

December 19, 2012

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 Second Amendment to Transition Agreement –  
Original Rate Schedule No. 70  
Docket No. ER13-\_\_\_\_**

Dear Secretary Bose:

The California Independent System Operator Corporation (“ISO”) submits for filing and acceptance the Second Amendment to the Transition Agreement (the “Second Amendment”), between the ISO and Valley Electric Association, Inc. (“Valley Electric”).<sup>1</sup> The purpose of the Second Amendment is to include the scheduling points on Valley Electric’s system in the ISO’s Congestion Revenue Rights (“CRR”) auction, as soon as feasible after Valley Electric becomes an ISO load serving entity, such that Valley Electric and other market participants would be able to bid for CRRs at those points.<sup>2</sup> All other terms and conditions of the Transition Agreement will remain in effect and in full force, except where expressly modified by the Second Amendment.

## **I. BACKGROUND REGARDING THE TRANSITION AGREEMENT**

The purpose of the Transition Agreement is to establish the terms and conditions for Valley Electric’s transition into the ISO Balancing Authority Area as a participating transmission owner, utility distribution company, and load serving entity. In addition to the general terms and conditions applicable to the transition, the Transition Agreement provides specific procedures for the merger of generator interconnection queues, the treatment of transmission projects initiated prior to the Transition Date, the determination of Valley Electric’s resource adequacy requirements, and the allocation of congestion revenue rights to Valley Electric.

---

<sup>1</sup> The ISO makes this filing 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 (2008).

<sup>2</sup> Unless otherwise defined herein, all capitalized terms shall have the meaning ascribed to them in the Transition Agreement.

Valley Electric currently serves its load through imports into its system at the Mead point of interconnection based on its contractual rights with the Western Area Power Administration – Desert Southwest Region (“Western – DSR”). Valley Electric has submitted a transmission interconnection request to Southern California Edison Company (“SCE”) for a 230 kV interconnection between the Valley Electric system and facilities owned by SCE at or near the Eldorado substation, which are part of the ISO controlled grid. The physical interconnection at Eldorado is referred to in the Transition Agreement as the “Transmission Interconnection.”

Relevant for the purposes of this filing, Section 8.5 of the Transition Agreement provides for a proxy portfolio of congestion revenue rights based on Valley Electric’s historic loads in order to allow Valley Electric to participate in the annual CRR allocation process for 2013. This approach was necessary because the 2013 CRR allocation process was scheduled to occur before Valley Electric was expected to become an ISO load serving entity. This approach is similar to the process approved by the Commission for the initial allocation of congestion revenue rights to load serving entities prior to the start of the ISO’s current markets. The annual allocation process for 2013 CRRs is now complete, and Valley Electric was a participant in all three tiers.

Under Section 8.5, the ISO will not calculate Locational Marginal Prices for any locations associated with the Valley Electric System and will not settle on any CRRs terminating at the Valley Electric Default LAP prior to the Transition Date. Section 8.5 also provided, however, that CRRs related to new Valley Electric pricing nodes would not be included in the CRR auctions until after the Transition Date and the completion of the Transmission Interconnection, *i.e.*, the Eldorado interconnection noted above.

The Transition Agreement was filed with the Commission on October 14, 2011, in Docket No. ER12-84-000. On December 14, 2011, the Commission issued an order accepting the Transition Agreement without change. On September 12, 2012, the ISO and Valley Electric entered into the First Amendment to the Transition Agreement (“First Amendment”), which corrected the description of the facilities to be turned over to ISO Operational Control to conform to the original intent of the parties, as well as further defined certain planned reliability upgrades. The First Amendment was filed on September 13, 2012, in Docket No. ER12-2623-000; and on October 15, 2012, the Commission issued a letter order accepting the First Amendment, effective November 13, 2012.

VEA’s participating transmission owner application to the ISO was approved by the ISO Board of Governors during September of 2012, and Valley Electric filed its transmission owner tariff and transmission revenue requirement with the Commission on October 9, 2012, in Docket No. ER13-49-000. An amendment to the Transmission Control Agreement to include Valley Electric as a new participating transmission owner was filed by the ISO on October 10, 2013 in ER13-71-000 and accepted by Commission

order dated November 6, 2013. The Transition Date is currently expected to be January 3, 2013.

## II. PURPOSE OF THE SECOND AMENDMENT

The Second Amendment provides one very specific change to the Transition Agreement, clarifying that Valley Electric's scheduling points will be included in the ISO's CRR auction at the first opportunity after the Transition Date has occurred, which will allow Valley Electric and other market participants to bid for CRRs at those points at that time.

The parties intended to implement two CRR-related restrictions through the currently effective version of Section 8.5. The first restriction relates to the exclusion of Valley Electric's pricing points from the calculation of LMPs and settlement of CRRs for Valley Electric pricing points prior to the Transition Date to ensure CRRs awarded in the auction would be feasible. This limitation continues to be appropriate in the event the Transition Date is delayed for any reason, and is not affected by the amendment.

Valley Electric, however, has requested that the ISO remove the other limitation on participation in CRR auctions until the Transmission Interconnection is complete and allow CRRs for the Valley Electric pricing nodes to be traded as soon as feasible after the Transition Date. Valley Electric noted that there is no need for the Transmission Interconnection to be completed in order for trading of these CRRs to begin and no reason to prevent trading of CRRs for Valley Electric's pricing nodes following the Transition Date. In addition, Valley Electric believes that it could be harmed by being restricted from participation in the CRR auctions, and believes that limiting trading for participants is counter to CRR market efficiency benefits.

The ISO agrees with Valley Electric's position and believes that including Valley Electric's pricing nodes in the CRR auctions following the Transition Date, but prior to completion of the Transmission Interconnection, is both reasonable and consistent with the ISO Tariff. The Second Amendment allows any party to trade CRRs related to the Valley Electric scheduling points as soon as feasible following the Transition Date. The ISO believes that the Valley Electric network can be included in the monthly CRR auction process, possibly as early as April 2013, given the ISO's processes for updating the CRR network model.

Pursuant to this Second Amendment, section 8.5 of the Transition Agreement will be deleted in its entirety and replaced with the following:

**Congestion Revenue Rights Network Model.** The CAISO will modify its CRR network model to reflect the planned incorporation of the Valley Electric System and Mead Rights, effective as of the Transition Date, for purposes of the 2013 annual CRR allocation process. This will result in the allocation of CRRs to Valley Electric

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

The highlighted portions reflect the revisions. This change makes clear that the Valley Electric system will be included in the next monthly CRR auction once the Transition Date has occurred and after the ISO makes the necessary network model changes.

### **III. EFFECTIVE DATE**

In order to ensure that the ISO is able to add the Valley Electric network as soon as feasible, the ISO requests that the Commission accept the Second Amendment effective February 19, 2013.

### **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 Valley Electric; Southern California Edison Company; Six Cities CA; Powerex Corporation; Pacific Gas and Electric Company; California Department of Water Resources; Northern California Power Agency, and BrightSource Energy, Inc. These are the parties to the proceedings related to the Transition Agreement and the First Amendment. In addition, the ISO has posted the filing on the ISO website.

Enclosed for filing are each of the following:

- (1) this letter of transmittal;
- (2) the Amendment (Attachment A);

- (3) a conformed blackline version of the Transition Agreement showing the changes proposed by the Amendment (Attachment B); and
- (4) a conformed clean version of the Transition Agreement including the changes proposed by this Amendment (Attachment C).

## **VI. CORRESPONDENCE**

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

\*Michael E. Ward  
Alston & Bird LLP  
The Atlantic Building  
950 F Street, N.W.  
Washington, DC 20004-1404  
Tel: (202) 239-3300  
Fax: (202) 239-3333  
E-mail: michael.ward@ISO.com

\*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@ISO.com

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

## VII. CONCLUSION

For the reasons set forth above, the ISO respectfully requests that the Commission accept this Second Amendment for filing effective February 19, 2013.

Respectfully Submitted,

Sean A. Atkins  
Michael E. Ward  
Alston & Bird LLP  
The Atlantic Building  
950 F Street, N.W.  
Washington, DC 20004-1404  
Tel: (202) 756-3300  
Fax: (202) 756-3333

**/s/ John C. Anders**  
Nancy Saracino  
General Counsel  
Sidney M. Davies  
Assistant General Counsel  
John C. Anders  
Senior Counsel  
California Independent System  
Operator Corporation  
250 Outcropping Way  
Folsom, CA 95630  
Tel: (916) 608-7157  
Fax: (916) 608-7222  
janders@ISO.com

Attorneys for the California Independent  
System Operator Corporation

**Attachment A**

**Second Amendment to Transition Agreement**

## SECOND AMENDMENT TO TRANSITION AGREEMENT

This Second Amendment to the Transition Agreement ("Second Amendment") is entered into as of December 19, 2012, between the California Independent System Operator Corporation ("CAISO") and Valley Electric Association, Inc. ("Valley Electric"). The CAISO and Valley Electric are each referred to herein as a "Party," and jointly as the "Parties."

