3. RELATIONSHIP BETWEEN ISO AND PARTICIPATING TOs.

3.1 Nature of Relationship.

Each Participating TO shall enter into a Transmission Control Agreement with the ISO. In addition to converting Existing Rights in accordance with Section 2.4.4.2, New Participating TOs will be required to turn over Operational Control of all facilities and Entitlements that: (1) satisfy the FERC's functional criteria for determining transmission facilities that should be placed under ISO Operational Control; (2) satisfy the criteria adopted by the ISO Governing Board identifying transmission facilities for which the ISO should assume Operational Control; and (3) is the subject of mutual agreement between the ISO and the Participating TOs. The ISO shall notify Market Participants sixty (60) days in advance of any associated revision of the High Voltage Access Charge and that a New Participating TO has executed the Transmission Control Agreement and the date, either January 1 or July 1, that the revised High Voltage Access Charge shall be effective.

3.1.1 In any year, a Participating TO applicant must declare its intent in writing to the ISO to become a New Participating TO by January 1 or July 1. Applicable agreements will be negotiated and filed with the Federal Energy Regulatory Commission no later than April 1 or October 1 for the New Participating TO to be effective the following July 1 or January 1, respectively.

3.1.2 With respect to its submission of Schedules to the ISO, a New Participating TO shall become a Scheduling Coordinator or obtain the services of a Scheduling Coordinator that has been certified in accordance with Section 2.2.4, which Scheduling Coordinator shall not be the entity's Responsible Participating TO in accordance with the Responsible Participating Transmission Owner Agreement, unless mutually agreed, and shall operate in accordance with the ISO Tariff and applicable

Agreements. The New Participating TO shall assume responsibility for paying all Scheduling Coordinators charges regardless of whether the New Participating TO elects to become a Scheduling Coordinator or obtains the services of a Scheduling Coordinator.

3.2 Transmission Expansion.

A Participating TO shall be obligated to construct all transmission additions and upgrades within its Service Area that are determined to be needed in accordance with the requirements of this Section 3.2. A Participating TO's obligation to construct such transmission additions and upgrades shall be subject to: (1) its ability, after making a good faith effort, to obtain all necessary approvals and property rights under applicable federal, state, and local laws and (2) the presence of a cost recovery mechanism with cost responsibility assigned in accordance with Section 3.2.7. The obligations of the Participating TO to construct such transmission additions or upgrades will not alter the rights of any entity to construct and expand transmission facilities as those rights would exist in the absence of the TO's obligations under this ISO Tariff or as those rights may be conferred by the ISO or may arise or exist pursuant to this ISO Tariff.

3.2.1 Determination of Need.

The ISO, a Participating TO, or any other Market Participant may determine the need for and propose a transmission system addition. A transmission addition or upgrade is determined to be needed where it would promote economic efficiency or maintain system reliability as set forth below.

3.2.1.1 Economically Driven Projects. The determination that a transmission addition or upgrade is needed to promote economic efficiency shall be made in any of the following ways:

3.2.1.1.1 If the Participating TO or any party questions the economic need for the project (except where the Project Sponsor commits to pay the full cost of construction) the proposal will be submitted to the ISO ADR Procedures for resolution.

3.2.1.1.2 Where a Project Sponsor other than the Participating TO commits to pay the full cost of construction of a transmission addition or upgrade and its operation, and demonstrates to the ISO financial capability to pay those costs, such commitment and demonstration shall be sufficient to demonstrate need. To ensure that the Project Sponsor is financially able to pay the costs of the project to be constructed by the Participating TO, the Participating TO may require (1) a demonstration of creditworthiness (e.g. an appropriate credit rating), or (2) sufficient security in the form of an unconditional and irrevocable letter of credit or other similar security sufficient to meet its responsibilities and obligations for the full costs of the transmission addition or upgrade.

3.2.1.1.3 Where a Project Sponsor asserts that a transmission addition or upgrade is economically beneficial, but that Project Sponsor is unwilling to commit to pay the full cost of the addition or upgrade; where (1) the proposed transmission expansion or upgrade was submitted to the Participating TO but was not included in the transmission expansion plan of that Participating TO in accordance with Section 3.2.2 or (2) the operation date of the planned expansion is not acceptable to the ISO or the Project Sponsor or (3) the Participating TO unreasonably delays implementing or subsequently decides not to proceed with the project, the Project Sponsor may submit its proposal to the ISO ADR Procedure for determination of need. A determination of need shall be made as follows:

3.2.1.1.3.1 The Project Sponsor shall include in its proposal a showing: (1) that the economic benefits of the proposed transmission addition or upgrade are expected to exceed its costs (giving consideration to any reasonable alternatives to the

construction of transmission additions or upgrades), and (2) a proposed pricing methodology for the transmission upgrades that, to the extent practicable, assigns the costs of the planned upgrades to the beneficiaries in proportion to their net benefits.

3.2.1.1.3.2 If neither any Market Participant nor the ISO disputes the Project Sponsor's showing, then the proposal is determined to be needed.

3.2.1.1.3.3 If any Market Participant or the ISO disputes the Project Sponsor's showing, then if the proposed transmission addition or upgrade is determined to be needed, the disputing Market Participant, the ISO, or the Project Sponsor may submit to resolution through the ISO ADR Procedure the issues of (1) whether the transmission addition or upgrade is needed on the ground that its economic benefits exceed its costs, (2) whether the beneficiaries of the transmission addition or upgrade can reasonably be identified, and (3) if so, the identity of those beneficiaries and their respective net benefits. If a Market Participant fails to raise through the ISO ADR Procedure a dispute as to whether a proposed transmission addition or upgrade is needed, or as to the identity, if any, of the beneficiary, then the Market Participant shall be deemed to have waived its right to raise such dispute at a later date. The determination under the ISO ADR Procedure as to whether the transmission addition or upgrade is needed and the identity, if any, of the beneficiaries, including any determination by FERC or on appeal of a FERC determination in accordance with that process, shall be final.

3.2.1.2 Reliability Driven Projects. The ISO or the Participating TO, in coordination with the ISO and Market Participants, through the coordinated planning processes of the WSCC and the RTGs, will identify the need for any transmission additions or upgrades required to ensure system reliability consistent with all Applicable Reliability Criteria. In making this determination, the Participating TO and the ISO, in coordination with the other

Market Participants, shall consider lower cost alternatives to the construction of transmission additions or upgrades, such as acceleration or expansion of existing projects, demand-side management, remedial action schemes, constrained-on Generation, interruptible Loads or reactive support. The Participating TO shall perform the necessary studies to determine the facilities needed to meet all Applicable Reliability Criteria. The Participating TO shall provide the ISO and other Market Participants with all information relating to a proposed transmission addition or upgrade that they may reasonably request (other than information available to them through the WSCC or RTG) and shall, through the WSCC or RTG coordinated planning processes, develop the scope of and assumptions for such studies that are acceptable to the ISO and those other Market Participants. The ISO shall be free to propose any transmission upgrades it deems necessary to ensure System Reliability consistent with Applicable Reliability Criteria and subject to appropriate appeals, the TO shall be obligated to construct such lines. After the ISO Operations Date, the ISO, in consultation with Participating TOs and any affected UDCs, will work to develop a consistent set of reliability criteria for the ISO Controlled Grid which the TOs will use in their transmission planning and expansion studies or decisions.

3.2.2 Transmission Planning and Coordination.

The ISO shall actively participate with each Participating TO and the other Market Participants in the ISO Controlled Grid planning process in accordance with the terms of this ISO Tariff and the Transmission Control Agreement.

3.2.2.1 Each Participating TO shall develop annually a transmission expansion plan covering a minimum five-year planning horizon for its service area. Such Participating TO shall coordinate with the ISO and other Market Participants in the development of such plan. The Participating TO shall be responsible for ensuring that its transmission expansion plan meets all Applicable Reliability Criteria.

3.2.2.2 The ISO shall review the Participating TOs' transmission expansion plans to ensure that each Participating TO's expansion plans meet the Applicable Reliability Criteria. The Participating TO will provide the necessary assistance and information as part of the coordinated planning process to the ISO to enable it to carry out its own studies for these purposes. If the ISO finds that the Participating TO's plan or projects do not meet the Applicable Reliability Criteria, the ISO will provide comments and the Participating TO will reassess its plans, as appropriate. The ISO may also propose new projects or suggest project changes *(e.g.*, timing, project size) for consideration by the Participating TO. Changes or additions made by the ISO and accepted by the TO will be included in the Participating TO's expansion plan. Changes or additions not accepted in the coordinated planning process will be resolved through the ISO ADR Procedure.

3.2.2.3 The Participating TO will act as a Project Sponsor for Participating TO proposed economic or reliability projects that are included in its expansion plan. The Participating TO shall provide to the ISO any information that the ISO requires to enable the ISO to comply with WSCC and RTG regional coordination requirements pursuant to Section 3.2.6.

3.2.2.4 The ISO will be a member of the WSCC and applicable RTGs (including WRTA) and participate in WSCC's operation and planning committees, and in the applicable RTG coordinated planning process. No Participating TO, Market Participant nor the ISO shall take any position before the WSCC or an RTG that is inconsistent with a binding decision reached through the ISO ADR Procedure.

3.2.3 Studies to Determine Facilities to be Constructed.

Where a Participating TO is obligated to construct or expand facilities in accordance with this ISO Tariff or where the ISO or any Market Participant requests that a Facility Study be

carried out, the Participating TO (in coordination with the ISO or the relevant Market Participants as the case may require), shall perform the necessary study or studies to determine the appropriate facilities to be constructed in accordance with the terms set forth in the TO Tariff. The scope of and assumptions for any studies requested by Market Participants sponsoring a transmission addition or upgrade on economic grounds shall be acceptable to the Project Sponsors and the ISO. Any dispute relating to a Facility Study Agreement (including any dispute over the scope of the study or its assumptions) shall be resolved through the ISO ADR Procedures.

3.2.4 Operational Review.

The ISO will perform an operational review of all facilities that are to be connected to, or made part of, the ISO Controlled Grid to ensure that the facilities being proposed provide for acceptable operating flexibility and meet all its requirements for proper integration with the ISO Controlled Grid. If the ISO finds that such facilities do not provide for acceptable operating flexibility or do not adequately integrate with the ISO Controlled Grid, the Participating TO will reassess its determination of the facilities required to be constructed.

3.2.5 State and Local Approval and Property Rights.

3.2.5.1 The Participating TO shall be obligated to make a good faith effort to obtain all approvals and property rights under applicable federal, state and local laws that are necessary to complete the construction of transmission additions or upgrades required to be constructed in accordance with this ISO Tariff. This obligation includes the Participating TO's use of eminent domain authority, where provided by state law.

3.2.5.2 If the Participating TO cannot secure any such necessary approvals or property rights and consequently is unable to construct a transmission addition or upgrade, it shall

promptly notify the ISO and the Project Sponsor and shall comply with its obligations under the TO Tariff to convene a technical meeting to evaluate alternative proposals. The ISO shall take such action as it reasonably considers appropriate, in coordination with the Participating TO, the Project Sponsor (if any) and other affected Market Participants, to facilitate the development and evaluation of alternative proposals including, where possible, conferring on a third party the right to build the transmission addition or upgrade.

3.2.5.3 Where it is possible for a third party to obtain all approvals and property rights under applicable federal, state and local laws that are necessary to complete the construction of transmission additions or upgrades required to be constructed in accordance with this ISO Tariff (including the use of eminent domain authority, where provided by state law) the ISO may confer on a third party the right to build the transmission addition or upgrade which shall enter into the Transmission Control Agreement in relation to such transmission addition or upgrade.

3.2.6 WSCC and RTG Coordination.

The Project Sponsor will have responsibility for completing any applicable WSCC or RTG regional coordination and rating study requirements to ensure that a proposed transmission addition or upgrade meets regional planning requirements. The Project Sponsor may request the Participating TO to perform this coordination on behalf of the Project Sponsor at the Project Sponsor's expense.

3.2.7 Cost Responsibility for Transmission Expansions or Upgrades.

Cost responsibility for transmission additions or upgrades constructed pursuant to this Section 3.2 (including the responsibility for any costs incurred under Section 3.2.6) shall be determined as follows:

3.2.7.1 Where a Project Sponsor commits to pay the full cost of a transmission addition or upgrade as set forth in Section 3.2.1.1.2, the full costs shall be borne by the Project Sponsor.

3.2.7.2 Where the need for a transmission addition or upgrade is determined by the ISO or as a result of the ISO ADR Procedure as set forth in Section 3.2.1.1.3, the costs shall be borne by the beneficiaries, in the approximate relative proportions by which they benefit, if those beneficiaries and such proportions can reasonably be determined.

3.2.7.3 If specific beneficiaries cannot be reasonably identified then the cost of the transmission addition or upgrade borne by the Participating TO that is the owner of the transmission addition or upgrade shall be reflected in its Access Charge. Each of the Project Sponsors and specifically identified beneficiaries shall be entitled to receive:

(a) its share of the Wheeling revenues attributable to the transmission addition or upgrade which shall be allocated to each of the Project Sponsors and specifically identified beneficiaries in the proportion that the cost of the transmission addition or upgrade borne by it bears to the total cost of the transmission addition or upgrade; and

(b) a share of any Congestion Charges for the use of a Congested Inter-Zonal Interface of which the transmission addition or upgrade forms part in the proportion that the incremental transmission capacity of the Inter-Zonal Interface the cost of which has been allocated to it bears to its total transmission capacity

3.2.7.4 Once a New Participating TO has executed the Transmission Control Agreement and it has become effective, the cost for New High Voltage Facilities for all Participating TOs shall be included in the ISO Grid wide component of the High Voltage Access Charge in accordance with Schedule 3 of Appendix F. The

Participating TO who is supporting the cost of the New High Voltage Facility shall include such costs in its High Voltage Transmission Revenue Requirement, regardless of which TAC Area the facility is geographically located.

3.2.8 Ownership of and Charges for Expansion Facilities.

3.2.8.1 All transmission additions and upgrades constructed in accordance with this Section 3.2 shall form part of the ISO Controlled Grid and shall be operated and maintained by a Participating TO in accordance with the Transmission Control Agreement.

3.2.8.2 The Participating TO which owns or operates transmission additions and upgrades constructed in accordance with this Section 3.2 shall provide access to them and charge for their use in accordance with this ISO Tariff and the TO Tariff.

3.2.9 Expansion by "Local Furnishing" Participating TOs.

Notwithstanding any other provision of this ISO Tariff, a Local Furnishing Participating TO shall not be obligated to construct or expand facilities, (including interconnection facilities as described in Section 8 of the TO Tariff) unless the ISO or Project Sponsor has tendered an application under FPA Section 211 that requests FERC to issue an order directing the Local Furnishing TO to construct such facilities pursuant to Section 3.2 of the ISO Tariff. The Local Furnishing TO shall, within 10 days of receiving a copy of the Section 211 application, waive its right to a request for service under FPA Section 213(a) and to the issuance of a proposed order under FPA Section 212(c). Upon receipt of a final order from FERC that is no longer subject to rehearing or appeal, such Local Furnishing TO shall construct such facilities in accordance with this Section 3.2.

3.3 Metered Subsystems

3.3.1 General Nature of Relationship Between ISO and MSS

3.3.1.1 A New Participating TO may qualify as a Metered Subsystem and may qualify itself or its designee as a MSS Operator in accordance with the Metered Subsystem Agreement. The ISO shall not be obligated to accept Schedules, Adjustment Bids or bids for Ancillary Services which would require Energy to be transmitted to or from the MSS unless the relevant MSS Operator undertakes in writing to the ISO to comply with all applicable provisions of the ISO Tariff and applicable agreements as they may be amended from time to time, including, without limitation, the applicable provisions of this Section 3.3.

3.3.2 Coordination of Operations. Each MSS Operator shall operate its MSS at all times in accordance with Good Utility Practice and in a manner which ensures safe and reliable operation. All information pertaining to the physical state or operation, maintenance and failure of the MSS affecting the operation of the ISO Control Area that is made available to the ISO by the MSS Operator shall also be made available to Scheduling Coordinators, provided that the ISO shall provide reasonable notice to the MSS Operator. The ISO shall not be required to make information available to the MSS Operator other than information that is made available to Scheduling Coordinators.

3.3.3 Coordinating Maintenance Outages of MSS Facilities. Each MSS Operator shall make appropriate arrangements to coordinate Outages of Generating Units or transmission facilities forming part of its MSS that will have an effect, or are reasonably likely to have an effect, on any interconnection between the MSS and the system of another Participating TO, prior to the submission by that Participating TO of its Maintenance Outage requirements under Section 2.3.3. The ISO will coordinate Outages of other Participating TOs transmission facilities that may effect the MSS.

3.3.4 MSS Operator Responsibilities.

Recognizing the ISO's responsibility to promote the efficient use and reliable operation of the ISO Controlled Grid and the Control Area consistent with the Applicable Reliability Criteria, each MSS Operator shall:

3.3.4.1 operate and maintain its facilities, in accordance with applicable safety and reliability standards, regulatory requirements, applicable operating guidelines, applicable rates, tariffs, statutes and regulations governing their provision of service to their End-Use Customers and Good Utility Practice so as to avoid any material adverse impact on the ISO Controlled Grid, it being understood that, if the MSS Operator does not so operate and maintain its facilities and the ISO concludes, after notice is provided to the MSS Operator, that such failure impairs or threatens to impair the reliability of the ISO Controlled Grid, the ISO may suspend MSS status, in accordance with this Section 3.3, until the MSS Operator demonstrates the ability and willingness to so operate and maintain its facilities;

3.3.4.2 provide the ISO Outage Coordination Office each year with a schedule of upcoming maintenance of facilities forming part of the MSS that will affect or is reasonably likely to affect the ISO Controlled Grid in accordance with Section 2.3.3.5;

3.3.4.3 coordinate with the ISO, other Participating TOs and Generators to ensure that ISO Controlled Grid Critical Protective Systems, including relay systems, are installed and maintained in order to function on a coordinated and complementary basis with the protective systems of the MSS, other Participating TOs and Generators;

3.3.4.4 be responsible for any Reliability Must-Run Generation and Voltage Support required for reliability of the MSS, including the responsibility for any costs of such Reliability Must-Run Generation, and Voltage Support and may satisfy this requirement

through Generating Units owned by the MSS or under contract to the MSS;

3.3.4.5 be responsible for Black Start requirements for reliability of the MSS, however, if the MSS can self-provide this requirement, the MSS shall not pay its pro rata share of the Black Start requirement in accordance with Section 2.5.28.6; and

3.3.4.6 be responsible for Intra-Zonal Congestion Management and transmission line Outages within or at the boundary of the MSS, and all associated costs and not responsible for Intra-Zonal Congestion Management elsewhere in the zone except to the extent that a Scheduling Coordinator is delivering Energy to or from the MSS.

3.3.5 Scheduling by a MSS Operator. All Schedules submitted on behalf of a MSS Operator for the delivery of Energy and Ancillary Services to Loads connected to the MSS and for the delivery of Energy and Ancillary Services from Generating Units forming part of the MSS or System Units shall be submitted by a Scheduling Coordinator that complies with all applicable provisions of the ISO Tariff, which Scheduling Coordinator may be the MSS Operator, provided that the MSS Operator complies with all applicable requirements for Scheduling Coordinators.

