

August 16, 2013

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

**Re: California Independent System Operator Corporation
Filing of ISO Service Agreement No. 2886
Docket No. ER13-____-000**

Dear Secretary Bose:

The California Independent System Operator Corporation (“ISO”) submits for filing and acceptance a Market Efficiency Enhancement Agreement (“MEEA”) dated August 15, 2013, between the ISO and the Sacramento Municipal Utility District (“SMUD”).¹ The MEEA sets forth the terms under which the ISO will price SMUD energy bids at the non-default or MEEA-specific price consistent with the ISO tariff. The ISO requests that the Commission accept the MEEA effective October 16, 2013.

I. Background

The ISO tariff addresses circumstances where a neighboring transmission system is highly integrated with the ISO system, including the SMUD system.² In accordance with provisions applicable to an integrated balancing authority area (“IBAA”), the ISO established the Captain Jack substation as the default single pricing location for resources supporting imports to the SMUD system. For pricing exports, the ISO established an aggregated set of transmission buses within the SMUD system, the SMUD hub, as the default locational marginal price. The ISO’s IBAA tariff provisions, however, allow alternative pricing for interchange transactions if neighboring utilities provide information about the

¹ The ISO submits the MEEA pursuant to Section 205 of the Federal Power Act, 16 U.S.C. § 824d, and Part 35 of the Commission’s regulations, 18 C.F.R. Part 35, and in compliance with Order No. 714, *Electronic Tariff Filings*, FERC Stats. & Regs. ¶ 31,276 (2009).

² See generally CAISO Tariff, Section 27.5.3 (providing specific pricing for integrated balancing authority area entities and the opportunity for alternative pricing treatment if they enter into a market efficiency enhancement agreement).

location and operation of resources within their systems for the ISO to use in its modeling.

Entities controlling supply resources within an IBAA have the opportunity to negotiate a MEEA.³ On September 10, 2012, SMUD formally notified the ISO of its desire to negotiate a MEEA to account for the requirements contemplated by these tariff provisions. The ISO and SMUD commenced negotiations of the MEEA and exchanged the data and information required to support its development.⁴ Through execution of a MEEA, the associated tariff provisions provide SMUD the opportunity to receive a locational marginal price that reflects the congestion management benefits provided by resources located within the SMUD system.

The parties have agreed upon the portfolio of resources eligible for MEEA pricing based on this information and developed the MEEA. The MEEA details the terms, consistent with the ISO tariff, necessary to settle bids from MEEA portfolio resources at a locational marginal price from that portfolio rather than the default IBAA Captain Jack price for imports and the default IBAA SMUD hub price for exports.

II. The Market Efficiency Enhancement Agreement

A. The MEEA Establishes the Portfolio of Resources and the Information for Application of MEEA Specific Pricing

The parties identify three aggregated resource locations within the SMUD system that will be used to calculate MEEA-specific pricing, which will be represented in the ISO's full network model.⁵ The model uses distribution factors to represent the import bids from the SMUD system to the ISO, and for calculating the weighted average price among these resource locations. The same distribution factors also represent SMUD's export bids and the associated pricing. The ISO will calculate a MEEA-specific locational marginal price that reflects the nodes where these supply resources are located based on this modeling information.⁶

The distribution factors will vary by season and time-of-use period based on representative actual output, and the ISO will update these factors at least twice per year to reflect recent years' actual production and expected hydroelectric conditions. Initially, the seasons used in the distribution factors will be January through May, and June through December. Time-of-use periods will

³ See CAISO Tariff, Sections 27.5.3.2 and 27.5.3.3 (establishing eligibility requirements and a process for negotiation of a MEEA).

⁴ See CAISO Tariff, Section 27.5.3.2.1 (specifying the information to develop a MEEA).

⁵ See MEEA, Section 4.1 and Schedules 1 and 2.

⁶ See MEEA, Section 4.2.

follow standard definitions established for the WECC region. These seasons and periods may be adjusted as needed during consultations between the ISO and SMUD. Either party may request in writing an update to the resource and modeling information specified in the MEEA Agreement, which includes an opportunity to meet and confer.⁷

The MEEA resources may only be used to submit bids for the purpose of obtaining MEEA-specific pricing.⁸ Use of the identifier associated with these resources must include an attestation by a SMUD executive that the transaction is supported by a resource identified in the MEEA portfolio. SMUD may use other resources to submit bids not covered by the MEEA. Such bids will be settled consistent with the IBAA default tariff pricing described above.

