

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 Service Agreement No. 1965
Docket No. ER11-____-000**

Dear Secretary Bose:

The California Independent System Operator Corporation submits for Commission filing and acceptance a Balancing Authority Area Pilot Pseudo-Tie Continuation Agreement (“Continuation Agreement”) between the ISO and the Balancing Authority of Northern California (“BANC”).¹ The ISO submits the instant filing in order to continue contractual arrangements previously committed to between the ISO and the Sacramento Municipal Utility District (“SMUD”) with respect to a pilot pseudo-tie exchange program embodied in the Interconnected Control Area Operating Agreement (“ICAOA”) between the ISO and SMUD. Continuation of these arrangements is necessary following termination of the ICAOA as requested by the ISO upon the planned transfer of balancing authority responsibilities from SMUD to BANC.² The ISO proposes that the Continuation Agreement 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.

¹ 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).

² The ISO filed for termination of the ICAOA and effectiveness of an Adjacent Balancing Authority Operating Agreement separately and contemporaneously from this filing.

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.³ 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.⁴ 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").⁵

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, the 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

³ 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.

⁴ 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.

⁵ 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. 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.⁶ 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.⁷ 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.⁸ The ISO expects these pilot pseudo-ties ultimately to be terminated in favor of the Commission approved tariff-based program. In the meantime, four documents comprise the commitment of the ISO and BANC to continue the pilot pseudo-tie exchange program as presently constituted.

The ISO and BANC have entered into the Continuation Agreement to continue the pilot pseudo-tie exchange program commitments previously made by SMUD and the ISO in the ICAOA, a copy of which is included as Attachment A. This agreement is necessary to honor prior commitments made by SMUD and the ISO following the transfer of balancing authority responsibilities from SMUD to BANC. Section 3 of this agreement carries forward verbatim this prior commitment and requires the parties to authorize, maintain, continue, and implement operating procedures in accordance with applicable requirements for the pilot pseudo-tie exchange program. Section 1 of the Continuation Agreement contains definitions specific to the agreement, section 2 contains effective date and termination provisions, and Section 4 represents the parties are authorized to enter into the agreement.

The provisions of the Continuation Agreement 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 Continuation Agreement, and that PG&E, as the transmission owner of the transmission

⁶ 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.

⁷ 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.

⁸ 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.

facilities interconnected with the BANC balancing authority area turned over to ISO operational control, does not oppose the Continuation Agreement. In addition, Calpine, as a participant in the pilot pseudo-tie exchange program, has been provided advance notice and copies of materials included in this filing.

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 B 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.⁹ 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.¹⁰

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 C. These agreements and the letter from BANC to Calpine collectively will assure the pilot pseudo-tie exchange program agreed to by the parties will continue in accordance with all of the prior agreements approved by the Commission.

III. Effective Date and Request for Waiver

The ISO requests that the Continuation Agreement included in the instant filing be made effective on the later of May 1, 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

⁹ ER06-1470-000

¹⁰ ER06-58-000 and ER06-58-001

effective dates keyed to the occurrence of specified events.¹¹ Granting the requested effective date and waiver, therefore, is appropriate.

IV. 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.

V. 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) Balancing Authority Area Pilot Pseudo-Tie Continuation Agreement (Attachment A);
- (3) Assignment, Assumption and Consent Agreement (Attachment B);
- (4) BANC Letter to Calpine (Attachment C);

¹¹ 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 Operations Agreement*, ER02-1641-000 (requesting an effective date concurrent with NERC certification of SMUD as a the control area operator).

VI. 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
Fax: (916) 608-7222
E-mail: janders@caiso.com

* Individual designated for service pursuant to Rule 203(b)(3),
18 C.F.R. § 203(b)(3).