**WHEREAS**, the CASIO and Valley Electric entered into a Transition Agreement, dated October 13, 2011 ("Transition Agreement"), which establishes the process for Valley Electric to join the CAISO as a Participating Transmission Owner, Load Serving Entity, and Utility Distribution Company, effective on or about January 1, 2013;

**WHEREAS**, on October 14, 2011, the CAISO filed the Transition Agreement with the Federal Energy Regulatory Commission ("FERC"), and on December 14, 2011, FERC issued an order accepting the Transition Agreement as filed;

**WHEREAS**, on September 12, 2012, the CASIO and Valley Electric entered into the First Amendment to the Transition Agreement ("First Amendment"), which corrected the description of the facilities to be turned over to CAISO Operational Control to conform to the original intent of the parties, as well as further defined certain planned reliability upgrades. The First Amendment was filed with FERC on September 13, 2012, in Docket No. ER12-2623-000, and on October 15, 2012, FERC issued a letter order accepting the First Amendment, effective November 13, 2012;

**WHEREAS**, Valley Electric and the CAISO wish to amend the Transition Agreement as provided below;

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

1. This Second Amendment shall be effective on the date accepted for filing and made effective by FERC.
2. Section 8.5 shall be deleted and replaced with the following:

**"Congestion Revenue Rights Network Model.** The CAISO will modify its CRR network model to reflect the planned incorporation of the Valley Electric System and Mead Rights, effective as of the Transition Date, for purposes of the 2013 annual CRR allocation process. This will result in the allocation of CRRs to Valley Electric whose feasibility will be contingent on the incorporation of the Mead Rights to CAISO Operational Control on the Transition Date, which is expected to coincide with the date when 2013 CRRs normally become effective (i.e., January 1, 2013). Since the initial CRR annual allocation process that

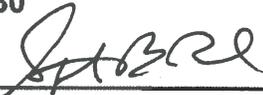
Valley Electric participates in will be prior to the Transmission Interconnection, only Valley Electric will be able to request CRRs to or from the new Mead Scheduling Point and to or from the new Valley Electric pricing nodes. The CAISO will not calculate Locational Marginal Prices for any locations associated with the Valley Electric System and will not settle on any CRRs terminating at the Valley Electric Default LAP prior to the Transition Date. Once the Transition Date has occurred, then the next available monthly CRRs process for which the CAISO can make the necessary network model adjustments will include the Valley Electric System and the associated scheduling locations will be biddable by CAISO market participants. Any annual CRRs allocated to Valley Electric will become active as of the effective Transition Date.”

3. All terms and conditions of the Transition Agreement, including the First Amendment, shall remain in effect and in full force, except where expressly amended by this Second Amendment. In the event of a conflict between the terms of this Second Amendment and the corresponding terms of the Transition Agreement or the First Amendment, the terms of this Second Amendment shall govern. Unless otherwise defined herein, all capitalized terms shall have the meaning ascribed to them in the Transition Agreement, the First Amendment, or in the CAISO Tariff.
4. This Agreement may be executed in one or more counterparts at different times, each of which shall be regarded as an original and all of which, taken together, shall constitute one and the same Agreement.

\*\*\*\*\*Remainder of page intentionally left blank.\*\*\*\*\*

IN WITNESS WHEREOF, the Parties have caused this Second Amendment to be duly executed by and through their authorized representatives as of the date provided above.

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

Signature:   
Name: Steve Berberich  
Title: President & Chief Executive Officer  
Date: 12/18/12

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

Signature:   
Name: Thomas H. Husted  
Title: CHIEF EXECUTIVE OFFICER  
Date: DECEMBER 18, 2012

**Attachment B**

**Marked Transition Agreement Showing  
Amendment Changes**

**CALIFORNIA INDEPENDENT SYSTEM  
OPERATOR CORPORATION**

**AND**

**VALLEY ELECTRIC ASSOCIATION, INC**

**TRANSITION AGREEMENT**

## TRANSITION AGREEMENT

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

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

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

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

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

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

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

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

### ARTICLE 1 DEFINITIONS AND INTERPRETATION

- 1.1 **Master Definitions Supplement.** Unless defined in the introduction above or Section 1.2 of this Agreement, all terms in this Agreement with initial capitalization shall have the same meaning as those contained in the Master Definitions Supplement, Appendix A to the CAISO Tariff.
- 1.2 **Special Definitions for this Agreement.** In this Agreement, the following terms shall have the meanings set opposite them:

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

**Effective Date** shall have the meaning provided in Section 2.1.

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

**Low-Voltage Upgrades** shall mean the following planned reliability upgrades to the Valley Electric System: (i) a 138 kV transmission line between Vista Substation and Pahrump Substation that will be under built on the new multi-circuit steel structures being built as part of the new 230 kV interconnection at Northwest Substation, (ii) a 138 kV transmission line between the Charleston Substation and the Vista Substation, (iii) a 138 kV transmission line from the Innovation Substation (formerly referred to as Stirling Mountain) to the Department of Energy's Mercury Switch, and (iv) a 230kV/138 kV transformer, and any necessary protection equipment and schemes, to interconnect the 138kV Innovation-Mercury transmission line with the 230 kV Northwest-Johnnie transmission line.

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

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

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

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

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

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

**Transmission Upgrade** shall mean the new 230 kV transmission lines and associated facilities that complete the 230 kV transmission loop between the Mead Substation and the Northwest Substation required for reliability of the Valley Electric System, which include the following: (i) the 230 kV transmission facilities running from the Northwest Substation to the point known as Johnnie (approximately 58 miles), (ii) the reenergization of the existing transmission facilities running from Johnnie to the Vista Substation at 230 kV (approximately

9 miles), and (iii) the 230 kV transmission facilities running between the Vista Substation and the Pahrump Substation (approximately 12 miles).

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

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

- (a) the singular shall include the plural and vice versa;
- (b) the masculine shall include the feminine and neutral and vice versa;
- (c) “or” is used in the conjunctive sense;
- (d) “includes” or “including” shall mean “includes (or including) without limitation,” unless the context otherwise requires;
- (e) references to a Section, Article, or Schedule shall mean a Section, Article, or a Schedule of this Agreement, as the case may be, unless the context specifies otherwise;
- (f) any reference to the CAISO Tariff or any provision of the CAISO Tariff will mean a reference to the CAISO Tariff or provision then in effect, unless otherwise specifically provided;
- (g) unless the context otherwise requires, references to any law shall be deemed references to such law as it may be amended, replaced, or restated from time to time;
- (h) unless the context otherwise requires, any reference to a “person” includes any individual, partnership, firm, company, corporation, joint venture, trust, association, organization, or other entity, in each case whether or not having separate legal personality;
- (i) unless the context otherwise requires, any reference to a Party includes a reference to that Party’s permitted successors and assigns;
- (j) any reference to a day, week, month, or year is to a calendar day, week, month, or year;
- (k) the captions and headings in this Agreement are inserted solely to facilitate reference and shall have no bearing upon the interpretation of any of the terms and conditions of this Agreement; and
- (l) no rule that a contract shall be construed against the drafter shall be applied to the construction or interpretation of this Agreement.

## **ARTICLE 2 TERM AND TERMINATION**

- 2.1 Effective Date.** This Agreement shall be effective as of the date it is accepted for filing and made effective by FERC, and shall remain in full force and effect until terminated pursuant to Section 2.7, or upon such other date as the Parties shall mutually agree.
- 2.2 Limitation on Withdrawal.** Except as provided in this Article 2, neither Party shall have the right to terminate this Agreement after the Effective Date. Any attempt to terminate this Agreement shall be deemed a default under this Agreement in accordance with this Article 2.
- 2.3 Expiration Date.** This Agreement shall remain in full force and effect through the Transition Date, at which time, either Party may give the other Party thirty (30) days written notice that all covenants in this Agreement have been fulfilled and that termination by virtue of expiration is appropriate. Any disagreement over whether all covenants in this Agreement have been fulfilled shall be resolved in accordance with the dispute resolution provisions in Article 14.
- 2.4 Termination by Default.** Either Party (the terminating Party) may terminate this Agreement by giving written notice in the event that the other Party (the defaulting Party) commits any default under this Agreement or the CAISO Tariff that is incapable of being remedied or which, if capable of being remedied, is not remedied within thirty (30) days after the terminating Party has given the defaulting Party written notice of the default, unless excused by reason of Uncontrollable Forces under Article 13 of this Agreement.
- 2.5 Termination by Adverse Order.** Either Party may terminate this Agreement following an Adverse Order upon thirty (30) days written notice to the other Party. If the FERC rejects, materially modifies or materially conditions its acceptance of this Agreement, within fifteen (15) days of issuance of such FERC order, the Parties shall take one of the following actions: (i) agree to accept any modifications or conditions imposed by such FERC order, (ii) jointly seek further administrative or legal remedies with respect to such FERC order, including a request for rehearing or clarification, or (iii) enter into negotiations with respect to accommodation of such FERC order. If the Parties did not accept such FERC order and have not agreed to an accommodation within thirty (30) days of the date upon which such FERC order becomes a final and non-appealable order, such order shall be deemed an Adverse Order.
- 2.6 Termination for Failure to Reach Agreement with Third Parties.** If CAISO and Valley Electric are unable to reach agreement with any third party, including Western – DSR and/or NV Energy, which is necessary to move Valley Electric to the CAISO balancing authority area or otherwise implement this Agreement, and the Parties are unable to agree after commercially reasonable attempts upon an appropriate resolution, then either party shall have the right to terminate this Agreement upon thirty (30) days written notice.
- 2.7 Termination Notice.** The Parties acknowledge that, with respect to any notice of termination given pursuant to this Article 2, the CAISO is required to file a timely notice of termination with FERC. The Parties acknowledge and agree that the filing of the notice of termination by the CAISO with FERC will be considered timely if the filing of the notice of termination is made after the preconditions for termination have been met, and the CAISO

files the notice of termination within sixty (60) days after issuance of the notice of default. This Agreement shall terminate upon acceptance by FERC of such a notice of termination.