3.3.5.1 Without limiting the foregoing, the Scheduling Coordinator for the MSS must submit gross generation information for the System Unit, Generating Unit, and information regarding imports, exports and Gross Loads to the ISO in the format and in accordance with the timelines applicable to other Scheduling Coordinators.

3.3.5.2 The Scheduling Coordinator for the MSS will designate, in discrete quantities and with prices for both Ancillary Services and Energy: (1) Schedules in Day-Ahead and Hour-Ahead Energy markets (including schedules for internal Generation and internal Load within the MSS), (2) bids or self-provided Schedules for Regulation, Spinning

Reserve, Non-Spinning Reserve, and Replacement Reserve capacity and associated bid Energy, (3) Adjustment Bids, (4) Supplemental Energy bids, or (5) any feasible combination thereof.

3.3.6 System Emergencies.

3.3.6.1 In the event a System Emergency occurs or the ISO determines that a System Emergency is threatened or imminent, each MSS Operator shall comply with all directions from the ISO concerning the avoidance, management and alleviation of the System Emergency and shall comply with all procedures concerning System Emergencies set forth in the ISO Tariff.

3.3.6.2 During a System Emergency, the ISO and the MSS Operator shall communicate through their respective control centers and in accordance with procedures established in the agreement through which the MSS Operator undertakes to the ISO to comply with the provisions of the ISO Tariff.

3.3.6.3 The ISO has authority to suspend MSS control and direct, via communications with the MSS Operator, the operation of Generating Units within the MSS, including Generating Units that may comprise a System Unit, if such control is necessary to maintain ISO Controlled Grid reliability.

3.3.7 Under Frequency Load Shedding (UFLS).

3.3.7.1 Each agreement through which the MSS Operator undertakes to the ISO to comply with the provisions of the ISO Tariff shall describe the UFLS program for that MSS. The ISO and MSS Operator shall review the UFLS program periodically to ensure compliance with Applicable Reliability Criteria.

3.3.7.2 The ISO shall perform periodic audits of each MSS's UFLS system to verify that the system is properly configured for each MSS.

3.3.7.3 The ISO will use its reasonable endeavors to ensure that UFLS is coordinated among all MSSs and UDCs so that no MSS or UDC bears a disproportionate share of the ISO's UFLS program.

3.3.7.4 In compiling its UFLS program, the ISO, at its discretion, may also coordinate with other entities, review and audit their UFLS programs and systems as described in Sections 3.3.7.1 to 3.3.7.3 and Sections 4.4.3.1 to 4.4.3.3, inclusive.

3.3.7.5 The ISO shall have the authority to direct a MSS Operator to disconnect Load from the ISO Controlled Grid if necessary to avoid an anticipated System Emergency or to regain operational control over the ISO Controlled Grid during an actual System Emergency. The ISO shall direct the MSS Operator to shed Load in accordance with the prioritization schedule developed pursuant to Section 2.3.2.6. When ISO Controlled Grid conditions permit restoration of Load, the ISO shall restore Load according to the prioritization schedule developed pursuant to Section 2.3.2.6 hereof. The MSS Operator shall restore Load internal to the MSS.

3.3.8 Electrical Emergency Plan (EEP).

3.3.8.1 The ISO shall in accordance with Section 2.3.2.4 hereof implement the Electrical Emergency Plan in consultation with the MSS Operator or other entities, at the ISO's discretion, when Energy reserve margins are forecast to be at the levels specified in the plan.

3.3.8.2 Each MSS Operator will notify its End-Use Customers connected to the MSS's Distribution System of any voluntary curtailments notified to the MSS Operator by the ISO pursuant to the provisions of the EEP.

3.3.8.3 If a Load curtailment is required to manage System Emergencies, the ISO will determine the amount and location of Load to be reduced and to the extent practicable, will allocate a portion to each MSS based on the ratio of its Demand (at the time of the ISO Control Area annual peak for the previous year) to total ISO Control Area annual peak Demand for the previous year taking into account system considerations and the MSS Operator's curtailment rights. Each MSS Operator shall be responsible for notifying its customers and Generators connected to its system of curtailments and service interruption.

3.3.9 System Emergency Reports: MSS Obligations.

3.3.9.1 Each MSS Operator shall maintain all appropriate records pertaining to a System Emergency.

3.3.9.2 Each MSS Operator shall cooperate with the ISO in the preparation of an Outage review pursuant to Section 2.3.2.9.

3.3.10 Coordination of Expansion or Modifications to MSS Facilities.

Each MSS Operator and any Participating TO with which its system is interconnected, if applicable, shall coordinate in the planning and implementation of any expansion or modifications of a MSS's or Participating TO's system that will affect their transmission interconnection, the ISO Controlled Grid or the transmission services to be required by the MSS Operator. The MSS Operator and any other Participating TO with which the MSS is interconnected shall be responsible for coordinating with the ISO.

3.3.11 Ancillary Service Obligations for MSS.

3.3.11.1 If the MSS Operator has developed and operates a system that provides its own Regulation in a manner that the ISO determines to meet WSCC Minimum Operating Reliability Criteria, including all Control Area performance criteria, that MSS Operator will have the option of either:

3.3.11.1.1 selling Regulation services to the ISO and purchasing Regulation needs from the ISO or self-providing Regulation to meet its ISO Regulation obligation in accordance with the provisions of the ISO Tariff; or

3.3.11.1.2 continuing to provide the Regulation for its internal system Load using its own system, even though the Regulation provided by that system may not meet all requirements applicable to Regulation under the ISO Tariff, provided that the Regulation meets all applicable WSCC requirements.

3.3.11.2 If the MSS Operator elects to satisfy its Regulation requirements through Section 3.3.11.1.2, the ISO shall not include the internal Load of the MSS whose Regulation requirements are served in this manner in determining the responsibility of the Scheduling Coordinator representing the MSS for Regulation charges. The ISO shall monitor the provision of Regulation by an MSS Operator by monitoring the Metered Subsystem Regulation Error (MSRE) for the MSS and by testing and auditing. The MSRE is obtained by comparing the sum of the metered power flows at the MSS interface points to the sum of the MSS's power scheduled or instructed at these same interface points, and shall incorporate any necessary bias introduced by the ISO for purposes of testing or control of Ancillary Services provided by the MSS. The MSRE shall be reported to the ISO on a real time basis, and checked at five minute intervals to determine whether the MSS meets specified performance criteria. If the ISO determines based on monitoring of MSRE

or its tests and audits that the MSS Operator's system is not supplying Regulation in a manner that meets all of the criteria applicable under Section 3.3.11.1, the ISO shall assess Regulation charges on the Scheduling Coordinator representing the MSS. After the second occasion within a twelve (12) month period that an MSS Operator is found not to be supplying Regulation in a manner that meets all of the criteria applicable under Section 3.3.11.1, (a) the ISO shall assess Regulation charges three times the value of the service on the Scheduling Coordinator representing the MSS; and (b) the MSS Operator shall be barred from self-providing Regulation for the following six months and shall be required to purchase Regulation from the ISO. After the six-month period, the MSS Operator may self-provide Regulation provided it meets the criteria of Section 3.3.11.1.

3.3.11.3 If the MSS has developed and operates a system that carries reserves, the MSS Operator may self-provide Operating Reserve to meet the Operating Reserve obligations allocated to the Scheduling Coordinator representing the MSS with respect to the internal Load of the MSS, in accordance with the provisions of the ISO Tariff, including provisions allowing the ISO to call upon the MSS Operator to supply Energy associated with that Operating Reserve. Alternatively, the Scheduling Coordinator representing the MSS may purchase Operating Reserve from the ISO or third parties to meet all or part of its ISO Operating Reserve obligations.

3.3.12 Information Sharing.

3.3.12.1 System Planning Studies.

The ISO, the MSS Operator and other Participating TOs shall share information such as projected Load growth and system expansions necessary to conduct necessary system planning studies to the extent that these may impact the operation of the ISO Control Area.

3.3.12.2 System Surveys and Inspections.

The ISO and each MSS Operator shall cooperate with each other in performing system surveys and inspections to the extent these relate to the operation of the ISO Control Area.

3.3.12.3 Reports.

3.3.12.3.1 The ISO shall make available to each MSS Operator any public annual reviews or reports regarding performance standards, measurements and incentives relating to the ISO Controlled Grid and shall also make available, upon reasonable notice, any such reports that the ISO receives from other Participating TOs. Each MSS Operator shall make available to the ISO any public annual reviews or reports regarding performance standards, measurements and incentives relating to the MSS's Distribution System to the extent these relate to the operation of the ISO Controlled Grid.

3.3.12.3.2 The ISO and the MSS Operators shall develop an operating procedure to record requests received for Maintenance Outages by the ISO and the completion of the requested maintenance and turnaround times.

3.3.12.3.3 Each MSS Operator shall maintain records that substantiate all maintenance performed on MSS facilities which are under the Operational Control of the ISO. These records shall be made available to the ISO upon receipt of reasonable notice.

3.3.13 Installation of and Rights of Access to MSS Facilities.

3.3.13.1 Installation of Facilities.

3.3.13.1.1 Meeting Service Obligations.

The ISO and each MSS Operator shall each have the right, if mutually agreed, on reasonable notice to install or to have installed equipment (including metering equipment) or other facilities on the property of the other, to the extent that such installation is

necessary for the installing party to meet its service obligations unless to do so would have a negative impact on the reliability of the service provided by the party owning the property.

3.3.13.1.2 Governing Agreements for Installations.

The ISO and the MSS Operator shall enter into agreements governing the installation of equipment or other facilities containing customary and reasonable terms and conditions.

3.3.13.2 Access to Facilities.

Each MSS Operator shall grant the ISO reasonable access to MSS facilities free of charge for purposes of inspection, repair, maintenance, or upgrading of facilities installed by the ISO on the MSS's system, provided that the ISO must provide reasonable advance notice of its intent to access MSS facilities. Such access shall not be provided unless the parties mutually agree to the date, time and purpose of each access. Agreement on the terms of the access shall not be unreasonably withheld.

3.3.13.3 Access During Emergencies.

Notwithstanding any provision in this Section 3.3, the ISO may have access, without giving prior notice, to any MSS Operator's equipment or other facilities during times of a System Emergency or where access is needed in connection with an audit function.

3.3.13.4 MSS Facilities under ISO Control.

The ISO and each MSS Operator shall enter into an agreement in relation to the operation and maintenance of the MSS's facilities which are under the ISO's Operational Control.

3.3.14 MSS System Unit

3.3.14.1 A MSS Operator may aggregate one or more Generating Units and/or Loads as a System Unit. Except as specifically provided in the agreement referred to in Section 3.3.1.1, all provisions of the ISO Tariff applicable to Participating Generators and

to Generating Units (and, if the System Unit includes a Load, to Participating Loads), shall apply fully to the System Unit and the Generating Units and/or Loads included in it. As required by Section 5, the MSS Operator must undertake in writing to comply with all provisions of the ISO Tariff, as amended from time to time, applicable to the System Unit, including, without limitation, the applicable provisions of Section 5 and Section 2.3.2. In accordance with Section 5.1.3, the ISO will obtain control over the System Unit, not the individual Generating Unit, except for Regulation, to comply with Section 5.

3.3.14.2 Without limiting the generality of Section 3.3.15.1, a MSS Operator that owns or has an entitlement to a System Unit:

3.3.14.2.1 is required to have a direct communication link to the ISO's EMS satisfying the requirements applicable to Generating Units owned by Participating Generators, or Participating Loads, as applicable, for the System Unit and the individual resources that make up the System Unit;

3.3.14.2.2 shall provide resource-specific information regarding the Generating Units and Loads comprising the System Unit to the ISO through telemetry to the ISO's EMS;

3.3.14.2.3 shall obtain ISO certification of the System Unit's Ancillary Service capabilities in accordance with Section 2.5.6 and 2.5.24 before the Scheduling Coordinator representing the MSS may self-provide its Ancillary Service obligations or bid into the ISO's markets from that System Unit;

3.3.14.2.4 shall provide the ISO with control over the AGC of the System Unit, except as provided in Section 3.3.11, if the System Unit is supplying Regulation to the ISO or is designated to self-provide Regulation; and

3.3.14.2.5 shall install ISO certified meters on each individual resource that is aggregated to a System Unit.

3.3.14.4 Subject to Section 3.3.14.5, the ISO shall have the authority to exercise control over the System Unit to the same extent that it may exercise control pursuant to the ISO Tariff over any other Participating Generator, Generating Unit or, if applicable, Participating Load, but the ISO shall not have the authority to direct the MSS Operator to adjust the operation of the individual resources that make up the System Unit to comply with directives issued with respect to the System Unit.

3.3.14.5 When and to the extent that Energy from a System Unit is scheduled to provide for the needs of Loads within the MSS and is not being bid to the ISO's Ancillary Service or Supplemental Energy markets, the ISO shall have the authority to dispatch the System Unit only to avert or respond to a circumstance described in the third sentence of Section 5.1.3 or, pursuant to Section 5.6, to a System Emergency.

4. RELATIONSHIP BETWEEN ISO AND UDCS.

4.1 General Nature of Relationship Between ISO and UDCs.

4.1.1 The ISO shall not be obliged to accept Schedules, Adjustment Bids or bids for Ancillary Services which would require Energy to be transmitted to or from the Distribution System of a UDC directly connected to the ISO Controlled Grid unless the relevant UDC has entered into a UDC Operating Agreement. The UDC Operating Agreement shall require UDCs to comply with the applicable provisions of this Section 4 and any other expressly applicable Sections of this ISO Tariff and the ISO Protocols as these may be amended from time to time. The ISO shall maintain a pro forma UDC Operating Agreement available for UDCs to enter into with the ISO.

4.1.2 The ISO shall operate the ISO Controlled Grid, and each UDC shall operate its distribution system at all times in accordance with Good Utility Practice and in a manner which ensures safe and reliable operation. The ISO shall, in respect of its obligations set

forth in this Section 4, have the right by agreement to delegate certain operational responsibilities to the relevant Participating TO or UDC pursuant to this Section 4. All information made available to UDCs by the ISO shall also be made available to Scheduling Coordinators. All information pertaining to the physical state or operation, maintenance and failure of the UDC Distribution System affecting the operation of the ISO Controlled Grid that is made available to the ISO by the UDC shall also be made available to Scheduling Coordinators upon receipt of reasonable notice.

4.2 Coordinating Maintenance Outages of UDC Facilities.

Each UDC and the Participating TO with which it is interconnected shall coordinate their Outage requirements that will have an effect on their transmission interconnection prior to the submission by that Participating TO of its maintenance Outage requirements under Section 2.3.3.

4.3 UDC Responsibilities.

Recognizing the ISO's duty to ensure efficient use and reliable operation of the ISO Controlled Grid consistent with the Applicable Reliability Criteria, each UDC shall:

4.3.1 operate and maintain its facilities, in accordance with applicable safety and reliability standards, regulatory requirements, applicable operating guidelines, applicable rates, tariffs, statutes and regulations governing their provision of service to their End-Use Customers and Good Utility Practice so as to avoid any material adverse impact on the ISO Controlled Grid;

4.3.2 provide the ISO Outage Coordination Office each year with a schedule of upcoming maintenance that has a reasonable potential of impacting the ISO Controlled Grid in accordance with Section 2.3.3.5 of this ISO Tariff; and

4.3.3 coordinate with the ISO, Participating TOs and Generators to ensure that ISO Controlled Grid Critical Protective Systems, including relay systems, are installed and maintained in order to function on a coordinated and complementary basis with UDCs, Generator's and Participating TO's protective systems.

4.4 System Emergencies.

4.4.1 In the event of a System Emergency, UDCs shall comply with all directions from the ISO concerning the management and alleviation of the System Emergency and shall comply with all procedures concerning System Emergencies set out in the ISO Protocols.

4.4.2 During a System Emergency, the ISO and UDCs shall communicate through their respective control centers and in accordance with procedures established in individual UDC operating agreements.

4.4.3 Under Frequency Load Shedding (UFLS).

4.4.3.1 Each UDC's agreement with the ISO shall describe the UFLS program for that UDC. The ISO and UDC shall review the UFLS program periodically to ensure compliance with Applicable Reliability Criteria.

4.4.3.2 The ISO shall perform periodic audits of each UDC's UFLS system to verify that the system is properly configured for each UDC.

4.4.3.3 The ISO will use its reasonable endeavors to ensure that UFLS is coordinated among the UDCs so that no UDC bears a disproportionate share of the ISO's UFLS program.

4.4.3.4 In compiling its UFLS program, the ISO, at its discretion, may also coordinate with other entities, review and audit their UFLS programs and systems as described in Section 4.4.3.1 to 4.4.3.3.

4.4.4 The ISO shall have the authority to direct a UDC to disconnect Load from the ISO Controlled Grid if necessary to avoid an anticipated System Emergency or to regain operational control over the ISO Controlled Grid during an actual System Emergency. The ISO shall direct the UDCs to shed Load in accordance with the prioritization schedule developed pursuant to Section 2.3.2.6. When ISO Controlled Grid conditions permit restoration of Load, the ISO shall restore Load according to the prioritization schedule developed pursuant to Section 2.3.2.6 hereof.

4.5 Electrical Emergency Plan (EEP).

4.5.1 The ISO shall in accordance with Section 2.3.2.4 hereof implement the Electrical Emergency Plan in consultation with the UDCs or other entities, at the ISO's discretion, when Energy reserve margins are forecast to be at the levels specified in the plan.

4.5.2 Each UDC will notify its End-Use Customers connected to its Distribution System of any voluntary curtailments notified to the UDC by the ISO pursuant to the provisions of the EEP.

4.5.3 If a Load curtailment is required to manage System Emergencies, the ISO will determine the amount and location of Load to be reduced and to the extent practicable, will allocate a portion to each UDC based on the ratio of its Demand (at the time of the Control Area annual peak for the previous year) to total Control Area annual peak Demand for the previous year taking into account system considerations and the UDC's curtailment rights under their tariffs. Each UDC shall be responsible for notifying its customers and Generators connected to its system of curtailments and service interruption.

4.6 System Emergency Reports: UDC Obligations.

4.6.1 Each UDC shall maintain all appropriate records pertaining to a System Emergency.

4.6.2 Each UDC shall cooperate with the ISO in the preparation of an Outage review pursuant to Section 2.3.2.9.

4.7 Coordination of Expansion or Modifications to UDC Facilities.

Each UDC and the Participating TO with which it is interconnected shall coordinate in the planning and implementation of any expansion or modifications of a UDC's or Participating TO's system that will affect their transmission interconnection, the ISO Controlled Grid or the transmission services to be required by the UDC. The Participating TO shall be responsible for coordinating with the ISO.

4.8 Information Sharing.

4.8.1 System Planning Studies.

The ISO, Participating TOs and UDCs shall share information such as projected Load growth and system expansions necessary to conduct necessary system planning studies to the extent that these may impact the operation of the ISO Controlled Grid.