Respectfully submitted,

By: /s/ John C. Anders

John C. Anders
Nancy Saracino
General Counsel
Sidney M. Davies
Assistant General Counsel
John C. Anders
Senior Counsel
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Operator Corporation
250 Outcropping Way
Folsom, CA 95630
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Attorneys for the California Independent
System Operator Corporation

Attachment A

Balancing Authority Area Pilot Pseudo-Tie Continuation Agreement

BALANCING AUTHORITY AREA PILOT PSEUDO-TIE CONTINUATION AGREEMENT

**BALANCING AUTHORITY AREA PILOT PSEUDO-TIE CONTINUATION
AGREEMENT**

Executed by

BALANCING AUTHORITY OF NORTHERN CALIFORNIA

and

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

This Balancing Authority Area Pilot Pseudo-Tie Continuation 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) The Parties operate adjacent Balancing Authority Areas 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.
- (C) The CAISO and the Sacramento Municipal Utility District ("SMUD") implemented a pilot Pseudo-Tie exchange program for a single resource within their respective Balancing Authority Areas pursuant to the Interconnected Control Area Operating Agreement ("ICAOA") between the CAISO and SMUD.
- (D) Contemporaneous with BANC becoming a Balancing Authority, the CAISO and SMUD terminated their ICAOA and the CAISO and BANC entered into an Adjacent Balancing Authority Operating Agreement.

BALANCING AUTHORITY AREA PILOT PSEUDO-TIE CONTINUATION AGREEMENT

(E) SMUD assigned to BANC the Pilot Pseudo Tie Implementation Agreement among the CAISO, Pacific Gas and Electric Company ("PG&E"), SMUD and the Western Area Power Administration ("Western"), BANC affirmed certain commitments to Calpine Construction Finance Company, L.P. ("Calpine") by letter dated March 15, 2011, which commitments pertain to responsibilities that were previously performed by SMUD, and the CAISO Pseudo Participating Generator Agreement with Calpine will remain in full force and effect.

(F) Now the Parties in their capacity as Balancing Authorities desire to continue the pilot Pseudo-Tie exchange program previously implemented pursuant to the CAISO-SMUD ICAOA without interruption or change and intend by this Agreement to authorize, maintain, implement, and continue operating procedures as necessary and appropriate for the pilot Pseudo-Tie exchange program to remain in full force and effect until such time as it will be superseded by the CAISO's implementation of provisions for Pseudo-Ties in its tariff and is terminated in accordance with the provisions of this Agreement..

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 Applicable Requirements: In relation to a Party's Balancing Authority Area, any applicable law or regulation; any standards, procedures or requirements of (i) NERC, (ii) WECC, or (iii) any other person or entity or tariff or rate schedule, that are legally binding on the Party, which may be different as between the Parties.
- 1.2.2 BANC Operations Date: The date on which the BANC becomes operational as the Registered Balancing Authority for its Balancing Authority Area.
- 1.2.3 CAISO Tariff: CAISO operating agreement and tariff as amended from time to time.

2. Term and Termination

- 2.1 **Effective Date.** 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 shall not be effective until the later of: (1) the date of execution, or (2) the date

BALANCING AUTHORITY AREA PILOT PSEUDO-TIE CONTINUATION AGREEMENT

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 pursuant to Sections 2.2 and 2.3 of this Agreement.

2.2 Termination. The Parties reserve the right to terminate this Agreement in the event that either Party reasonably determines that the pilot Pseudo-Tie exchange program poses a risk to system reliability or the risk of a violation of applicable reliability criteria by giving thirty (30) days advance written notice of termination. Additionally, the Parties may terminate this Agreement by giving written notice of termination in the event that either the Pseudo-Tie generation resource provides notice to either Party of its withdrawal from its agreement to participate in the Pseudo-Tie arrangement or that one of the Parties commits any material default under those agreements and/or the CAISO Tariff which, if capable of being remedied, is not remedied within thirty (30) days after the CAISO has given BANC written notice of the default, unless excused by reason of Uncontrollable Forces, as that term is defined in the CAISO Tariff.

2.3 Termination or Extension of Pilot. The CAISO is currently in the process of establishing formal, generally applicable policies for Pseudo-Tie arrangements for dynamic functionality to allow the submittal of self-schedules and bids for energy and ancillary services to the CAISO through a scheduling coordinator dynamically from a Pseudo-Tie into and out of the CAISO Balancing Authority Area. These prospective CAISO policies, when effectuated in the CAISO Tariff, will apply to this currently implemented functionality for the two existing Pseudo-Tie arrangements, as well as to any other future similarly situated external suppliers that may desire to implement similar arrangements. Accordingly, this Agreement shall extend until the CAISO implements generally-applicable provisions for Pseudo-Ties in the CAISO Tariff, and this Agreement shall terminate and shall be superseded by the Pseudo-Tie provisions of the CAISO Tariff as soon as practical following the implementation of the Pseudo-Tie provisions of the CAISO Tariff. Should FERC not accept the Pseudo-Tie provisions of the CAISO Tariff as filed by the CAISO, the CAISO reserves the right to terminate this Agreement by giving ninety (90) days advance written notice of termination.

