

April 19, 2011

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

**Re: California Independent System Operator Corporation  
Filing of Rate Schedule No. 69 and Termination of Rate  
Schedule No. 42  
Docket No. ER11-\_\_\_\_-000**

Dear Secretary Bose:

The California Independent System Operator Corporation submits for Commission filing and acceptance an Adjacent Balancing Authority Operating Agreement (“ABAOA”) between the ISO and the Balancing Authority of Northern California (“BANC”).<sup>1</sup> In addition, the ISO provides notice to the Commission of the termination of the existing Interconnected Control Area Operating Agreement (“ICAOA”) between the ISO and the Sacramento Municipal Utility District (“SMUD”).<sup>2</sup> The ISO submits the instant filing in order to revise those contractual arrangements to reflect the planned transfer of balancing authority responsibilities from SMUD to BANC. The ISO proposes that the ABAOA and termination of the ICAOA both be made effective on the later of May 1, 2011 or the date BANC is certified by the North American Electric Reliability Corporation (“NERC”) as a registered balancing authority area, at which time balancing authority responsibilities will transfer from SMUD to BANC. Although the exact transfer date has not yet been finalized, the ISO, SMUD, and BANC anticipate that it will occur on or about May 1, 2011.

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<sup>1</sup> The ISO is also sometimes referred to as the CAISO. Capitalized terms not otherwise defined herein have the meanings set forth in the Master Definitions Supplement, Appendix A to the ISO tariff. The ISO submits the Adjacent Balancing Authority Operating Agreement pursuant to Section 205 of the Federal Power Act, 16 U.S.C. § 824d and Part 35 of the Commission’s regulations, 18 C.F.R. Part 35, and in compliance with Order No. 714, *Electronic Tariff Filings*, FERC Stats. & Regs. ¶ 31,276 (2009).

<sup>2</sup> The ISO submits the notice of termination of the Interconnected Control Area Operating Agreement pursuant to Section 205 of the Federal Power Act and Section 35.15 of the Commission’s regulations, 18 C.F.R. § 35.15, and in compliance with Order No. 714, *Electronic Tariff Filings*, FERC Stats. & Regs. ¶ 31,276 (2009).

## I. Background

SMUD and the ISO have operated as adjacent balancing authorities since 2002 when SMUD registered as its own balancing authority and separated from the ISO balancing authority area.<sup>3</sup> The ICAOA was necessary to establish the rights and obligations of the parties with respect to this relationship, and was conditioned on certification of SMUD as a control area operator similar to the SMUD to BANC transfer that is about to occur.<sup>4</sup> Since that time, the ISO and SMUD have amended the ICAOA on several occasions to reflect changes in the operational characteristics of the interchange and to establish the parties' commitment to develop a pseudo-tie exchange pilot program. The Commission's jurisdictional agreements for the resulting pilot pseudo-ties are the Pseudo Participating Generator Agreement between the ISO and Calpine Construction Finance Company, L.P. ("Calpine") and the Pilot Pseudo-Tie Implementation Agreement among the ISO, Pacific Gas and Electric Company ("PG&E"), SMUD, and the Western Area Power Administration ("Western").<sup>5</sup>

On May 5, 2009, the Modesto Irrigation District, City of Redding, City of Roseville, and SMUD entered into a Joint Exercise of Powers Agreement ("JPA"), creating a new joint powers agency, Balancing Authority of Northern California (BANC) pursuant to Section 6500 *et seq.* of the California Government Code. The first amended JPA became effective on November 18, 2010. Under California law, BANC operates as a separate public agency. As such, BANC is subject to public meeting and public records laws. BANC is governed by a commission, currently made up of an executive representative from each of its members. The current BANC commission has four commissioners.

A primary purpose of BANC is to assume the NERC balancing authority registration from SMUD, thereby giving each of the BANC participants a stake in the administration of the balancing authority, including a percentage share of liability for BANC's compliance with the reliability standards applicable to its registration as a balancing authority. In addition to the first amended JPA, there are two other foundational documents establishing the structure of the BANC balancing authority. These are the BANC Operation Services Agreement

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<sup>3</sup> Balancing authority areas and balancing authorities were formerly known as control areas and control area operators prior to changes to this terminology adopted by NERC.

<sup>4</sup> Specifically, in Docket No. ER02-1641-000, the ICAOA was given its current designation of ISO Rate Schedule No. 42 and approved by Commission letter order. The ISO and SMUD amended the ICAOA on five subsequent occasions and filed those amendments with the Commission in Docket Nos. ER03-1155-000, ER05-149-000, ER05-1520-000, ER05-1533-000, and ER09-1577-000.

<sup>5</sup> Specifically, in Docket No. ER06-58-000, the Pseudo Participating Generator Agreement was given its current designation of ISO Service Agreement No. 630 and approved by Commission letter order, and in Docket No. ER06-1470-000 the Pilot Pseudo-Tie Implementation Agreement was given its current designation of ISO Service Agreement No. 676 and approved by Commission letter order.

("Services Agreement") and the BANC Member Agreement ("Member Agreement"). Both of these agreements were approved by the BANC commission in June 2010, and became effective on November 18, 2010. The ISO is not a party to any of these agreements.

The Services Agreement establishes the relationship between BANC, as the NERC registered and certified balancing authority, and SMUD, as the BANC operator. SMUD as the BANC operator performs all of the services necessary to operate the BANC balancing authority in full compliance with NERC reliability standards. The Member Agreement describes the key relationships among BANC and each member, including BANC's obligations to operate the balancing authority in compliance with applicable reliability standards, and obligations among the members to operate their electric systems in accordance with good utility practice and to pay their share of any penalties that may be assessed on BANC.

There will be no operational changes as a result of the transfer of balancing authority responsibilities from SMUD to BANC. SMUD will serve as the BANC operator under the terms of the Services Agreement. SMUD's existing staff currently performing balancing authority related activities within SMUD's system operation and reliability department will continue to do so. Further, the existing balancing authority footprint for which SMUD has been certified will not change due to the transition from SMUD to BANC as the registered balancing authority. Substantive operating procedures will not change. The BANC operator will continue to follow the same operator procedures used currently by SMUD, since SMUD will serve as the BANC operator. ISO and SMUD operators will not need to make any changes in how they perform existing procedures as a result of SMUD performing balancing authority related activities as the BANC operator, except as may be necessary to reflect the existence of BANC in their systems and procedures.

## **II. Adjacent Balancing Authority Operating Agreement**

The ABAOA sets forth the rates, terms and conditions on which the ISO and BANC, as NERC registered balancing authorities, operate the interconnection between their balancing authority areas and provide emergency assistance as required by the applicable NERC reliability standard, which is included as Attachment A to this ISO filing.<sup>6</sup> The Commission has approved similar agreements with respect to the ISO's interconnected operating

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<sup>6</sup> See NERC reliability standard EOP-001 (requiring an agreement for emergency assistance among neighboring balancing authorities).

relationship with the Bonneville Power Administration and, most recently, the Imperial Irrigation District.<sup>7</sup>

The ABAOA differs considerably from the ICAOA and is intended to replace the original ICAOA upon acceptance by the Commission. The ABAOA contains provisions addressing a more limited number of matters than previously addressed in the ICAOA in deference to the NERC reliability standards, which effectively address much of the subject matter previously included in the ICAOA. A matrix illustrating the provisions of the pro forma ICAOA and the associated reliability standards is included as Attachment B for informational purposes only.<sup>8</sup> Below is a summary of the provisions of the ABAOA.