4.8.2 System Surveys and Inspections.

The ISO and each UDC shall cooperate with each other in performing system surveys and inspections to the extent these relate to the operation of the ISO Controlled Grid.

4.8.3 Reports.

4.8.3.1 The ISO shall make available to the UDCs any public annual reviews or reports regarding performance standards, measurements and incentives relating to the ISO Controlled Grid and shall also make available, upon reasonable notice, any such reports that the ISO receives from the Participating TOs. Each UDC shall make available to the ISO any public annual reviews or reports regarding performance standards,

measurements and incentives relating to the UDC's distribution system to the extent these relate to the operation of the ISO Controlled Grid.

4.8.3.2 The ISO and UDCs shall develop an operating procedure to record requests received for Maintenance Outages by the ISO and the completion of the requested maintenance and turnaround times.

4.8.3.3 The UDCs shall maintain records that substantiate all maintenance performed on UDC facilities which are under the Operational Control of the ISO. These records shall be made available to the ISO upon receipt of reasonable notice.

4.8.4 Installation of and Rights of Access to UDC Facilities.

4.8.4.1 Installation of Facilities.

4.8.4.1.1 Meeting Service Obligations. The ISO and the UDC shall each have the right on reasonable notice to install or to have installed equipment (including metering equipment) or other facilities on the property of the other, to the extent that such installation is necessary for the installing party to meet its service obligations unless to do so would have a negative impact on the reliability of the service provided by the party owning the property.

4.8.4.1.2 Governing Agreements for Installations. The ISO and the UDC shall enter into agreements governing the installation of equipment or other facilities containing customary, reasonable terms and conditions.

4.8.4.2 Access to Facilities.

The UDCs shall grant the ISO reasonable access to UDC facilities free of charge for purposes of inspection, repair, maintenance, or upgrading of facilities installed by the ISO on the UDC's system, provided that the ISO must provide reasonable advance notice of its

intent to access UDC facilities and opportunity for UDC staff to be present. Such access shall not be provided unless the parties mutually agree to the date, time and purpose of each access. Agreement on the terms of the access shall not be unreasonably withheld.

4.8.4.3 Access During Emergencies.

Notwithstanding any provision in this Section 4 the ISO may have access, without giving prior notice, to any UDC's equipment or other facilities during times of a System Emergency or where access is needed in connection with an audit function.

4.9 UDC Facilities under ISO Control.

The ISO and each UDC shall enter into an agreement in relation to the operation and maintenance of the UDC's facilities which are under the ISO's Operational Control.

5. RELATIONSHIP BETWEEN ISO AND GENERATORS.

The ISO shall not Schedule Energy or Ancillary Services generated by any Generating Unit interconnected to the ISO Controlled Grid, or to the Distribution System of a Participating TO or of a UDC otherwise than through a Scheduling Coordinator. The ISO shall not be obligated to accept Schedules or Adjustment Bids or bids for Ancillary Services relating to Generation from any Generating Unit interconnected to the ISO Controlled Grid unless the relevant Generator undertakes in writing to the ISO to comply with all applicable provisions of this ISO Tariff as they may be amended from time to time, including, without limitation, the applicable provisions of this Section 5 and Section 2.3.2.

5.1 General Responsibilities.

5.1.1 Operate Pursuant to Relevant Provisions of ISO Tariff.

Participating Generators shall operate, or cause their facilities to be operated, in accordance with the relevant provisions of this ISO Tariff, including, but not limited to, the

operating requirements for normal and emergency operating conditions specified in Section 2.3 and the requirements for the dispatch and testing of Ancillary Services specified in Section 2.5.

5.1.2 Operate Pursuant to Relevant Operating Protocols.

Participating Generators shall operate, or cause their Generating Units and associated facilities to be operated, in accordance with the relevant operating protocols established by the ISO or, prior to the establishment of such protocols, the operating protocols established by the TO or UDC owning the facilities that interconnect with the Generating Unit of the Participating Generator.

5.1.3 Actions for Maintaining Reliability of ISO Controlled Grid.

The ISO plans to obtain the control over Generating Units that it needs to control the ISO Controlled Grid and maintain reliability by purchasing Ancillary Services from the market auction for these services. When the ISO responds to events or circumstances, it shall first use the generation control it is able to obtain from the Ancillary Services bids it has received to respond to the operating event and maintain reliability. Only when the ISO has used the Ancillary Services that are available to it under such Ancillary Services bids which prove to be effective in responding to the problem and the ISO is still in need of additional control over Generating Units, shall the ISO assume supervisory control over other Generating Units. It is expected that at this point, the operational circumstances will be so severe that a real-time system problem or emergency condition could be in existence or imminent.

Each Participating Generator shall take, at the direction of the ISO, such actions affecting such Generator as the ISO determines to be necessary to maintain the reliability

of the ISO Controlled Grid. Such actions shall include (but are not limited to):

(a) compliance with the ISO's Dispatch instructions including instructions to deliver Ancillary Services in real time pursuant to the Final Day-Ahead Schedules and Final Hour-Ahead Schedules;

(b) compliance with the system operation requirements set out in Section 2.3 of this ISO Tariff;

(c) notification to the ISO of the persons to whom an instruction of the ISO should be directed on a 24-hour basis, including their telephone and facsimile numbers; and

(d) the provision of communications, telemetry and direct control requirements, including the establishment of a direct communication link from the control room of the Generator to the ISO in a manner that ensures that the ISO will have the ability, consistent with this ISO Tariff and the ISO Protocols, to direct the operations of the Generator as necessary to maintain the reliability of the ISO Controlled Grid, except that a Participating Generator will be exempt from ISO requirements imposed in accordance with this subsection (d) with regard to any Generating Unit with a rated capacity of less than 10 MW, unless that Generating Unit is certified by the ISO to participate in the ISO's Ancillary Services and/or Imbalance Energy markets.

5.1.4 Generators Connected to UDC Systems.

With regard to any Generating Unit directly connected to a UDC system, a Participating Generator shall comply with applicable UDC tariffs, interconnection requirements and generation agreements. With regard to a Participating Generator's Generating Units directly connected to a UDC system, the ISO and the UDC will coordinate to develop procedures to avoid conflicting ISO and UDC operational directives.

5.1.4.1 Exemption for Generating Units Less Than 1 MW

A Generator with a Generating Unit directly connected to a UDC system will be exempt from compliance with this Section 5 and with Section MP 2.3.5 of the Metering Protocol in relation to that Generating Unit provided that (i) the rated capacity of the Generating Unit is less than 1 MW, and (ii) the Generator does not use the Generating Unit to participate in the ISO's Ancillary Services and/or Imbalance Energy markets. This exemption in no way affects the calculation of or any obligation to pay the appropriate charges or to comply with all the other applicable Sections of this ISO Tariff.

5.1.5 Existing Contracts for Regulatory Must-Take Generation.

Notwithstanding any other provision of this ISO Tariff, the ISO shall discharge its responsibilities in a manner which honors any contractual rights and obligations of the parties to contracts, or final regulatory treatment, relating to Regulatory Must-Take Generation of which protocols or other instructions are notified in writing to the ISO from time to time and on reasonable notice.

5.2 Procurement of Reliability Must-Run Generation by the ISO.

5.2.1 A Reliability Must-Run Contract is a contract entered into by the ISO with a Generator which operates a Generating Unit giving the ISO the right to call on the Generator to generate Energy and, only as provided in this Section 5.2, or as needed for Black Start or Voltage Support required to meet local reliability needs, or to procure Ancillary Services from Potrero or Hunter's Point power plants to meet operating criteria associated with the San Francisco local reliability area, to provide Ancillary Services from the Generating Units as and when this is required to ensure that the reliability of the ISO Controlled Grid is maintained.

5.2.1.1 If the ISO, pursuant to Section 2.5.12(e), has elected to procure an amount of megawatts of its forecast needs for an Ancillary Service in the Hour-Ahead Markets and there is not an adequate amount of capacity bid into an Hour-Ahead Market for the ISO to procure such amount of megawatts of that Ancillary Service (excluding bids that exceed price caps imposed by the ISO or FERC), the ISO may call upon Reliability Must-Run Units under Must-Run Contracts to meet the remaining portion of that amount of megawatts for that Ancillary Service but only after accepting all available bids in the Hour-Ahead Market (including any unused bids that can be used to satisfy that particular Ancillary Services requirement under Section 2.5.3.6), except that the ISO shall not be required to accept bids that exceed price caps imposed by the ISO or the FERC.

5.2.1.2 If, at any time after the issuance of Final Day-Ahead Schedules for the Trading Day –

(1) the ISO determines that it requires more of an Ancillary Service than it has procured;

(2) all additional Day-Ahead bids for that Ancillary Service that have not been withdrawn (including any unused bids that can be used to satisfy that particular Ancillary Services requirement under Section 2.5.3.6) have been selected pursuant to Section 2.5.21, except that the ISO shall not be required to accept bids that exceed price caps imposed by the ISO or the FERC;

(3) the ISO has notified Scheduling Coordinators of the circumstances existing in paragraphs (1) and (2) of this Section 5.2.1.2; and

(4) after such notice, the ISO determines that a Bid Insufficiency condition exists in the Hour-Ahead Market for the Settlement Period in which the ISO requires more of an Ancillary Service;

the ISO may call upon Reliability Must-Run Units under Reliability Must-Run Contracts to meet the additional needs in addition to any amounts that the ISO has called upon under Section 5.2.1.1. The ISO must provide the notice specified in paragraph (3) of this Section 5.2.1.2 as soon as possible after the ISO determines that additional Ancillary Services are needed for which bids are not available. The ISO may only determine that a Bid Insufficiency exists in the Hour-Ahead Market after the close of the Hour-Ahead Market, unless an earlier determination is required in order to accommodate the Must-Run Unit's operating constraints. For the purposes of this Section, a Bid Insufficiency exists in an Hour-Ahead Market if, and only if –

(a) bids in the Hour-Ahead Market for the particular Ancillary Service (including any unused bids that can be used to satisfy that particular Ancillary Services requirement under Section 2.5.3.6) that remain after first procuring the megawatts of the Ancillary

Service that the ISO had notified Scheduling Coordinators it would procure in the Hour-Ahead Market pursuant to Section 2.5.12 ("remaining Ancillary Service requirement") represent, in the aggregate, less than two times such remaining Ancillary Service requirement; or

(b) there are less than two unaffiliated bidders to provide such remaining Ancillary Service requirement.

If a Bid Insufficiency condition exists, the ISO may nonetheless accept available market bids if it determines in its sole discretion that the prices bid and the supply curve created by the bids indicate that the bidders were not attempting to exercise market power.

5.2.2 [Not Used]

5.2.3 The ISO will, subject to any existing power purchase contracts of a Generating Unit, have the right at any time based upon ISO Controlled Grid technical analyses and studies to designate a Generating Unit as a Reliability Must-Run Unit. A Generating Unit so designated shall then be obligated to provide the ISO with its proposed rates for Reliability Must-Run Generation for negotiation with the ISO. Such rates shall be authorized by FERC or the Local Regulatory Authority, whichever authority is applicable.

5.2.4 [Not Used]-

5.2.5 On a yearly basis, the ISO will carry out technical evaluations based upon historic patterns of the operation of the ISO Controlled Grid and the ISO's forecast requirements for maintaining the reliability of the ISO Controlled Grid in the next year. The ISO will then determine which Generating Units it requires to continue to be Reliability Must-Run Units, which Generating Units it no longer requires to be Reliability Must-Run Units and which Generating Units it requires to become the subject of a Reliability Must-Run contract which had not previously been so contracted to the ISO.

5.2.6 A *pro forma* of the Reliability Must-Run Contract is attached as Appendix G. From the ISO Operations Date all Reliability Must-Run Units will be placed under the “As Called” conditions, but the parties may, pursuant only to the terms of the Reliability Must-Run Contract, Transfer any such unit to one of the alternative forms of conditions under specific circumstances. The ISO will review the terms of the applicable forms of agreement applying to each Reliability Must-Run Unit to ensure that the ISO will procure Reliability Must-Run Generation from the cheapest available sources and to maintain System Reliability. The ISO shall give notice to terminate Reliability Must-Run contracts that are no longer necessary or can be replaced by less expensive and/or more competitive sources for maintaining the reliability of the ISO Controlled Grid.

5.2.7 Reliability Must-Run Charge. The ISO shall prepare and send to each Responsible Utility in accordance with Annex 1 to the ISO's Settlement and Billing Protocol a Responsible Utility invoice in respect to those costs incurred under each Reliability Must-Run Contract that are payable to the ISO by such Responsible Utility pursuant to Section 5.2.8. The Responsible Utility invoices shall reflect all reductions or credits required or allowed under or arising from the Reliability Must-Run Contract or under this Section 5.2.7. The Responsible Utility invoice shall separately show the amounts due for services from each RMR Owner. Each Responsible Utility shall pay the amount due under each Responsible Utility invoice by the due date specified in the Responsible Utility invoice, in default of which interest shall become payable at the interest rate provided in the Reliability Must-Run Contract from the due date until the date on which the amount is paid in full. For each Reliability Must-Run Contract, the ISO shall establish two, segregated commercial bank accounts under the "Facility Trust Account" referred to in Annex 1 to the ISO's Settlement and Billing Protocol and Article 9 of the Reliability Must-Run Contract One commercial bank account, the "RMR Owner Facility Trust Account," shall be held in trust

by the ISO for the RMR Owner. The other commercial bank account, the "Responsible Utility Facility Trust Account," shall be held in trust by the ISO for the Responsible Utility. Payments received by the ISO from the Responsible Utility in connection with the Reliability Must-Run Contract, including payments following termination of the Reliability Must-Run Contract, will be deposited into the RMR Owner Facility Trust Account and payments from the ISO to the RMR Owner will be withdrawn from such account, in accordance with Section 5.2.7, Article 9 of the Reliability Must-Run Contract and Annex 1 to the ISO's Settlement and Billing Protocol. Any payments received by the ISO from the RMR Owner in connection with the Reliability Must-Run Contract will be deposited into the Responsible Utility Facility Trust Account. Any payments due to the Responsible Utility of funds received from the RMR Owner in connection with the Reliability Must-Run Contract will be withdrawn from the Responsible Utility Facility Trust Account, in accordance with this Section 5.27, Annex 1 to the ISO's Settlement and Billing Protocol and Article 9 of the Reliability Must-run Contract. Neither the RMR Owner Facility Trust Account nor the Responsible Utility Trust Account shall have other funds commingled in it an any time. The ISO shall not modify this Section 5.27 or Annex 1 to the ISO Settlement and billing Protocol as it applies to procedures for the billing, invoicing and payment of charges under Reliability Must-Run Contracts without the Responsible Utility's consent, provided, however, that no such consent shall be required with respect to any change in the method by which costs incurred by the ISO under RMR Contracts are allocated to or among Responsible Utilities.

5.2.7.1 Except where the Responsible Utility is also the RMR Owner, the Responsible Utility's payment of the Responsible Utility invoice shall be made without offset, recoupment or deduction of any kind whatsoever. Notwithstanding the foregoing, if the ISO fails to deduct an amount required to be deducted under Section 5.2.7.1.1, the

Responsible Utility may deduct such amount from payment otherwise due under such invoice.

5.2.7.1.1 If the Responsible Utility disputes a Responsible Utility invoice, final Estimated RMR Invoice, or final Adjusted RMR Invoice, it shall pay the Responsible Utility invoice but may pay under protest and reserve its right to seek a refund, with interest, from the ISO. If resolution of the dispute results in an amount paid by the Responsible Utility under protest being due from the ISO to the Responsible Utility, then such amount, with interest at the interest rate specified in the applicable Reliability Must-Run Contract from the date of payment until the date on which the amount is repaid in full, shall be deducted by the ISO from the next succeeding amounts otherwise due from the Responsible Utility to the ISO with respect to the applicable Reliability Must-run Contract or, if such Contract has terminated, such amount shall be refunded by the ISO to the Responsible Utility; provided, however, that if and to the extent that such resolution is based on an error or breach or default of the RMR Owner's obligations to the ISO under the Reliability Must-Run Contract, then such refund obligation shall extend only to amounts actually collected by the ISO from the RMR Owner as a result of such resolution.

5.2.7.1.2 If the Responsible Utility disputes a Responsible Utility invoice, a final Estimated Invoice or a final Adjusted RMR Invoice, or part thereof, based in whole or in part on an alleged error by the RMR Owner or breach or default of the RMR Owner's obligations to the ISO under the Reliability Must-Run Contract, the Responsible Utility shall notify the ISO of such dispute within 12 months of its receipt of the applicable final Adjusted RMR Invoice from the ISO, except that the Responsible Utility may also dispute a final Estimated RMR Invoice or final Adjusted RMR Invoice for the reasons set forth above in this Section 5.2.7.1.2, within 60 days from the issuance of a final report with respect to an audit of the RMR Owner's books and accounts allowed by a Reliability Must-Run Contract.

5.2.7.1.3 If the Responsible Utility disputes a final Estimated RMR Invoice, final Adjusted RMR Invoice, or Responsible Utility invoice based in whole or in part on an alleged error by the ISO or breach or default of the ISO's obligations to the Responsible Utility, the Responsible Utility shall notify the ISO of such dispute prior to the later to occur of (i) the date 12 months following the date on which the ISO submitted such invoice to the Responsible Utility for payment or (ii) the date 60 days following the date on which a final report is issued in connection with an operational audit, pursuant to Section 12.2.2, of the ISO's performance of its obligations to Responsible Utilities under this Section 5.27 conducted by an independent third party selected by the ISO Governing Board and covering the period to which such alleged dispute relates. The ISO or any Responsible Utility shall have the right to request, but not to require, that the ISO Governing board arrange for such an operational audit at any time.

5.2.7.1.4 Notwithstanding Article 13, any Responsible Utility dispute relating to a Responsible Utility Invoice, a final Estimated Invoice, a final Adjusted Invoice, or a RMR Charge, RMR Payment or RMR Refund as defined in Annex 1 to the Settlement and Billing Protocol, shall be resolved through the dispute resolution process specified in the relevant RMR Contract. If the Responsible Utility fails to notify the ISO of any dispute as provided above, it shall be deemed to have validated the invoice and waived its right to dispute such invoice.