### **ARTICLE 3 GENERAL TERMS AND CONDITIONS**

- 3.1 Scope of Agreement.** Except as may otherwise be provided in this Agreement, the provisions of this Agreement apply only to activities necessary to facilitate the transition of Valley Electric to the CAISO Balancing Authority Area as a Participating Transmission Owner, Utility Distribution Company, and Load Serving Entity.
- 3.2 CAISO Responsibility.** The Parties acknowledge that the CAISO is responsible for the efficient use and reliable operation of the CAISO Controlled Grid and the operation of the CAISO's Balancing Authority Area consistent with achievement of planning and Operating Reserve criteria no less stringent than those established by the WECC and NERC Reliability Standards and criteria and in accordance with the CAISO Tariff. Valley Electric will be included within the scope of these CAISO responsibilities as of the Transition Date.
- 3.3 Valley Electric Responsibility.** The Parties acknowledge that Valley Electric has a legal obligation to act in the best interests of its members in accordance with its Articles of Incorporation and Bylaws. The Parties acknowledge that Valley Electric is separately responsible for compliance with the WECC and NERC Reliability Standards and criteria applicable to the functions for which Valley Electric is registered with NERC, and that Valley Electric is currently part of the NV Energy Balancing Authority Area. Any references to WECC and NERC Reliability Standards in this Agreement do not make any alteration or enlargement of the requirements or standards applicable to Valley Electric or to the individual registrations of Valley Electric with NERC. Valley Electric will adjust its individual registrations with NERC effective on the Transition Date and enter into any applicable reliability standards agreement with the CAISO as necessary to reflect any change in its status as a result of this Agreement.
- 3.4 Relationship of the Parties.** Except as otherwise may be provided in this Agreement, the covenants, obligations, rights and liabilities of the Parties under this Agreement are intended to be several and not joint or collective. It is the intent of the Parties not to create an association, joint venture, trust, or partnership, and not to impose a trust or partnership covenant, obligation, or liability on, or with regard to, any Party. Each Party shall be individually responsible for its own covenants, obligations, and liabilities under this Agreement. No Party shall be under the control of or shall be deemed to control the other Party. No Party shall be the agent of, or have the right or power to bind, another Party, without its written consent, except as expressly provided for in this Agreement.
- 3.5 Costs Incurred.** Each Party shall be individually responsible for all of its own costs, expenses or financial obligations that may be incurred as a result of this Agreement. Specifically, Valley Electric shall be responsible for satisfaction of any obligations associated with its departure from the NV Energy Balancing Authority Area.
- 3.6 Requests for Information.** Valley Electric will respond, and at its own cost with a full and timely good-faith effort to all reasonable requests for information or technical support made by the CAISO from time to time as may be necessary for the performance of this

Agreement.

- 3.7 Staffing Considerations.** The Parties will devote sufficient staff and resources necessary for performance of this Agreement; provided, however, this Agreement shall not be interpreted to require either Party to increase internal staffing or to allocate staff in a manner that such party may consider in its sole discretion to jeopardize its ability to meet legal, regulatory or customer obligations.
- 3.8 Transition Plan.** The Parties have developed the Transition Plan in an effort to reach the Transition Date in the most efficient and economic manner. It is recognized that changes to the Transition Plan may be necessary or appropriate to achieve the Transition Date in a more efficient or economic manner or, in some circumstances, to adjust the Transition Date. The Transition Plan may be amended by mutual agreement of the Parties without being considered an amendment to this Agreement. Neither Party may unreasonably withhold consent to reasonable changes to the Transition Plan. Any disagreement over whether a proposed change to the Transition Plan is reasonable shall be resolved in accordance with the dispute resolution provisions in Article 14.
- 3.9 Precedence in Event of Conflict between the Terms of This Agreement and the CAISO Tariff.** If and to the extent a matter is specifically addressed by a provision of this Agreement, the provisions of this Agreement shall govern notwithstanding any inconsistent provision of the CAISO Tariff.
- 3.10 Precedence of CAISO Tariff for Matters to be Determined In Accordance with the CAISO Tariff.** If and to the extent this Agreement provides that a matter shall be determined in accordance with the applicable provisions of the CAISO Tariff, the applicable provisions of the CAISO Tariff shall govern.
- 3.11 Amendment to CAISO Tariff.** Nothing in this Agreement shall affect in any way the authority of the CAISO to modify unilaterally the CAISO Tariff in accordance with Section 15 of the CAISO Tariff or of the Parties to exercise their rights under the Federal Power Act or any other law or to pursue any legal remedies.

#### **ARTICLE 4 TRANSITION DATE UNDERTAKINGS**

- 4.1 Participating Transmission Owner.** Valley Electric will submit an application with CAISO to become a Participating Transmission Owner and to turn the Valley Electric System and the Transmission Upgrade over to CAISO Operational Control in accordance with the CAISO Tariff and the Transmission Control Agreement based on the Mead Rights and the Mead Point of Interconnection. This application must be submitted to the CAISO at least six (6) months prior to the Transition Date to allow sufficient time to complete the application process. When Valley Electric's application has been accepted, the Transmission Control Agreement will be amended to include Valley Electric as a Participating Transmission Owner, which amendment will be filed with FERC by the CAISO with a requested effective date concurrent with the Transition Date. The Parties will collaborate in obtaining regulatory acceptance or approval for this amendment to the Transmission Control Agreement. If the FERC rejects, materially modifies, or materially conditions its acceptance of the amendment to the Transmission Control Agreement, then, within fifteen (15) days of issuance of such FERC order, the Parties shall take one of the following actions: (i) agree to accept any modifications or conditions imposed by such FERC order, (ii) jointly seek further

administrative or legal remedies with respect to such FERC order, including a request for rehearing or clarification, or (iii) enter into negotiations with respect to accommodation of such FERC order. If the Parties did not accept such FERC order and have not agreed to an accommodation within thirty (30) days of the date on which such FERC order becomes a final and non-appealable order, such order shall be deemed an Adverse Order.

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

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

**4.1.2 Points of Interconnection with Other Balancing Authority Areas.** The Parties acknowledge and agree that Points of Interconnection other than the interconnection

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

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

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

**4.2 Transmission Revenue Requirement.** Valley Electric will file its Transmission Revenue Requirement with FERC with a requested effective date concurrent with the Transition Date. The Parties anticipate that the costs associated with the Valley Electric System will be

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

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

- 4.5 Utility Distribution Company Operating Agreement.** Valley Electric will enter into a Utility Distribution Company Operating Agreement with the CAISO to address operational issues associated with reliably serving its Load in the CAISO Balancing Authority Area, which will be filed with FERC by the CAISO with a requested effective date concurrent with the Transition Date.
- 4.6 Scheduling Coordinator.** Valley Electric will become or retain the services of a CAISO certified Scheduling Coordinator to interface with the CAISO systems effective as of the Transition Date. If Valley Electric wishes to itself become a certified Scheduling Coordinator, it shall submit an application to the CAISO at least six months prior to the Transition Date.

## **ARTICLE 5 INTERCONNECTION QUEUE MERGER**

- 5.1 Purpose and Assumptions.** This Article 5 specifies steps the Parties will take in advance of the Transition Date so that the CAISO may treat generators in Valley Electric's queue as CAISO Interconnection Customers. In particular, this Article 5 allows customers in Valley Electric's interconnection queue as of August 1, 2011 to elect Full Capacity Deliverability Status as CAISO Controlled Grid connected Generating Facilities. For this purpose, the Parties assume that Valley Electric will become a Participating Transmission Owner and complete the Transmission Interconnection.
- 5.2 Interconnection Queue and Study Process Status.** The CAISO and Valley Electric each conduct their own interconnection queue and study processes. Valley Electric administers a generator interconnection queue through a serial study process, which includes approximately 2980 MW of renewable generation as of August 1, 2011. Two projects in Valley Electric's queue accounting for a total of about 1620 MW have also submitted an Interconnection Request to the most recent CAISO Cluster Application Window, Cluster 4, of the CAISO's Generator Interconnection Procedures. The remaining approximate 1360 MW of customers in Valley Electric's interconnection queue have not submitted an Interconnection Request to the CAISO. Once Valley Electric becomes a Participating Transmission Owner in the CAISO Balancing Authority Area, customers currently in Valley Electric's interconnection queue, who achieve Commercial Operation, will be CAISO Controlled Grid interconnected Generating Facilities.
- 5.3 Valley Electric Generator Interconnection Procedures.** Valley Electric will revise its generator interconnection procedures and initiate a cluster study process consistent with the timeline set forth in the Transition Plan. This cluster study process will include all interconnection customers with a valid interconnection request as of August 1, 2011, who enter into an agreement to participate in the cluster study process. This cluster study process will be completed consistent with the timeline set forth in the Transition Plan but no later than thirty (30) days prior to completion of the CAISO Cluster 4 Phase II Interconnection Studies. The CAISO will advise Valley Electric in a timely manner of the expected completion date of the CAISO Cluster 4 Phase II Interconnection Studies, including any changes to the expected completion date. This cluster study process will, among other things, identify the network upgrades required on the Valley Electric System for generating facilities seeking Full Capacity Deliverability Status on the CAISO Controlled

Grid. All customers in Valley Electric's interconnection queue will be required to execute an agreement to participate and fund the cost of this cluster study process, as well as other costs determined by Valley Electric, consistent with the timeline in the Transition Plan. This cluster study process will replace the existing Valley Electric serial interconnection study process. The CAISO will coordinate with Valley Electric with respect to this cluster study process in accordance with the Transition Plan and review results to ensure they are compatible with the ISO Cluster 4 Phase II Interconnection Studies.

