network Model. The CAISO will modify its CRR network model to reflect the planned incorporation of the Valley Electric System and Mead Rights, effective as of the Transition Date, for purposes of the 2013 annual CRR allocation process. This will result in the allocation of CRRs to Valley Electric whose feasibility will be contingent on the incorporation of the Mead Rights to CAISO Operational Control on the Transition Date, which is expected to coincide with the date when 2013 CRRs normally become effective (i.e., January 1, 2013). Since the initial CRR annual allocation process that Valley Electric participates in will be prior to the Transmission Interconnection, only Valley Electric will be able to request CRRs to or from the new Mead Scheduling Point and to or from the new Valley Electric pricing nodes. Should the Transition Date not occur on January 1, 2013, the CAISO will not calculate Locational Marginal Prices for any locations associated with the Valley Electric System and will not settle on any CRRs terminating at the Valley Electric Default LAP. Once the Transmission Interconnection is in service, then the next available monthly CRRs process will include the Valley Electric System and the associated scheduling locations will be biddable by CAISO market participants. Any annual CRRs allocated to Valley Electric will become active as of the effective Transition Date.

ARTICLE 9
GREENHOUSE GAS REPORTING OBLIGATIONS

9.1 Load Served in Nevada. The Parties recognize that although Valley Electric expects to become a CAISO Participating Transmission Owner and Load Serving Entity on the Transition Date, Valley Electric's Load is predominantly located within Nevada. The Parties agree to cooperate amongst themselves and with California agencies such as the California Air Resources Board to ensure that sufficient tracking and reporting procedures are put in place, and to advance properly designed implementing practices, such that Valley Electric will not incur a California specific carbon obligation for its Nevada Load as a result of Valley Electric becoming a CAISO Participating Transmission Owner or Load Serving Entity.

ARTICLE 10
PROVISION OF TECHNICAL INFORMATION

10.1 Network Model Updates and Market Simulation. The CAISO operates the CAISO Controlled Grid and CAISO Markets utilizing the Full Network Model. This network model is updated approximately every other month, and there is approximately a two-month lead time to include updates in an upcoming release. In addition to including the Valley Electric System facilities in the CAISO's Full Network Model, the CAISO likely will find it prudent to add or modify Points of Interconnection and Scheduling Points reflected in the model. The Parties will cooperate to incorporate the Valley Electric System into the Full Network Model in advance of the Transition Date such that the revised model can be used in market simulation and be proven accurate and reliable prior to the Transition Date. The Parties will make best efforts to initiate this process such that an applicable revised Full Network Model will also be available to the CAISO for the Generator Interconnection Procedures and the Transmission Planning Process. The Parties will also exchange any additional network related information needed to coordinate with NV Energy and Western– DSR to facilitate any necessary Balancing Authority Area boundary changes and to memorialize the CAISO's contractual arrangements with these entities.

10.2 Additional System Information. Valley Electric will provide the CAISO with detailed information with respect to the Valley Electric System and any interconnection or transmission agreements between Valley Electric and NV Energy, Western - DSR or other entities that entitle Valley Electric to transmission service on these other entities' systems and that would be turned over to CAISO Operational Control in accordance with the Transmission Control Agreement.

10.3 Other Required Information. Valley Electric will provide to the CAISO any additional transmission, generation, and load data reasonably required for the CAISO to update system data bases and other processes in a timely manner as may be requested in writing by the CAISO.

ARTICLE 11
AGREEMENTS WITH THIRD PARTIES

11.1 Agreements with Third Parties. The Parties intend to engage in discussions with third parties essential to achieving the Transition Date, including in particular interconnection customers, NV Energy, and Western – DSR as described in this Agreement. The Parties will likely enter into binding agreements with such third parties as may be necessary to implement the terms and conditions of this Agreement, which will be enforced in accordance with the terms and conditions of such agreements. In addition, the Parties will enter into interconnection agreements with customers in Valley Electric's queue, which may relate back to Interconnection Studies conducted by the CAISO and a cluster study conducted by Valley Electric prior to the Transition Date.

11.2 No Third Party Beneficiaries. No right or obligation contained in this Agreement shall inure to the benefit of any person or entity which is not a Party. Nothing in this Agreement shall be construed to create any duty to, any standard of care with reference to, or any liability to any third party.