5.2.7.2 The RMR Owner shall, to the extent set forth herein, be a third party beneficiary of, and have all rights that the ISO has under the ISO Tariff, at law, in equity or otherwise, to enforce the Responsible Utility's obligation to pay all sums invoiced to it in the Responsible Utility invoices but not paid by the Responsible Utility, to the extent that, as a result of the Responsible Utility's failure to pay, the ISO does not Pay the RMR Owner on a timely basis amounts due under the Reliability Must-Run Contract. The RMR Owner's rights as a third party beneficiary shall be no greater than the ISO's rights and shall be subject to the dispute resolution process specified in the relevant RMR Contract. Either the ISO or the

RMR Owner (but not both) will be entitled to enforce any claim arising from an unpaid Responsible Utility invoice, and only one party will be a "disputing party" under the dispute resoultion process specified in the relevant RMR Contract with respect to such claim so that the Responsible Utility will not be subject to duplicative claims or recoveries. The RMR Owner shall have the right to control the disposition of claims against the Responsible Utility for nonpayments that result in payment defaults by the ISO under a Reliability Must-Run Contract. To that end, in the event of nonpayment by the Responsible Utility of amounts due under the Responsible Utility invoice, the ISO will not take any action to enforce its rights against the Responsible Utility unless the ISO is requested to do so by the RMR Owner. The ISO shall cooperate with the RMR Owner in a timely manner as necessary or appropriate to most fully effectuate the RMR Owner's rights related to such enforcement, including using its best efforts to enforce the Responsible Utility's payment obligations if, as, to the extent, and within the time frame, requested by the RMR Owner. The ISO shall intervene and participate where procedurally necessary to the assertion of a claim by the RMR Owner.

5.2.7.3 If a Responsible Utility first executed a TCA after April 1, 1998 (a "New Responsible Utility") and if:

(i) the senior unsecured debt of the New Responsible Utility is rated or becomes rated at less than A- from Standard & Poor's ("S&P") or A3 from Moody's Investment Services ("Moody's"), and

(ii) Such ratings do not improve to A- or better from S&P or A3 or better from Moody's within 60 days,

the New Responsible Utility shall issue and confirm to the ISO an irrevocable and unconditional letter of credit in an amount equal to three times the highest monthly payment invoiced by the ISO to the New Responsible Utility (or the prior Responsible

Utility) in connection with services under Reliability Must-Run Contracts in the last 3 months for which invoices have been issued. The letter of credit must be issued by a bank or other financial institution whose senior unsecured debt rating is not less than A from S&P and A2 from Moody's. The letter of credit shall be in such form as the ISO may reasonably require from time to time by notice to the New Responsible Utility and shall authorize the ISO or the Owner to draw on the letter of credit for deposit solely into the RMR Owner Facility Trust Account in an amount equal to any amount due and not paid by the Responsible Utility under the Responsible Utility invoice. The security provided by the New Responsible Utility pursuant to this Section 5.2.7.3 is intended to cover the New Responsible Utility's outstanding liability for payments it is liable to make to the ISO under this Section 5.2.7, including monthly payments, any reimbursement for capital improvement, termination fees and any other payments to which the ISO is liable under Reliability Must-Run Contracts.

5.2.8 Responsibility for Reliability Must-Run Charge Except as otherwise provided in Section 5.2.8.1, the costs incurred by the ISO under each Reliability Must-Run Contract shall be payable to the ISO by the Responsible Utility in whose Service Area the Reliability Must-Run Generating Units covered by such Reliability Must-Run Contract are located or, where a Reliability Must-Run Generating Unit is located outside the Service Area of any Responsible Utility, by the Responsible Utility or Responsible Utilities whose Service Areas are contiguous to the Service Area in which the Generating Unit is located, in proportion to the benefits that each such Responsible Utility receives, as determined by the ISO. Where costs incurred by the ISO under a Reliability Must-Run Contract are allocated among two or more Responsible Utilities pursuant to this section, the ISO will file the allocation under Section 205 of the Federal Power Act.

5.2.8.1 Responsibility for Reliability Must-Run Charges Associated with SONGS. If the ISO procures Reliability Must-Run Generation from the San Onofre Nuclear Generation Station Units 2 or 3, it shall determine prior to the operation of such facilities as Reliability Must-Run Generation the appropriate allocation of associated charges, if any, among Responsible Utilities. The allocation of such charges shall be based on the reliability benefits that the ISO reasonably identifies through studies and analysis as accruing to the respective Service Areas of the Responsible Utilities.

5.3 Identification of Generating Units.

Each Generator shall provide data identifying each of its Generating Units and such information regarding the capacity and the operating characteristics of the Generating Unit as may be reasonably requested from time to time by the ISO.

5.4 WSCC Requirements.

5.4.1 Generator Performance Standard.

Participating Generators shall, in relation to each of their Generating Units, meet all applicable WSCC standards including any standards regarding governor response capabilities, use of power system stabilizers, voltage control capabilities and hourly Energy delivery. Unless otherwise agreed by the ISO, a Generating Unit must be capable of operating at capacity registered in the ISO Controlled Grid interconnection data, and shall follow the voltage schedules issued by the ISO from time to time.

5.4.2 Reliability Criteria.

Participating Generators shall comply with the requirements of the WSCC Reliability Criteria Agreement, including the applicable WSCC reliability criteria set forth in Section IV of Annex A thereof. In the event that a Participating Generator fails to comply, it will be subject to the sanctions

applicable to such failure. Such sanctions shall be assessed pursuant to the procedures contained in the WSCC Reliability Criteria Agreement. Each and all of the provisions of the WSCC Reliability Criteria Agreement are hereby incorporated by reference into this Section 5.4.2 as though set forth fully herein, and Participating Generators shall for all purposes be considered Participants as defined in that Agreement, and shall be subject to all of the obligations of Participants, under and in connection with the WSCC Reliability Criteria Agreement. The Participating Generators shall copy the ISO on all reports supplied to the WSCC in accordance with Section IV of Annex A of the WSCC Reliability Criteria Agreement.

5.4.3 Payment of Sanctions.

Each Participating Generator shall be responsible for payment directly to the WSCC of any monetary sanction assessed against that Participating Generator by the WSCC pursuant to the WSCC Reliability Criteria Agreement. Any such payment shall be made pursuant to the procedures specified in the WSCC Reliability Criteria Agreement.

5.5 Outages.

5.5.1 Planned Maintenance.

Each Participating Generator shall comply with the applicable provisions of Section 2.3.3.

5.5.2 The ISO shall, on the basis of the information supplied by Participating Generators under Section 5.5.1 and other information available to the ISO, prepare and publish on WEnet forecast aggregate available Generation capacity and forecast Demand on an annual, quarterly and monthly basis in accordance with the provisions of the ISO Outage Coordination Protocol. In publishing these forecasts, the ISO shall identify any expected congestion conditions caused by planned Outages of Participating Generators.

5.5.3 Forced Outages.

Procedures equivalent to those set out in Section 2.3.3 shall apply to all Participating Generators in relation to Forced Outages.

5.6 System Emergencies.

5.6.1 All Generating Units, System Units and System Resources that are owned or controlled by a Participating Generator are (without limitation to the ISO's other rights

under this ISO Tariff) subject to control by the ISO during a System Emergency and in circumstances in which the ISO considers that a System Emergency is imminent or threatened. The ISO shall, subject to Section 5.6.2, have the authority to instruct a Participating Generator to bring its Generating Unit on-line, off-line, or increase or curtail the output of the Generating Unit and to alter scheduled deliveries of Energy and Ancillary Services into or out of the ISO Controlled Grid, if such an instruction is reasonably necessary to prevent an imminent or threatened System Emergency or to retain Operational Control over the ISO Controlled Grid during an actual System Emergency. If a Participating Generator fails to comply with such an instruction, that Participating Generator shall be subject to the assessment of penalties by the ISO pursuant to Section 5.6.3 or other applicable provisions of this ISO Tariff.

5.6.2 The ISO shall, where reasonably practicable, utilize Ancillary Services which it has the contractual right to instruct and which are capable of contributing to containing or correcting the actual, imminent or threatened System Emergency prior to issuing instructions to a Participating Generator under Section 5.6.1.

5.6.3 Penalties for Failure to Comply With Emergency Dispatch Instructions

5.6.3.1 Except as provided in Section 5.6.3.2, a Participating Generator that fails to comply with a Dispatch instruction issued by the ISO to bring its Generating Unit on-line or increase the output of its Generating Unit, System Unit or System Resource, whether or not an Imbalance Energy bid has been submitted for the output of the resource, to prevent an imminent or threatened System Emergency or to maintain Applicable Reliability Criteria during an actual System Emergency shall be subject to the following penalties:

(i) a charge for each MWh of the Dispatch instruction with which the Participating Generator does not comply equal to twice the highest price for Energy, per MWh, paid in each hour by the ISO to any other entity to procure Energy; and

(ii) if the ISO is required to call for the involuntary curtailment of firm Load to maintain Applicable Reliability Criteria during the System Emergency, an additional charge equal to $1,000 for each MWh of the Dispatch instruction with which the Participating Generator does not comply.

5.6.3.2 A Participating Generator shall not be subject to penalties pursuant to Section 5.6.3.1 if the Participating Generator can demonstrate to the ISO that it failed to comply with such a Dispatch instruction either because: (a) the Generating Unit, System Unit or System Resource that was the subject of the Dispatch instruction was physically incapable of responding in accordance with the instruction, provided that if such Participating Generator has not notified the ISO in advance that the Generating Unit, System Unit or System Resource was unavailable or de-rated, such Generating Unit, System Unit or System Resource will be presumed to be available; or (b) compliance with such Dispatch instruction would have resulted in a violation of an applicable requirement of state or Federal law, which requirement cannot be waived. A Participating Generator must notify ISO operations staff of its reason for failing to comply with the Dispatch instruction within the operating hour that the instruction is issued and must provide information to the ISO that verifies the reason the Participating Generator failed to comply with the Dispatch instruction within 72 hours of the operating hour in which the instruction is issued. Disputes concerning the cause of a Participating Generator's failure to comply with an ISO Dispatch instruction shall be subject to the Dispute Resolution provisions set forth in Section 13 of this ISO Tariff.

5.7 Interconnection to the ISO Controlled Grid.

5.7.1 Submitting Requests to Interconnect.

Any existing or prospective Generator that requests interconnection to the ISO Controlled Grid shall submit a request to interconnect to the Participating TO or UDC that will supply the

interconnection and shall copy such request to the ISO. The Participating TO shall coordinate all aspects of the interconnection requests pursuant to the TO Tariff and the TCA. Unless a proposed interconnection is pursuant to an Encumbrance of the ISO Controlled Grid enumerated in the TCA, an existing or prospective Generator shall not be entitled to have its interconnection to the ISO Controlled Grid energized unless and until it has demonstrated to the ISO's reasonable satisfaction that it has complied with or is capable of complying with all of the requirements of this Section 5.

5.7.2 Generating Unit Interconnection.

The interconnection standards and agreements of the interconnecting Participating TO or UDC, which are available upon request, shall govern the interconnection of additional Generating Units including the costs of such interconnection. Protocols and standards developed and adopted by the ISO may supersede, where appropriate, protocols, and standards specific to the Participating TO or UDC, but such ISO protocols and standards may not supersede any instruction provided to the ISO by a Participating TO that relates to an Encumbrance of the ISO Controlled Grid enumerated in the TCA.

5.7.3 Coordination of Critical Protective Systems.

Generators shall coordinate with the ISO, Participating TOs and UDCs to ensure that ISO Controlled Grid Critical Protective Systems, including relay systems, are installed and maintained in order to function on a coordinated and complementary basis with Generator's, Participating TO's and UDC's protective systems.

5.8 Recordkeeping; Information Sharing.

5.8.1 Requirements for Maintaining Records.

Participating Generators shall provide to the ISO such information and maintain such records as are reasonably required by the ISO to plan the efficient use and maintain the reliability of the ISO Controlled Grid.

5.8.2 Providing Information to Generators.

The ISO shall provide to any Participating Generator, upon its request, copies of any operational assessments, studies or reports prepared by or for the ISO (unless such assessments studies or reports are subject to confidentiality rights or any rule of law that prohibits disclosure) concerning the operations of such Participating Generator's

Generating Units, including, but not limited to, reports on major Generation Outages, available transmission capacity, and Congestion.

5.8.3 Preparation of Reports on Major Incidents.

In preparing any report on a major incident the ISO shall have due regard to the views of any Participating Generator involved or materially affected by such incident.

5.8.4 Sharing Information on Reliability of ISO Controlled Grid.

The ISO and each Participating Generator shall have the obligation to inform each other, as promptly as possible, of any circumstance of which it becomes aware (including, but not limited to, abnormal temperatures, storms, floods, earthquakes, and equipment depletions and malfunctions and deviations from the Registered Data and operating characteristics) that is reasonably likely to threaten the reliability of the ISO Controlled Grid or the integrity of the Participating Generator's facilities. The ISO and each Participating Generator shall also inform the other as promptly as possible of any incident of which it becomes aware (including, but not limited to, equipment outages, over-loads or alarms) which, in the case of a Participating Generator, is reasonably likely to threaten the reliability of the ISO Controlled Grid or, in the case of the ISO, is reasonably likely to adversely affect the Participating Generator's facilities. Such information shall be provided in a form and content which is reasonable in all the circumstances and sufficient to provide timely warning to the other party of the potential impact.

5.9 Access Right.

A Participating Generator shall, at the request of the ISO and upon reasonable notice, provide access to its facilities (including those relating to communications, telemetry and direct control requirements) as necessary to permit the ISO or an ISO approved meter

inspector to perform such testing as is necessary (i) to test the accuracy of any meters upon which the Participating Generator's compensation is based, or performance is measured, (ii) to test the Participating Generator's compliance with any performance standards pursuant to subsection 5.4 hereof, or (iii) to obtain information relative to a Forced Outage.

5.10 Black Start Services.

5.10.1 All Participating Generators with Black Start Generating Units must satisfy technical requirements specified by the ISO.

5.10.2 The ISO shall from time to time undertake performance tests, with or without prior notification.

5.10.3 The ISO shall have the sole right to determine when the operation of Black Start Generating Units is required to respond to conditions on the ISO Controlled Grid.

5.10.4 If the ISO has intervened in the market for Energy and/or Ancillary Services pursuant to Section 2.3.2.3, the price paid by the ISO for Black Start services shall be sufficient to permit the relevant Participating Generator to recover its costs over the period that it is directed to operate by the ISO.

5.10.5 If a Black Start Generating Unit fails to achieve a Black Start when called upon by the ISO, or fails to pass a performance test administered by the ISO, the Market Participant that has contracted to supply Black Start service from the Generating Unit shall re-pay to the ISO any reserve payment(s) that it has received since the administration of the last performance test or the last occasion upon which it successfully achieved a Black Start when called upon by the ISO, whichever is the shorter period.

6. TRANSMISSION SYSTEM INFORMATION AND COMMUNICATIONS.

6.1 WEnet.

6.1.1 The ISO shall engage the services of an Internet Service Provider (ISP) to establish, implement and operate WEnet as a wide-band, wide-area backbone which is functionally similar to the Internet.

6.1.2 The ISO shall provide non-discriminatory access to information concerning the status of the ISO Controlled Grid by posting that information on the public access sites on WEnet.

6.1.2.1 WEnet will provide an interface for data exchange between the ISO and Scheduling Coordinators who shall each have individually assigned login accounts on WEnet.

6.1.2.2 The ISO shall provide public information over WEnet which shall include, at a minimum, but not limited to:

6.1.2.2.1 Advisory Information: The following may be provided over such time scales as the ISO may in its discretion decide:

(a) Future planned transmission Outages;

(b) Generator Meter Multipliers.

6.1.2.2.2 Day-Ahead and Hour-Ahead Information:

(a) Date;

(b) Hour;

(c) Total forecast Demand by UDC;

(d) Inter-Zonal Congestion price per Congested path;Total Regulation and Reserve service capacity reservation cost by Zone;

(e) Total capacity of Inter-Zonal Interfaces; and

(f) Available capacity of Inter-Zonal Interfaces.

6.1.2.2.3 Ex Post Information:

(a) Date;

(b) Hour; and

(c) Hourly Ex Post Price.

6.1.2.3 WEnet shall be used by the ISO to post Usage Charges for Inter-Zonal Interfaces within the ISO Controlled Grid.

6.1.2.4 WEnet shall serve as a bulletin board to enable Market Participants to inform one another of scheduling changes and trades made.

6.1.2.5 WEnet may be used by the ISO to communicate operating orders to the Scheduling Coordinators and other Market Participants, both in advance of actual operation and in real time. Such orders may include but are not limited to:

(a) Notifying Scheduling Coordinators and other Market Participants to be on call to provide Non-Spinning Reserve and Replacement Reserves and Black Start;

(b) Issuing start-up instructions;

(c) Stating the amount of Spinning Reserves to be carried;

(d) Requesting specific Ramping patterns;

(e) Indicating which Scheduling Coordinators and other Market Participants are to provide Regulation;

(f) Specifying the minimum amount of unloaded capacity that must be maintained in order to meet regulation requirements;

(g) Issuing shut-down instructions; and

(h) Specifying the voltage level and reactive reserve each Market Participant must maintain.

6.1.2.6 WEnet shall be used by the ISO to provide information to Market Participants regarding the ISO Controlled Grid. Such information may include but is not limited to:

(a) Voltage control parameters;

(b) ISO historical data for Congestion;

(c) Forecasts of Usage Charges; and

(d) Generation Meter Multipliers to support seven (7) day advance submission of Schedules by Scheduling Coordinators. Additional Generation Meter Multipliers may be published for different seasons and loading patterns.

6.2 Reliable Operation of the WEnet.

6.2.1 Market Participants shall arrange access to WEnet through the Internet Service Provider.

6.2.2 The ISO shall arrange for the Internet Service Provider to provide a pathway for public Internet connectivity through the WEnet backbone to accommodate users other than Market Participants without the need for a separate, dedicated user data link. This public Internet connection may provide a reduced level of data exchange and reduced information concerning

the reliability and performance of the ISO Controlled Grid when compared to that provided to Market Participants through dedicated user data links.

6.3 Information to be Provided By Connected Entities to the ISO.

6.3.1 Each Participating TO and Connected Entity shall provide to the ISO:

6.3.1.1 A single and an alternative telephone number and a single and an alternative facsimile number by which the ISO may contact 24 hours a day a representative of the Participating TO or Connected Entity in, or in relation to, a System Emergency;

6.3.1.2 The names or titles of the Participating TO's or Connected Entity's representatives who may be contacted at such telephone and facsimile numbers.

6.3.2 Each representative specified pursuant to Section 6.3.1 shall be a person having appropriate experience, qualification, authority, responsibility and accountability within the Participating TO or the Connected Entity to act as the primary contact for the ISO in the event of a System Emergency.

6.3.3 The details required under this Section 6.3 shall at all times be maintained up to date and the Participating TO and the Connected Entity shall notify the ISO of any changes promptly and as far in advance as possible.

6.4 Failure or Corruption of the WEnet.

The ISO shall, in consultation with Scheduling Coordinators, make provision for procedures to be implemented in the event of a total or partial failure of WEnet or the material corruption of data on WEnet and include these procedures in the ISO Protocols. The ISO shall ensure that such alternative communications systems are tested periodically.

6.5 Confidentiality.

All information posted on WEnet shall be subject to the confidentiality obligations contained in Section 20.3 of this ISO Tariff.

6.6 Standards of Conduct.

The ISO and all Market Participants shall comply with their obligations, to the extent applicable, under the standards of conduct set out in 18 C.F.R. §37.