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

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

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

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

in the next Cluster Application Window, if such customer desires Full Capacity Deliverability Status on the CAISO Controlled Grid. The CAISO will follow its Generator Interconnection Procedures with respect to all such Interconnection Requests except as provided below in this Section 5.6.

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

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

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

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

Interconnection Study results, in accordance with the CAISO Tariff and Generator Interconnection Procedures.

- 5.7 CAISO Generator Interconnection Agreements.** The CAISO will enter into Interconnection Agreements with Interconnection Customers and the applicable Participating Transmission Owner with respect to Network Upgrades on the CAISO Controlled Grid associated with “special” Interconnection Request as described above on the same basis as with Interconnection Customers who participated in the Cluster 4 Phase I Interconnection Studies (i.e., in accordance with the CAISO Tariff), with the understanding that Network Upgrades on the Valley Electric System will be contracted for in accordance with Section 5.4.
- 5.8 Reimbursement of Interconnection Financial Security and Interconnection Study Deposits in the Event of Termination.** If this Agreement is terminated for any reason, any Interconnection Customer who submitted a “special” Interconnection Request as provided in Section 5.6 above will be entitled to a full refund of its Interconnection Financial Security, unless such Interconnection Customer utilizes the Network Upgrades on the CAISO Controlled Grid through construction of additional Interconnection Facilities. In this case, the Interconnection Customer would be entitled to a refund of Interconnection Financial Security in accordance with Appendix Y, Section 9.4.2.4 of the CAISO Tariff. If an Interconnection Customer withdraws its “special” Interconnection Request for any reason prior to termination of this Agreement, Interconnection Financial Security would be refunded in accordance with the CAISO Generator Interconnection Procedures. Interconnection Study Deposits will be refunded in accordance with the CAISO Generator Interconnection Procedures under all circumstances. All costs associated with any cluster study conducted by Valley Electric would be treated in accordance with the agreement between the interconnection customer and Valley Electric.

## **ARTICLE 6 TRANSMISSION PLANNING**

- 6.1 Joint Transmission Planning.** The CAISO and Valley Electric each regularly perform transmission planning activities to ensure their respective systems meet applicable Reliability Standards. It is appropriate that development of the Transmission Interconnection, Transmission Upgrade, and the interconnection between the Valley Electric System and the CASIO Controlled Grid based on the Mead Rights, as well as planning for any additional reliability upgrades that may be needed to reinforce the transmission grid, be coordinated prior to the Transition Date. The CAISO’s Transmission Planning Process includes the opportunity to work with Transmission Owners outside of its Balancing Authority Area to jointly plan transmission development. It is anticipated that the Parties will utilize this process to engage in joint transmission planning activities prior to the Transition Date.
- 6.2 Exemption from CAISO Transmission Planning Process.** Because the Valley Electric System currently is not within the CAISO Balancing Authority Area, the Transmission Interconnection, the Transmission Upgrade, and the Low-Voltage Upgrades are expressly exempt from the CAISO Transmission Planning Process and will not be studied as part of the CAISO Controlled Grid during the Transmission Planning Process cycles that have commenced prior to the Transition Date. As contemplated in Sections 4.3 and 4.4, the CAISO will consider the Transmission Interconnection and the Transmission Upgrade New High Voltage Facilities when placed into service regardless of the fact they were not

considered by the CAISO as part of the Transmission Planning Process or included in the CAISO's Transmission Plans.

- 6.3 Network Upgrades on the Valley Electric System.** Network upgrades originally identified during the Valley Electric cluster study process described in Section 5.3, but for which no Interconnection Agreement has been executed, will be considered equivalent to Network Upgrades originally identified during the Cluster 4 Phase II Interconnection Study Process for purposes of determining whether such network upgrades should be assessed as part of the comprehensive Transmission Plan in accordance with CAISO Tariff section 24.4.6.5. The CAISO will review such network upgrades that meet the criteria under CAISO Tariff section 24.4.6.5 and reach determinations 30 days prior to the Transition Date as to whether further consideration of enhancements to these network upgrades is warranted. The CAISO will enter into Interconnection Agreements pursuant to Section 5.4 with respect to any such network upgrades that are not identified for further consideration in the CAISO Transmission Planning Process as part of the review conducted under this Section 6.3. The CAISO will not enter into Interconnection Agreements pursuant to Section 5.4 with respect to any such network upgrades that are identified for further consideration in the CAISO Transmission Planning Process until such network upgrades have completed the review process consistent with CAISO Tariff section 24.4.6.5, which will be no later than the timeline for consideration and approval of the comprehensive Transmission Plan by the CAISO Governing Board as provided in the CAISO Tariff and Business Practice Manual, currently scheduled for March of 2013. Network upgrades on Valley Electric's system that are planned or under construction pursuant to an Interconnection Agreement executed pursuant to Section 5.4 or this Section 6.3 will not be subsequently considered as part of the comprehensive Transmission Plan in accordance with CAISO Tariff section 24.4.6.5.

## **ARTICLE 7 RESOURCE ADEQUACY REQUIREMENTS**

- 7.1 General Resource Adequacy Requirements.** Valley Electric will need to meet the resource adequacy requirements of the CAISO Tariff applicable to Load Serving Entities as of the Transition Date. The Parties will rely mainly on the California Energy Commission ("CEC") coincident peak demand forecast for the entire CAISO system, which will include, after the Transition Date, the Valley Electric System for the resource adequacy process. Valley Electric will provide sufficient historical data to enable the CEC and the CAISO to perform a coincident peak historic demand analysis for purposes of determining the Valley Electric share of CAISO coincident system peak demand. Valley Electric will participate in the CEC demand forecasting process for the 2013 forecast year.
- 7.2 Valley Electric System Resource Adequacy Requirements.** Pursuant to the CAISO Tariff, the CAISO will recognize Valley Electric as a non-CPUC jurisdictional Load Serving Entity subject to the jurisdiction of its own Local Regulatory Authority. Valley Electric will establish its own planning reserve margin regarding system resource adequacy requirements for the Loads served by Valley Electric as a fraction of its coincident system peak demand, in accordance with Section 40 of the CAISO Tariff.
- 7.3 Valley Electric Local Resource Adequacy Requirements.** Valley Electric may or may not have local resource adequacy requirements, which the CAISO will determine as required by the CAISO Tariff not later than May 2012 (the year prior to the Transition Date), in accordance with Section 40 of the CAISO Tariff.

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

## **ARTICLE 8 CONGESTION REVENUE RIGHTS**

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

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

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

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

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

**Congestion Revenue Rights Network Model.** The CAISO will modify its CRR network model to reflect the planned incorporation of the Valley Electric System and Mead Rights, effective as of the Transition Date, for purposes of the 2013 annual CRR allocation process. This will result in the allocation of CRRs to Valley Electric whose feasibility will be contingent on the incorporation of the Mead Rights to CAISO Operational Control on the Transition Date, which is expected to coincide with the date when 2013 CRRs normally become effective (i.e., January 1, 2013). Since the initial CRR annual allocation process that Valley Electric participates in will be prior to the Transmission Interconnection, only Valley Electric will be able to request CRRs to or from the new Mead Scheduling Point and to or from the

new Valley Electric pricing nodes. The CAISO will not calculate Locational Marginal Prices for any locations associated with the Valley Electric System and will not settle on any CRRs terminating at the Valley Electric Default LAP prior to the Transition Date. Once the Transition Date has occurred, then the next available monthly CRRs process for which the CAISO can make the necessary network model adjustments will include the Valley Electric System and the associated scheduling locations will be biddable by CAISO market participants. Any annual CRRs allocated to Valley Electric will become active as of the effective Transition Date.

## **ARTICLE 9 GREENHOUSE GAS REPORTING OBLIGATIONS**

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

## **ARTICLE 10 PROVISION OF TECHNICAL INFORMATION**

- 10.1 Network Model Updates and Market Simulation.** The CAISO operates the CAISO Controlled Grid and CAISO Markets utilizing the Full Network Model. This network model is updated approximately every other month, and there is approximately a two-month lead time to include updates in an upcoming release. In addition to including the Valley Electric System facilities in the CAISO's Full Network Model, the CAISO likely will find it prudent to add or modify Points of Interconnection and Scheduling Points reflected in the model. The Parties will cooperate to incorporate the Valley Electric System into the Full Network Model in advance of the Transition Date such that the revised model can be used in market simulation and be proven accurate and reliable prior to the Transition Date. The Parties will make best efforts to initiate this process such that an applicable revised Full Network Model will also be available to the CAISO for the Generator Interconnection Procedures and the Transmission Planning Process. The Parties will also exchange any additional network related information needed to coordinate with NV Energy and Western– DSR to facilitate any necessary Balancing Authority Area boundary changes and to memorialize the CAISO's contractual arrangements with these entities.
- 10.2 Additional System Information.** Valley Electric will provide the CAISO with detailed information with respect to the Valley Electric System and any interconnection or transmission agreements between Valley Electric and NV Energy, Western - DSR or other entities that entitle Valley Electric to transmission service on these other entities' systems and that would be turned over to CAISO Operational Control in accordance with the Transmission Control Agreement.
- 10.3 Other Required Information.** Valley Electric will provide to the CAISO any additional transmission, generation, and load data reasonably required for the CAISO to update system data bases and other processes in a timely manner as may be requested in writing by the CAISO.