- Section 3 requires the parties to cooperate to mitigate any operating emergencies, to develop, maintain, implement, and annually review and update emergency plans (and to share and coordinate such plans with the other party), and to assist each other in an operating emergency by delivering emergency assistance to the other party. Schedule B provides for settlement provisions related to the provision of emergency assistance.
- Section 4 requires each party to maintain or provide for operation and maintenance of a 24-hour, 7-day control center with real-time scheduling and control functions, and to coordinate its actions with the other party, particularly as directed by the appropriate reliability coordinator(s), to preserve or restore the interconnected transmission system. Schedule A provides the current contacts for notices.
- Section 5 and Exhibit A identify the points of interconnection between the parties and defines the boundary between the balancing authority areas.

In addition to the foregoing substantive provisions, the ABAOA incorporates “boilerplate” provisions in Section 6 to provide for information exchange and confidentiality, amendment, assignment, notices, disclaimer of warranties, liability, waiver, and signature authority. The ABAOA also adds recitals, definitions, and references to the NERC reliability standards (Section 1), and provides for the effective date and termination of the agreement (Section 2).

The ISO notes that in its view the preferred approach to adjacent balancing authority operations with the entities to which it is interconnected is to defer to the NERC mandatory reliability standards to the maximum extent possible. This avoids confusion and potential inconsistency between a

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<sup>7</sup> See Commission letter orders in Docket No. ER09-1630-000 (approving the amended ABAOA between the ISO and the Bonneville Power Administration), and Docket No. ER10-1761-000 (approving the ABAOA between the ISO and the Imperial Irrigation District).

<sup>8</sup> This matrix was prepared by the ISO to illustrate the extent of overlap for purposes of this filing only and should not be used for any other purpose.

contractual obligation and a reliability standard. The ISO believes the ABAOA addresses all matters required by the reliability standards and intends to enter into separate agreements for voluntary adjacent balancing authority services beyond those required by the reliability standards (e.g., adjacent balancing authority area services for dynamic transfers).

The provisions of the ABAOA are of immediate significance only to the ISO and BANC and are agreed to by the parties. That said, the ISO is authorized to represent that Western, as a non-BANC member in the SMUD balancing authority area, does not oppose the ABAOA, and that PG&E, as the transmission owner of the transmission facilities interconnected with the BANC balancing authority area turned over to ISO operational control, does not oppose the ABAOA. In addition, Calpine, as a participant in the pilot pseudo-tie exchange program, has been provided advance notice and copies of relevant materials included in this filing.

The ISO requests that the Commission accept the filed ABAOA as Original Rate Schedule No. 69 and make it effective on the later of May 1, 2011 or the date BANC is certified by the NERC as a registered balancing authority area, at which time balancing authority responsibilities will transfer from SMUD to BANC.

### **III. Notice of Termination of the ICAOA with SMUD**

The ICAOA sets forth the rates, terms and conditions on which the ISO and SMUD, as NERC registered balancing authorities, operate the interconnection and provide emergency assistance as required by the reliability standards. This contractual relationship is no longer necessary following the transfer of balancing authority responsibilities from SMUD to BANC.

Section 1.3.3 of the ICAOA provides that the parties may terminate the agreement upon mutual consent. Such consent is memorialized in the letter from SMUD to the ISO dated April 8, 2011, a copy of which is included as Attachment C to this ISO filing. The ISO's consent is represented by this filing. Based on this mutual consent, the ISO now files the notice of termination of the ICAOA, included as Attachment D, to be effective on the later of May 1, 2011 or the date BANC is certified by the NERC as a registered balancing authority area, at which time balancing authority responsibilities will transfer from SMUD to BANC.

### **IV. Continuation of the Pilot Pseudo-Ties**

Sections 5.5 and 5.6 of the ICAOA obligate the parties to establish a pilot pseudo-tie exchange program, the provisions of which are embodied within two ISO agreements subject to the jurisdiction of the Commission and a letter of

commitment from SMUD to Calpine.<sup>9</sup> In addition, Sections 5.3 and 5.4 and Schedules 16 and 17 of the ICAOA contain inter-balancing authority area technical requirements for scheduling and delivering of regulation and ancillary service to the ISO, which address dynamic scheduling.<sup>10</sup> The ISO and BANC intend the commitment to a pilot pseudo-tie exchange program to continue in full force and effect as necessary to maintain the pseudo-tie pilot exchange program currently in effect until such time as the ISO receives Commission authorization for a tariff-based pseudo-tie program.<sup>11</sup> The ISO expects these pilot pseudo-ties ultimately to be terminated in favor of the Commission approved tariff-based program. In the meantime, the following documents comprise the commitment of the ISO and BANC to continue the pilot pseudo-tie exchange program as presently constituted.

The Assignment, Assumption and Consent Agreement entered into by SMUD and BANC and consented to by the ISO, Western and PG&E is included as Attachment E for informational purposes only. This agreement transfers all of the rights and obligations of SMUD to BANC without any change to the terms and conditions of service provided for in the Pilot Pseudo-Tie Implementation Agreement entered into by the parties and previously approved by the Commission.<sup>12</sup> The ISO also entered into a Pseudo Participating Generator Agreement with Calpine previously approved by the Commission, which will remain in full force and effect and need not be amended at this time.<sup>13</sup>

BANC sent a letter to Calpine expressing its commitment to honor the prior commitments of SMUD with respect to the Sutter Energy Center generating facility, and a copy for informational purposes only is included as Attachment F. Finally, the ISO and BANC have entered into a separate agreement to continue the pilot pseudo-tie exchange program commitments previously made by SMUD and the ISO in the ICAOA. This new agreement is being filed with the Commission separately and contemporaneously with this filing.

## **V. Effective Date and Request for Waiver**

The ISO requests that the ABAOA included in the instant filing and the notice of termination of the ICAOA both be made effective on the later of May 1,

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<sup>9</sup> These provisions were included in Amendment No. 3 and Amendment No. 4 of the ICAOA, respectively, and approved by letter order in Docket No. ER05-1520-000 and Docket No. ER05-1533-000.

<sup>10</sup> These provisions were included in Amendment No. 2 and Amendment No. 3 of the ICAOA, respectively, which were approved by letter order in Docket No. ER05-149-000 and Docket No. ER05-1520-000.

<sup>11</sup> The ISO is currently engaged in the final stages of a stakeholder process to develop and implement an expanded dynamic transfer program, which will be filed with the Commission to include both pseudo-tie functionality and revisions to its existing dynamic scheduling functionality.

<sup>12</sup> ER06-1470-000

<sup>13</sup> ER06-58-000 and ER06-58-001

2011 or the date BANC is certified by NERC as a registered balancing authority area, at which time balancing authority responsibilities will transfer from SMUD to BANC. The exact transfer date has not yet been finalized, but the ISO, BANC, and SMUD anticipate that it will occur on or about May 1, 2011.

The ISO requests waiver, pursuant to Section 35.11 of the Commission's regulations (18 C.F.R. § 35.11), of the 60-day notice requirement set forth in Section 35.3 of the Commission's regulations (18 C.F.R. § 35.3), and to the extent necessary, the ISO respectfully requests that the Commission grant any other waivers of Part 35 of its regulations that may be required in connection with the requested effective date. Although the exact date for the transfer of the NERC balancing authority registration from SMUD to BANC has not been finalized, it is the effective date that the ISO, SMUD, and BANC have agreed upon and its acceptance is consistent with the Commission's prior approval of effective dates keyed to the occurrence of specified events.<sup>14</sup> Granting the requested effective date and waiver, therefore, is appropriate.

## **VI. Expenses**

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.

## **VII. Service**

The ISO has served copies of this filing upon SMUD, BANC, PG&E, Western, Calpine, the California Public Utilities Commission, and the California Energy Commission. In addition, the ISO has posted the filing on the ISO website.