B. The MEEA Establishes Transaction Verification Procedures to Reduce the Potential for Audits or Disputes.

How to distinguish between those deliveries from the Northwest that are being used to serve SMUD's own load, and those deliveries that are being used to support a sale to a third party, including a sale to the ISO, is essential to the MEEA working as expected. The parties recognized that they would both benefit from an understanding and framework for verification of MEEA transactions to mitigate risk and fully realize the benefits presented by the MEEA. The MEEA itself is new, complex, and creates some level uncertainty and potential disruption to the parties' respective business in the event of a misunderstanding. At the same time, the MEEA presents an opportunity to more accurately price resources based on the value they provide, understanding that energy SMUD purchases from the Northwest and subsequently sells to the ISO would be ineligible for MEEA pricing. Accordingly, the ISO and SMUD determined it was in their interests to move a step beyond what is required by the ISO tariff and implement a validation procedure to avoid the potential for mistake, audit, or dispute.⁹ Thus, while other IBAA entities wishing to negotiate a MEEA may also choose to adopt similar procedures for similar reasons, the ISO tariff does not require such additional validation standards.

Under the MEEA, SMUD transactions will receive MEEA-specific pricing if the amount of energy scheduled under the MEEA resource identifier is equal to or less than the difference between exports from the SMUD system and total imports to the SMUD system using non-firm transmission for any scheduling period.¹⁰ SMUD has historically reserved all of its transmission to meet its load serving obligations. Therefore, the only transmission available for purchase

⁷ See MEEA, Section 4.1.2.

⁸ See MEEA, Section 4.3.

⁹ See CAISO Tariff, Section 27.5.3.2.2 (providing a procedure to determine whether a MEEA-specific price was appropriate, including an ISO audit right to challenge a MEEA sale).

¹⁰ See MEEA, Section 5.1.

under SMUD's Open Access Transmission Tariff ("OATT") is non-firm transmission. In addition, the SMUD OATT requires that SMUD meet the requirements of separate accounting for its use of transmission for wholesale sales. SMUD further explained that when it imports power from the Northwest over its own transmission to make a third party sale, Section 28.6 of its OATT requires that SMUD purchase point-to-point transmission service to support that sale. Accordingly, the MEEA verification provisions outlined below assume the energy that SMUD delivers using non-firm transmission is being used to support a third party sale.

Three transactions based on these assumptions have been identified as transactions that may represent circumstances where, for whatever reason including possible mistake, it may not be appropriate to settle the transaction at the MEEA-specific price.¹¹ They include:

- (a) Any transaction where SMUD's metered generation is less than the sale to the ISO; or
- (b) Any transaction where there is an import to SMUD from the Northwest, or from an entity within the IBAA footprint, tagged using "non-firm" transmission and simultaneously there is a MEEA sale to the ISO without a corresponding SMUD system transfer to another entity within the IBAA footprint, export to the ISO scheduled as an IBAA transaction, or to the Northwest; or
- (c) Any hour where the combined day-ahead and active-day transactions for SMUD's gross MEEA sales exceed the net of SMUD's total sales less SMUD's total imports on non-firm transmission.

Notwithstanding the provisions for SMUD to be paid the MEEA price when using MEEA resource identifiers, and without waiving the ISO's right to audit MEEA transactions, the occurrence of any one of these three circumstances may, at the ISO's discretion, trigger the need for additional verification through a less formalized meet and confer process. The ISO is afforded the opportunity to meet and confer with SMUD prior to the issuance of a T+12B recalculation settlement statement for the relevant settlement period.¹² If the ISO makes such a request, SMUD will cooperate and provide additional information as soon as practicable to support why the transaction is valid. If the parties mutually agree that the transaction is nonetheless invalid, the ISO will not apply the MEEA-specific price to the agreed-upon transaction for the incremental T+ 55B settlement statement. If the parties are unable to agree that the transaction should be subject to MEEA-specific pricing, the ISO may conduct an audit or institute dispute resolution with respect to the transaction.

¹¹ See MEEA, Section 5.1.1.

¹² See MEEA, Section 5.1.2.

Until the parties resolve the dispute, the MEEA-specific price shall apply as required by the ISO tariff.¹³ If any transaction is reversed from the MEEA-specific price, the parties will meet and confer to discuss this outcome. If there are two or more reversal events per quarter, up to a maximum of four per year, the parties shall additionally meet to consider changes to the validation process. If the parties are unable to agree within sixty calendar days, then the ISO shall have the right to terminate the MEEA.