7. TRANSMISSION PRICING.

7.1 Access Charges.

All Market Participants withdrawing Energy from the ISO Controlled Grid shall pay Access Charges in accordance with this Section 7.1. Prior to the transition date determined under Section 4 of Schedule 3 to Appendix F, the Access Charge for each Participating TO shall be determined in accordance with the principles set forth in this Section 7.1 and in Section 5 of the TO Tariff. The Access Charge shall comprise of two components, which together shall be designed to recover each Participating TO's Transmission Revenue Requirement. The first component shall be based on the Transmission Revenue Requirement without any adjustment for revenues associated with Wheeling and Usage Charges ("Transmission Revenue Credits"). The second component shall be based on the proceeds of the Transmission Revenue Balancing Account (TRBA) which shall be designed to flow through to the Participating TO's Transmission Revenue Credits, which are calculated in accordance with Section 5 of the TO Tariff.

Commencing on the transition date determined under Section 4 of Schedule 3 to Appendix F, the Access Charges shall be paid by the UDC or MSS delivering the Energy for the supply of Gross Load and by Scheduling Coordinators serving Gross Load of End-Use Customers not directly connected to the facilities of a UDC or MSS and shall consist, where

applicable, of a High Voltage Access Charge, a Transition Charge and a Low Voltage Access Charge. High Voltage Access Charges and Low Voltage Access Charges shall comprise two components, which together shall be designed to recover each Participating TO's High Voltage Transmission Revenue Requirement and Low Voltage Transmission Revenue Requirement, as applicable. The first component shall be based on the Transmission Revenue Requirement without any adjustment for revenues associated with Wheeling and Usage Charges (Transmission Revenue Credits), but including credits for Standby Transmission Revenues. The second component shall be based on the proceeds of the Transmission Revenue Balancing Account (TRBA), which shall be designed to flow through the Participating TO's Transmission Revenue. To the extent necessary, the Original Participating TO shall make conforming changes to their TO Tariff.

The High Voltage Access Charge and the Transition Charge shall be paid to the ISO based on all Energy delivered for the supply of Gross Load directly from a High Voltage Transmission Facility. The High Voltage Access Charge, the Transition Charge and the Low Voltage Access Charge for the applicable Participating TO shall be paid on all Energy delivered to all other Gross Load. The applicable High Voltage Access Charge and Transition Charge shall be assessed by the ISO as a charge for transmission service under this ISO Tariff, shall be determined in accordance with Schedule 3 of Appendix F, and shall include all applicable components of the High Voltage Access Charge and Transition Charge set forth therein**.** The Low Voltage Access Charge for each Participating TO is set forth in that Participating TO's TO Tariff. If a Participating TO is using the Low Voltage Transmission Facilities of another Participating TO, such Participating TO shall also be assessed the Low Voltage Access Charge of the other Participating TO. Each Participating TO shall recover Standby Transmission Revenues directly from the Standby Service Customers of that Participating TO through its applicable retail rates.

7.1.1 Publicly Owned Electric Utilities Access Charge

Local Publicly Owned Electric Utilities whose transmission facilities are under ISO Operational Control shall, if subject to the transmission ratemaking jurisdiction of the FERC, file with the FERC their proposed High Voltage Transmission Revenue Requirement, and any proposed changes thereto, under procedures determined by the FERC to be applicable to such filings and shall give notice to the ISO and to all Scheduling Coordinators of any such filing. Any Local Publicly Owned Electric Utility whose transmission facilities are under ISO Operational Control, and which is not subject to FERC's transmission ratemaking jurisdiction, shall submit its proposed High Voltage Transmission Revenue Requirement to the ISO in accordance with the procedures set forth in Schedule 3 of Appendix F. A New Participating TO that is a Local Publicly Owned Electric Utility shall submit its first proposed High Voltage Transmission Revenue Requirement to the FERC, if applicable, and to the ISO, as applicable, at the time the Local Publicly Owned Electric Utility submits its application to become a New Participating TO in accordance with the Transmission Control Agreement. To enable filings to be made on a comparable basis, the ISO will develop and post on the ISO Home Page a procedure for uniform accounting for all such High Voltage Transmission Facilities that is consistent with the FERC Uniform System of Accounts. If the High Voltage Transmission Revenue Requirement is submitted to the ISO and an objection to the submission is raised and cannot be resolved, the justness and reasonableness of the requirement will be evaluated by the Revenue Review Panel in accordance with standards established by FERC pursuant to the Federal Power Act and, if applicable, standards established by the ISO Governing Board. The role and responsibilities of the Revenue Review Panel shall be developed and approved by the ISO Governing Board. Federal power marketing agencies whose transmission facilities are under ISO Operational Control shall develop their High

Voltage Transmission Revenue Requirement pursuant to applicable federal laws and regulations. The procedures for public participation in a federal power marketing agency's ratemaking process are posted on the federal power marketing agency's website. The federal power marketing agency's shall also post on the website the Federal Register Notices and FERC orders for rate making processes that impact the federal power marketing agency's High Voltage Transmission Revenue Requirement. At the time the federal power marketing agency submits its application to become a New Participating TO in accordance with the Transmission Control Agreement, it shall submit its first proposed High Voltage Transmission Revenue Requirement to the FERC, if applicable, and to the ISO.

7.1.2 High Voltage Access Charge and Transition Charge Settlement. UDCs, MSSs and Scheduling Coordinators shall be charged on a monthly basis, in arrears, the applicable High Voltage Access Charge and Transition Charge. The High Voltage Access Charge and Transition Charge for a billing period is calculated by the ISO as the product of the applicable High Voltage Access Charge or Transition Charge, as applicable, and all Energy delivered for the supply of Gross Load connected to the facilities of the UDC or MSS, or for a Scheduling Coordinator with respect to the Gross Load of End-Use Customers not directly connected to the facilities of a UDC or MSS, all Energy delivered to such Gross Load. The High Voltage Access Charge and Transition Charge are determined in accordance with Schedule 3 of Appendix F of the ISO Tariff. These rates may be adjusted from time to time in accordance with Schedule 3 to Appendix F. A UDC or an MSS that is also a Participating TO shall pay, or receive payment of, if applicable, the difference between (i) the High Voltage Access Charge Transition Charge applicable to its transactions as a UDC or MSS; and (ii) the disbursement of High Voltage Access Charge revenues to which it is entitled pursuant to Section 7.1.3.

7.1.3 Disbursement of High Voltage Access Charge and Transition Charge Revenues.

The ISO shall collect and pay, on a monthly basis, to Participating TOs all High Voltage Access Charge and Transition Charge revenues at the same time as other ISO charges and payments are settled. High Voltage Access Charge revenues received with respect to the High Voltage Access Charge and the Transition Charge shall be distributed to Participating TOs in accordance with Appendix F, Schedule 3, Section 10.

7.1.3.1 [Not Used]

7.1.3.2 [Not Used]

7.1.3.3 [Not Used]

7.1.3.4 [Not Used]

7.1.3.5 [Not Used]

7.1.4 Wheeling.

Any Scheduling Coordinator or other such entity scheduling a Wheeling transaction shall pay to the ISO the product of (i) the applicable Wheeling Access Charge, and (ii) the total hourly schedules of Wheeling in kilowatt-hours for each month at each Scheduling Point associated with that transaction. Schedules that include Wheeling transactions shall be subject to the Congestion Management procedures and protocols in accordance with Sections 7.2 and 7.3.

7.1.4.1 Wheeling Access Charge. The Wheeling Access Charge Charge shall be determined by the TAC Area and transmission ownership or Entitlement, less all Encumbrances, associated with the Scheduling Point at which the Energy exits the ISO Controlled Grid. The Wheeling

Access Charge for Scheduling Points contained within a single TAC Area, that are not joint facilities, shall be equal to the High Voltage Access Charge for the applicable TAC Area in accordance with Section 3 of Appendix F plus the applicable Low Voltage Access Charge if the Scheduling Point is on a Low Voltage Transmission Facility. Wheeling Access Charges shall not apply for Wheeling under a bundled non-economy Energy coordination agreement of a Participating TO executed prior to July 9, 1996.

7.1.4.2 Wheeling Over Joint Facilities. To the extent that more than one Participating TO owns or has Entitlement to transmission capacity, less all Encumbrances, exiting the ISO Controlled Grid at a Scheduling Point, the Scheduling Coordinator shall pay the ISO each month a rate for Wheeling at that Scheduling Point which reflects an average of the Wheeling Access Charge applicable to those Participating TOs, weighted by the relative share of such ownership or Entitlement to transmission capacity, less all Encumbrances, at such Scheduling Point. If the Scheduling Point is located at High Voltage Transmission Facilities, the Wheeling Access Charge will consist of a High Voltage Wheeling Access Charge component. Additionally, if the Scheduling Point is located at Low Voltage Transmission Facilities, the applicable Low Voltage Wheeling Access Charge component will be added to the Wheeling Access Charge. The methodology for developing the weighted average rate for Wheeling at each Scheduling Point is set forth in Appendix H.

7.1.4.3 Disbursement of Wheeling Revenues. The ISO shall collect and pay to Participating TOs all Wheeling revenues at the same time as other ISO charges and payments are settled. Wheeling revenues shall be disbursed by the ISO to Participating TOs based on the following:

7.1.4.3.1 Scheduling Point with All Participating TOs in the Same TAC Area: With respect to revenues received for the payment of High Voltage Wheeling Access

Charges for Wheeling to a Scheduling Point at which all of the facilities and Entitlements, less all Encumbrances, are owned by Participating TOs in the same TAC Area, Wheeling revenues shall be disbursed to each such Participating TO based on the ratio of each Participating TO's High VoltageTransmission Revenue Requirement to the sum of all such Participating TO's High Voltage Transmission Revenue Requirements. If the Scheduling Point is located at a Low Voltage Facility, revenues received with respect to Low Voltage Wheeling Access Charges for Wheeling to that Scheduling Point shall be disbursed to the Participating TOs that own facilities and Entitlements making up the Scheduling Point in proportion to their Low Voltage Transmission Revenue Requirements.

7.1.4.3.2 Scheduling Point without All Participating TOs in the Same TAC Area: With respect to revenues received for the payment of Wheeling Access Charges for Wheeling to a Scheduling Point at which the facilities and Entitlements, less all Encumbrances, are owned by Participating TOs in different TAC Areas, Wheeling revenues shall be disbursed to such Participating TOs as follows. First, the revenues shall be allocated between such TAC Areas in proportion to the ownership and Entitlements of transmission capacity, less all Encumbrances, at the Scheduling Point of the Participating TOs in each such TAC Area. Second, the revenues thus allocated to each TAC Area shall be disbursed among the Participating TOs in the TAC Area in accordance with Section 7.1.4.3.1.

7.1.4.4 Information Required from Scheduling Coordinators. Scheduling Coordinators that schedule Wheeling Out or Wheeling Through transactions to a Bulk Supply Point, or other point of interconnection between the ISO Controlled Grid and the transmission system of a Non-Participating TO, that are located within the ISO

Control Area, shall provide the ISO, within 5 days from the end of the calendar month to which the relevant Trading Day relates, details of such transactions scheduled by them (other than transactions scheduled pursuant to Existing Contracts) sorted by Bulk Supply Point or point of interconnection for each Settlement Period (including kWh scheduled). The ISO shall use such information, which may be subject to review by the ISO, to settle Wheeling Access Charges and payments. The ISO shall publish a list of the Bulk Supply Points or interconnection points to which this Section 7.1.4.4 applies together with details of the electronic form and procedure to be used by Scheduling Coordinators to submit the required information on the ISO "Home Page".

7.1.4.4.1 Application.

Notwithstanding any other provision in this Tariff, including the ISO Protocols, the temporary simplification measure specified in this Section 7.1.4.4 shall have effect until discontinued by a Notice of Full-Scale Operations issued by the Chief Executive of the ISO.

7.1.4.4.2 Notice of Full-Scale Operations.

When the Chief Executive Officer of the ISO determines that the ISO is capable of implementing this Tariff, including the ISO Protocols, without modification in accordance with a temporary simplification measure specified in this Section 7.1.4.4, he shall issue a notice ("Notice of Full Scale Operations") and shall specify the relevant temporary simplification measure and the date on which it will permanently cease to apply, which date shall be not less than seven (7) days after the Notice of Full-Scale Operations is issued.

7.1.4.4.3 A Notice of Full-Scale Operations shall be issued when it is posted on the ISO Internet "Home Page", at http://www.caiso.com or such other Internet address as the ISO may publish from time to time.

7.1.5 Unbundled Retail Transmission Rates.

The Access Charge for unbundled retail transmission service provided to End-Users by a FERC-jurisdictional electric utility Participating TO shall be determined by the FERC and submitted to the ISO for information only. For a Local Publicly Owned Electric Utility, retail transmission service rates shall be determined by the Local Regulatory Authority and submitted to the ISO for information only.

7.1.6 [Not Used]

7.1.6.1 Tracking Account. If the Access Charge rate methodology implemented pursuant to Section 7.1 results in Access Charge rates for any Participating TO which are different from those in effect prior to the ISO Operations Date, an amount equal to the difference between the new rates and the prior rates for the remainder of the period, if any, during which a cost recovery plan established pursuant to Section 368 of the California Public Utilities Code (as added by AB 1890) is in effect for such Participating TO shall be recorded in a tracking account. The balance of that tracking account will be recovered from customers and paid to the appropriate Participating TO after termination of the cost recovery plan set forth in Section 368 of California Public Utilities Code (as added by AB 1890). The recovery and payments shall be based on an amortization period not exceeding three years in the case of electric corporations regulated by the CPUC or five years for Local Publicly Owned Electric Utilities.

7.1.6.2 Addition of New Facilities After ISO Implementation. The costs of transmission facilities placed in service after the ISO Operations Date shall be recovered consistent with the cost recovery determinations made pursuant to Section 3.2.7.

7.1.6.3 Effect on Tax-Exempt Status. Nothing in this Section shall compel any Participating TO to violate any restrictions applicable to facilities financed with tax-exempt bonds or contractual restrictions and covenants regarding the use of transmission facilities existing as of December 20, 1995.

7.2 Zonal Congestion Management.

7.2.1 The ISO Will Perform Congestion Management.

7.2.1.1 Transmission Congestion. Congestion occurs when there is insufficient transfer capacity to simultaneously implement all of the Preferred Schedules that Scheduling Coordinators submit to the ISO.

7.2.1.2 Zone-Based Approach. The ISO will use a Zone-based approach to manage Congestion. A Zone is a portion of the ISO Controlled Grid within which Congestion is expected to occur infrequently or have relatively low Congestion Management costs. Inter-Zonal Interfaces consist of transmission facilities that are expected to have relatively high Congestion Management costs, as described in Section 7.2.7.1. For these interfaces, allocation of usage based on the value placed on these interfaces by the Scheduling Coordinators will increase efficient use of the ISO Controlled Grid.

7.2.1.3 Types of Congestion. Congestion that occurs on Inter-Zonal Interfaces is referred to as "Inter-Zonal Congestion." Congestion that occurs due to transmission system constraints within a Zone is referred to as "Intra-Zonal Congestion."

7.2.1.4 Elimination of Potential Transmission Congestion. The ISO's Day-Ahead and Hour-Ahead scheduling procedures will eliminate potential Congestion by:

7.2.1.4.1 scheduling the use of Inter-Zonal Interfaces by the Scheduling Coordinators who place the highest value on those rights, based on the Adjustment Bids that are submitted by Scheduling Coordinators; and

7.2.1.4.2 rescheduling Scheduling Coordinators' resources (but so that Intra-Zonal transmission limits are not violated) using the Adjustment Bids that are submitted by Scheduling Coordinators.

7.2.1.5 Elimination of Real Time Inter-Zonal Congestion. In its management of Inter-Zonal Congestion in real time, the ISO will make the minimum amount of adjustment necessary to relieve Inter-Zonal Congestion by incrementing or decrementing Generation or Demand, as necessary, based on the merit order stack, in accordance with Dispatch Protocol Section 8.3.

7.2.2 General Requirements for the ISO's Congestion Management. The ISO's Congestion Management in the Day-Ahead Market and Hour-Ahead Market shall:

7.2.2.1 only operate if the Scheduling Coordinators do not eliminate Congestion voluntarily;

7.2.2.2 adjust the Schedules submitted by Scheduling Coordinators only as necessary to alleviate Congestion;

7.2.2.3 maintain separation between the resource portfolios of different Scheduling Coordinators, by not arranging any trades between Scheduling Coordinators as part of the Inter-Zonal Congestion Management process;

7.2.2.4 for Inter-Zonal Congestion Management, suggest, but not require, rescheduling within Scheduling Coordinators' portfolios of Schedules to produce a feasible Schedule by the conclusion of the scheduling procedure;

7.2.2.5 [Not Used]

7.2.2.6 publish information and, if requested by Scheduling Coordinators will provide a mechanism to facilitate voluntary trades among Scheduling Coordinators;

7.2.2.7 [Not Used]

7.2.2.8 adjust the Schedules submitted by Scheduling Coordinators on the basis of any price information voluntarily submitted through their Adjustment Bids; and

7.2.2.9 for the hours when the ISO applies its Inter-Zonal Congestion Management apply the same Usage Charge to all Scheduling Coordinators for their allocated share of the Inter-Zonal Interface capacity.

7.2.3 Use of Computational Algorithms for Congestion Management and Pricing.

The ISO will use computer optimization algorithms to implement its Congestion Management process.

7.2.4 Adjustment Bids Will Be Used by the ISO to Manage Congestion.

7.2.4.1 Uses of Adjustment Bids by the ISO.

7.2.4.1.1 The ISO shall use the Adjustment Bids, in both the Day-Ahead Market and the Hour-Ahead Market, to schedule Inter-Zonal Interface capacity to those Scheduling Coordinators which value it the most and to reflect the Scheduling Coordinators' implicit values for Inter-Zonal Interface capacity.

7.2.4.1.2 The Adjustment Bids will be used by the ISO to determine the marginal value associated with each Congested Inter-Zonal Interface.

7.2.4.1.3 [Not used]

7.2.4.1.4 The ISO shall also use the Adjustment Bids (in addition to other resources), in the ISO's real time system operation, for Intra-Zonal Congestion Management and to decrement Generation in order to accommodate Overgeneration conditions, including Reliability Must-Run Generation which the ISO requests under Reliability Must-Run Contracts.

7.2.4.1.5 To facilitate trades amongst Scheduling Coordinators, the ISO will develop procedures to publish Adjustment Bids of those Scheduling Coordinators who authorize the publication of their identity and/or Adjustment Bids. Scheduling Coordinators will then be able to utilize this information to conduct trades to aid Congestion Management.

7.2.4.2 Submission of Adjustment Bids.

7.2.4.2.1 Each Scheduling Coordinator is required to submit a preferred operating point for each of its resources. However, a Scheduling Coordinator is not required to submit an Adjustment Bid for a resource.

7.2.4.2.2 The minimum MW output level specified for a resource, which may be zero MW, and the maximum MW output level specified for a resource must be physically realizable by the resource.

7.2.4.2.3 The Scheduling Coordinator's preferred operating point for each resource must be within the range of the Adjustment Bids.