Enclosed for filing is each of the following:

- (1) This letter of transmittal;
- (2) Adjacent Balancing Authority Operating Agreement (Attachment A);
- (3) Pro Forma ICAOA Provisions and Associated Reliability Standards: For Informational Purposes Only (Attachment B);

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<sup>14</sup> See, e.g., *Trans Bay Cable LLC*, 129 FERC ¶ 61,225, at P 1 (2009) ("This order accepts Trans Bay's TRR [Transmission Revenue Requirement] and suspends it, subject to refund, to become effective on the date the Project commences commercial operation and is turned over to the operational control of the CAISO."); *Iroquois Gas Transmission System, L.P.*, 125 FERC ¶ 61,107, at P 1 n.1 (2008) ("the Commission in this order is . . . establishing an effective date for those tariff sheets of the later of November 1, 2008, or the date the new compressor station at Brookfield becomes operational"); *SMUD Interconnected Control Area Operating Agreement*, ER02-1641-000 (requesting an effective date concurrent with NERC certification of SMUD as a the control area operator).

- (4) Letter from SMUD to the ISO requesting termination of the ICAOA (Attachment C);
- (5) Notice of Termination of the ICAOA (Attachment D);
- (6) Assignment, Assumption and Consent Agreement (Attachment E);  
and
- (7) BANC Letter to Calpine (Attachment F).

#### **VIII. Correspondence**

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

John C. Anders\*  
Senior Counsel  
California Independent System  
Operator Corporation  
250 Outcropping Way  
Folsom, CA 95630  
Tel: (916) 608-7287  
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\* Individual designated for service pursuant to Rule 203(b)(3),  
18 C.F.R. § 203(b)(3).

Respectfully submitted,  
**By: /s/ John C. Anders**

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Attorneys for the California Independent  
System Operator Corporation



**Attachment A**  
**Adjacent Balancing Authority Operating Agreement**

ADJACENT BALANCING AUTHORITY OPERATING AGREEMENT

ADJACENT BALANCING AUTHORITY OPERATING AGREEMENT

Executed by

BALANCING AUTHORITY OF NORTHERN CALIFORNIA

and

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

This Adjacent Balancing Authority Operating Agreement, ("Agreement") dated as of April 15, 2011, is between the BALANCING AUTHORITY OF NORTHERN CALIFORNIA ("BANC"), a joint powers authority established pursuant to the laws of the State of California and the CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION ("CAISO"), a California nonprofit public benefit corporation having a principal executive office located at 250 Outcropping Way, Folsom California 95630. Each is referred to herein as a "Party" and collectively as the "Parties."

**Recitals**

A) Each Party is a member of the Western Electricity Coordinating Council ("WECC"), an organization whose members are located in the Western Interconnection as defined in the WECC Bylaws and is registered with WECC as a Balancing Authority pursuant to the North American Electric Reliability Corporation ("NERC") Reliability Functional Model and Registry Criteria.

B) Federal Energy Regulatory Commission ("FERC") approved mandatory NERC Reliability Standards for the Bulk-Power Systems of North America include Standard EOP-001 which provides that each Balancing Authority is required to develop, maintain, and implement a set of plans to mitigate operating emergencies, and to coordinate such plans with other Balancing Authorities. EOP-001, which may be revised from time to time, directs Balancing Authorities to have operating agreements in place with adjacent Balancing Authorities that, at a minimum, contain provisions for emergency assistance, including provisions to obtain emergency assistance from remote Balancing Authorities.

C) The Parties are adjacent Balancing Authorities by virtue of their transmission systems being interconnected at one or more points. The CAISO has responsibilities as a Balancing Authority and operates the CAISO Balancing Authority Area. BANC has responsibilities as a Balancing Authority and operates the BANC Balancing Authority Area through arrangements with the Sacramento Municipal Utility District ("SMUD"), in accordance with the Balancing Authority Operations Services Agreement between BANC and SMUD.

## ADJACENT BALANCING AUTHORITY OPERATING AGREEMENT

D) The Parties intend by this Agreement to identify each Party's responsibility to the other under the Requirements of EOP-001 by recognizing the continuing commitment of each Party to the other to cooperate to mitigate operating emergencies.

Therefore, the Parties mutually agree as follows:

### 1. Definitions

#### 1.1 NERC Definitions

Except as defined in Section 1.2 or as otherwise defined in this Agreement, terms and expressions used in this Agreement shall have the same meanings as those contained in the NERC Glossary of Terms Used in Reliability Standards.

#### 1.2 Specific Definitions

1.2.1 BANC Operations Date: The date on which the BANC becomes operational as the Registered Balancing Authority for its Balancing Authority Area.

1.2.2 CAISO Tariff: CAISO operating agreement and tariff as amended from time to time.

1.2.3 EOP-001: Emergency Operations Planning Standard EOP-001, as it may be modified from time to time.

1.2.4 Scheduling Coordinator: An entity certified by the CAISO for the purposes of undertaking the functions of: submitting bids and self-schedules for energy, generation, transmission losses, and ancillary services; coordinating generation; tracking, billing, and settling trades with other Scheduling Coordinators; submitting forecast information; paying the CAISO's charges; and ensuring compliance with CAISO protocols.

### 2. Term and Termination

2.1 This Agreement shall be effective on the later of the date of execution or the BANC Operations Date, provided that the provisions of Section 3.3 and Schedules A and B shall not be effective until the later of: (1) the date of execution, or (2) the date this Agreement is accepted for filing and made effective by FERC pursuant to a filing with FERC by the CAISO (the "Effective Date") without any material modification or condition that is unacceptable to either Party in that Party's sole discretion. If any material modification or condition is ordered by FERC that is unacceptable to a Party, such Party shall communicate its lack of consent to such modification or condition to the other Party within ten (10) business days after the date on which FERC issues its order, and the Parties shall use best efforts to negotiate mutually acceptable revisions to this Agreement to address the modification or condition. Upon the occurrence of the Effective Date, this Agreement shall remain in effect until terminated by either Party

## ADJACENT BALANCING AUTHORITY OPERATING AGREEMENT

upon thirty (30) days advance written notice to the other Party or upon written consent of both Parties. The CAISO shall file a notice of termination with FERC as soon as practicable but no later than thirty (30) days after its issuance or receipt of such advance written notice of termination or the date of the Parties' written consent. Termination will be effective upon acceptance of the notice of termination by FERC; provided, however, BANC will cease both to provide and to take any service under this Agreement as of: (i) thirty (30) days after issuance or receipt of an advance written notice of termination, or (ii) the date of the Parties' written consent, regardless of any action or inaction by FERC with respect to any application by the CAISO to terminate this Agreement.

### **3. Responsibilities of the Parties**

3.1 The Parties agree to cooperate to mitigate any operating emergencies by adhering to: (1) the mandatory NERC Reliability Standards and WECC Regional Reliability Standards which relate to emergency operations, as may be amended from time to time, and (2) the directives of the applicable WECC Reliability Coordinator ("Reliability Coordinator").

3.2 Each Party further agrees that it shall develop, maintain, implement, and annually review and update its emergency plans to mitigate operating emergencies and shall share and coordinate such plans with the other Party as required by EOP-001 as amended from time to time.

3.3 To the extent possible, and in accordance with NERC mandatory Reliability Standards, each Party ("Delivering Party") shall assist the other Party ("Receiving Party") in an operating emergency by delivering emergency assistance to the requesting Receiving Party, including emergency capacity or energy transfers from such Delivering Party's Balancing Authority Area or from other remote Balancing Authorities over available transmission capacity, in accordance with Schedule B to this Agreement. Arrangements for deliveries of emergency capacity or energy transfers shall be through normal operating channels in accordance with EOP-001. Such emergency assistance shall be provided at the sole discretion of the entity supplying it and shall be recallable without advance notice as required to meet reliability requirements.

