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.

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 and, with respect to transmission additions and upgrades relating to the interconnection of Generating Units, the requirements of Section 5.7. 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, or, if applicable, Section 5.7. 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.

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.

3.2.1.3 Projects in Connection with Interconnection The planning or coordination for, and cost-responsibility for transmission additions or upgrades for which a Generating Unit is required to or agrees to pay in connection with a request for interconnection under Section 5.7 shall be governed by Section 5.7.

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

5.7 Interconnection to the ISO Controlled Grid.

5.7.1 Applicability

This section of the ISO Tariff applies to: 1) each new Generating Unit requesting interconnection to the ISO Controlled Grid; 2) each existing repowered Generating Unit that has increased the total capability of its power plant; and 3) each existing repowered Generating Unit that has not increased the total capability of the plant but has nonetheless changed the electrical characteristics of its plant such that it's reenergization may cause a violation of Applicable Reliability Criteria and therefore trigger the application of Section 5.7.2.3.3.

5.7.1.1 Submitting Requests to Interconnect.

Any prospective Generating Unit, or, if applicable, any existing Generating Unit that requests interconnection to the ISO Controlled Grid shall submit an application to interconnect to the ISO in the form and number specified in the applicable Participating TO Tariff, with an additional duplicate for the ISO. The ISO will date and time-stamp the application, retain one executed copy, and, within one business day, send the remaining copies date and time-stamped to the Designated Contact Person of the Participating TO that will supply the interconnection. Each Generating Unit requesting interconnection will submit a Good Faith Deposit with the ISO. The ISO will not disclose the identity of any Generating Unit requesting interconnection during the month in which the Generating Unit submits its request for interconnection.

5.7.1.2 Deposit to Bear Interest

The ISO shall hold the Good Faith Deposit in trust for the Generating Unit in an interest-bearing escrow account.

5.7.1.3 Return or Other Crediting of Good Faith Deposit

The ISO shall refund the total amount of the Good Faith Deposit, reduced by any portion thereof converted to a non-refundable deposit in accordance with Section 5.7.2.3.2.1, below, upon (1) the ISO determining that such Generating Unit is not responsible for any interconnection costs, other than study costs, or (2) the Generating Unit withdrawing its Interconnection Application and paying in full all amounts due to the ISO and the applicable Participating TO for the costs of any studies performed in connection with the application, as outlined in Section 5.7.2.3 below or as required by the applicable Participating TO Tariff. To the extent that the ISO determines that a Generating Unit is responsible for a system expansion, that Generating Unit may apply its Good Faith Deposit towards the total cost of such system expansion.

5.7.1.4 Studies

The ISO will direct the Participating TO to perform the necessary System Impact Studies and Facility Studies. The Participating TO shall perform the necessary System Impact Studies and Facility Studies, consistent with the ISO's direction and relevant provisions of the Participating TO Tariff. All requests to interconnect at distribution level voltage will be processed according to the procedures outlined in the applicable Participating TO's Wholesale Distribution Access Tariff; provided, however, that the Participating TO shall require any Generating Unit interconnecting at a distribution level voltage to mitigate any adverse impact on reliability on the ISO Controlled Grid. The ISO may also direct the Participating TO to perform, and the

Participating TO shall perform, any additional studies as determined by the ISO to be reasonably necessary . The Participating TO shall comply with all aspects of the interconnection requests pursuant to the ISO Tariff, TO Tariff and the TCA.

5.7.2 Generating Unit Interconnection.

5.7.2.1 Energization

Neither the ISO nor the applicable Participating TO shall be obligated to energize, nor shall a Generating Unit (whether new or, if applicable, existing) be entitled to have its interconnection to the ISO Controlled Grid energized unless and until such Generating Unit 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.

5.7.2.2 Detailed Operating Procedures

The interconnection standards outlined in this section shall govern the interconnection of Generating Units, including the costs of such interconnection. The ISO shall maintain on the ISO Home Page detailed Planning Procedures for all Generating Units interconnecting to the ISO Controlled Grid, as in effect from time to time.

5.7.2.3 Cost Responsibility of New Generators

Each Generating Unit interconnecting to the ISO Controlled Grid shall pay the costs identified in this Section 5.7.2.3. The ISO and Participating TO will provide any Generating Unit responsible for the payment of costs identified in this Section 5.7.2.3 with an estimate of such Generating Unit's total cost responsibility under this section. A Generating Unit's final cost responsibility shall be based on actual

costs. The applicable Participating TO will provide each Generating Unit responsible for the payment of costs under this Section 5.7.2.3 with a detailed record of the costs assigned to the Generating Unit. A Generating Unit may request the applicable Participating TO to provide any additional information reasonably necessary to audit the costs assessed to such Generating Unit.