To support this verification procedure, SMUD developed a spreadsheet consistent with the foregoing that will be used to assess whether any of the conditions have been met. The ISO has reviewed this spreadsheet and confirmed it is consistent with this verification methodology. SMUD has also agreed to provide ongoing data to populate the spreadsheet noted above and assist the ISO in evaluating transactions consistent with the agreed upon verification procedure.¹⁴ Information provided by SMUD in support of the MEEA will be treated confidentially and used only for the purposes identified in the MEEA consistent with the ISO tariff.¹⁵

The ISO nonetheless retains the right to audit SMUD for the limited purposes of verifying that the available resources met the requirements for MEEA-specific pricing in accordance with the ISO tariff.¹⁶ The ISO has committed to provide a reasonable time period for which it chooses to audit SMUD, and has further agreed to limit its audits to transactions that occurred no greater than one year prior to the date of the written audit request. This is reasonable understanding such matters should be addressed through the less formal meet and confer process explained above. In any event, this audit timeframe restriction will not limit the ISO's rights under the rules of conduct as provided under the ISO tariff.¹⁷

C. The MEEA Addresses Other Matters Not in the ISO Tariff

This MEEA will remain in full force and effect for two years from the effective date or until terminated.¹⁸ One year prior to the expiration of the two-year term, each party will determine whether to extend for another two year term. If the parties agree, they may extend the term of the MEEA for two years by entering into a written instrument extending the term, up to a maximum of two

¹³ See CAISO Tariff, Section 27.5.3.2.2 (requiring the ISO to pay the MEEA signatory a MEEA-specific locational marginal price pending resolution of a challenge.)

¹⁴ See MEEA, Section 4.1.3 and Schedule 3.

¹⁵ See MEEA, Sections 4.1.1 and 4.4. SMUD's posting of uncommitted transmission for sales, both firm and non-firm, can be verified by anyone with a certificate to access the OATI WebOASIS information, but SMUD has agreed to provide this to the ISO for convenience.

¹⁶ See MEEA, Section 11.10; and CAISO Tariff, Section 27.5.3.7.

¹⁷ See MEEA, Section 11.10. This provision was also not intended to limit the Commission's authority to review MEEA transactions under the Federal Power Act.

¹⁸ See MEEA, Section 3.1.

such extensions for a total six year term. Such extensions will not require amendment of the agreement or filing with the Commission. Further extensions beyond this potential 6 year term will require amendment of the MEEA and filing with FERC. Expirations and terminations will be noticed and filed accordingly.¹⁹

The remainder of the MEEA is consistent with other similar terms provided under similar ISO service agreements, including the rules of interpretation, dispute resolution, liability, uncontrollable forces, and other miscellaneous provisions. These provisions have generally been accepted by the Commission and are not further discussed herein.

III. Effective Date

The ISO requests that the MEEA be made effective on October 16, 2013. Upon acceptance by the Commission, the ISO and SMUD will wrap up their work to ensure the MEEA portfolio of resources is modeled in the ISO systems, accounted for in the SMUD business practices, and available for MEEA-specific pricing on the earliest possible trade date thereafter.

IV. Service

The ISO has served copies of this filing upon all parties to Docket No. ER08-1113-000, the California Public Utilities Commission, and the California Energy Commission. The ISO has also posted the filing on the ISO website.

Enclosed for filing is each of the following:

- (1) This letter of transmittal;
- (2) Market Efficiency Enhancement Agreement (Attachment A);
- (3) CAISO Tariff Sheets – Clean (Attachment B); and
- (4) CAISO Tariff Sheets – Marked (Attachment C).

¹⁹ See MEEA, Section 3.2.

V. Correspondence

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

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

VI. Conclusion

The ISO respectfully requests that the Commission accept this filing and permit the MEEA to be effective October 16, 2013. If there are any questions concerning this filing, please contact the undersigned.

Respectfully submitted,

By: /s/ John C. Anders

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Attachment A – Signed Agreement
Market Efficiency Enhancement Agreement between the
California Independent System Operator Corporation and
Sacramento Municipal Utility District
August 16, 2013

**CALIFORNIA INDEPENDENT SYSTEM
OPERATOR CORPORATION**

AND

**SACRAMENTO MUNICIPAL UTILITY
DISTRICT**

**MARKET EFFICIENCY ENHANCEMENT
AGREEMENT**

MARKET EFFICIENCY ENHANCEMENT AGREEMENT

THIS AGREEMENT is dated this 15 day of August, 2013 and is entered into, by and between:

(1) **Sacramento Municipal Utility District**, having its registered and principal place of business located at 6201 S Street, Sacramento, California 95814 (the "MEEA Entity");

and

(2) **California Independent System Operator Corporation**, a California nonprofit public benefit corporation having a principal executive office located at such place in the State of California as the CAISO Governing Board may from time to time designate, initially 250 Outcropping Way, Folsom, California 95630 (the "CAISO").

The MEEA Entity and the CAISO are hereinafter referred to as the "Parties".

Whereas:

- A. The CAISO seeks to model and price interchange transactions between the CAISO and the MEEA Entity, which resides within an Integrated Balancing Authority Area ("IBAA"), in a manner that reflects the resources that support those interchange transactions. The CAISO needs certain information in order to perform this modeling and pricing for the MEEA Entity.
- B. The MEEA Entity seeks alternative pricing for interchange transactions. Accordingly, the MEEA Entity agrees to provide the CAISO with certain information.
- C. The Parties are entering into this Agreement in order to establish the terms and conditions upon which the CAISO and the MEEA Entity will discharge their respective duties and responsibilities under the CAISO Tariff, namely the modeling and pricing for imports and exports between the IBAA and the CAISO Balancing Authority Area.