### **4. Coordination and Communication**

4.1 In the event of an operating emergency that affects or may affect the reliable operation of interconnected transmission facilities, each Party shall coordinate its actions with the other Party, as such Party deems necessary or as directed by the appropriate Reliability Coordinator(s), to preserve or restore the interconnected transmission system to stable operations and to preserve or restore reliable, safe, and efficient service as quickly as practicable. The Parties shall, without delay, individually notify the appropriate Reliability Coordinator(s) as to the nature and extent of the operating emergency.

## ADJACENT BALANCING AUTHORITY OPERATING AGREEMENT

4.2 Each Party operates and maintains, or provides for operation and maintenance of a 24-hour, 7-day control center with real-time scheduling and control functions. The appropriate control center staff shall be responsible for operational communications and shall have sufficient authority to commit and bind that Party on decisions relating to emergency operations. The Parties agree to exchange operational contact information for insuring reliable communication in a format to be agreed to by the Parties and completed as of the effective date of this Agreement.

### 5. Interconnection Points

5.1 The Parties are adjacent Balancing Authorities, and are interconnected at the points specified in Schedule A to this Agreement. In the event that new interconnection points are added, or existing points are modified or eliminated, Schedule A will be amended as necessary, to reflect any such changes that are mutually agreed upon by both Parties in a written agreement.

5.2 Schedule A is included for the sole purpose of identifying those interconnection points that result in the Parties being adjacent Balancing Authorities. This Agreement is not intended to act as an interconnection agreement between the Parties.

### 6. Miscellaneous Provisions

6.1 Exchange of Information and Confidentiality: When a Party ("Providing Party") provides information to the other Party ("Receiving Party") under this Agreement and marks such information as privileged or confidential commercial or financial information, critical energy infrastructure information, or trade secret information, the Receiving Party shall treat such information as confidential and protected from disclosure to the extent permitted by law. The Receiving Party shall promptly notify the Providing Party in writing of any request to release such information. The Parties agree to use such information only for purposes of performing each Party's obligations under this Agreement. The provisions of this Section 6.1 shall survive the termination of this Agreement.

6.2 Amendment: The Parties may amend or modify this Agreement only by written agreement. In the event the mandatory NERC Reliability Standards including EOP-001 are revised or replaced, the Parties shall meet within ninety (90) days of such change to discuss and determine whether such change will affect the terms and conditions of this Agreement and whether a modification or replacement of the Agreement is needed. An amendment that is subject to FERC approval shall not take effect until FERC has accepted such amendment for filing and has made it effective without any material modification or condition that is unacceptable to either Party in that Party's sole discretion. If any material modification or condition is ordered by FERC that is unacceptable to a Party, such Party shall communicate its lack of consent to such modification or condition to the other Party within ten (10) business days after the date on which FERC issues its order, and the Parties shall use best efforts to negotiate mutually acceptable revisions to this Agreement to address the modification or

## ADJACENT BALANCING AUTHORITY OPERATING AGREEMENT

condition. Revisions to Schedules other than with regard to the contact information in Schedule C shall be processed as an amendment to this Agreement.

6.3 Assignment and Successors: Neither this Agreement nor any rights or responsibilities under this Agreement may be assigned by either Party to a third party without the written consent of the other Party, and such consent will not be unreasonably delayed, conditioned, or withheld. Subject to the preceding sentence, this Agreement is binding upon and will inure to the benefit of the Parties and their successors in interest.

6.4 Notices: Any notice, demand, or request which may be given to or made upon either Party regarding this Agreement shall be made in writing and shall be deemed properly served, given, or made: (a) upon delivery if delivered in person, (b) five (5) days after deposit in the mail if sent by first class United States mail, postage prepaid, (c) upon receipt of confirmation by return facsimile if sent by facsimile, or (d) upon delivery if delivered by prepaid commercial courier service. A Party must update the information in Schedule C of this Agreement relating to its address as that information changes. Such updates to Schedule C shall not constitute an amendment to this Agreement.

6.5 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 that if a dispute concerns the operation of transmission lines or facilities, the law of the state where the transmission lines or facilities are located will control. The Parties irrevocably consent that any legal action or proceeding arising under or relating to this Agreement shall be brought in any of the following forums, as appropriate: a court of the State of California or any federal court of the United States of America located in the State of California or, where subject to its jurisdiction, before the Federal Energy Regulatory Commission. No provision of this Agreement shall be deemed to waive the right of any Party to protest, or challenge in any manner, whether this Agreement, or any action or proceeding arising under or relating to this Agreement, is subject to the jurisdiction of the Federal Energy Regulatory Commission.

6.6 No Warranties or Representations; Disclaimer: All information, including confidential information, provided by the Providing Party under this Agreement carries no warranty or representation of any kind, either express or implied. The Receiving Party receives the information "as is" and with all faults, errors, defects, inaccuracies, and omissions. The Providing Party makes no representations or warranties whatsoever with respect to the availability, timeliness, accuracy, reliability, or suitability of any information. The Receiving Party disclaims and waives all rights and remedies that it may otherwise have with respect to all warranties and liabilities of the Providing Party, expressed or implied, arising by law or otherwise, with respect to any faults, errors, defects, inaccuracies or omissions in, or availability, timeliness, reliability, or suitability of the information. Each Party assumes any and all risk and responsibility for selection and use of, and reliance on, any information provided under this Agreement.

ADJACENT BALANCING AUTHORITY OPERATING AGREEMENT

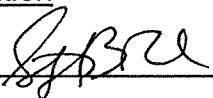
6.7 Liability: The Parties' duties and standard of care with respect to each other, and the benefits and rights conferred on each other, shall be no greater than as explicitly stated herein. Neither Party, its directors, officers, employees, nor agents, shall be liable to the other Party for any loss, damage, claim, cost, charge, or expense, whether direct, indirect, or consequential, arising from the Party's performance or nonperformance under this Agreement, except for a Party's gross negligence or willful misconduct subject to applicable law. Except as otherwise expressly provided herein, nothing in this Agreement shall be construed or deemed to confer any right or benefit on, or to create any duty to, or standard of care with reference to any third party, or any liability or obligation, contractual or otherwise, on the part of either Party.

6.8 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.

6.9 Authority: Each individual signing this Agreement certifies that the Party represented has duly authorized such individual to sign, bind, and obligate such Party.

Accepted and agreed to by:

California Independent System Operator Corporation

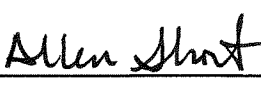
By 

Name: Steve Berberich

Title: Vice President & Chief Operating Officer

Date: 4/15/11

Balancing Authority of Northern California

By 

Name: ALLEN SHORT

Title: CHAIRMAN

Date: 4-5-11

Schedule A

**ADJACENT BALANCING AUTHORITY INTERCONNECTION POINTS**  
**[Sections 5.1, 5.2 and 6.2]**

The point(s) of interconnection of the Parties' Balancing Authority Areas are defined by the following boundaries:

**CAISO and BANC have ten (10) interconnections comprised of the following:**

- One (1) interconnection with the City and County of San Francisco (CCSF): the 115 kV interconnection at the Standiford Substation and;
- Nine (9) interconnections with Pacific Gas & Electric (PG&E): 1) the 500 kV California-Oregon Transmission Project (COTP) Terminus interconnection located near the Tesla Substation, 2) the 230 kV interconnection at the Round Mountain, 3) the 230 kV interconnection at Cottonwood, 4) the 230 kV interconnection at Tesla, 5) the 230 kV interconnection at Rancho Seco, 6) the 230 kV interconnection at Lake , 7) the 230 kV interconnection at Westley Junction, 8) the 115 kV interconnection at Lawrence Livermore National Laboratory (LLNL), 9) the 69 kV interconnection at Herdlyn.