## **ARTICLE 11 AGREEMENTS WITH THIRD PARTIES**

- 11.1 Agreements with Third Parties.** The Parties intend to engage in discussions with third parties essential to achieving the Transition Date, including in particular interconnection customers, NV Energy, and Western – DSR as described in this Agreement. The Parties will likely enter into binding agreements with such third parties as may be necessary to implement the terms and conditions of this Agreement, which will be enforced in accordance with the terms and conditions of such agreements. In addition, the Parties will enter into interconnection agreements with customers in Valley Electric's queue, which may relate back to Interconnection Studies conducted by the CAISO and a cluster study conducted by Valley Electric prior to the Transition Date.
- 11.2 No Third Party Beneficiaries.** No right or obligation contained in this Agreement shall inure to the benefit of any person or entity which is not a Party. Nothing in this Agreement shall be construed to create any duty to, any standard of care with reference to, or any liability to any third party.

## **ARTICLE 12 LIABILITY AND INDEMNITY**

- 12.1 Liability and Indemnification.** The provisions of Section 14 of the CAISO Tariff will apply to liability and indemnification arising under this Agreement, except that all references in Section 14 of the CAISO Tariff to Market Participants shall be read as references to Valley Electric and references to the CAISO Tariff shall be read as references to this Agreement.
- 12.2 Actions in the Event of Termination.** Article 2 provides for termination in the event of default and Adverse Order. The Parties rights and obligations under such circumstances will be as provided in this Agreement and in accordance with Section 12.1 above.

## **ARTICLE 13 UNCONTROLLABLE FORCES**

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

## **ARTICLE 14 DISPUTE RESOLUTION**

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

## **ARTICLE 15 CONFIDENTIALITY**

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

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

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

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

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

any other person or entity of the right to protect the Confidential Information from public disclosure.

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

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

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

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

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

**15.1.10 Disclosure to FERC, its Staff, or a State.** Notwithstanding anything in this Article 15 to the contrary, and pursuant to 18 C.F.R. section 1b.20, if FERC or its staff, during the course of an investigation or otherwise, requests information from one of

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

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

## **ARTICLE 16 REPRESENTATIONS AND WARRANTIES**

- 16.1 Representations and Warranties.** Each Party represents and warrants that the execution, delivery and performance of this Agreement by it has been duly authorized by all necessary corporate or governmental actions, to the extent authorized by law.
- 16.2 Necessary Approvals.** Each Party represents that all necessary leases, approvals, licenses, permits, easements, rights of way or access to install, own or operate its facilities subject to this Agreement have been or will be obtained prior to the Effective Date of this Agreement.

## **ARTICLE 17 MISCELLANEOUS**

- 17.1 Assignments.** No Party may assign its obligations under this Agreement except with the other Party's prior written consent which consent shall not be unreasonably withheld. Any

such assignment shall be subject to Section 22.2 of the CAISO Tariff, which is incorporated by reference into this Agreement.

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

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

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

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

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

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

eliminate such regulatory or other determination unless a court or governmental agency of competent jurisdiction holds that such provisions are not separable from all other provisions of this Agreement.

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

\*\*\*\*\*REMAINDER OF PAGE INTENTIONALLY LEFT BLANK\*\*\*\*\*

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

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

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

**Signature:** \_\_\_\_\_  
**Name:** Steve Berberich  
**Title:** Pres & CEO  
**Date:** 10/13/11

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

**Signature:** \_\_\_\_\_  
**Name:** Thomas H. Husted  
**Title:** CEO  
**Date:** 10/12/11

## Attachment 1 to the Transition Agreement

---

### TRANSITION PLAN

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

**Attachment 2 to the Transition Agreement**

**Attachment 3 to the Transition Agreement**

**CONTACTS FOR NOTICES**

**Valley Electric**

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

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

**CAISO**

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

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

## **Attachment C**

### **Clean Transition Agreement Including Amendment Changes**

**CALIFORNIA INDEPENDENT SYSTEM  
OPERATOR CORPORATION**

**AND**

**VALLEY ELECTRIC ASSOCIATION, INC**

**TRANSITION AGREEMENT**

## TRANSITION AGREEMENT

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

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

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

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

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

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

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

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

### ARTICLE 1 DEFINITIONS AND INTERPRETATION

- 1.1 **Master Definitions Supplement.** Unless defined in the introduction above or Section 1.2 of this Agreement, all terms in this Agreement with initial capitalization shall have the same meaning as those contained in the Master Definitions Supplement, Appendix A to the CAISO Tariff.
- 1.2 **Special Definitions for this Agreement.** In this Agreement, the following terms shall have the meanings set opposite them:

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

**Effective Date** shall have the meaning provided in Section 2.1.

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

**Low-Voltage Upgrades** shall mean the following planned reliability upgrades to the Valley Electric System: (i) a 138 kV transmission line between Vista Substation and Pahrump Substation that will be under built on the new multi-circuit steel structures being built as part of the new 230 kV interconnection at Northwest Substation, (ii) a 138 kV transmission line between the Charleston Substation and the Vista Substation, (iii) a 138 kV transmission line from the Innovation Substation (formerly referred to as Stirling Mountain) to the Department of Energy's Mercury Switch, and (iv) a 230kV/138 kV transformer, and any necessary protection equipment and schemes, to interconnect the 138kV Innovation-Mercury transmission line with the 230 kV Northwest-Johnnie transmission line.

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

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

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

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

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

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

**Transmission Upgrade** shall mean the new 230 kV transmission lines and associated facilities that complete the 230 kV transmission loop between the Mead Substation and the Northwest Substation required for reliability of the Valley Electric System, which include the following: (i) the 230 kV transmission facilities running from the Northwest Substation to the point known as Johnnie (approximately 58 miles), (ii) the reenergization of the existing transmission facilities running from Johnnie to the Vista Substation at 230 kV (approximately

9 miles), and (iii) the 230 kV transmission facilities running between the Vista Substation and the Pahrump Substation (approximately 12 miles).

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

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

- (a) the singular shall include the plural and vice versa;
- (b) the masculine shall include the feminine and neutral and vice versa;
- (c) “or” is used in the conjunctive sense;
- (d) “includes” or “including” shall mean “includes (or including) without limitation,” unless the context otherwise requires;
- (e) references to a Section, Article, or Schedule shall mean a Section, Article, or a Schedule of this Agreement, as the case may be, unless the context specifies otherwise;
- (f) any reference to the CAISO Tariff or any provision of the CAISO Tariff will mean a reference to the CAISO Tariff or provision then in effect, unless otherwise specifically provided;
- (g) unless the context otherwise requires, references to any law shall be deemed references to such law as it may be amended, replaced, or restated from time to time;
- (h) unless the context otherwise requires, any reference to a “person” includes any individual, partnership, firm, company, corporation, joint venture, trust, association, organization, or other entity, in each case whether or not having separate legal personality;
- (i) unless the context otherwise requires, any reference to a Party includes a reference to that Party’s permitted successors and assigns;
- (j) any reference to a day, week, month, or year is to a calendar day, week, month, or year;
- (k) the captions and headings in this Agreement are inserted solely to facilitate reference and shall have no bearing upon the interpretation of any of the terms and conditions of this Agreement; and
- (l) no rule that a contract shall be construed against the drafter shall be applied to the construction or interpretation of this Agreement.

## **ARTICLE 2 TERM AND TERMINATION**

- 2.1 Effective Date.** This Agreement shall be effective as of the date it is accepted for filing and made effective by FERC, and shall remain in full force and effect until terminated pursuant to Section 2.7, or upon such other date as the Parties shall mutually agree.
- 2.2 Limitation on Withdrawal.** Except as provided in this Article 2, neither Party shall have the right to terminate this Agreement after the Effective Date. Any attempt to terminate this Agreement shall be deemed a default under this Agreement in accordance with this Article 2.
- 2.3 Expiration Date.** This Agreement shall remain in full force and effect through the Transition Date, at which time, either Party may give the other Party thirty (30) days written notice that all covenants in this Agreement have been fulfilled and that termination by virtue of expiration is appropriate. Any disagreement over whether all covenants in this Agreement have been fulfilled shall be resolved in accordance with the dispute resolution provisions in Article 14.
- 2.4 Termination by Default.** Either Party (the terminating Party) may terminate this Agreement by giving written notice in the event that the other Party (the defaulting Party) commits any default under this Agreement or the CAISO Tariff that is incapable of being remedied or which, if capable of being remedied, is not remedied within thirty (30) days after the terminating Party has given the defaulting Party written notice of the default, unless excused by reason of Uncontrollable Forces under Article 13 of this Agreement.
- 2.5 Termination by Adverse Order.** Either Party may terminate this Agreement following an Adverse Order upon thirty (30) days written notice to the other Party. If the FERC rejects, materially modifies or materially conditions its acceptance of this Agreement, within fifteen (15) days of issuance of such FERC order, the Parties shall take one of the following actions: (i) agree to accept any modifications or conditions imposed by such FERC order, (ii) jointly seek further administrative or legal remedies with respect to such FERC order, including a request for rehearing or clarification, or (iii) enter into negotiations with respect to accommodation of such FERC order. If the Parties did not accept such FERC order and have not agreed to an accommodation within thirty (30) days of the date upon which such FERC order becomes a final and non-appealable order, such order shall be deemed an Adverse Order.
- 2.6 Termination for Failure to Reach Agreement with Third Parties.** If CAISO and Valley Electric are unable to reach agreement with any third party, including Western – DSR and/or NV Energy, which is necessary to move Valley Electric to the CAISO balancing authority area or otherwise implement this Agreement, and the Parties are unable to agree after commercially reasonable attempts upon an appropriate resolution, then either party shall have the right to terminate this Agreement upon thirty (30) days written notice.
- 2.7 Termination Notice.** The Parties acknowledge that, with respect to any notice of termination given pursuant to this Article 2, the CAISO is required to file a timely notice of termination with FERC. The Parties acknowledge and agree that the filing of the notice of termination by the CAISO with FERC will be considered timely if the filing of the notice of termination is made after the preconditions for termination have been met, and the CAISO

files the notice of termination within sixty (60) days after issuance of the notice of default. This Agreement shall terminate upon acceptance by FERC of such a notice of termination.