ARTICLE 12
LIABILITY AND INDEMNITY

12.1 Liability and Indemnification. The provisions of Section 14 of the CAISO Tariff will apply to liability and indemnification arising under this Agreement, except that all references in Section 14 of the CAISO Tariff to Market Participants shall be read as references to Valley Electric and references to the CAISO Tariff shall be read as references to this Agreement.

12.2 Actions in the Event of Termination. Article 2 provides for termination in the event of default and Adverse Order. The Parties rights and obligations under such circumstances will be as provided in this Agreement and in accordance with Section 12.1 above.

ARTICLE 13
UNCONTROLLABLE FORCES

13.1 Uncontrollable Forces. Section 14.1 of the CAISO Tariff shall be incorporated by reference into this Agreement, except that all references in Section 14.1 of the CAISO Tariff to Market Participants shall be read as a reference to Valley Electric and references to the CAISO Tariff shall be read as references to this Agreement.

ARTICLE 14
DISPUTE RESOLUTION

14.1 Dispute Resolution. Valley Electric and the CAISO shall make reasonable efforts to settle all disputes arising out of or in connection with this Agreement. In the event any dispute is not settled, Valley Electric and the CAISO shall adhere to the CAISO ADR Procedures set forth in Section 13 of the CAISO Tariff, which is incorporated by reference, except that any reference in Section 13 of the CAISO Tariff to Market Participants shall be read as a reference to Valley Electric and references to the CAISO Tariff shall be read as references to this Agreement.

ARTICLE 15
CONFIDENTIALITY

15.1 Confidentiality. Confidential Information shall include, without limitation, all information relating to a Party's technology, research and development, business affairs, and pricing. Information is Confidential Information only if it is clearly designated or marked in writing as confidential on the face of the document, or, if the information is conveyed orally or by inspection, if the Party providing the information orally informs the Parties receiving the information that the information is confidential. If requested by any Party, the other Parties shall provide in writing, the basis for asserting that the information referred to in this Article 15 warrants confidential treatment, and the requesting Party may disclose such writing to the appropriate Governmental Authority. Each Party shall be responsible for the costs associated with affording confidential treatment to its information.

15.1.1 Term. During the term of this Agreement, and for a period of three (3) years after the expiration or termination of this Agreement, except as otherwise provided in this Article 15, each Party shall hold in confidence and shall not disclose to any person Confidential Information.

15.1.2 Scope. Confidential Information shall not include information that the receiving Party can demonstrate: (1) is generally available to the public other than as a result of a disclosure by the receiving Party; (2) was in the lawful possession of the receiving Party on a non-confidential basis before receiving it from the disclosing Party; (3) was supplied to the receiving Party without restriction by a third party, who, to the knowledge of the receiving Party after due inquiry, was under no obligation to the disclosing Party to keep such information confidential; (4) was independently developed by the receiving Party without reference to Confidential Information of the disclosing Party; (5) is, or becomes, publicly known, through no wrongful act or omission of the receiving Party or breach of this Agreement; or (6) is required, in accordance with Article 15.1.7 of this Agreement, order of disclosure, to be disclosed by any governmental authority or is otherwise required to be disclosed by law or subpoena, or is necessary in any legal proceeding establishing rights and obligations under this Agreement. Information designated as Confidential Information will no longer be deemed confidential if the Party that designated the information as confidential notifies the other Parties that it no longer is confidential.

15.1.3 Release of Confidential Information. No Party shall release or disclose Confidential Information to any other person, except to its employees, consultants, Affiliates (limited by the Standards of Conduct requirements set forth in Part 358 of FERC's Regulations, 18 C.F.R. 358), subcontractors, or to parties who may be or considering providing financing to or equity participation with either Party, or to potential purchasers or assignees of the Party, on a need-to-know basis in connection with this Agreement, unless such person has first been advised of the confidentiality provisions of this Article 15 and has agreed to comply with such provisions. Notwithstanding the foregoing, a Party providing Confidential Information to any person shall remain primarily responsible for any release of Confidential Information in contravention of this Article 15.

15.1.4 Rights. Each Party retains all rights, title, and interest in the Confidential Information that each Party discloses to the other Parties. The disclosure by each Party to the other Parties of Confidential Information shall not be deemed a waiver by a Party or any other person or entity of the right to protect the Confidential Information from public disclosure.

15.1.5 No Warranties. The mere fact that a Party has provided Confidential Information does not constitute a warranty or representation as to its accuracy or completeness. In addition, by supplying Confidential Information, no Party obligates itself to provide any particular information or Confidential Information to the other Parties nor to enter into any further agreements or proceed with any other relationship or joint venture.