7.2.4.2.4 Adjustment Bids can be revised by Scheduling Coordinators after the Day-Ahead Market has closed for consideration in the Hour-Ahead Market and, after the Hour-

Ahead Market has closed, for consideration in the Real Time Market provided that, if the ISO has accepted all, or a portion of, an offered Adjustment Bid, the Scheduling Coordinator is obligated to provide the relevant capacity increase or decrease to the ISO at the price of the accepted Adjustment Bid.

7.2.4.2.5 During the ISO's Day-Ahead scheduling process, the MW range of the Adjustment Bid, but not the price values, may be changed.

7.2.4.2.6 An Adjustment Bid shall constitute a standing offer to the ISO until it is withdrawn.

7.2.4.2.7 The ISO may impose additional restrictions and bidding activity rules on the form of Adjustment Bids, the updating of Adjustment Bids, and the Scheduling Coordinator that may submit Adjustment Bids in connection with Inter-SC Trades, as needed, to ensure that the ISO's computational algorithms can operate reliably and produce efficient outcomes.

7.2.5 Inter-Zonal Congestion Management.

7.2.5.1 The scheduling procedures in the Day-Ahead Market and Hour-Ahead Market will first ascertain, through power flow calculations, whether or not Inter-Zonal Congestion would exist if all of the Preferred and Revised Schedules submitted by the Scheduling Coordinators were accepted by the ISO. If no Inter-Zonal Congestion would exist, then all Inter-Zonal Interface uses will be accepted and the Usage Charges will be zero.

7.2.5.2 The purpose of Inter-Zonal Congestion Management is to allocate the use of, and determine the marginal value of, active Inter-Zonal Interfaces. Inter-Zonal Congestion Management will comply with the requirements stated in Sections 7.2.2, 7.2.4 and 7.2.5.

7.2.5.2.1 Inter-Zonal Congestion Management will keep each Scheduling Coordinator's portfolio of Generation and Demand (i.e., the Scheduling Coordinator's Preferred Schedule) separate from the portfolios of the other Scheduling Coordinators, as the ISO adjusts the Schedules to alleviate Inter-Zonal Congestion.

7.2.5.2.2 If Congestion would exist on one or more active Inter-Zonal Interfaces, then the ISO shall execute its Inter-Zonal Congestion Management algorithms to determine a set of tentative (in the Day-Ahead procedure) allocations of Inter-Zonal Interface rights and tentative (in the Day-Ahead procedure) Usage Charges, where the Usage Charges will be calculated as the marginal values of the Congested Inter-Zonal Interfaces. The marginal value of a Congested Inter-Zonal Interface is calculated by the ISO's computer optimization algorithm to equal the total change in redispatch costs (based on the Adjustment Bids) that would result if the interface's scheduling limit was increased by a small increment.

7.2.5.2.3 As part of the Day-Ahead scheduling procedure, but not the Hour-Ahead scheduling procedure, Scheduling Coordinators will be given the opportunity to adjust their Preferred Schedules (including the opportunity to make trades amongst one another) and to submit Revised Schedules to the ISO, in response to the ISO's Suggested Adjusted Schedules and prices for Inter-Zonal Interfaces.

7.2.5.2.4 If the ISO receives any Revised Schedules it will execute its Inter-Zonal Congestion Management algorithms using revised Preferred Schedules, to produce a new set of allocations and prices.

7.2.5.2.5 All of the ISO's calculations will treat each Settlement Period independently of the other Settlement Periods in the Trading Day.

7.2.5.2.6 [Not Used]

7.2.5.2.7 If inadequate Adjustment Bids have been submitted to schedule Inter-Zonal Interface capacity on an economic basis and to the extent that scheduling decisions cannot be made on the basis of economic value, the ISO will allocate the available Inter-Zonal Interface capacity to Scheduling Coordinators in proportion to their respective proposed use of that capacity as indicated in their Schedules and shall curtail scheduled Generation and Demand to the extent necessary to ensure that each Scheduling Coordinator's Schedule remains balanced.

7.2.5.2.8 The ISO will publish information prior to the Day-Ahead Market, between the iterations of the Day-Ahead Market, and prior to the Hour-Ahead Market, to assist the Scheduling Coordinators to construct their Adjustment Bids so as to actively participate in the management of Congestion and the valuation of Inter-Zonal Interfaces. This information may include the ISO's most-current information regarding: potentially Congested paths, projected transmission uses, projected hourly Loop Flows across Inter-Zonal Interfaces, scheduled line Outages, forecasts of expected system-wide Load, the ISO's Ancillary Services requirements, Generation Meter Multipliers, and power flow outputs.

7.2.5.2.8 The ISO will also publish information, once it is available, regarding tentative prices for the use of Inter-Zonal Interfaces, and Generation shift factors for the use of Inter-Zonal Interfaces, which indicate the relative effectiveness of Generation shifts in alleviating Congestion.

7.2.6 Intra-Zonal Congestion Management.

7.2.6.1 [Not used]

7.2.6.1.1 [Not used]

7.2.6.1.2 [Not Used]

7.2.6.1.3 [Not Used]

7.2.6.1.4 [Not Used]

7.2.6.1.5 [Not Used]

7.2.6.1.6 [Not Used]

7.2.6.2 Intra-Zonal Congestion During Initial Period. Except as provided in Sections 5.2 and 11.2.4.2, the ISO will perform Intra-Zonal Congestion Management in real time using available Adjustment Bids and Imbalance Energy bids, based on their effectiveness and in merit order, to minimize the cost of alleviating Congestion. In the event no Adjustment Bids or Imbalance Energy bids are available, the ISO will exercise its authority to direct the redispatch of resources as allowed under the Tariff, including Section 2.4.2 and 2.4.4.

7.2.6.3 Cost of Intra-Zonal Congestion Management. The net of the amounts paid by the ISO to the Scheduling Coordinators and the amounts charged to the Scheduling Coordinators will be calculated and charged to all Scheduling Coordinators through a Grid Operations Charge, as described in Section 7.3.2.

7.2.7 Creation, Modification and Elimination of Zones.

7.2.7.1 Active Zones. The Active Zones are as set forth in Appendix I to this ISO Tariff.

7.2.7.2 Modifying Zones. The ISO shall monitor usage of the ISO Controlled Grid to determine whether new Zones should be created, or whether existing Zones should be eliminated, in accordance with the following procedures.

7.2.7.2.1 If over a 12-month period, the ISO finds that within a Zone the cost to alleviate the Congestion on a path is equivalent to at least 5 percent of the product of the rated capacity of the path and the weighted average High Voltage Access Charge and Low

Voltage Access Charge, as applicable, of the Participating TOs, the ISO may announce its intention to create a new Zone. In making this calculation, the ISO will only consider periods of normal operations. A new Zone will become effective 90 days after the ISO Governing Board has determined that a new Zone is necessary.

7.2.7.2.2 The ISO may, at its own discretion, shorten the 12-month and 90-day periods for creating new Zones if the ISO Governing Board determines that the planned addition of new Generation or Load would result in Congestion that would meet the criterion specified in Section 7.2.7.2.1.

7.2.7.2.3 [Not Used]

7.2.7.2.4 If a new transmission project or other factors will eliminate Congestion between existing Zones, the ISO may modify or eliminate those Zones at its discretion.

7.2.7.2.5 The ISO may change the criteria for establishing or modifying Zone boundaries, subject to regulatory approval by the FERC.

7.2.7.3 Active and Inactive Zones.

7.2.7.3.1 An Active Zone is one for which a workably-competitive Generation market exists on both sides of the relevant Inter-Zonal Interface for a substantial portion of the year so that Congestion Management can be effectively used to manage Congestion on the relevant Inter-Zonal Interface. Pending the ISO's determination of the criteria for defining "workable competitive generation markets", the Inactive Zones will, as an interim measure, be those specified in Section 7.2.7.3.4.

7.2.7.3.2 The Congestion Management described in this Section 7.2, and the Usage Charges stemming from the application of these procedures, shall not apply to Inter-Zonal Interfaces with Inactive Zones.

7.2.7.3.3 For Inactive Zones, any costs associated with Congestion Management on the inactive Inter-Zonal Interface (for example, the above market costs associated with Generation "call" contracts) will be allocated to the Service Area of the Participating TOs who own the inactive Inter-Zonal Interface, as set forth in the TO Tariff and any Intra-Zonal Congestion Management costs within the Inactive Zone and the adjacent Zone will be combined and will be allocated as if the two Zones were a single Zone.

7.2.7.3.4 The initial inactive Inter-Zonal Interfaces are the interface between the San Francisco Zone and the remainder of the ISO Controlled Grid, and the interface between the Humboldt Zone and the remainder of the ISO Controlled Grid. The initial Inactive Zones are the San Francisco Zone and the Humboldt Zone.

7.2.7.3.5 The determination of whether a new Zone or an existing Inactive Zone should become an Active Zone and the determination of whether a workably-competitive Generation market exists for a substantial portion of the year, shall be made by the ISO Governing Board, using the same approval criteria as are used for the creation or modification of Zones. The ISO Governing Board shall adopt criteria that defines a “workably competitive Generation” market. The ISO Governing Board will review the methodology used for the creation or modification of Zones (including Active Zones and Inactive Zones) on an annual basis and make such changes as it considers appropriate.

7.3 Usage Charges and Grid Operations Charges.

7.3.1 Usage Charges for Inter-Zonal Congestion.

The Usage Charge is used by the ISO to charge Scheduling Coordinators for the use of Congested Inter-Zonal Interfaces. Subject to Section 2.4.4.4.4.1, the Usage Charge shall be paid by all Scheduling Coordinators that use a Congested Inter-Zonal Interface. If a Scheduling

Coordinator uses more than one Congested Inter-Zonal Interface, it will pay a Usage Charge for each Congested Inter-Zonal Interface that it uses.

7.3.1.1 Calculation and Allocation of Usage Charge. Those Scheduling Coordinators who are permitted by the ISO to use a Congested Inter-Zonal Interface will pay a Usage Charge. The Usage Charge is determined using Inter-Zonal Congestion Management described in Section 7.2.5, and is calculated as the hourly marginal value of an incremental kW of Inter-Zonal Interface capacity (in cents per kWh). The same Usage Charge will be used to compensate Scheduling Coordinators who, in effect, create transmission capacity through counter Schedules on Congested Inter-Zonal Interfaces.

7.3.1.2 Calculation of Marginal Value of an Inter-Zonal Interface. The marginal value of an Inter-Zonal Interface is the basis for the Usage Charge associated with the scheduled use of the Inter-Zonal Interface. This price is calculated from the Adjustment Bids of the Scheduling Coordinators and the ISO's computer optimization algorithms, using the procedures described in Section 7.2.

7.3.1.2.1 The price used to determine the Usage Charge will be the Day-Ahead price for those scheduling in the Day-Ahead Market, or the Hour-Ahead price for those Schedules submitted after the Day-Ahead Market closed.

7.3.1.2.2 The Day-Ahead prices are calculated based on the Adjustment Bids of the Scheduling Coordinators who participate in the Day-Ahead Market. These Day-Ahead prices are used to calculate Usage Charges for Schedules accepted in the Day-Ahead Market.

7.3.1.2.3 The Hour-Ahead prices are calculated based on Adjustment Bids submitted or otherwise still in effect after the Day-Ahead procedures have concluded. These prices are applied to all Schedules for the use of the Congested Inter-Zonal Interfaces that have been

submitted and accepted after the ISO's Day-Ahead scheduling and Congestion Management have concluded.

7.3.1.3 Default Usage Charge. If inadequate or unusable Adjustment Bids have been submitted to the ISO to enable the ISO's Congestion Management to schedule Inter-Zonal Interface capacity on an economic basis, then the ISO will calculate and impose a default Usage Charge, in accordance with Sections 7.3.1.3.1 through 7.3.1.3.4.

7.3.1.3.1 The default Usage Charge will be calculated within a range having an absolute floor of $0/MWh and an absolute ceiling of $500/MWh; provided that the ISO may vary the floor within the absolute limits, with day-prior notice (e.g., applicable to next day's Day-Ahead Market) to Scheduling Coordinators, and vary the ceiling within the absolute limits, with at least seven (7) days notice to Scheduling Coordinators.

7.3.1.3.2 The default Usage Charge will be calculated, in accordance with this Section 7.3.1.3, by applying a pre-set adder, ranging from $0/MWh to $99/MWh, to the highest incremental Adjustment Bid used, less the applicable decremental Adjustment Bid used; provided that in all cases where there are insufficient decremental Adjustment Bids or no decremental Adjustment Bids available, in the exercise of mitigating Congestion, the applicable decremental price will be set equal to $0/MWh; provided, further, that the ISO may vary the pre-set adder with day-prior notice to Scheduling Coordinators (*e.g.*, applicable to next day's Day-Ahead Market).

7.3.1.3.3 Upon the ISO Operations Date, and until such time as the ISO determines otherwise, the ceiling price for the default Usage Charge will be set at $250/MWh; the floor price for the default Usage Charge will be set at $30/MWh; and the pre-set adder that is to be applied in accordance with section 7.3.1.3.2 will be set at $0/MWh.

7.3.1.3.4 The ISO will develop and implement a procedure for posting default Usage Charges on the WEnet or ISO Home Page.

7.3.1.3.5 If the Congestion Management software is not capable of calculating the default Usage Charge upon the ISO Operations Date in accordance with Sections 7.3.1.3.1 through 7.3.1.3.4, the ISO will establish a fixed default Usage Charge within the absolute limits of $0/MWh and $500/MWh, which may be changed by the ISO with day-prior notice. Initially, the default Usage Charge would be capped at $100/MWh. As soon as tested and available, the ISO will implement the Congestion Management software to calculate the default Usage Charge in accordance with Sections 7.3.1.3.1 through 7.3.1.3.4 after giving at least seven (7) days notice to Scheduling Coordinators, by way of a notice posted on the ISO Internet "Home Page" at http://www.caiso.com or such other Internet address as the ISO may publish from time to time.

7.3.1.4 Determination of Usage Charges to be Paid by Scheduling Coordinator. All Scheduling Coordinators whose Schedules requiring use of a Congested Inter-Zonal Interface have been accepted by the ISO, shall pay a Usage Charge for each hour for which they have been scheduled to use the Inter-Zonal Interface. The amount payable shall be the product of the Usage Charge referred to in Section 7.3.1.2 for the particular hour, multiplied by the Scheduling Coordinator's scheduled flows (in kW) and capacity, if any, reserved for Ancillary Services over the Inter-Zonal Interface for that particular hour.

7.3.1.5 Determination of Usage Charges to be Paid to Scheduling Coordinators Who Counter-Schedule.

7.3.1.5.1 Scheduling Coordinators who in effect create additional Inter-Zonal Interface transmission capacity on Congested Inter-Zonal Interfaces will receive from the ISO a Usage

Charge for each hour they have counter-scheduled on the Congested Inter-Zonal Interfaces. The amount payable shall be the product of the Usage Charge referred to in Section 7.3.1.2 for that particular hour, multiplied by the Scheduling Coordinator's scheduled flows.

7.3.1.5.2 If a Scheduling Coordinator fails to provide the scheduled flows in a counter direction, it must reimburse the ISO for the ISO's costs of buying or selling Imbalance Energy in each of the Zones affected by the non-provided scheduled flows in a counter direction, at the ISO's Zonal Imbalance Energy prices. That is, for any Scheduling Coordinator that does not produce, in real time, the amount of Energy scheduled in the Day-Ahead Market or Hour-Ahead Market will be deemed to have purchased/sold the amount of Energy under/over produced in the real time imbalance market at the real time price.

7.3.1.6 ISO Disbursement of Net Usage Charge Revenues. The ISO will determine the net Usage Charges on an interface-by-interface basis by subtracting the Usage Charge fees paid to Scheduling Coordinators from the Usage Charge fees paid by Scheduling Coordinators. The net Usage Charge revenues collected by the ISO for each Inter-Zonal Interface shall be, subject to the provisions of Section 7.3.1.7 of the ISO Tariff, paid to: (i) FTR Holders, in accordance with Section 9.6; and (ii) to the extent not paid to FTR Holders, to Participating TOs who own the Inter-Zonal Interfaces (to be credited in turn by them to their Transmission Revenue Balancing Accounts, or, for those Participating TOs that do not have such accounts, to their transmission revenue requirements).

7.3.1.7 ISO Debit of Net Usage Charge Revenues. If, after the issuance of Final Day-Ahead Schedules by the ISO, (a) Participating TOs instruct the ISO to reduce interface limits based on operating conditions or (b) an unscheduled transmission outage occurs and as a result of either of those events, Congestion is increased and Available Transfer

Capacity is decreased in the Inter-Zonal Interface in the Hour-Ahead Market, the ISO shall: (1) charge each Participating TO and FTR Holder with an amount equal to its proportionate share, based on its financial entitlement to Usage Charges in the Day-Ahead Market in accordance with Section 7.3.1.6, of the product of (i) the Usage Charge in the Day-Ahead Market and (ii) the reduction in Available Transfer Capacity across the Inter-Zonal Interface in the direction of the Congestion (such amount due to the Participating TOs to be debited by them in turn from their Transmission Revenue Balancing Accounts or, for those Participating TOs that do not have such accounts, to their transmission revenue requirements); (2) charge each Scheduling Coordinator with its proportionate share, based on Schedules in the Day-Ahead Market across the Inter-Zonal Interface in the direction of the Congestion, of the difference between the amount charged to Participating TOs and FTR Holders under clause (1) and the Usage Charges in the Hour-Ahead Market associated with the reduced Available Transfer Capacity across the Congested Inter-Zonal Interface; and (3) credit each Scheduling Coordinator whose Schedule in the Hour-Ahead Market for the transfer of Energy across the Congested Inter-Zonal Interface was adjusted due to the reduction in Available Transfer Capacity an amount equal to the product of the adjustment (in MW) and the Usage Charge in the Hour-Ahead Market (in$/MW).

The ISO will issue a notice to Scheduling Coordinators of the operating hour, and extent, for which the derate will apply in the relevant Hour-Ahead Markets. The timing and form of such notices shall be set forth in ISO procedures.

7.3.2 Grid Operations Charge for Intra-Zonal Congestion.

Scheduling Coordinators whose resources are redispatched by the ISO, in accordance with Intra-Zonal Congestion Management, will be paid or charged based on the Adjustment Bids or Imbalance Energy bids that they have provided to the ISO. The net

redispatch cost will be recovered for each Settlement Period through the Grid Operations Charge, which shall be paid to the ISO by all Scheduling Coordinators in proportion to their metered Demands within the Zone with Intra-Zonal Congestion, and scheduled exports from the Zone with Intra-Zonal Congestion to a neighboring Control Area, provided that, with respect to Demands within an MSS in the Zone and scheduled exports from the MSS to a neighboring Control Area, a Scheduling Coordinator shall be required to pay Grid Operations Charges only with respect to Intra-Zonal Congestion, if any, that occurs on an interconnection between the MSS and the ISO Controlled Grid, and with respect to Intra-Zonal Congestion that occurs within the MSS, to the extent the Congestion is not relieved by the MSS Operator.