### **ARTICLE 3 GENERAL TERMS AND CONDITIONS**

- 3.1 Scope of Agreement.** Except as may otherwise be provided in this Agreement, the provisions of this Agreement apply only to activities necessary to facilitate the transition of Valley Electric to the CAISO Balancing Authority Area as a Participating Transmission Owner, Utility Distribution Company, and Load Serving Entity.
- 3.2 CAISO Responsibility.** The Parties acknowledge that the CAISO is responsible for the efficient use and reliable operation of the CAISO Controlled Grid and the operation of the CAISO's Balancing Authority Area consistent with achievement of planning and Operating Reserve criteria no less stringent than those established by the WECC and NERC Reliability Standards and criteria and in accordance with the CAISO Tariff. Valley Electric will be included within the scope of these CAISO responsibilities as of the Transition Date.
- 3.3 Valley Electric Responsibility.** The Parties acknowledge that Valley Electric has a legal obligation to act in the best interests of its members in accordance with its Articles of Incorporation and Bylaws. The Parties acknowledge that Valley Electric is separately responsible for compliance with the WECC and NERC Reliability Standards and criteria applicable to the functions for which Valley Electric is registered with NERC, and that Valley Electric is currently part of the NV Energy Balancing Authority Area. Any references to WECC and NERC Reliability Standards in this Agreement do not make any alteration or enlargement of the requirements or standards applicable to Valley Electric or to the individual registrations of Valley Electric with NERC. Valley Electric will adjust its individual registrations with NERC effective on the Transition Date and enter into any applicable reliability standards agreement with the CAISO as necessary to reflect any change in its status as a result of this Agreement.
- 3.4 Relationship of the Parties.** Except as otherwise may be provided in this Agreement, the covenants, obligations, rights and liabilities of the Parties under this Agreement are intended to be several and not joint or collective. It is the intent of the Parties not to create an association, joint venture, trust, or partnership, and not to impose a trust or partnership covenant, obligation, or liability on, or with regard to, any Party. Each Party shall be individually responsible for its own covenants, obligations, and liabilities under this Agreement. No Party shall be under the control of or shall be deemed to control the other Party. No Party shall be the agent of, or have the right or power to bind, another Party, without its written consent, except as expressly provided for in this Agreement.
- 3.5 Costs Incurred.** Each Party shall be individually responsible for all of its own costs, expenses or financial obligations that may be incurred as a result of this Agreement. Specifically, Valley Electric shall be responsible for satisfaction of any obligations associated with its departure from the NV Energy Balancing Authority Area.
- 3.6 Requests for Information.** Valley Electric will respond, and at its own cost with a full and timely good-faith effort to all reasonable requests for information or technical support made by the CAISO from time to time as may be necessary for the performance of this

Agreement.

- 3.7 Staffing Considerations.** The Parties will devote sufficient staff and resources necessary for performance of this Agreement; provided, however, this Agreement shall not be interpreted to require either Party to increase internal staffing or to allocate staff in a manner that such party may consider in its sole discretion to jeopardize its ability to meet legal, regulatory or customer obligations.
- 3.8 Transition Plan.** The Parties have developed the Transition Plan in an effort to reach the Transition Date in the most efficient and economic manner. It is recognized that changes to the Transition Plan may be necessary or appropriate to achieve the Transition Date in a more efficient or economic manner or, in some circumstances, to adjust the Transition Date. The Transition Plan may be amended by mutual agreement of the Parties without being considered an amendment to this Agreement. Neither Party may unreasonably withhold consent to reasonable changes to the Transition Plan. Any disagreement over whether a proposed change to the Transition Plan is reasonable shall be resolved in accordance with the dispute resolution provisions in Article 14.
- 3.9 Precedence in Event of Conflict between the Terms of This Agreement and the CAISO Tariff.** If and to the extent a matter is specifically addressed by a provision of this Agreement, the provisions of this Agreement shall govern notwithstanding any inconsistent provision of the CAISO Tariff.
- 3.10 Precedence of CAISO Tariff for Matters to be Determined In Accordance with the CAISO Tariff.** If and to the extent this Agreement provides that a matter shall be determined in accordance with the applicable provisions of the CAISO Tariff, the applicable provisions of the CAISO Tariff shall govern.
- 3.11 Amendment to CAISO Tariff.** Nothing in this Agreement shall affect in any way the authority of the CAISO to modify unilaterally the CAISO Tariff in accordance with Section 15 of the CAISO Tariff or of the Parties to exercise their rights under the Federal Power Act or any other law or to pursue any legal remedies.

#### **ARTICLE 4 TRANSITION DATE UNDERTAKINGS**

- 4.1 Participating Transmission Owner.** Valley Electric will submit an application with CAISO to become a Participating Transmission Owner and to turn the Valley Electric System and the Transmission Upgrade over to CAISO Operational Control in accordance with the CAISO Tariff and the Transmission Control Agreement based on the Mead Rights and the Mead Point of Interconnection. This application must be submitted to the CAISO at least six (6) months prior to the Transition Date to allow sufficient time to complete the application process. When Valley Electric's application has been accepted, the Transmission Control Agreement will be amended to include Valley Electric as a Participating Transmission Owner, which amendment will be filed with FERC by the CAISO with a requested effective date concurrent with the Transition Date. The Parties will collaborate in obtaining regulatory acceptance or approval for this amendment to the Transmission Control Agreement. If the FERC rejects, materially modifies, or materially conditions its acceptance of the amendment to the Transmission Control Agreement, then, within fifteen (15) days of issuance of such FERC order, the Parties shall take one of the following actions: (i) agree to accept any modifications or conditions imposed by such FERC order, (ii) jointly seek further

administrative or legal remedies with respect to such FERC order, including a request for rehearing or clarification, or (iii) enter into negotiations with respect to accommodation of such FERC order. If the Parties did not accept such FERC order and have not agreed to an accommodation within thirty (30) days of the date on which such FERC order becomes a final and non-appealable order, such order shall be deemed an Adverse Order.

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

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

**4.1.2 Points of Interconnection with Other Balancing Authority Areas.** The Parties acknowledge and agree that Points of Interconnection other than the interconnection

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

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

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

**4.2 Transmission Revenue Requirement.** Valley Electric will file its Transmission Revenue Requirement with FERC with a requested effective date concurrent with the Transition Date. The Parties anticipate that the costs associated with the Valley Electric System will be

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

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

- 4.5 Utility Distribution Company Operating Agreement.** Valley Electric will enter into a Utility Distribution Company Operating Agreement with the CAISO to address operational issues associated with reliably serving its Load in the CAISO Balancing Authority Area, which will be filed with FERC by the CAISO with a requested effective date concurrent with the Transition Date.
- 4.6 Scheduling Coordinator.** Valley Electric will become or retain the services of a CAISO certified Scheduling Coordinator to interface with the CAISO systems effective as of the Transition Date. If Valley Electric wishes to itself become a certified Scheduling Coordinator, it shall submit an application to the CAISO at least six months prior to the Transition Date.

## **ARTICLE 5 INTERCONNECTION QUEUE MERGER**

- 5.1 Purpose and Assumptions.** This Article 5 specifies steps the Parties will take in advance of the Transition Date so that the CAISO may treat generators in Valley Electric's queue as CAISO Interconnection Customers. In particular, this Article 5 allows customers in Valley Electric's interconnection queue as of August 1, 2011 to elect Full Capacity Deliverability Status as CAISO Controlled Grid connected Generating Facilities. For this purpose, the Parties assume that Valley Electric will become a Participating Transmission Owner and complete the Transmission Interconnection.
- 5.2 Interconnection Queue and Study Process Status.** The CAISO and Valley Electric each conduct their own interconnection queue and study processes. Valley Electric administers a generator interconnection queue through a serial study process, which includes approximately 2980 MW of renewable generation as of August 1, 2011. Two projects in Valley Electric's queue accounting for a total of about 1620 MW have also submitted an Interconnection Request to the most recent CAISO Cluster Application Window, Cluster 4, of the CAISO's Generator Interconnection Procedures. The remaining approximate 1360 MW of customers in Valley Electric's interconnection queue have not submitted an Interconnection Request to the CAISO. Once Valley Electric becomes a Participating Transmission Owner in the CAISO Balancing Authority Area, customers currently in Valley Electric's interconnection queue, who achieve Commercial Operation, will be CAISO Controlled Grid interconnected Generating Facilities.
- 5.3 Valley Electric Generator Interconnection Procedures.** Valley Electric will revise its generator interconnection procedures and initiate a cluster study process consistent with the timeline set forth in the Transition Plan. This cluster study process will include all interconnection customers with a valid interconnection request as of August 1, 2011, who enter into an agreement to participate in the cluster study process. This cluster study process will be completed consistent with the timeline set forth in the Transition Plan but no later than thirty (30) days prior to completion of the CAISO Cluster 4 Phase II Interconnection Studies. The CAISO will advise Valley Electric in a timely manner of the expected completion date of the CAISO Cluster 4 Phase II Interconnection Studies, including any changes to the expected completion date. This cluster study process will, among other things, identify the network upgrades required on the Valley Electric System for generating facilities seeking Full Capacity Deliverability Status on the CAISO Controlled

Grid. All customers in Valley Electric's interconnection queue will be required to execute an agreement to participate and fund the cost of this cluster study process, as well as other costs determined by Valley Electric, consistent with the timeline in the Transition Plan. This cluster study process will replace the existing Valley Electric serial interconnection study process. The CAISO will coordinate with Valley Electric with respect to this cluster study process in accordance with the Transition Plan and review results to ensure they are compatible with the ISO Cluster 4 Phase II Interconnection Studies.