15.1.6 Standard of Care. Each Party shall use at least the same standard of care to protect Confidential Information it receives as it uses to protect its own Confidential Information from unauthorized disclosure, publication or dissemination. Each Party may use Confidential Information solely to fulfill its obligations to the other Parties under this Agreement or its regulatory requirements.

15.1.7 Order of Disclosure. If a court or a government authority or entity with the right, power, and apparent authority to do so requests or requires any Party, by subpoena, oral deposition, interrogatories, requests for production of documents, administrative order, or otherwise, to disclose Confidential Information, that Party shall provide the other Parties with prompt notice of such request(s) or requirement(s) so that the other Parties may seek an appropriate protective order or waive compliance with the terms of this Agreement. Notwithstanding the absence of a protective order or waiver, the Party may disclose such Confidential Information which, in the opinion of its counsel, the Party is legally compelled to disclose. Each Party will use reasonable efforts to obtain reliable assurance that confidential treatment will be accorded any Confidential Information so furnished.

15.1.8 Termination of Agreement. Upon termination of this Agreement for any reason, each Party shall, within ten (10) calendar days of receipt of a written request from another Party, use reasonable efforts to destroy, erase, or delete (with such destruction, erasure, and deletion certified in writing to the other Party) or return to the other Party, without retaining copies thereof, any and all written or electronic

Confidential Information received from the other Party.

15.1.9 Remedies. The Parties agree that monetary damages would be inadequate to compensate a Party for another Party's breach of its obligations under this Article 15. Each Party accordingly agrees that the other Parties shall be entitled to equitable relief, by way of injunction or otherwise, if the first Party breaches or threatens to Breach its obligations under this Article 15, which equitable relief shall be granted without bond or proof of damages, and the receiving Party shall not plead in defense that there would be an adequate remedy at law. Such remedy shall not be deemed an exclusive remedy for the breach of this Article 15, but shall be in addition to all other remedies available at law or in equity. The Parties further acknowledge and agree that the covenants contained herein are necessary for the protection of legitimate business interests and are reasonable in scope. No Party, however, shall be liable for indirect, incidental, or consequential or punitive damages of any nature or kind resulting from or arising in connection with this Article 15.

15.1.10 Disclosure to FERC, its Staff, or a State. Notwithstanding anything in this Article 15 to the contrary, and pursuant to 18 C.F.R. section 1b.20, if FERC or its staff, during the course of an investigation or otherwise, requests information from one of the Parties that is otherwise required to be maintained in confidence pursuant to this Agreement, the Party shall provide the requested information to FERC or its staff, within the time provided for in the request for information. In providing the information to FERC or its staff, the Party must, consistent with 18 C.F.R. section 388.112, request that the information be treated as confidential and non-public by FERC and its staff and that the information be withheld from public disclosure. Parties are prohibited from notifying the other Parties to this Agreement prior to the release of the Confidential Information to FERC or its staff. The Party shall notify the other Parties to the Agreement when it is notified by FERC or its staff that a request to release Confidential Information has been received by FERC, at which time any of the Parties may respond before such information would be made public, pursuant to 18 C.F.R. Section 388.112. Requests from a state regulatory body conducting a confidential investigation shall be treated in a similar manner if consistent with the applicable state rules and regulations.

15.1.11 Subject to the exception in Article 22.1.10, Confidential Information shall not be disclosed by the other Parties to any person not employed or retained by the other Parties, except to the extent disclosure is (i) required by law; (ii) reasonably deemed by the disclosing Party to be required to be disclosed in connection with a dispute between or among the Parties, or the defense of litigation or dispute; (iii) otherwise permitted by consent of the other Parties, such consent not to be unreasonably withheld; or (iv) necessary to fulfill its obligations under this Agreement or as a transmission service provider or a Balancing Authority including disclosing the Confidential Information to CAISO or to a regional or national reliability organization. The Party asserting confidentiality shall notify the other Parties in writing of the information it claims is confidential. Prior to any disclosures of another Party's Confidential Information under this subparagraph, or if any third party or governmental authority makes any request or demand for any of the information described in this subparagraph, the disclosing Party agrees to promptly notify the other Party in writing and agrees to assert confidentiality and cooperate with the other Party in seeking to protect the Confidential Information from public disclosure by confidentiality agreement, protective order or other reasonable measures.