**With City and County of San Francisco (CCSF)**

**1. Standiford 115 kV Interconnection**  
**(Standiford-Warnerville #7 & #8, Standiford-Newark/Moccasin #3 & #4 115 kV Lines)**

This interconnection point is comprised of four 115 kV lines connecting Standiford Substation to Warnerville (CCSF), Newark (PG&E), Oakdale (Modesto Irrigation District) and Moccasin (CCSF) Substations. Modesto Irrigation District (MID) is interconnected to the CCSF system through breakers 907, 903, 904, and 908 at MID's Standiford Substation. The physical points of interconnection are disconnect switches 907C, 903C, 904C and 908C at the Standiford Substation. Breakers 903 and 904 are and will be open breakers, and if this configuration is proposed to be changed, the Parties will confer and agree on any change to the Interconnection point in advance of the change in this configuration.

**With Pacific Gas & Electric Company (PG&E):**

**1. COTP Terminus 500 kV Interconnection**  
**(Tracy-Tesla and Tracy-Los Banos 500 kV Lines)**

This interconnection point is comprised of a double circuit 500 kV line with one circuit connecting the Tracy Substation (COTP) to the Tesla Substation (PG&E) and the other connecting Tracy Substation to Los Banos Substation (PG&E). COTP is interconnected to the PG&E system through breakers 2192, 2096, 1192 and 1096 at Western's Tracy Substation. The physical point of interconnection is



## ADJACENT BALANCING AUTHORITY OPERATING AGREEMENT

Tower 36, approximately eight miles outside the Tracy Substation connecting COTP lines with PG&E's lines originating from Tesla and Los Banos

### **2. Round Mountain Interconnection**

#### **(Round Mountain - Cottonwood 230 kV Bus Tie)**

Western is interconnected to the PG&E system through breaker 242 at PG&E's Round Mountain Substation. One Western and one PG&E 500 kV line enters and two PG&E 500 kV lines and one Western 230 kV line leave the Round Mountain Substation. Round Mountain Substation is located in Round Mountain, California. The physical points of interconnection are disconnect switches 243 and 245 at the Round Mountain Substation.

### **3. Cottonwood Interconnection**

#### **("G" 230 kV Bus Tie)**

This Interconnection point is comprised of two 230 kV breakers connecting Western's bus with PG&E's bus. Cottonwood Substation is located in Cottonwood, California. The physical point of interconnection is disconnect switch 471 on the "G" 230 kV bus 1 and disconnect switch 481 on the "G" 230 kV bus 2 bus at Cottonwood Substation.

### **4. Tracy-Tesla 230 kV Interconnection**

#### **(Tracy-Tesla 230 kV Lines)**

This Interconnection point is comprised of two 230 kV lines connecting Tracy Substation to PG&E's Tesla Substation. Western is interconnected to the ISO system through breakers 382 and 582 at Western's Tracy Substation. The physical point of interconnection are disconnect switches 381, 385, 581, and 585 at the Tracy Substation.

### **5. Rancho Seco 230 kV Interconnection**

#### **(Rancho Seco – Bellota #1 and #2 230 kV Lines)**

This Interconnection point is comprised of a 27-mile double circuit 230 kV transmission line strung on a 500 kV tower. The transmission lines connect SMUD's Rancho Seco Substation in southern Sacramento to PG&E's Bellota Substation in the eastern Stockton area. The physical point of interconnection is disconnect switches 357 and 317 at Rancho Seco Substation. The Rancho Seco Bellota #2 230-kV line is tapped to serve a PG&E retail load customer (EBMUD).

### **6. Lake 230 kV Interconnection**

#### **(Lake – Gold Hill 230 kV Line)**

This Interconnection point is comprised of a single very short (<0.25 mile) 230 kV transmission line connecting SMUD's Lake Substation to PG&E's Gold Hill Substation. The two substations are adjacent and located in Folsom, California.

## ADJACENT BALANCING AUTHORITY OPERATING AGREEMENT

This Interconnection point utilizes a 55-ohm series reactor to provide additional electrical distance. The physical point of interconnection is PG&E's 230 kV line termination structure at Gold Hill Substation.

### **7. Westley 230 kV Interconnection (Westley-Tesla 230 kV Tie)**

This Interconnection point is comprised of a single 230 kV line connecting Westley Substation to Tesla Substation. MID is interconnected to the PG&E system through breakers 2355 and 2356 at MID's Westley Substation. The physical point of interconnection is the Westley Junction located approximately one half mile west of the Westley Substation.

### **8. LLNL 115 kV Interconnection (LLNL 115 kV Bus Tie)**

Western is interconnected to PG&E through line disconnect switch 455 at Western's Lawrence Livermore National Laboratory ("LLNL") U-424 Substation. One PG&E 115 kV line enters and one Western 115 kV line leaves the LLNL U-424 Substation. LLNL U-424 Substation is located east of Tracy in Livermore, California. The physical point of interconnection is line disconnect switch 455 at LLNL U-424 Substation.

### **9. Herdlyn 69 kV Interconnection (Herdlyn 69 kV Bus Tie)**

The Western system is connected to the PG&E system at the Tracy-Herdlyn 69 kV line disconnect switch that is located within the Tracy Substation and is owned and operated by Western. Although a physical interconnection exists between the BANC Balancing Authority (BA) Area and the ISO BA Area and the metered load of the area is added to the ISO BA, the Parties agree that the interchange need not be scheduled for this small and difficult to forecast area.

**REVENUE METERING AND TELEMETRY AT INTERCONNECTION POINTS**

BANC and CAISO metering shall meet any metering standards mutually agreed upon by the Parties for the purpose of operating their adjacent Balancing Authority Areas. BANC and the CAISO shall be entitled to witness testing of the involved interconnection metering. Any change or modification to such metering equipment by BANC, the CAISO or any other entity shall be coordinated between the Parties. BANC shall allow daily, once a day, read-only access by the CAISO to direct poll revenue data from the interconnection revenue metering in five (5) minute intervals at the metering points identified in this Schedule A. The CAISO shall allow daily, once a day, read-only access by the BANC to direct poll revenue data from the interconnection revenue metering in five (5) minute intervals at the metering points identified in this Schedule A.

BANC and the CAISO shall maintain arrangements that ensure that both Parties shall have access to the same real-time data from the points identified in this Schedule A between their Balancing Authority Area interconnections for the purpose of complying with NERC reliability standards. The Parties understand that each Party wants to obtain MW and MVAR data from interconnection metering, which may include RTUs, at the points identified in this Schedule A between their Balancing Authority Area interconnections. The Parties agree to allow each other to directly poll real-time data from metering at the interconnection substations under the other Party's operational control as a Balancing Authority. In the event that a second communication port of the RTU is not available for direct polling by a Party, the Party shall have the option to provide a RTU to the substation owner for the purpose of establishing a communication port available for direct polling by such Party.

This Schedule A shall remain in effect until it is superseded by mutual written agreement by the Parties or it is terminated, either by written notice from an individual party or by written consent by both Parties, in accordance with Section 2.1 of the Agreement.

**Schedule B**

**EMERGENCY CAPACITY AND ENERGY  
[Sections 3.3 and 6.2]**

In accordance with EOP-001 the Parties will, to the extent possible, assist each other in an emergency by scheduling energy and/or capacity. Such emergency assistance will be available at the sole discretion of the Party supplying it and will be recallable without advance notice as required to meet reliability requirements. The Parties will agree upon and log MW values, start, and end times, ramp rates and times, and integrated values for any emergency assistance provided.