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

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

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

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

in the next Cluster Application Window, if such customer desires Full Capacity Deliverability Status on the CAISO Controlled Grid. The CAISO will follow its Generator Interconnection Procedures with respect to all such Interconnection Requests except as provided below in this Section 5.6.

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

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

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

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

Interconnection Study results, in accordance with the CAISO Tariff and Generator Interconnection Procedures.

- 5.7 CAISO Generator Interconnection Agreements.** The CAISO will enter into Interconnection Agreements with Interconnection Customers and the applicable Participating Transmission Owner with respect to Network Upgrades on the CAISO Controlled Grid associated with “special” Interconnection Request as described above on the same basis as with Interconnection Customers who participated in the Cluster 4 Phase I Interconnection Studies (i.e., in accordance with the CAISO Tariff), with the understanding that Network Upgrades on the Valley Electric System will be contracted for in accordance with Section 5.4.
- 5.8 Reimbursement of Interconnection Financial Security and Interconnection Study Deposits in the Event of Termination.** If this Agreement is terminated for any reason, any Interconnection Customer who submitted a “special” Interconnection Request as provided in Section 5.6 above will be entitled to a full refund of its Interconnection Financial Security, unless such Interconnection Customer utilizes the Network Upgrades on the CAISO Controlled Grid through construction of additional Interconnection Facilities. In this case, the Interconnection Customer would be entitled to a refund of Interconnection Financial Security in accordance with Appendix Y, Section 9.4.2.4 of the CAISO Tariff. If an Interconnection Customer withdraws its “special” Interconnection Request for any reason prior to termination of this Agreement, Interconnection Financial Security would be refunded in accordance with the CAISO Generator Interconnection Procedures. Interconnection Study Deposits will be refunded in accordance with the CAISO Generator Interconnection Procedures under all circumstances. All costs associated with any cluster study conducted by Valley Electric would be treated in accordance with the agreement between the interconnection customer and Valley Electric.

## **ARTICLE 6 TRANSMISSION PLANNING**

- 6.1 Joint Transmission Planning.** The CAISO and Valley Electric each regularly perform transmission planning activities to ensure their respective systems meet applicable Reliability Standards. It is appropriate that development of the Transmission Interconnection, Transmission Upgrade, and the interconnection between the Valley Electric System and the CASIO Controlled Grid based on the Mead Rights, as well as planning for any additional reliability upgrades that may be needed to reinforce the transmission grid, be coordinated prior to the Transition Date. The CAISO’s Transmission Planning Process includes the opportunity to work with Transmission Owners outside of its Balancing Authority Area to jointly plan transmission development. It is anticipated that the Parties will utilize this process to engage in joint transmission planning activities prior to the Transition Date.
- 6.2 Exemption from CAISO Transmission Planning Process.** Because the Valley Electric System currently is not within the CAISO Balancing Authority Area, the Transmission Interconnection, the Transmission Upgrade, and the Low-Voltage Upgrades are expressly exempt from the CAISO Transmission Planning Process and will not be studied as part of the CAISO Controlled Grid during the Transmission Planning Process cycles that have commenced prior to the Transition Date. As contemplated in Sections 4.3 and 4.4, the CAISO will consider the Transmission Interconnection and the Transmission Upgrade New High Voltage Facilities when placed into service regardless of the fact they were not

considered by the CAISO as part of the Transmission Planning Process or included in the CAISO's Transmission Plans.

- 6.3 Network Upgrades on the Valley Electric System.** Network upgrades originally identified during the Valley Electric cluster study process described in Section 5.3, but for which no Interconnection Agreement has been executed, will be considered equivalent to Network Upgrades originally identified during the Cluster 4 Phase II Interconnection Study Process for purposes of determining whether such network upgrades should be assessed as part of the comprehensive Transmission Plan in accordance with CAISO Tariff section 24.4.6.5. The CAISO will review such network upgrades that meet the criteria under CAISO Tariff section 24.4.6.5 and reach determinations 30 days prior to the Transition Date as to whether further consideration of enhancements to these network upgrades is warranted. The CAISO will enter into Interconnection Agreements pursuant to Section 5.4 with respect to any such network upgrades that are not identified for further consideration in the CAISO Transmission Planning Process as part of the review conducted under this Section 6.3. The CAISO will not enter into Interconnection Agreements pursuant to Section 5.4 with respect to any such network upgrades that are identified for further consideration in the CAISO Transmission Planning Process until such network upgrades have completed the review process consistent with CAISO Tariff section 24.4.6.5, which will be no later than the timeline for consideration and approval of the comprehensive Transmission Plan by the CAISO Governing Board as provided in the CAISO Tariff and Business Practice Manual, currently scheduled for March of 2013. Network upgrades on Valley Electric's system that are planned or under construction pursuant to an Interconnection Agreement executed pursuant to Section 5.4 or this Section 6.3 will not be subsequently considered as part of the comprehensive Transmission Plan in accordance with CAISO Tariff section 24.4.6.5.

## **ARTICLE 7 RESOURCE ADEQUACY REQUIREMENTS**

- 7.1 General Resource Adequacy Requirements.** Valley Electric will need to meet the resource adequacy requirements of the CAISO Tariff applicable to Load Serving Entities as of the Transition Date. The Parties will rely mainly on the California Energy Commission ("CEC") coincident peak demand forecast for the entire CAISO system, which will include, after the Transition Date, the Valley Electric System for the resource adequacy process. Valley Electric will provide sufficient historical data to enable the CEC and the CAISO to perform a coincident peak historic demand analysis for purposes of determining the Valley Electric share of CAISO coincident system peak demand. Valley Electric will participate in the CEC demand forecasting process for the 2013 forecast year.
- 7.2 Valley Electric System Resource Adequacy Requirements.** Pursuant to the CAISO Tariff, the CAISO will recognize Valley Electric as a non-CPUC jurisdictional Load Serving Entity subject to the jurisdiction of its own Local Regulatory Authority. Valley Electric will establish its own planning reserve margin regarding system resource adequacy requirements for the Loads served by Valley Electric as a fraction of its coincident system peak demand, in accordance with Section 40 of the CAISO Tariff.
- 7.3 Valley Electric Local Resource Adequacy Requirements.** Valley Electric may or may not have local resource adequacy requirements, which the CAISO will determine as required by the CAISO Tariff not later than May 2012 (the year prior to the Transition Date), in accordance with Section 40 of the CAISO Tariff.

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

## **ARTICLE 8 CONGESTION REVENUE RIGHTS**

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

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

- 8.3 Load Forecast for the Monthly Congestion Revenue Rights Allocation.** For California Load Serving Entities wanting to participate in the monthly CRR allocation process, the CAISO obtains demand forecasts from the California Energy Commission. Here, the Parties will also rely upon the CEC demand forecast for the Valley Electric System, which the CEC has agreed to provide. The CAISO will use the monthly demand forecast provided by the CEC to validate demand forecast data submitted by Valley Electric for determining Valley Electric's eligibility for monthly CRRs. In the event the CEC no longer provides a demand forecast for the Valley Electric System, the Parties will develop and apply an alternative equivalent methodology.
- 8.4 Congestion Revenue Rights Allocation.** Valley Electric will participate in the CAISO's annual CRR allocation process for the 2013 calendar year, which is conducted over the summer of 2012, and will receive annual CRRs for 2013 assuming the Transition Date will occur on January 1, 2013, as initially targeted in the Transition Plan. Valley Electric will provide hourly historical Load data, for 2011, to the CAISO to participate in the annual CRR allocation process. Should the Transition Date be delayed past January 1, 2013 for any reason, any rights allocated to Valley Electric otherwise applicable prior to the actual Transition Date will not be settled during the period of delay, and such CRRs will become effective and eligible for settlement upon the actual Transition Date.
- 8.5 Congestion Revenue Rights Network Model.** The CAISO will modify its CRR network model to reflect the planned incorporation of the Valley Electric System and Mead Rights, effective as of the Transition Date, for purposes of the 2013 annual CRR allocation process. This will result in the allocation of CRRs to Valley Electric whose feasibility will be contingent on the incorporation of the Mead Rights to CAISO Operational Control on the Transition Date, which is expected to coincide with the date when 2013 CRRs normally become effective (i.e., January 1, 2013). Since the initial CRR annual allocation process that Valley Electric participates in will be prior to the Transmission Interconnection, only Valley Electric will be able to request CRRs to or from the new Mead Scheduling Point and to or from the new Valley Electric pricing nodes. The CAISO will not calculate Locational Marginal Prices for any locations associated with the Valley Electric System and will not settle on any CRRs terminating at the Valley Electric Default LAP prior to the Transition Date. Once the Transition Date has occurred, then the next available monthly CRRs process for which the CAISO can make the necessary network model adjustments will include the Valley Electric System and the associated scheduling locations will be biddable by CAISO market participants. Any annual CRRs allocated to Valley Electric will become active as of the effective Transition Date.