ARTICLE 16
REPRESENTATIONS AND WARRANTIES

16.1 **Representations and Warranties.** Each Party represents and warrants that the execution, delivery and performance of this Agreement by it has been duly authorized by all necessary corporate or governmental actions, to the extent authorized by law.

16.2 **Necessary Approvals.** Each Party represents that all necessary leases, approvals, licenses, permits, easements, rights of way or access to install, own or operate its facilities subject to this Agreement have been or will be obtained prior to the Effective Date of this Agreement.

ARTICLE 17
MISCELLANEOUS

17.1 **Assignments.** No Party may assign its obligations under this Agreement except with the other Party's prior written consent which consent shall not be unreasonably withheld. Any such assignment shall be subject to Section 22.2 of the CAISO Tariff, which is incorporated by reference into this Agreement.

17.1.1 Valley Electric Transmission Association. Valley Electric has created a wholly-owned subsidiary called Valley Electric Transmission Association, LLC, a Nevada limited liability company ("VETA"). Valley Electric is in the process of transferring all of its transmission assets to VETA, and the transaction is estimated to be completed prior to December 31, 2011. Following any such transfer of ownership rights, Valley Electric will (1) retain all entitlement to use of the transmission facilities necessary to become a CAISO Participating Transmission Owner, Utility Distribution Company, and Load Serving Entity pursuant to the Transmission Control Agreement and the CAISO Tariff, and (2) retain all rights and obligations under this Agreement.

17.2 **Notices.** Any notice, demand or request which may be given to or made upon either Party regarding this Agreement shall be made in accordance with Section 22.4 of the CAISO Tariff, which is incorporated by reference, except that any reference in Section 22.4 of the CAISO Tariff to Market Participants shall be read as a reference to Valley Electric and any reference to the CAISO Tariff shall be read as a reference to this Agreement, and unless otherwise stated or agreed shall be made to the representative of the other Party indicated in Attachment 3. A Party must update the information relating to its address as that information changes in accordance with Section 22.4 of the CAISO Tariff. Such changes will not constitute an amendment to this Agreement.

17.3 **Waivers.** Any waiver at any time by either Party of its rights with respect to any default under this Agreement, or with respect to any other matter arising in connection with this Agreement, shall not constitute or be deemed a waiver with respect to any subsequent default or matter arising in connection with this Agreement. Any delay short of the statutory period of limitations, in asserting or enforcing any right under this Agreement, shall not constitute or be deemed a waiver of such right.

17.4 **Governing Law and Forum.** This Agreement shall be deemed to be a contract made under and for all purposes shall be governed by and construed in accordance with the laws of the State of California except in its conflict of laws provisions. The Parties irrevocably consent that any legal action or proceeding arising under or in relation to this Agreement to which the CAISO ADR Procedures do not apply, shall be brought in any of the following forums, as appropriate: any court of the State of California, any federal court of the United States of America located in the State of California or Nevada, or where subject to its jurisdiction, before the Federal Energy Regulatory Commission.

17.5 **Integration.** This Agreement constitutes the full agreement of the Parties with respect to the subject matter hereof and supersedes all prior agreements, whether written or oral, with respect to such subject matter.

17.6 **Severability.** If any term, covenant, or condition of this Agreement or the application or effect of any such term, covenant, or condition is held invalid as to any person, entity, or circumstance, or is determined to be unjust, unreasonable, unlawful, imprudent, or otherwise not in the public interest by any court or government agency of competent jurisdiction, then such term, covenant, or condition shall remain in force and effect to the maximum extent permitted by law, and all other terms, covenants, and conditions of this Agreement and their application shall not be affected thereby, but shall remain in force and effect and the Parties shall be relieved of their obligations only to the extent necessary to eliminate such regulatory or other determination unless a court or governmental agency of competent jurisdiction holds that such provisions are not separable from all other provisions of this Agreement.

17.7 **Amendments.** This Agreement and the Attachments hereto may be amended from time to time by the mutual agreement of the Parties in writing. Amendments that require FERC approval shall not take effect until FERC has accepted such amendments for filing and made them effective. Nothing contained herein shall be construed as affecting in any way the right of the CAISO to unilaterally make application to FERC for a change in the rates, terms and conditions of this Agreement under Section 205 of the FPA and pursuant to FERC's rules and regulations promulgated thereunder, and Valley Electric shall have the right to make a unilateral filing with FERC to modify this Agreement pursuant to Section 206 or any other applicable provision of the FPA and FERC's rules and regulations thereunder; provided that each Party shall have the right to protest any such filing by the other Party and to participate fully in any proceeding before FERC in which such modifications may be considered. Nothing in this Agreement shall limit the rights of the Parties or of FERC under Sections 205 or 206 of the FPA and FERC's rules and regulations thereunder, except to the extent that the Parties otherwise mutually agree as provided herein.