2.4 Filing. With respect to any notice of termination given pursuant to this Section 2, the CAISO must file a timely notice of termination with FERC. The filing of the notice of termination by the CAISO will be considered timely if: (1) the filing of the

BALANCING AUTHORITY AREA PILOT PSEUDO-TIE CONTINUATION AGREEMENT

notice of termination is made after the preconditions for termination have been met, and (2) the CAISO files the notice of termination within thirty (30) days after receipt of a request for termination from BANC or within sixty (60) days after issuance of its own notice of termination. This Agreement shall terminate upon acceptance by FERC of such a notice of termination.

3. Responsibilities of the Parties

- 3.1** The CAISO-SMUD ICAOA provided in pertinent part as follows, which Section 3.2 below shall continue following termination of the CAISO-SMUD ICAOA as if references to SMUD were references to BANC, references to the Expanded SMUD Control Area were references to the BANC Balancing Authority Area, and references to the ISO Control Area were references to the CAISO Balancing Authority Area:

The ISO and SMUD shall develop provisions for a pilot program (1) authorizing a Pseudo Tie of an entire single resource in the Expanded SMUD Control Area to be implemented as of December 1, 2005; and (2) authorizing a Pseudo Tie of an entire single resource in the ISO Control Area to the Expanded SMUD Control Area to be implemented with the timeline and other conditions set forth in Section ICAA 5.5 [which timelines and conditions have passed or been fulfilled and are not relevant to the Parties' commitments in this Agreement].

- 3.2** The CAISO and BANC shall authorize, maintain, continue, and implement operating procedures in accordance with Applicable Requirements for the pilot Pseudo-Tie exchange program previously set forth in the CAISO-SMUD ICAOA, consisting of: 1) the existing pilot Pseudo-Tie of the Calpine Sutter Energy Center in the BANC Balancing Authority Area to the CAISO Balancing Authority Area pursuant to the CAISO Pseudo Participating Generator Agreement with Calpine, and 2) the existing pilot Pseudo-Tie of the New Melones Power Plant in the CAISO Balancing Authority Area to the BANC Balancing Authority Area pursuant to the Pilot Pseudo Tie Implementation Agreement among the CAISO, PG&E, BANC as assignee of SMUD, and Western.

4. Authority:

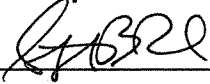
- 4.1** Each individual signing this Agreement certifies that the Party represented has duly authorized such individual to sign, bind, and obligate such Party.

BALANCING AUTHORITY AREA PILOT PSEUDO-TIE CONTINUATION AGREEMENT

Accepted and agreed to by:

**California Independent System
Operator Corporation**

By



Name:

Steve Berberich

Title:

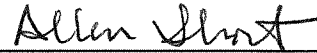
Vice President &
Chief Operating Officer

Date:

4/15/11

**Balancing Authority of Northern
California**

By



Name:

ALLEN SHORT

Title:

CHAIRMAN

Date:

4/6/11

Attachment B
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
(copy)

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

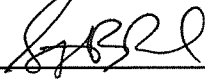
Name: Allen Short

Title: Chairman

Date: April 8, 2011

Consenting:

**California Independent System
Operator Corporation**

By:  _____

Name: Steve Berberich

Title: Vice President &
Chief Operating Officer

Date: 4/15/11

Western Area Power Administration

By: _____

Name: _____

Title: _____

Date: _____

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: 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

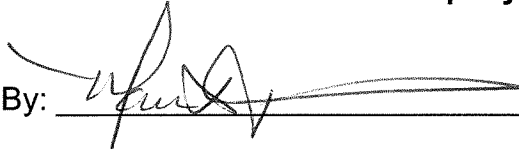
By: _____

Name: _____

Title: _____

Date: _____

Pacific Gas and Electric Company

By:  _____

Name: Mark S. Johnson

Title: Vice President

Date: April 8, 2011

Attachment C
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