## **ARTICLE 9 GREENHOUSE GAS REPORTING OBLIGATIONS**

- 9.1 Load Served in Nevada.** The Parties recognize that although Valley Electric expects to become a CAISO Participating Transmission Owner and Load Serving Entity on the Transition Date, Valley Electric's Load is predominantly located within Nevada. The Parties agree to cooperate amongst themselves and with California agencies such as the California Air Resources Board to ensure that sufficient tracking and reporting procedures are put in

place, and to advance properly designed implementing practices, such that Valley Electric will not incur a California specific carbon obligation for its Nevada Load as a result of Valley Electric becoming a CAISO Participating Transmission Owner or Load Serving Entity.

## **ARTICLE 10 PROVISION OF TECHNICAL INFORMATION**

- 10.1 Network Model Updates and Market Simulation.** The CAISO operates the CAISO Controlled Grid and CAISO Markets utilizing the Full Network Model. This network model is updated approximately every other month, and there is approximately a two-month lead time to include updates in an upcoming release. In addition to including the Valley Electric System facilities in the CAISO's Full Network Model, the CAISO likely will find it prudent to add or modify Points of Interconnection and Scheduling Points reflected in the model. The Parties will cooperate to incorporate the Valley Electric System into the Full Network Model in advance of the Transition Date such that the revised model can be used in market simulation and be proven accurate and reliable prior to the Transition Date. The Parties will make best efforts to initiate this process such that an applicable revised Full Network Model will also be available to the CAISO for the Generator Interconnection Procedures and the Transmission Planning Process. The Parties will also exchange any additional network related information needed to coordinate with NV Energy and Western– DSR to facilitate any necessary Balancing Authority Area boundary changes and to memorialize the CAISO's contractual arrangements with these entities.
- 10.2 Additional System Information.** Valley Electric will provide the CAISO with detailed information with respect to the Valley Electric System and any interconnection or transmission agreements between Valley Electric and NV Energy, Western - DSR or other entities that entitle Valley Electric to transmission service on these other entities' systems and that would be turned over to CAISO Operational Control in accordance with the Transmission Control Agreement.
- 10.3 Other Required Information.** Valley Electric will provide to the CAISO any additional transmission, generation, and load data reasonably required for the CAISO to update system data bases and other processes in a timely manner as may be requested in writing by the CAISO.

## **ARTICLE 11 AGREEMENTS WITH THIRD PARTIES**

- 11.1 Agreements with Third Parties.** The Parties intend to engage in discussions with third parties essential to achieving the Transition Date, including in particular interconnection customers, NV Energy, and Western – DSR as described in this Agreement. The Parties will likely enter into binding agreements with such third parties as may be necessary to implement the terms and conditions of this Agreement, which will be enforced in accordance with the terms and conditions of such agreements. In addition, the Parties will enter into interconnection agreements with customers in Valley Electric's queue, which may relate back to Interconnection Studies conducted by the CAISO and a cluster study conducted by Valley Electric prior to the Transition Date.
- 11.2 No Third Party Beneficiaries.** No right or obligation contained in this Agreement shall inure to the benefit of any person or entity which is not a Party. Nothing in this Agreement

shall be construed to create any duty to, any standard of care with reference to, or any liability to any third party.

## **ARTICLE 12 LIABILITY AND INDEMNITY**

- 12.1 Liability and Indemnification.** The provisions of Section 14 of the CAISO Tariff will apply to liability and indemnification arising under this Agreement, except that all references in Section 14 of the CAISO Tariff to Market Participants shall be read as references to Valley Electric and references to the CAISO Tariff shall be read as references to this Agreement.
- 12.2 Actions in the Event of Termination.** Article 2 provides for termination in the event of default and Adverse Order. The Parties rights and obligations under such circumstances will be as provided in this Agreement and in accordance with Section 12.1 above.

## **ARTICLE 13 UNCONTROLLABLE FORCES**

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

## **ARTICLE 14 DISPUTE RESOLUTION**

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

## **ARTICLE 15 CONFIDENTIALITY**

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

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

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

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

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

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

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

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

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

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

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

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

## **ARTICLE 16 REPRESENTATIONS AND WARRANTIES**

- 16.1 Representations and Warranties.** Each Party represents and warrants that the execution, delivery and performance of this Agreement by it has been duly authorized by all necessary corporate or governmental actions, to the extent authorized by law.
- 16.2 Necessary Approvals.** Each Party represents that all necessary leases, approvals, licenses, permits, easements, rights of way or access to install, own or operate its facilities subject to this Agreement have been or will be obtained prior to the Effective Date of this Agreement.

## **ARTICLE 17 MISCELLANEOUS**

- 17.1 Assignments.** No Party may assign its obligations under this Agreement except with the other Party's prior written consent which consent shall not be unreasonably withheld. Any such assignment shall be subject to Section 22.2 of the CAISO Tariff, which is incorporated by reference into this Agreement.
- 17.1.1 Valley Electric Transmission Association.** Valley Electric has created a wholly-owned subsidiary called Valley Electric Transmission Association, LLC, a Nevada limited liability company ("VETA"). Valley Electric is in the process of transferring all of its transmission assets to VETA, and the transaction is estimated to be completed prior to December 31, 2011. Following any such transfer of ownership rights, Valley Electric will (1) retain all entitlement to use of the transmission facilities necessary to become a CAISO Participating Transmission Owner, Utility Distribution Company, and Load Serving Entity pursuant to the Transmission Control Agreement and the CAISO Tariff, and (2) retain all rights and obligations under this Agreement.

- 17.2 Notices.** Any notice, demand or request which may be given to or made upon either Party regarding this Agreement shall be made in accordance with Section 22.4 of the CAISO Tariff, which is incorporated by reference, except that any reference in Section 22.4 of the CAISO Tariff to Market Participants shall be read as a reference to Valley Electric and any reference to the CAISO Tariff shall be read as a reference to this Agreement, and unless otherwise stated or agreed shall be made to the representative of the other Party indicated in Attachment 3. A Party must update the information relating to its address as that information changes in accordance with Section 22.4 of the CAISO Tariff. Such changes will not constitute an amendment to this Agreement.
- 17.3 Waivers.** Any waiver at any time by either Party of its rights with respect to any default under this Agreement, or with respect to any other matter arising in connection with this Agreement, shall not constitute or be deemed a waiver with respect to any subsequent default or matter arising in connection with this Agreement. Any delay short of the statutory period of limitations, in asserting or enforcing any right under this Agreement, shall not constitute or be deemed a waiver of such right.
- 17.4 Governing Law and Forum.** This Agreement shall be deemed to be a contract made under and for all purposes shall be governed by and construed in accordance with the laws of the State of California except in its conflict of laws provisions. The Parties irrevocably consent that any legal action or proceeding arising under or in relation to this Agreement to which the CAISO ADR Procedures do not apply, shall be brought in any of the following forums, as appropriate: any court of the State of California, any federal court of the United States of America located in the State of California or Nevada, or where subject to its jurisdiction, before the Federal Energy Regulatory Commission.
- 17.5 Integration.** This Agreement constitutes the full agreement of the Parties with respect to the subject matter hereof and supersedes all prior agreements, whether written or oral, with respect to such subject matter.
- 17.6 Severability.** If any term, covenant, or condition of this Agreement or the application or effect of any such term, covenant, or condition is held invalid as to any person, entity, or circumstance, or is determined to be unjust, unreasonable, unlawful, imprudent, or otherwise not in the public interest by any court or government agency of competent jurisdiction, then such term, covenant, or condition shall remain in force and effect to the maximum extent permitted by law, and all other terms, covenants, and conditions of this Agreement and their application shall not be affected thereby, but shall remain in force and effect and the Parties shall be relieved of their obligations only to the extent necessary to eliminate such regulatory or other determination unless a court or governmental agency of competent jurisdiction holds that such provisions are not separable from all other provisions of this Agreement.
- 17.7 Amendments.** This Agreement and the Attachments hereto may be amended from time to time by the mutual agreement of the Parties in writing. Amendments that require FERC approval shall not take effect until FERC has accepted such amendments for filing and made them effective. Nothing contained herein shall be construed as affecting in any way the right of the CAISO to unilaterally make application to FERC for a change in the rates, terms and conditions of this Agreement under Section 205 of the FPA and pursuant to FERC's rules and regulations promulgated thereunder, and Valley Electric shall have the right to make a unilateral filing with FERC to modify this Agreement pursuant to Section 206 or any other applicable provision of the FPA and FERC's rules and regulations thereunder;

provided that each Party shall have the right to protest any such filing by the other Party and to participate fully in any proceeding before FERC in which such modifications may be considered. Nothing in this Agreement shall limit the rights of the Parties or of FERC under Sections 205 or 206 of the FPA and FERC's rules and regulations thereunder, except to the extent that the Parties otherwise mutually agree as provided herein.

\*\*\*\*\*REMAINDER OF PAGE INTENTIONALLY LEFT BLANK\*\*\*\*\*

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

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

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

**Signature:** \_\_\_\_\_

**Name:** Steve Berberich

**Title:** Pres & CEO

**Date:** 10/13/11

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

**Signature:** \_\_\_\_\_

**Name:** Thomas H. Husted

**Title:** CEO

**Date:** 10/12/11

## Attachment 1 to the Transition Agreement

---

### TRANSITION PLAN

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

**Attachment 2 to the Transition Agreement**

**Attachment 3 to the Transition Agreement**

**CONTACTS FOR NOTICES**

**Valley Electric**

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

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

**CAISO**

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

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