The emergency assistance will be provided by a Party will be for system reliability. Such emergency assistance may be estimated prior to delivery and finalized in the settlement process.

The price paid for CAISO emergency assistance will be at the CAISO market price for the energy and/or capacity sold, plus all applicable charges, as specified in the CAISO Tariff provisions for emergency assistance. Such price may be estimated prior to delivery and finalized in the settlement process. Payment to the CAISO for emergency assistance provided by CAISO will be made by the Scheduling Coordinator representing BANC, in accordance with the settlement process, billing cycle, and payment timeline set forth in the CAISO Tariff.

The price paid for BANC emergency assistance will be at the price specified by BANC. In the event BANC does not specify the price for energy or capacity at the time of the request for emergency assistance and no other settlement price is established prior to the delivery of the emergency assistance, the default settlement price shall be the CAISO market price, plus all other applicable charges, as specified or as otherwise established in the CAISO Tariff for emergency assistance. If the default settlement price does not compensate BANC for the value of the emergency assistance delivered to the CAISO, BANC shall have the opportunity to justify a higher settlement price in accordance with the CAISO Tariff provisions for emergency assistance. Payment to BANC for emergency assistance provided by BANC will be made to the Scheduling Coordinator representing BANC, in accordance with the settlement process, billing cycle, and payment timeline set forth in the CAISO Tariff.

Nothing in this Agreement shall obligate BANC to be bound by CAISO Tariff provisions unless expressly provided for.

This Schedule B shall remain in effect until it is superseded by mutual written agreement by the Parties or it is terminated, either by written notice from an individual party or by written consent by both Parties, in accordance with Section 2.1 of the Agreement.

**Schedule C**

**CONTACTS FOR NOTICES  
[Sections 6.2 and 6.4]**

**CAISO:**

Name of Primary Representative: Ms. Roni L. 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 Alternate Representative: Christopher J. Sibley  
Title: Lead, Contracts 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

**BANC**

Name of Primary Representative: Bruce C. McLauhlin  
Title: General Counsel  
Address: 915 L Street, Suite 1270  
City/State/Zip Code: Sacramento, CA 95814  
Email Address: [mclaughlin@braunlegal.com](mailto:mclaughlin@braunlegal.com)  
Phone: (916) 326-5812  
Fax No.: (816) 441-0468

Name of Alternate Representative: C. Anthony Braun  
Title: Counsel  
Address: 915 L Street, Suite 1270  
City/State/Zip Code: Sacramento, CA 95814  
Email Address: braun@braunlegal.com  
Phone: (916) 326-4449  
Fax No.: (816) 441-0468

This Attachment shall remain in effect until superseded by written notice from either of the Parties.

**Attachment B**  
**Pro Forma ICAOA Provisions and Associated Reliability Standards: For Informational  
Purposes Only**

## Pro Forma ICAOA Provisions and Associated Reliability Standards: For Informational Purposes Only (4-15-11)

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<b>Pro Forma ICAOA Provision</b>	<b>Associated Reliability Standards</b>
3.1 – General Requirements	COM-001, COM-002
3.1.2 – Existing Contracts	COM-001, COM-002
3.1.3 – Communication	COM-001, COM-002
3.2 – Grid Operation	FAC-009, FAC-013, FAC-014, PRC-001-1, TOP-007 R1, R2, TOP-005-1, TOP-008-1 R4, VAR-001-1, WECC-TOP-STD-007
3.2.3.1 – Real-Time Operating Limits Established Jointly	FAC-009, FAC-013, FAC-014, TOP-002
3.2.3.2 – Real-Time Operating Limits Exceeded	TOP-007-0 R1, R2, TOP-008-1, WECC-TOP-STD-007
3.2.4 – Relay Action	PRC-001-1, PRC-STD-003
3.2.5 – Voltage Control	VAR-001-1
3.2.6 – Information Exchange	TOP-005-1
3.2.6.1 – Information Required to be Provided	TOP-005-1
3.2.7 – Joint Operating Procedures	TOP-004-1, TOP-002
4 – Security Coordination	IRO-001-1
5 – Scheduling and Dispatch	INT-001-2, INT-003-2, INT-004-1, INT-005-1, INT-006-1, INT-007-1, INT-008-1, INT-009-1, INT-101-1
5.1 – Coordination and Exchange of Information	INT-001-2, INT-003-2 INT-004-1, INT-005-1, INT-006-1, INT-007-1, INT-008-1, INT-009-1, INT-010-1
5.2 – Notifications	INT-010-1
6 – Outage Coordination	TOP-001, TOP-002, TOP-003
6.1 – Maintenance Coordination	TOP-001-1, TOP-003-0
6.2 - Forced Outages	TOP-001-1
7 – Emergency Operation	EOP-001 R1, R7, EOP-002-2, EOP-003-1, EOP-005-1, EOP-006-1, IRO-006, TOP-001, VAR-001, WECC-IRO-STD-006
7.1 – Emergency Assistance Arrangements	EOP-001-R1, TOP-001-1
7.2 – Unscheduled Flow Mitigation (Loop Flow)	WECC-ISO-STD-006
7.3 – Emergency Action	EOP-002-2, EOP-003-1, TOP-001-1
7.3.1 – Operations Exercised Independently	TOP-001, TOP-008, EOP-002, EOP-003, TOP-004
7.5 – Restoration Coordination	EOP-005-1, EOP-006-1
7.6 – Voltage Collapse	VAR-001-1
8.4 – Liability for Electric Disturbance and Interruptions	EOP-001-0, TOP-002
Service Schedule 1 – Interconnection	TOP-002-R18

## Pro Forma ICAOA Provisions and Associated Reliability Standards: For Informational Purposes Only (4-15-11)

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Service Schedule 3 – Points of Contact	EOP-001-0 R7.1, COM-001, COM-002
Service Schedule 6 – Real-Time Operating Limits	TOP-007, FAC-014, TOP-002, TOP-STD-007
Service Schedule 7 – Voltage Control	VAR-001-1
Service Schedule 8 – Information Exchange Procedures for Grid Operations	TOP-006-1, TOP-006, COM-001, COM-002
Service Schedule 9 – Interconnection Information	TOP-005
Service Schedule 10 – Joint Operating Procedures	TOP-007, FAC-014, TOP-002, TOP-STD-007
Service Schedule 11 – Information Exchange and Coordination for Interchange Scheduling and Dispatch	INT-001-2, INT-003-2 INT-004-1, INT-005-1, INT-006-1, INT-007-1, INT-008-1, INT-009-1, INT-010-1
Service Schedule 12 – Maintenance Coordination Procedures	TOP-002, TOP-003, TOP-001
Service Schedule 13 - Emergency Assistance Arrangements	EOP-001 R1
Service Schedule 15, Restoration Coordination	EOP-005, R4



**Attachment C**

**Letter from SMUD to the ISO Requesting Termination of the ICAOA**

April 8, 2011  
AGM/ES 11-018

***Via Email and Overnight Mail***

Mr. Steve Berberich  
VP and Chief Operating Officer  
California Independent System Operator  
250 Outcropping Way  
Folsom, CA 95630

**TERMINATION OF INTERCONNECTED CONTROL AREA OPERATING AGREEMENT**

Dear Mr. Berberich:


As you know, the Balancing Authority of Northern California (BANC) will replace the Sacramento Municipal Utility District (SMUD) as the North American Electric Reliability Corporation (NERC) registered and certified Balancing Authority (BA) for the SMUD BA footprint. We expect that BA responsibilities will transfer from SMUD to BANC on or about May 1, 2011.