7.4 Transmission Losses.

7.4.1 Obligation to Provide for Transmission Losses.

Each Scheduling Coordinator shall ensure that it schedules sufficient Generation to meet both its Demand and Transmission Losses responsibilities as determined in accordance with this Section 7.4.

7.4.2 Determination of Transmission Losses.

The total Demand that may be served by a Generating Unit, in a given hour, taking account of Transmission Losses, is equal to the product of the total Metered Quantity of that Generating Unit in that hour and the Ex Post Generation Meter Multiplier calculated by the ISO in the hour for that Generator location except in accordance with Section 7.4.3. The Ex Post Generation Meter Multiplier shall be greater than one (1) where the Generating Unit's contribution to the ISO Controlled Grid reduces Transmission Losses and shall be less than one (1) where the Generating Unit's contribution to the system increases Transmission Losses. All Generating Units supplying Energy to the ISO

Controlled Grid at the same electrical bus shall be assigned the same Ex Post Generation Meter Multiplier.

7.4.2.1 Procedures for Calculating Generation Meter Multiplier.

7.4.2.1.1 By 6:00 p.m. two days preceding a Trading Day, the ISO will calculate, and post on WEnet, an estimated Generation Meter Multiplier for each electrical bus at which one or more Generating Units may supply Energy to the ISO Controlled Grid. The Generation Meter Multipliers shall be determined utilizing the Power Flow Model based upon the ISO's forecasts of total Demand for the ISO Controlled Grid and Demand and Generation patterns throughout the ISO Controlled Grid. The ISO shall continuously update the data to be used in calculating the Generation Meter Multipliers to reflect changes in system conditions on the ISO Controlled Grid, and the ISO shall provide all Scheduling Coordinators with access to such data. The ISO shall not be required to determine new Generation Meter Multipliers for each hour; the ISO will determine the appropriate period for which each set of Generation Meter Multipliers will apply, which period may vary based upon the expected frequency and magnitude of changes in system conditions on the ISO Controlled Grid.

7.4.2.1.2 The ISO will calculate the Ex Post Generation Meter Multiplier for each electrical bus at which one or more Generating Units may supply Energy to the ISO Controlled Grid. The Ex Post Generation Meter Multipliers shall be determined utilizing the Power Flow Model based upon the ISO's total Demand for the ISO Controlled Grid and Demand and Generation patterns throughout the ISO Controlled Grid. The ISO's total Demand shall be determined using real time power flow data based on a state-estimation result.

7.4.2.2 Methodology for Calculating Generation Meter Multiplier. The ISO shall calculate the Generation Meter Multiplier for each Generating Unit location in a given hour by subtracting the Scaled Marginal Loss Rate from 1.0.

7.4.2.2.1 The Scaled Marginal Loss Rate for a given Generating Unit location in a given hour shall equal the product of (i) the Full Marginal Loss Rate for each Generating Unit location and hour, and (ii) the Loss Scale Factor for such hour.

7.4.2.2.2 The ISO shall calculate the Full Marginal Loss Rate for each Generating Unit location for an hour by utilizing the Power Flow Model to calculate the effect on total Transmission Losses for the ISO Controlled Grid of injecting an increment of Generation at each such Generating Unit location to serve an equivalent incremental MW of Demand distributed on a pro-rata basis throughout the ISO Controlled Grid.

7.4.2.2.3 The ISO shall determine the Loss Scale Factor for an hour by determining the ratio of forecast Transmission Losses to the total Transmission Losses which would be collected if Full Marginal Loss Rates were applied to each Generating Unit in that hour.

7.4.3 In the event that the Power Flow Model fails to determine Ex Post GMMs, for example if GMMs are outside the range of reasonability (typically 0.8 to 1.1), the ISO will use Default GMMs in their place.

7.5 FERC Annual Charges.

7.5.1 Obligation for FERC Annual Charges.

7.5.1.1 Each Scheduling Coordinator shall be obligated to pay for the FERC Annual Charges for its use of the ISO Controlled Grid to transmit electricity, including any use of the ISO Controlled Grid through Existing Contracts scheduled by the Scheduling Coordinator. Any FERC Annual Charges to be assessed by FERC against the ISO for such use of the ISO Controlled Grid shall

be assessed against Scheduling Coordinators at the FERC Annual Charge Recovery Rate, as determined in accordance with this Section 7.5. Such assessment shall be levied monthly against all Scheduling Coordinators based upon each Scheduling Coordinator's metered Demand and exports.

7.5.1.2 Scheduling Coordinators may elect, each year, to pay the FERC Annual Charges assessed against them by the ISO either on a monthly basis or an annual basis. Scheduling Coordinators that elect to pay FERC Annual Charges on a monthly basis shall make payment for such charges within five (5) Business Days after issuance of the Preliminary Settlement Statement for the last day of the relevant calendar month. Scheduling Coordinators that elect to pay FERC Annual Charges on an annual basis shall make payment for such charges within five (5) Business Days after the ISO issues a notice that it has received a FERC Annual Charge assessment for the relevant year from the FERC. Scheduling Coordinators that elect to pay FERC Annual Charges on an annual basis shall maintain either an Approved Credit Rating, as defined with respect to either payment of the Grid Management Charge, or payment of other charges, or shall maintain security in accordance with Section 2.2.3.2.

7.5.2 FERC Annual Charge Trust Account.

All funds collected by the ISO for FERC Annual Charges shall be deposited in the FERC Annual Charge Trust Account. The FERC Annual Charge Trust Account shall be an interest-bearing account separate from all other accounts maintained by the ISO, and no other funds shall be commingled in it at any time. The ISO shall disburse funds from the FERC Annual Charge Trust Account in order to pay the FERC any and all FERC Annual Charges assessed against the ISO.

7.5.3 Determination of the FERC Annual Charge Recovery Rate.

7.5.3.1 The FERC Annual Charge Recovery Rate shall be set at the projected total FERC Annual Charge obligation with regard to transactions on the ISO Controlled Grid during the year

in which the FERC Annual Charge Recovery Rate is collected, adjusted for interest projected to be earned on the monies in the FERC Annual Charge Trust Account ("Annual Charge Obligation"), divided by the projected Demand and exports during that year for all entities subject to assessment of FERC Annual Charges by the ISO ("Annual Charge Demand"). The FERC Annual Charge Recovery Rate for the period from January 1, 2001 until the first adjustment of the FERC Annual Charge Recovery Rate goes into effect shall be posted on the ISO Home Page at least fifteen (15) days in advance of the date on which the initial rate will go into effect.

7.5.3.2 The ISO may adjust the FERC Annual Charge Recovery Rate on a quarterly basis, as necessary, to reflect the net effect of the following:

(a) the difference, if any, between actual Annual Charge Demand and projected Annual Charge Demand during the year-to-date;

(b) the difference, if any, between the projections of the Annual Charge Obligation and the Annual Charge Demand upon which the charge for the year is based and the ISO's most current projections of those values, provided that the projection of the Annual Charge Obligation may only be adjusted on an annual basis for changes in the Federal Energy Regulatory Commission's budget for its electric regulatory program or changes in the projected total transmission volumes subject to assessment of FERC Annual Charges;

(c) the difference, if any, between actual and projected interest earned on funds in the FERC Annual Charge Trust Account; and

(d) any positive or negative balances of funds collected for FERC Annual Charges in a previous year after all invoices for FERC Annual Charges for that year have been paid by the ISO, other than those that are addressed through the mechanism described in Section 7.5.3.4.

7.5.3.3 The adjusted FERC Annual Charge Recovery Rate shall take effect on the first day of the calendar quarter. The ISO shall publish all data and calculations used by the ISO as a basis for such an adjustment on the ISO Home Page at least fifteen (15) days in advance of the date on which the new rate shall go into effect.

7.5.3.4 If the FERC Annual Charges assessed by FERC against the ISO for transactions on the ISO Controlled Grid during any year exceed or fall short of funds collected by the ISO for FERC Annual Charges with respect to that year by a range of 10% or less, the ISO shall take such under- or over-recovery into account through an adjustment to the FERC Annual Charge Recovery Rate in accordance with Section 7.5.3.2. Any deficiency of available funds necessary to pay for any assessment of FERC Annual Charges payable by the ISO may be covered by an advance of funds from the ISO's Grid Management Charge, provided any such advanced funds will be repaid. If the ISO's collection of funds for FERC Annual Charges with respect to any year results in an under- or over-recovery of greater than 10%, the ISO shall either assess a surcharge against all active Scheduling Coordinators for the amount under-recovered or shall issue a credit to all active Scheduling Coordinators for the amount over-recovered. Such surcharge or credit shall be allocated among all active Scheduling Coordinators based on the percentage of each active Scheduling Coordinators metered Demand and exports during the relevant year. For purposes of this section, an "active Scheduling Coordinator" shall be a Scheduling Coordinator certified by the ISO in accordance with Section 2.2 of this ISO Tariff at the time the ISO issues a surcharge or credit under this section. The ISO will issue any surcharges or credits under this section within 60 days of receiving a FERC Annual Charge assessment from the FERC.

7.5.4 Credits and Debits of FERC Annual Charges Collected from Scheduling Coordinators.

In addition to the surcharges or credits permitted under Sections 7.5.3 or 11.6.3.3 of this ISO Tariff, the ISO shall credit or debit, as appropriate, the account of a Scheduling Coordinator for any over- or under-assessment of FERC Annual Charges that the ISO determines occurred due to the error, omission, or miscalculation by the ISO or the Scheduling Coordinator.

8. GRID MANAGEMENT CHARGE.

8.1 ISO's Obligations.

8.1.1 FERC's Uniform System of Accounts.

The ISO shall maintain a set of financial statements and records in accordance with the FERC's Uniform System of Accounts.

8.1.2 [Not Used]

8.2 Costs Included in the Grid Management Charge.

8.2.1 [Not Used]

8.2.2 Operating Costs.

Budgeted annual operating costs, which shall include all staffing costs including remuneration of contractors and consultants, salaries, benefits and any incentive programs for employees, costs of operating, replacing and maintaining ISO systems, lease payments on facilities and equipment necessary for the ISO to carry out its business, and annual costs of financing the ISO's working capital and other operating costs ("Operating Costs").

8.2.3 Financing Costs.

The financing costs that are approved by the ISO Governing Board, including capital expenditures that may be financed over such period as the ISO Governing Board shall decide. Financing Costs shall also include the ISO start up and development costs standing to the credit of the ISO Memorandum Account plus any additional start up or development costs incurred after the date of Resolution E-3459 (July 17, 1996), plus any additional capital expenditure incurred by the ISO in 1998 ("Start Up and Development Costs"). The amortized amount to be included in the Grid Management Charge shall be equal to the amount necessary to amortize fully all Start Up and Development Costs over a period of five (5) years, or such longer period as the ISO Governing Board shall decide ("Financing Costs").

8.2.4 Operating and Capital Reserves Cost.

The budgeted annual cost of pay-as-you-go capital expenditures and reasonable coverage of debt service obligations. Such reserves shall be utilized to minimize the impact of any variance between forecast and actual costs throughout the year ("Operating and Capital Reserves Costs").

8.3 Allocation of the Grid Management Charge Among Scheduling Coordinators and Other Appropriate Parties.

The costs recovered through the Grid Management Charge shall be allocated to the three service charges that comprise the Grid Management Charge. The costs recovered through each service charge shall be delineated in the annual informational FERC filing to be made pursuant to Schedule 1, Part D of this Tariff. The three service charges are as follows:

(1) Control Area Services Charge,

(2) Inter-Zonal Scheduling Charge, and

(3) Market Operations Charge.

The three charges shall be levied separately monthly in arrears on all Scheduling Coordinators and other appropriate parties based on the billing determinants specified below for each charge.

8.3.1 Control Area Services Charge.

The Control Area Services Charge for a Scheduling Coordinator or other appropriate party is calculated as the product of the rate for the Control Area Services Charge and the Control Area Gross Load and exports of the Scheduling Coordinator or other appropriate party. The rate for the Control Area Services Charge is determined by dividing the GMC costs allocated to this service category by the total Control Area Gross Load and exports, according to the formula in Schedule 1 of this Tariff.

8.3.2 Inter-Zonal Scheduling Charge.

The Inter-Zonal Scheduling Charge for each Scheduling Coordinator is calculated as the product of the rate for the Inter-Zonal Scheduling Charge and the absolute value of the net scheduled inter-zonal flow (excluding ETCs) per path for that Scheduling Coordinator. The rate for the Inter-Zonal Scheduling Charge is determined by dividing the GMC costs allocated to this service category by the total Scheduling Coordinators' inter-zonal scheduled flow (excluding ETCs) per path, according to the formula in Schedule 1 of this Tariff.

8.3.3 Market Operations Charge.

The Market Operations Charge for each Scheduling Coordinator is calculated as the product of the rate for the Market Operations Charge and the Scheduling Coordinator's total purchases and sales of Ancillary Services, Supplemental Energy, and Imbalance Energy (both instructed and uninstructed). The rate for the Market Operations Charge is determined by dividing the GMC costs allocated to this service category by the total purchases and sales of Ancillary Services, Supplemental Energy and Imbalance Energy (both instructed and uninstructed) according to the formula in Schedule 1 of this Tariff.

8.4 Calculation and Adjustment of the Grid Management Charge.

The three charges set forth in Section 8.3 that comprise the Grid Management Charge shall be calculated annually by summing the Operating Costs (less any available expense recoveries), Financing Costs, and Operating and Capital Reserves Costs associated with each of the three ISO services, to obtain a total Revenue Requirement. A separate Revenue Requirement for each component of the GMC shall be established by dividing the Revenue Requirement for the ISO as a whole and then assigning such costs to the three service categories. The Revenue Requirement for each service then shall be divided by the forecast

annual or periodic billing determinant volume to obtain a rate for each service, which will be payable by Scheduling Coordinators and other appropriate parties as set forth in Section 8.3.

The rates so established shall be adjusted annually, or over such lesser period as approved by the ISO Governing Board and filed with the FERC, to reflect any variance between forecast and actual costs for the previous year or period, or any surplus revenues from the previous year of period (as defined in Section 8.5), or the inability to recover from a Scheduling Coordinator or other appropriate party its share of the Grid Management Charge, or any under-achievement of a forecast of the billing determinant volumes used to establish the rates. Schedule 1, Part B of this Tariff sets forth the conditions under which a quarterly adjustment to the Grid Management Charge may be made.

8.4.1 Credits and Debits of the Grid Management Charge.

In addition to the adjustments permitted under Section 11.6.3.3, the ISO shall credit or debit, as appropriate, the account of a Scheduling Coordinator or other appropriate party for any overpayment or underpayment of the Grid Management Charge that the ISO determines occurred due to error, omission, or miscalculation by the ISO or the Scheduling Coordinator or other appropriate party.

8.5 Operating and Reserve Account.

Revenues collected to fund Operating Reserves shall be deposited in an Operating and Reserve Account until such account reaches a level specified by the ISO Governing Board. If the Operating and Reserve Account is fully funded, surplus revenues will be considered revenues in the next fiscal year's operating budget.

8.6 Transition Mechanism.

During the ten-year transition period described in Section 4 of Schedule 3 to Appendix F, the Original Participating TOs collectively shall pay to the ISO each year an amount equal to the sum annually, for all New Participating TOs, of: (a) the difference between (i) the amount that the New Participating TO pays for Grid Management Charges in accordance with Schedule 1 of Appendix F; and (ii) the amount that the New Participating TO would have paid for Grid Management Charges if the participant had not become a New Participating TO; reduced by (b) the amount, if any, by which the cost of High Voltage Transmission Facilities associated with deliveries of Energy to Gross Loads in the Service Area of the Participating TO is reduced by the implementation of the High Voltage Access Charge described in Schedule 3 to Appendix F; or increased by (c) the amount, if any, by which the cost of High Voltage Transmission Facilities associated with deliveries of Energy to Gross Loads in the Service Area of the Participating TO is increased by the implementation of the High Voltage Access Charge described in Schedule 3 to Appendix F. Responsibility for such payments shall be allocated to Original Participating TOs in

accordance with Schedule 3 to Appendix F. Amounts payable by Original Participating TOs under this section shall be recoverable as part of the Transition Charge calculated in accordance with Schedule 3 of Appendix F. Amounts received by the ISO under this section shall be disbursed to New Participating TOs based on the ratio of each New Participating TO's net increase in costs in the categories described in the first sentence of this section, to the sum of the net increases in such costs for all New Participating TOs.

9. FIRM TRANSMISSION RIGHTS

9.1 General

9.1.1 Commencing in 2000, on the effective date established by the ISO Governing Board, the ISO shall make FTRs available in the amounts determined in accordance with Section 9.3, with the rights and other characteristics described in Sections 9.2, 9.6, 9.7 and 9.8, and through the processes described in Section 9.4. Proceeds of the ISO's auction of FTRs shall be distributed as described in Section 9.5. The owners of FTRs shall be entitled to share in Usage Charge revenues associated with Inter-Zonal Congestion in accordance with Section 9.6, and to scheduling priority in the event of congestion in the Day-Ahead Market, as described in Section 9.7. For the purpose of Section 9, the term “Zone” shall be construed to mean both “Zone” and “Scheduling Point.”

9.2 Characteristics of Firm Transmission Rights

9.2.1 Each FTR shall be defined by a transmission path from an originating Zone to a contiguous receiving Zone. Each FTR shall entitle the FTR Holder to a share of Usage Charges attributable to Inter-Zonal Congestion for transfers on that path from the designated originating Zone to the designated receiving Zone in accordance with Section 9.6. An FTR is a right in one direction only. An FTR Holder shall not be entitled to share in (i) Usage Charges attributable to Inter-Zonal Congestion from the designated receiving Zone to the designated

originating Zone; or (ii) Usage Charges payable in accordance with Section 7.3.1.5.1 to a Scheduling Coordinator that counter-schedules from the designated originating Zone to the designated receiving Zone.

9.2.2 The ISO Governing Board shall, from time to time, approve the amount of FTRs to be auctioned for each FTR Market and the ISO shall publish this information on the ISO Home Page at least thirty (30) days prior to the auction. The ISO may issue FTRs in one or more auctions in any year so long as the total FTRs for any interface do not exceed the maximum amount permitted in Section 9.3.

9.2.2.1 Should the ISO create additional Zones or otherwise change the ISO's defined Inter-Zonal Interface, and if such changes would affect outstanding FTRs, such changes will not take effect prior to the expiration date of any such outstanding FTRs. The ISO shall also publish an announcement of any such pending changes on the ISO Home Page and WEnet at least thirty (30) days prior to the applicable FTR auction.

9.2.2.2 Any additional FTRs auctioned as a result of changes in the ISO's defined Inter-Zonal Interfaces shall not affect the rights associated with existing FTRs.

9.2.3 Each FTR shall be issued in the denomination of 1 MW. The initial release of FTRs shall start with the hour beginning at 12:00 a.m., on February 1, 2000 and end with the hour beginning at 11:00 p.m., on March 31, 2001. An FTR shall not afford the FTR Holder any right to share in Usage Charges attributable to Inter-Zonal Congestion occurring in any hour before or after the term of the FTR.