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17.8 Counterparts. This Agreement may be executed in one or more counterparts at different times, each of which shall be regarded as an original and all of which, taken together, shall constitute one and the same Agreement.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed by and through their authorized representatives as of the date hereinabove written.

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
250 Outcropping Way
Folsom, CA 95630

Signature: ______________________

Name: Steve Berberich

Title: Pres + CEO

Date: 10/13/11

VALLEY ELECTRIC ASSOCIATION, INC.
800 E. Highway 372
Pahrump, NV 89048

Signature: Thomas H. Husted

Name: Thomas H. Husted

Title: CEO

Date: 10/12/11

TRANSITION PLAN

Start Date	Due Date	Milestones
	December 15, 2011	Effective Date of Transition Agreement
January 2012	February 2012	Valley Electric customers submit "special" Interconnection Request to the CAISO
January 2012	March 2012	Valley Electric conducts phase 1 of its cluster study
January 2012	June 2012	Integration of Valley Electric System into CAISO network model
January 2012	December 2012	Design and implement metering and telemetry changes at Mead substation and other Points of Interconnection
April 2012	September 2012	Valley Electric conducts phase 2 of its cluster study
April 2012	October 2012	CAISO conducts Cluster 4 Phase II Interconnection Studies
	June 2012	Valley Electric submits Participating TO application to the CAISO (no later than)
	July 2012	CAISO includes Valley Electric in Tier 1 CRR allocation and Resource Adequacy intertie allocation processes
	October 2012	Valley Electric submits request to become Utility Distribution Company
	October 2012	Transmission Control Agreement finalized to include Valley Electric as a Participating TO
	October 2012	CAISO Board of Governors advised 60 days before Transmission Control Agreement effective date
	October 2012	Valley Electric files TO Tariff and Transmission Revenue Requirement with FERC (no later than)
	October 2012	CAISO files Transmission Control Agreement with FERC (no later than)
	October 2012	CAISO files Western – DSR and NV Energy Interconnected Balancing Authority Area Operating Agreements with FERC (no later than)
	January 1, 2013	Transition Date: Valley Electric integrated into CAISO Balancing Authority Area as a UDC and Participating TO

Attachment 2 to the Transition Agreement

S	VEA Sub Station
S	Other Substations
▲	Switching Station

Transmission Lines

- 138 kV
- 230 kV
- 55 kV
- 230 kV Transmission in Construction

Valley Electric Association, Inc.®

Valley Electric Association Transmission Lines

July 22, 2011

THIS MAP IS FOR ILLUSTRATIVE PURPOSES ONLY. NO LIABILITY IS ASSUMED BY VALLEY ELECTRIC ASSOCIATION AS TO THE ACCURACY OF THE INFORMATION SHOWN.

Map Created by: The VEA Mapping Department

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Attachment 3 to the Transition Agreement

CONTACTS FOR NOTICES

Valley Electric

Name of Primary Representative:	Curt R. Ledford, Esq.
Title:	General Counsel
Company:	Valley Electric Association, Inc.
Address:	800 E. Highway 372; PO Box 237
City/State/Zip Code	Pahrump NV 89041
Email Address:	curtl@vea.coop
Phone:	775-727-5312
Fax No:	775-7276320

Name of Alternative Representative:	S. Bradley Van Cleve
Title:	Attorney
Company:	Davison Van Cleve
Address:	333 SW Taylor St., Suite 400
City/State/Zip Code	Portland, OR 97204
Email Address:	bvc@dvclaw.com
Phone:	503-241-7242
Fax No:	503-241-8160

CAISO

Name of Primary Representative:	Ms. Roni Reese
Title:	Senior Contracts Analyst
Address:	250 Outcropping Way
City/State/Zip Code	Folsom, CA 95630
Email Address:	rreese@caiso.com
Phone:	(916) 608-7027
Fax No:	(916) 608-7292

Name of Alternative Representative:	Christopher J. Sibley
Title:	Lead Contract Negotiator
Address:	250 Outcropping Way
City/State/Zip Code	Folsom, CA 95630
Email Address:	csibley@caiso.com
Phone:	(916) 608-7030
Fax No:	(916) 608-7292