5.7.2.3.1 System Impact and Facility Studies

Each Generating Unit interconnecting to the ISO Controlled Grid shall pay the reasonable costs of all System Impact and Facility Studies performed by or at the direction of the ISO or any Participating TO in response to the Interconnection Application. The Participating TO will complete or cause to be completed the System Impact and Facility Studies within the timelines provided for in its TO Tariff. Any such studies performed by or at the direction of the ISO shall likewise conform to the timelines provided in the applicable Participating TO's tariff. The timeline for completion, by the ISO or Participating TO, of the System Impact and Facility Studies will begin at the end of each calendar month for all interconnection requests received during the applicable calendar month. A Generating Unit requesting interconnection to the ISO Controlled Grid may perform its own System Impact Study, or contract with a third party to perform the System Impact Study. However, any such study performed by a Generating Unit or third party must be approved by both the ISO and Participating TO. To the extent that the ISO and Participating TO disagree on the adequacy of a Generating Unit or third party-sponsored study, the ISO will determine the adequacy of the study.

5.7.2.3.2 Queuing

The ISO and Participating TO will process all requests, and determine the cost-responsibility of each Generating Unit requesting interconnection to the ISO Controlled Grid, based on the last day of the calendar month in which the Generating Unit submits its completed Interconnection Application to the ISO (Completed Application Date). The ISO and Participating TO will process simultaneously all interconnection requests with a Completed Application Date that falls within the same calendar month. The ISO and Participating TO will determine each Generating Unit's cost responsibility, as identified in Sections 5.7.2.3.3, 5.7.2.3.4 and 5.7.2.3.5, in proportion to the relative incremental impact of each Generating Unit.

Section 5.7 shall apply to each Generating Unit that has not signed an Interconnection Agreement with the relevant Participating TO as of the date this Section 5.7 is made effective by FERC. To the extent that such Generating Unit has submitted an interconnection request to the applicable Participating TO, but has not signed an Interconnection Agreement, such Generating Unit's queue position will be established according to the date such Generating Unit first submitted an interconnection request to the applicable Participating TO, and its position retained by compliance with the milestones set forth in Section 5.7.2.3.2.1. The cost-responsibility, including study costs and transmission facility or expansion costs, for each Generating Unit that has submitted an interconnection request with a Participating TO, but has not signed an Interconnection Agreement with that Participating TO, will be determined by the applicable provisions of the Participating

TO Tariff, existing as of the date the Generating Unit submitted the interconnection request.

5.7.2.3.2.1 Queuing Milestones

Each Generating Unit must satisfy the data adequacy requirements of the applicable state generation siting agency or applicable Local Regulatory Authority (Data Adequacy Requirement) within six (6) months of its Completed Application Date or lose its relative position in the processing of its application (queue position). Any Generating Unit not subject to state siting requirements must satisfy the information requirements listed in 18 C.F.R. § 2.20. The ISO will permit a Generating Unit to retain its queue position if such Generating Unit requests an extension of the six (6) month period at least five (5) Business Days prior to the expiration of such period. Such extension will be for a period of thirty (30) Business Days. To the extent a Generating Unit does not maintain its queue position, such Generating Unit may reestablish a queue position by satisfying the Data Adequacy Requirements or the requirements of 18 C.F.R. § 2.20, if applicable. However, upon satisfaction of the Data Adequacy Requirements, or other applicable requirements, such Generating Unit will be placed in a queue position comparable to other Generating Units that have satisfied comparable milestones during the same calendar month.

Once a Generating Unit has satisfied the Data Adequacy Requirement, such Generating Unit must execute an Interconnection Agreement with the applicable Participating TO by the earlier of (a) four (4) months after obtaining a Power Plant License, or (b) fifteen (15) months after satisfaction of the Data Adequacy

Requirements, or lose its queue position. A Generating Unit may reestablish its queue position by following the procedures outlined above. To the extent that a Generating Unit has not executed an Interconnection Agreement within fifteen (15) months of satisfaction of the Data Adequacy Requirements, such Generating Unit may maintain its queue position by electing to convert, each month, one-twelfth of its Good Faith Deposit to a non-refundable deposit. If a Generating Unit elects to convert its Good Faith Deposit to a non-refundable deposit in order to maintain its queue position, such Generating Unit will receive a full refund or credit of its Good Faith Deposit if it executes an Interconnection Agreement. If a Generating Unit that has converted all or any portion of its Good Faith Deposit to an non-refundable deposit withdraws its Interconnection Application, that Generating Unit shall not be entitled to a refund of such portion of its Good Faith Deposit. The ISO will credit against the GMC, during the next calendar year, any such forfeited Good Faith Deposits. Any Generating Unit whose Power Plant License expires or is rescinded or is otherwise judged by the ISO to be not viable will lose its queue position.