SMUD and the California Independent System Operator Corporation (ISO) are parties to the Interconnected Control Area Operating Agreement (ICAOA). The ICAOA establishes the rights and obligations of the parties with respect to their relationship as adjacent balancing authorities. SMUD and the ISO have agreed that the ICAOA will no longer be required on the date that BANC assumes balancing authority area obligations for the SMUD BA footprint. Instead, the ISO and BANC intend to enter into an Adjacent Balancing Authority Operating Agreement (ABAOA), which will set forth the rates, terms and conditions on which the ISO and BANC, as NERC registered balancing authorities, operate the interconnection between their BA areas and provide emergency assistance as required by the applicable NERC reliability standards.

Section 1.3.3 of the ICAOA provides that the parties may terminate the ICAOA upon mutual consent. This letter memorializes the mutual consent of SMUD and the ISO to terminate the ICAOA, which shall be further evidenced by the execution of the ABAOA between BANC and the ISO. Such termination shall be effective on the later of May 1, 2011, or the date BANC is certified by the NERC as a registered balancing authority area, at which time BA responsibilities will transfer from SMUD to BANC.

SMUD appreciates the ISO's assistance in assuring a timely and smooth transition of BA responsibilities from SMUD to BANC. Please contact me at (916) 732- 6757, if the above does not accurately reflect our discussions.

Sincerely,

A handwritten signature in black ink, appearing to read "James R. Shetler". The signature is written in a cursive style with a large initial "J" and a horizontal line underlining the name.

James R. Shetler  
Assistant General Manager  
Energy Supply

cc: John Anders  
Laura Lewis  
Tony Braun  
Vicken Kasarjian

**Attachment D**  
**Notice of Termination of the ICAOA**

**UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION**

**California Independent System  
Operator Corporation**

)  
)

**Docket No. ER11-\_\_\_\_-000**

**NOTICE OF TERMINATION**

Notice is hereby given that effective on the later of May 1, 2011 or the date the Balancing Authority of Northern California is certified by the North American Electric Reliability Corporation ("NERC") as a registered balancing authority area, Rate Schedule No. 42, effective June 1, 2002 and filed with the Federal Energy Regulatory Commission by the California Independent System Operator Corporation in Docket No. ER02-1641-000, will terminate. Notice of this termination has been served upon the Sacramento Municipal Utilities District, the Balancing Authority of Northern California, Pacific Gas and Electric Company, the Western Area Power Administration, the Calpine Corporation, the California Public Utilities Commission, and the California Energy Commission

**CALIFORNIA INDEPENDENT SYSTEM  
OPERATOR CORPORATION**

By:   
**Steve Berberich**  
**Vice President & Chief Operating Officer**

Dated: April 18, 2011

**Attachment E**  
**Assignment, Assumption and Consent Agreement**

## ASSIGNMENT, ASSUMPTION, AND CONSENT AGREEMENT

This Assignment, Assumption, and Consent Agreement ("Agreement") is made and entered into as of April 15, 2011, between the Balancing Authority of Northern California ("BANC"), a joint powers authority under California law ("Assignee"), and the Sacramento Municipal Utility District ("SMUD"), a municipal utility district in the state of California ("Assignor"). The assignment will become effective upon the date the BANC assumes its Balancing Authority registration through the Western Electricity Coordinating Council ("BANC Operations Date"), expected to be May 1, 2011.

### WITNESSETH:

WHEREAS, the Assignor and Assignee, along with the California Independent System Operator Corporation ("CAISO"), a California not-for-profit public benefit corporation, Pacific Gas and Electric Company ("PG&E"), a California Corporation, and the Western Area Power Administration ("Western"), a federal power marketing administration (collectively "Parties") entered into the Pilot Pseudo Tie Implementation Agreement, which commenced on trade date December 1, 2006 ("Pseudo Tie Agreement"), to enable Western and the CAISO to implement and operate a pilot program for a Pseudo Generating Unit for a dynamical functionality to allow Western to schedule Energy and Ancillary Services, as a Pseudo Tie export, dynamically, through the CAISO as the Native Balancing Authority Area, via a Scheduling Coordinator into the SMUD Balancing Authority Area.

WHEREAS, the Pseudo Tie Agreement establishes the terms and conditions on which the CAISO, SMUD, and Western will discharge their respective duties and responsibilities under the pilot program for a Pseudo Generating Unit;

WHEREAS, SMUD's obligations under the Pseudo Tie Agreement stem from its status as a registered and certified Balancing Authority;

WHEREAS, the BANC has been created under California law to assume the obligations of SMUD as the registered and certified Balancing Authority;

WHEREAS, SMUD will continue, under contract to BANC, to operate the Balancing Authority pursuant to all applicable Reliability Standards; and

WHEREAS, in accordance with Section 11.1 of the Pseudo Tie Agreement, Assignor desires to transfer to Assignee, and Assignee desires to assume, all of Assignor's rights and obligations to and under the Pseudo Tie Agreement, Assignor and Assignee desire to obtain consent of the CAISO, Western, and PG&E to such assignment and assumption.

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

1. Defined Terms. Except as provided in the Pseudo Tie Agreement, all terms and expressions used in this Agreement shall have the same meaning as those contained in the Master Definitions Supplement to the CAISO Tariff, Appendix A.

2. Assignment. Assignor hereby assigns, transfers, and conveys unto Assignee and its successors and assigns all of Assignor's rights, obligations, and liabilities in, to, and under the Pseudo Tie Agreement, upon the same terms and conditions that are contained in the Pseudo Tie Agreement and to the same extent as if the terms and conditions of the Pseudo Tie Agreement had been fully set forth in this Agreement.

3. Assumption. Assignee hereby assumes and agrees to pay when due, perform, and discharge in accordance with the terms thereof, the liabilities, obligations, and duties of Assignor arising under the Pseudo Tie Agreement. The Parties represent that they are not aware of any breach by Assignor or failure by Assignor to satisfy any of its obligations under the Pseudo Tie Agreement as of the date of this Agreement.

4. Consent. The CAISO, Western, and PG&E hereby consent to the assignment of the Rights by Assignor to Assignee.

5. Third Party Remedies Not Affected. The assumption by Assignee of the Assumed Liabilities hereunder shall in no way expand the rights or remedies of any third party against Assignor or Assignee as compared to the rights and remedies which such third party would have had against Assignor had Assignee not assumed such liabilities.

6. Assignor Representations. Assignor has all necessary corporate power and authority to execute and deliver this Agreement and to assign, transfer, and convey the Rights to Assignee as provided herein. The execution and delivery of this Agreement and the performance by Assignor of its obligations hereunder in accordance with the terms hereof have been authorized by all necessary corporate action on the part of Assignor.

7. Assignee Representations. Assignee has all necessary corporate power and authority to execute and deliver this Agreement and to perform its obligations as provided herein. The execution and delivery of this Agreement and the performance by Assignee of its obligations hereunder in accordance with the terms hereof has been authorized by all necessary corporate action on the part of Assignee and does not result in a violation of any loan agreement, mortgage, indenture or other material agreement to which Assignee is a party.

8. Further Assurances. Each of Assignor and Assignee shall take any and all such further reasonable actions and execute and deliver any and all such further documents as are necessary or reasonably requested by the other party to effectuate



the purposes of this Agreement. The undertakings set forth in this paragraph shall survive the execution and delivery of this Agreement.

9. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

10. Successors and Assigns. This Agreement shall bind and inure to the benefit of Assignor and Assignee and their respective successors and assigns. Nothing in this Agreement shall be construed to confer on any other person or entity any rights as a third-party beneficiary.