9.2.4 The portion of the Usage Charges to which the FTR Holder is entitled shall be determined in accordance with Section 9.6.

9.2.5 FTR Holders shall be entitled to priority in the scheduling of Energy in the Day-Ahead Market as specified in Section 9.7.

9.2.6 Any entity, with the exception of the ISO, shall be eligible to acquire FTRs by participating in the ISO's auction of FTRs, as described in Section 9.4, or by purchasing FTRs in secondary markets. To participate in the ISO's auction of FTRs, an entity must either be a certified Scheduling Coordinator or have met financial requirements equivalent to the financial certification criteria required of all Scheduling Coordinators. An entity may not acquire FTRs with a total value that exceeds the financial security provided by that entity to the ISO. In addition, an FTR Bidder must have, or have access to, the necessary technical equipment to participate in the electronic auction.

9.2.7 All entities which acquire FTRs by participating in the ISO's auction of FTRs, as described in Section 9.4, directly from the ISO pursuant to Section 9.4.3, or by purchasing FTRs in secondary markets, must register as an FTR Holder with the ISO. To complete this registration, the FTR Holder must notify the ISO, through the form specified for that purpose by the ISO, of all Affiliates of the FTR Holder that are themselves FTR Holders or Market Participants. The requirement that an FTR Holder notify the ISO of all Affiliates that are FTR Holders or Market Participants is continuing for as long as the FTR Holder owns FTRs, and FTR Holders must provide the ISO with supplemental notification concerning FTR Holders and/or Market Participants that become affiliated with the FTR Holder or Affiliates that subsequently become FTR Holders or Market Participants in order to satisfy this requirement.

9.3 Maximum Number of Firm Transmission Rights

9.3.1 On each Inter-Zonal Interface and direction combination for which FTRs are issued, the ISO shall issue a number of FTRs that is less than or equal to the difference between:

(i) The WSCC approved path rating of the interface in the direction from the originating Zone to the receiving Zone or, if the interface has not received a WSCC approved rating, a rating determined by a methodology that is consistent with the WSCC's rating methodology; and

(ii) The portion of the transfer capability of the interface available for transmission scheduling under Existing Contracts as Existing Rights.

and ensures the ISO's ability to honor all of its FTRs simultaneously under normal operating conditions.

9.4 Issuance of Firm Transmission Rights by the ISO

9.4.1 The ISO shall make FTRs available by conducting an annual primary auction of FTRs, commencing approximately two months before the beginning of the term of the FTRs; provided; however that for the initial FTR release, the primary auction shall be as determined by the ISO Governing Board. The auction of FTRs shall be a simultaneous multi-round, clearing price auction conducted separately and independently, as set forth in Section 9.4.2, for each FTR Market. In addition, if the ISO Governing Board decides to make available, between annual auctions, FTRs in addition to those that were purchased in the last annual auction, the ISO may conduct additional auctions of such FTRs in accordance with Section 9.4.2. The term of such FTRs shall only be for the remaining duration of the FTR term defined for the primary auction applicable to the year during which they were issued.

9.4.2 The ISO shall conduct the auction of FTRs through the following procedures:

9.4.2.1 At least thirty (30) days prior to the scheduled start of the auction, the ISO shall post on the ISO Home Page the following information:

(i) the number of FTRs to be issued for each FTR Market;

(ii) the starting bid price at which FTRs will be made available in each FTR Market in the first round of the auction, which price will be set in each FTR Market at a level equal to the greater of (a) $100 per MW-year; (b) twenty (20) percent of the ratio of the net Usage Charges collected by the ISO with respect to that FTR Market in the most recent twelve-month period for which data are available to the total MW-years of Energy scheduled over the Inter-Zonal Interface in the relevant direction during that period; or (c) twenty (20) percent of the ration of the net Grid Operation Charges (for new Inter-Zonal Interfaces that previously were transmission paths within a Zone) collected by the ISO in the most recent twelve-month period for which data are available to the total MW-years of Energy scheduled over the transmission paths in the relevant direction during that period, provided that, if data are available for only a portion of the twelve-month period, such data shall be used on annualized basis;

(iii) the formula through which the ISO will determine how much to adjust the price of FTRs in each FTR Market for subsequent rounds of the auction, including the initial coefficients to be used in the formula and the range over which the coefficients may be adjusted in accordance with Section 9.4.2.3;

(iv) the date and time prior to the commencement of the auction by which each entity desiring to bid on FTRs must have satisfied the necessary financial requirements as outlined in Section 9.2.6;

(v) the specifications for the technical equipment necessary to participate in the auction, which will be conducted electronically, the date and time by which bids must be submitted in the first round of the auction, which shall be the same for all FTR Markets, and the form and format in which bids must be submitted; and

(vi) a schedule for the conduct of subsequent rounds of the auction, including the interval between rounds of the auction and the anticipated duration of the auction.

9.4.2.2 On or before the date specified in Section 9.4.2.1(v), any entity desiring to obtain FTRs in the ISO's auction must submit, via equipment satisfying the technical requirements specified in accordance with Section 9.4.2.1(v), a bid for each FTR Market in which the entity desires to participate, specifying the number of FTRs the entity is willing to purchase at the price specified in Section 9.4.2.1(ii). All individual bids will remain confidential throughout all rounds of the auction in each FTR Market. Once submitted to the ISO, a bid for FTRs in any round of an auction may not be cancelled or rescinded by the FTR Bidder. The ISO shall announce simultaneously to all FTR Bidders the total quantity of FTRs for which valid bids are submitted for each FTR Market.

9.4.2.3 In each round of the auction following the first round, the ISO will increase the price at which FTRs are made available in each FTR market in accordance with the formula posted in accordance with Section 9.4.2.1(iii), or in accordance with any adjustment to the coefficients in that formula that is announced by the ISO to the FTR Bidders at least one round in advance of the round for which the adjustment is made. Price increases need not be uniform for all FTR Markets.

In the case of an FTR Market in which the demand for FTRs in the preceding round is less than or equal to the quantity of FTRs being made available, the price shall not increase and the auction for that FTR Market shall close. After each round of the auction, the ISO shall announce simultaneously to all FTR Bidders the total quantity of FTRs for which valid bids were submitted in each FTR Market, whether the auction for each FTR Market is closed, and, the revised prices for the following round of the auctions that remain open. Within the timeframe set by the ISO in accordance with Section 9.4.2.1(vi), each FTR Bidder may submit bids for the quantity of FTRs it desires to purchase in each FTR Market at the revised price, provided that an FTR Bidder may not bid for a number of FTRs in an FTR Market that exceeds the total number of FTRs in that FTR Market for which that entity submitted bids in the preceding round of the auction. The ISO shall conduct subsequent rounds of the auction in each FTR Market until the demand for FTRs in the FTR Market is less than or equal to the quantity of FTRs being made available, at which point the auction shall be closed in that FTR Market.

9.4.2.4 Subject to Section 9.4.2.5, each successful FTR Bidder shall receive a number of FTRs in each FTR market equal to the number of FTRs for which it bid in the last round of the auction for that FTR Market.

9.4.2.5 For any FTR Market in which, when the auction has closed, the number of FTRs being made available exceeds the demand for FTRs in that FTR Market in the last round of the auction, each FTR Bidder shall be awarded a number of FTRs determined in accordance with the following formula, provided that, if the number of FTRs that would be awarded under the formula to an FTR Bidder that did not submit a bid in the last round of the auction is less than five percent (5%) of the initial bid submitted by that FTR Bidder for the FTR Market, that FTR Bidder shall have the option of declining the award of FTRs resulting from the formula:

$$N = B + [(R / TR) * D]$$

where

N = The total number of FTRs awarded to an FTR Bidder for an FTR Market, which shall be in whole MWs and shall not exceed the number of FTRs for which that FTR Bidder bid in the round preceding the final round of the auction;

B = The number of FTRs for which an FTR Bidder bid in the final round of the auction for the FTR Market in accordance with Section 9.4.2.4 (or zero, if the FTR Bidder did not bid in that round);

R = The difference between the number of FTRs for which the FTR Bidder bid in the round preceding the final round of the auction and B, but not less than zero;

TR = The total of the demand reductions (R) for all FTR Bidders that submitted bids in the last round of the auction (treating the failure by an FTR Bidder to submit a bid as a bid of zero); and

D = The difference between the total demand for FTRs in the final round of the auction and the quantity of FTRs being made available for the FTR Market.

9.4.2.6 The price of FTRs in an FTR Market shall be the last price at which the demand for FTRs in the FTR Market exceeded or equaled the quantity of FTRs being made available pursuant to Section 9.4.2.1(i), except that, if the demand for FTRs in an

FTR Market in the first round of the auction was less than the quantity of FTRs being made available for that FTR Market, the price of FTRs in that FTR Market shall be the first round price and each FTR Bidder in that FTR Market will receive a number of FTRs equal to the quantity of bids they submitted in the first round. Any remaining FTRs in that FTR Market will not be awarded in that auction.

9.4.2.7 Each FTR Bidder shall pay the ISO an amount equal to the sum, for all FTR Markets, of the products of the FTR price in each FTR Market (determined in accordance with Section 9.4.2.6) and the total quantity of FTRs awarded to that FTR Bidder in that FTR Market (determined in accordance with Section 9.4.2.4 or Section 9.4.2.5, as applicable). FTR Bidders shall pay the amount determined in accordance with the foregoing sentence within ten (10) business days of receiving an invoice from the ISO by making payment to the ISO Clearing Account in accordance with Section 11.10. If the FTR Bidder fails to make timely payment of the full amount due, the ISO may enforce any guarantee, letter of credit or other credit support provided by the defaulting FTR Bidder in accordance with Section 9.4.2.7 and, if the ISO is required to institute proceedings to collect any unpaid amount, the defaulting FTR Bidder shall pay interest on the unpaid amount at the ISO Default Interest Rate for the period from the Payment Date until the date on which payment is remitted to the ISO Clearing Account.

9.4.2.8 The ISO shall post on the ISO Home Page the prices at which FTRs are sold in each FTR Market through the primary auction.

9.4.3 For the ten-year transition period described in Section 4 of Schedule 3 to Appendix F, a New Participating TO shall receive FTRs for Inter-Zonal Interfaces to which the transmission facilities and Converted Rights for Inter-Zonal Interfaces that the New Participating TO turns over to the ISO's Operational Control give it transmission rights. The amount of FTRs will be determined when the Transmission Control Agreement is executed and shall be commensurate with the

transmission capacity the New Participating TO is turning over to ISO Operational Control. FTRs issued in accordance with this section shall entitle the FTR Holder to receive Usage Charge revenues and to priority in the scheduling of Energy in the Day-Ahead Market in accordance with the provisions of the ISO Tariff. FTRs associated with Converted Rights shall terminate on the earlier of termination of the Existing Contract or the end of the ten-year transition period.

9.5 Distribution of Auction Revenues Received by the ISO for Firm Transmission Rights

9.5.1 For each Inter-Zonal Interface and direction for which an FTR is defined, the total proceeds received by the ISO through the auction described in Section 9.4 shall be allocated and paid by the ISO to the Participating TO that is entitled in accordance with Section 7.3.1.6 to receive Usage Charge revenues with respect to the corresponding Inter-Zonal Interface. Each Participating TO shall credit its FTR auction proceeds against its high voltage TRBA if the FTR is for a High Voltage Transmission Facility or against its low voltage TRBA if the FTR is a for a Low Voltage Transmission Facility.

9.5.2 In the event the transmission facilities or rights making up an Inter-Zonal Interface with respect to which FTRs are defined are owned by more than one Participating TO, the proceeds of the auction of such FTRs shall be allocated to those Participating TOs who auction FTRs in proportion to the FTRs associated with their Inter-Zonal Interface as of the date of the FTR auction compared to all FTRs auctioned for such Inter-Zonal Interface.

9.6 Distribution of Usage Charges to FTR Holders

9.6.1 The FTR Holder shall be entitled to receive from the ISO a portion of the total Congestion revenues related to Inter-Zonal Congestion calculated by the ISO in the Day-Ahead Market and collected by the ISO with respect to the Inter-Zonal Interface and direction combination for which the FTR was defined. This portion equals the Usage Charge calculated by the ISO in the Day-

Ahead Market for the transfer of 1 MW from the originating Zone to the receiving Zone during each hour in which Usage Charges apply, multiplied by the number of FTRs owned by that FTR Holder, subject to adjustment in accordance with Section 9.6.3.

9.6.2 In addition, an FTR holder shall be entitled to receive a portion of the additional net Usage Charges related to Inter-Zonal Congestion calculated by the ISO in the Hour-Ahead Market and collected by the ISO with respect to the Inter-Zonal Interface and direction combination for which the FTR was defined. The FTR Holder shall receive a portion of the net Usage Charges in the Hour-Ahead Market proportionate to the share of the Usage Charges it received in the Day-Ahead Market in accordance with Section 9.6.1.

9.6.3 When the Day Ahead scheduling capability of an Inter-Zonal Interface and direction is less than its scheduling capacity, determined in accordance with Section 9.3, prior to the Day-Ahead Market, the entitlements of FTR Holders associated with that FTR Market to Usage Charge revenues shall not be reduced until and unless the entitlements of Participating TOs associated with that FTR Market to Usage Charge revenues in accordance with Section 7.3.1.6 have been reduced to zero. In that event, the financial entitlements associated with the corresponding FTRs shall be multiplied by a factor equal to the amount of scheduling capability available to holders of the remaining FTRs divided by the number of such FTRs. When the Day Ahead scheduling capability of an Inter-Zonal Interface and direction is greater than its scheduling capacity, determined in accordance with Section 9.3, prior to the Day-Ahead Market, the entitlements of FTR Holders associated with that FTR market to Usage Charge revenues shall not be increased.

9.6.4 When the congestion Usage Charges calculated and collected by the ISO from the Hour-Ahead Market with respect to transfers across an Inter-Zonal Interface in a particular direction result in a net obligation to the ISO, in the circumstances described in Section 7.3.1.7, the

provisions of this Section 9.6 shall continue to apply, and FTR Holders shall be required to pay the ISO these amounts.

9.6.5 The ISO will calculate the congestion Usage Charge revenues to be credited or debited to the account of each FTR Holder on an hourly basis. Such calculation will identify the Inter-Zonal Interface and direction to which each credit or debit applies.

9.7 Scheduling Priority of FTR Holders

9.7.1 FTRs will not affect the ISO's dispatch and operation of the ISO Controlled Grid except that each FTR Holder will have a priority, as described in this Section 9.7, for the scheduling of Energy in the Day-Ahead Market when an Inter-Zonal Interface experiences Inter-Zonal Congestion in the direction for which its FTR is defined. Any FTRs not used in Preferred Schedules in the Day-Ahead Market for any hour have no scheduling priority for that hour in the trading day. FTR Holders shall have no scheduling priority in the Hour-Ahead Market or in real time operations.

9.7.2 When Inter-Zonal Congestion is experienced or projected to be experienced in the Day-Ahead Market, the ISO shall first attempt to relieve the Inter-Zonal Congestion using Adjustment Bids submitted by Scheduling Coordinators in accordance with Section 7.2.4.

9.7.2.1 If the ISO is unable to relieve the Day-Ahead Inter-Zonal Congestion using Adjustment Bids, then the ISO will allocate Day-Ahead inter-zonal transmission capacity first to schedules of Market Participants that are using Existing Contract rights that have higher scheduling priority than Converted Rights capacity and second to Market Participants who hold FTRs and have indicated to the ISO that they wish to exercise their scheduling priority option. The ISO will allocate any remaining transmission capacity to remaining Market Participants' schedules pro rata.

9.7.3 When the scheduling capability of an Inter-Zonal Interface is less than or greater than its normal scheduling capability prior to the Day-Ahead Market, as described in Section 9.6.3, the priority scheduling rights of FTR Holders, as described in Section 9.7.2, shall remain constant (in

MWs) to the extent that the total scheduling rights of FTR Holders do not exceed the total Interface scheduling capability of the associated Inter-Zonal Interface after adjustments have been made for transmission capacity allocated to Existing Contract rights that have higher scheduling priority than Converted Rights. If the total Interface scheduling capability, adjusted for transmission capacity allocated to Existing Contract rights that have higher scheduling priority than Converted Rights, is less than the total of all scheduling capability represented by FTR holders who have chosen to exercise the FTR scheduling priority option, scheduling capability shall be allocated to FTR Holders pro rata.

9.7.4 The scheduling priority of FTR Holders:

(i) Shall not apply in the Hour-Ahead Market or in real-time dispatch and operation of the ISO Controlled Grid;

(ii) Shall not apply to any transfer of Energy other than a transfer across the Inter-Zonal Interface in the direction for which the FTR was defined during the hour or hours during which the circumstances described in Section 9.7.2.1 apply; and

(iii) Shall not be transferable, except in connection with a transfer of the FTR that is registered with the ISO, as described in Section 9.8.

9.8 Assignment of Firm Transmission Rights

9.8.1 An FTR may be assigned, sold, or otherwise transferred by the FTR Holder to any entity eligible to be an FTR Holder in full MW increments, either for the entire term of the FTR or for any portion of that term providing, however, that any such transfer shall be in full hour increments that correspond to the FTR issued to the FTR Holder. All FTRs that are so assigned, sold, or otherwise transferred by the FTR Holder are subject to the terms and conditions for FTRs approved by FERC and set forth in the ISO Tariff. Both the FTR Holder of record and the entity to which the FTRs have been transferred shall register the transfer of the FTR with the ISO by

notifying the ISO through the form specified for that purpose by the ISO, and within the number of business days following the transfer published by the ISO on the ISO Home Page and WEnet but no later than such time as the ISO shall specify before the deadline applicable to scheduling Energy in the Day-Ahead Market, of (i) the identity of the FTR Holder of record; (ii) the identity of the entity to which the FTRs have been transferred; (iii) the quantity and identification numbers of the FTRs being transferred; (iv) the portion of the term of the FTR for which they are transferred; (v) the price at which the FTRs are being transferred; and (vi) whether the transfer of FTRs is subject to any conditions. The entity to which the FTRs have been transferred must also notify the ISO of all entities with which the transferee is affiliated that are FTR Holders or Market Participants as defined in the ISO Tariff, pursuant to Section 9.2.7. After the ISO receives such notices, the transferee shall be considered the FTR Holder of record with respect to the portion of the term of the FTR that is transferred. In order to use the Scheduling Priority of an FTR, pursuant to section 9.7, an FTR must be registered with the ISO.

9.8.2 The ISO shall publish on the ISO Home Page such information concerning the concentration of ownership of FTRs in each FTR Market as determined by the ISO Board of Governors from time to time.

9.8.3 To facilitate the operation of secondary markets in FTRs, the ISO shall post on WEnet and the ISO Home Page: (i) the identity of entities that hold FTRs that have been registered with the ISO, together with the quantity of FTRs held by such entities in each FTR Market and the path rating of the interface; and (ii) the name and a contact telephone number or telecopy number of any entity that operates a secondary market in FTRs and that requests the ISO to post such information. The ISO shall also post the prices at which FTRs are transferred through secondary market transactions and shall indicate whether such transfers are conditional.