To the extent that a Generating Unit is participating in the ISO's ADR Procedures regarding any part of this Section 5.7, the arbitrator may suspend the obligation of such Generating Unit to meet milestones in order to maintain its queue position, provided that the arbitrator determines that fairness requires such suspension, and provided further that in all events, such Generating Unit must satisfy the missed milestones specified in this Section 5.7.2.3.2.1 within thirty (30) days of the final ADR ruling or resolution.

5.7.2.3.3 Facility Additions Necessary to Maintain Reliability

Each Generating Unit (new or repowered) interconnecting to the ISO Controlled Grid shall pay the costs of planning and installing all facilities, and implementing operating procedures, necessary to ensure the ISO Controlled Grid's conformance with the Applicable Reliability Criteria.

5.7.2.3.4 Maintenance of Existing Contracts

No Generating Unit interconnecting to the ISO Controlled Grid shall adversely affect the ability of a Participating TO to honor Existing Contracts, identified as Encumbrances existing as of the ISO Operations Date. The applicable Participating TO shall identify any such adverse effect on Existing Contracts when it performs the System Impact Study provided for under Section 5.7.2.3.1. To the extent the applicable Participating TO determines that the interconnection of a new Generating Unit will have an adverse effect on Existing Contracts, such Generating Unit shall mitigate such adverse effect. Each Generating Unit responsible for mitigating such adverse effect shall do so using the options outlined in Section 5.7.2.3.5.

5.7.2.3.5 Mitigation of Intra-Zonal Congestion

Each Generating Unit interconnecting to the ISO Controlled Grid shall mitigate any increase in Intra-Zonal Congestion resulting from their interconnection to the ISO Controlled Grid if the increase in flow on the overloaded element is greater than five percent (5%) of the element rating, as determined by the System Impact Study. No Generating Unit will be responsible for mitigating any increase in Intra-Zonal Congestion when the ISO determines pursuant to the System Impact Study, that (1)

such Intra-Zonal Congestion can be mitigated using either Adjustment Bids or Supplemental Energy bids; and (2) there is workable competition in the Adjustment Bid and Supplemental Energy bid markets in such location. Any Generating Unit responsible for mitigating such incremental Intra-Zonal Congestion may do so, in a feasible manner, by:

1) Paying for a system expansion necessary to eliminate the incremental congestion,

2) Implementing an acceptable Remedial Action Scheme (RAS) that will eliminate the incremental congestion,

3) Committing to pay the ISO's costs for Intra-Zonal Congestion management for such incremental congestion,

4) Entering into an agreement, acceptable to the ISO, with one or more of a Generating Unit or Participating Load to redispatch such Generating Unit or Participating Load to eliminate the incremental congestion,

5) Committing to curtail its own output to mitigate the incremental Intra-Zonal Congestion, or

6) Choosing another site that does not cause incremental congestion.

5.7.2.3.5.1 Assessment of System Benefits

If a Generating Unit pays for a system expansion pursuant to Section 5.7, such payment obligation shall be net of any System Benefits, if any, associated with such system expansion. A Generating Unit shall only receive System Benefits with respect to benefits of a transmission expansion. The Participating TO responsible for performing the necessary Facility Study shall at the time it performs such study, determine any System Benefit associated with the installation of the system expansion. The Participating TO shall calculate the amount of System

Benefits associated with a system expansion as directed by the ISO, and provide such calculation to the ISO for determination. Such System Benefits shall include the following: 1) any revenues to be received by the Participating TO as the result of Firm Transmission Rights that may arise from the construction of the system expansion; provided, however, that any Firm Transmission Rights associated with a system expansion paid for in full by a Generating Unit shall be the property of the Generating Unit, and 2) the net present value of annual carrying charges, or credits, associated with any transmission project, included in the relevant Participating TO's five-year bulk power planning program, that is deferred or advanced as a result of the system expansion. The ISO shall make the final determination of System Benefits associated with a system expansion.

5.7.2.4 Settlement of Interconnection Costs

All Generating Units that submit and proceed with an application to interconnect with the ISO shall pay the Participating TO responsible for performing all System Impact and Facility Studies for the reasonable costs of those studies, pursuant to the relevant provisions of the TO Tariff. A Generating Unit that elects to pay for a system expansion shall make such payment to the Participating TO. Any payments made by a Generating Unit to a Participating TO for a system expansion will be net of any System Benefits. The terms of payment between the Generating Unit and applicable Participating TO will be outlined in the Interconnection Agreement between the parties. Any System Benefits paid or credited by the Participating TO to a Generating Unit(s) shall flow through the applicable

Participating TO's Transmission Revenue Balancing Account (TRBA), or other applicable rate mechanism, as described in Section 7.1 of the ISO Tariff.

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.