11. Written Modifications. No change, amendment, modification, cancellation, discharge, or waiver of any provision hereof shall be valid unless in writing and signed by the Parties.

12. Counterparts. This Agreement may be executed in any number of counterparts and each counterpart hereof shall be deemed to be an original instrument, but all such counterparts shall constitute but one agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement by their duly authorized representatives as of the date and year first above written.

**Sacramento Municipal Utility District**

By: James R. Shetter

Name: James R. Shetter

Title: AGM, Energy Supply

Date: 4/12/11

RR  
(Shetter)

**Balancing Authority of Northern California**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

the purposes of this Agreement. The undertakings set forth in this paragraph shall survive the execution and delivery of this Agreement.

9. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

10. Successors and Assigns. This Agreement shall bind and inure to the benefit of Assignor and Assignee and their respective successors and assigns. Nothing in this Agreement shall be construed to confer on any other person or entity any rights as a third-party beneficiary.

11. Written Modifications. No change, amendment, modification, cancellation, discharge, or waiver of any provision hereof shall be valid unless in writing and signed by the Parties.

12. Counterparts. This Agreement may be executed in any number of counterparts and each counterpart hereof shall be deemed to be an original instrument, but all such counterparts shall constitute but one agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement by their duly authorized representatives as of the date and year first above written.

**Sacramento Municipal Utility District**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**Balancing Authority of Northern California**

By: Allen Short

Name: Allen Short

Title: Chairman

Date: April 8, 2011



Consenting:

**California Independent System  
Operator Corporation**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**Western Area Power Administration**

By:  \_\_\_\_\_

Name: Peter S. Garris

Title: Power Operations Manager

Date: APR 11 2011

**Pacific Gas and Electric Company**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Consenting:

**California Independent System  
Operator Corporation**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**Western Area Power Administration**

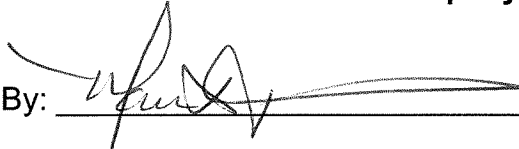
By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**Pacific Gas and Electric Company**

By:  \_\_\_\_\_

Name: Mark S. Johnson

Title: Vice President

Date: April 8, 2011

**Attachment F**  
**BANC Letter to Calpine**



# BALANCING AUTHORITY OF NORTHERN CALIFORNIA

P.O. Box 15830 • MS D109 • SACRAMENTO • CA 95852 -1830

March 15, 2011

Mark J. Smith  
Vice President, Market Design  
Calpine Corporation  
4160 Dublin Blvd.  
Suite 100  
Pleasanton, CA 94568

**Re: Sutter Pseudo Tie**

Dear Mr. Smith:

On May 1, 2011, the Balancing Authority of Northern California (“BANC”) is scheduled to become the registered and certified Balancing Authority (“Balancing Authority” or “BA”), assuming the current registration and certification of the Sacramento Municipal Utility District (“SMUD”). This letter is to confirm that BANC will honor all current arrangements of the Sutter Pseudo Tie, specified in a letter dated November 29, 2005 (AGM/ES 05-068) from SMUD to Calpine.

## **I. Background**

On May 5, 2009, the Modesto Irrigation District (“MID”), City of Redding (“Redding”), City of Roseville (“Roseville”), and SMUD entered into a Joint Exercise of Powers Agreement, creating a new Joint Powers Agency (“JPA”) pursuant to Section 6500 *et seq.* of the California Government Code. The First Amended JPA Agreement became effective on November 18, 2010 (“JPA Agreement”).

Under California law, the BANC JPA operates as a separate public agency. As such, the BANC JPA is subject to public meeting and public records laws. BANC is governed by a Commission, currently made up of an executive representative from each of its Members. The current BANC Commission has four Commissioners.

A primary purpose of BANC is to assume the North American Electric Reliability Corporation (“NERC”) BA registration from SMUD, thereby giving each of the BANC participants a stake in the administration of the BA, including a percentage share of liability for BANC’s compliance with NERC Reliability Standards applicable to its registration as a BA. In addition to the BANC JPA Agreement, there are two other foundational documents establishing the structure of the BANC Balancing Authority. These are the BANC Operation Services Agreement (“Services Agreement”) and the BANC Member Agreement (“Member Agreement”). Both of these agreements were approved by the BANC Commission in June 2010, and became

A JOINT POWERS AUTHORITY BETWEEN

the Modesto Irrigation District, City of Redding, City of Roseville and Sacramento Municipal Utility District

effective on November 18, 2010.

The Services Agreement establishes the relationship between BANC, as the NERC-registered and certified Balancing Authority, and SMUD, as the BANC Operator. It is the role of the BANC Operator to perform all of the services necessary to operate the BANC BA in full compliance with NERC Reliability Standards. The Member Agreement describes the key relationships among BANC and each Member, including BANC's obligations to operate the BA in compliance with applicable Reliability Standards, and obligations among the Members to operate their Electric Systems in accordance with Good Utility Practice and to pay their share of any Penalties assessed on BANC.

No operational changes are contemplated. SMUD will serve as the BANC Operator under the terms of the Services Agreement. SMUD's existing staff who currently performs BA-related activities within SMUD's System Operation and Reliability Department will continue to do so. Further, the existing BA footprint for which SMUD has been certified will not change due to the transition from SMUD to BANC as the registered BA. Substantive operating procedures will not change. The BANC Operator will continue to follow the same operator procedures used currently by SMUD, since SMUD will serve as the BANC Operator. The intent is that the operators will not need to make any changes in how they perform existing procedures as a result of performing BA-related activities as the BANC Operator.

BANC has executed a *pro forma* Adjacent Balancing Authority Operating Agreement with the California Independent System Operator Corporation ("CAISO"), and anticipates that this agreement will be filed at FERC shortly.

## **II. Continuation of Existing Pseudo Tie Facilitation**

By letter November 29, 2005 (AGM/ES 05-068) from SMUD to Calpine, SMUD specified its commitment to facilitating pseudo tie functionality for Calpine's Sutter Energy Center ("Sutter"). In relevant part, SMUD expressed its willingness to: (1) support the Calpine Sutter Pseudo Tie arrangement and Pseudo Participating Generator Agreement ("Pseudo PGA") between the CAISO and Calpine; (2) continued cooperation to facilitate the Pseudo Tie arrangement for Sutter which allows for Calpine to sell output from Sutter to the CAISO; and (3) cooperate with Calpine to transition Sutter in the event this arrangement is terminated. Other commitments in the above-referenced letter centered on then-pending litigation not relevant at this time.

BANC recognizes these representations by SMUD in its letter of November 29, 2005, as well as the ongoing success of the Sutter pseudo tie and contemplates no changes to the current arrangements for Sutter. Moreover, BANC affirms its commitment to the continuation of the Sutter Pseudo Tie. BANC does note that the CAISO is finalizing reforms to its dynamic transfer policy that may be effective in 2011, and these may impact the current arrangement. BANC looks forward to working with Calpine should modifications to CAISO policies affect Pseudo Tie arrangements for Sutter.



### III. Conclusion

As stated above, BANC is planning to assume registration and certification of the current BA functions of SMUD on May 1, 2011. SMUD or BANC representatives will be contacting Calpine staff to address any operational questions or concerns regarding this transition. Please do not hesitate to contact me on this matter.

Sincerely,

A handwritten signature in blue ink that reads "Allen Short". The signature is written in a cursive style and is centered on the page.

Allen Short  
Chairman, Balancing Authority of Northern California