NOW THEREFORE, in consideration of the mutual covenants set forth herein, **THE PARTIES AGREE** as follows:

ARTICLE I

DEFINITIONS AND INTERPRETATION

1.1 **Master Definitions Supplement.** All capitalized terms and expressions used in this Agreement shall have the same meaning as those contained in the Master Definitions Supplement to the CAISO Tariff unless otherwise defined in this Agreement.

1.2 Special Definitions for this Agreement. In this Agreement, the following words and expressions shall have the meaning set forth below:

“**Control**” means ownership or any contractual arrangements that provide authority to schedule and or receive the financial benefits of a resource.

“**Identified Transaction**” means those transactions described in Section 5.1 of this Agreement.

“**MEEA Portfolio**” means the supply resources set forth in Schedule 1 of this Agreement.

“**MEEA Resource ID**” means those Resource IDs described in Section 4.3 of this Agreement.

“**MEEA Transaction**” means an interchange transaction between the MEEA Entity and the CAISO supported from the MEEA Entity’s MEEA Portfolio, as further described in Section 5.1.

“**Ongoing MEEA Data**” means that data provided by the MEEA Entity on an ongoing basis as set forth in Schedule 3 of this Agreement.

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

- (a) if there is any inconsistency between this Agreement and the CAISO Tariff, the CAISO Tariff will prevail to the extent of the inconsistency;
- (b) the singular shall include the plural and vice versa;
- (c) the masculine shall include the feminine and neutral and vice versa;
- (d) “includes” or “including” shall mean “including without limitation”;
- (e) references to a Section, Article or Schedule shall mean a Section, Article or a Schedule of this Agreement, as the case may be, unless the context otherwise requires;

- (f) a reference to a given agreement or instrument shall be a reference to that agreement or instrument as modified, amended, supplemented or restated through the date as of which such reference is made;
- (g) unless the context otherwise requires, references to any law shall be deemed references to such law as it may be amended, replaced or restated from time to time;
- (h) unless the context otherwise requires, any reference to a "person" includes any individual, partnership, firm, company, corporation, joint venture, trust, association, organization or other entity, in each case whether or not having separate legal personality;
- (i) unless the context otherwise requires, any reference to a Party includes a reference to its permitted successors and assigns;
- (j) any reference to a day, week, month or year is to a calendar day, week, month or year; and
- (k) the captions and headings in this Agreement are inserted solely to facilitate reference and shall have no bearing upon the interpretation of any of the terms and conditions of this Agreement.

ARTICLE II

ACKNOWLEDGEMENTS OF MEEA ENTITY AND CAISO

- 2.1 Reliability Standard Compliance.** The Parties acknowledge that they are each responsible for compliance with the Reliability Standards consistent with their registered functions.

ARTICLE III

TERM AND TERMINATION

- 3.1 Effective Date and Term.** This Agreement shall be effective as of the date set forth above, unless accepted for filing and made effective by the Federal Energy Regulatory Commission ("FERC") on some other date, and shall remain in full force and effect for two (2) years from the effective date or until terminated pursuant to Section 3.2 of this Agreement ("Effective Date"). Except as limited below, one year prior to the expiration of the two-year term, each Party shall determine in its sole discretion whether to extend the Agreement for another two (2) year term. If the Parties agree, they may extend the term of this Agreement for two (2) years by entering into a written instrument extending the term, up to a maximum of two such extensions for a six (6) year term after the Effective

Date. Further extensions of this Agreement shall constitute an amendment in accordance with Section 11.8 of this Agreement.

3.2 Termination

- 3.2.1 Termination by CAISO.** Subject to Section 3.2.2, the CAISO may terminate this Agreement by giving written notice of termination in the event that the MEEA Entity commits any material default under this Agreement which, if capable of being remedied, is not remedied within thirty (30) days after the CAISO has given, to the MEEA Entity, written notice of the default, unless excused by reason of Uncontrollable Forces in accordance with Article X of this Agreement. With respect to any notice of termination given pursuant to this Section, the CAISO must file a timely notice of termination with FERC. This Agreement shall terminate upon acceptance by FERC of such a notice of termination.
- 3.2.2 Termination by MEEA Entity.** In the event that the MEEA Entity no longer wishes to be eligible for MEEA pricing, it may terminate this Agreement, on giving the CAISO not less than ninety (90) days written notice. With respect to any notice of termination given pursuant to this Section, the CAISO must file a timely notice of termination with FERC. This Agreement shall terminate upon acceptance by FERC of such a notice of termination.

ARTICLE IV

GENERAL TERMS AND CONDITIONS

- 4.1 Market Efficiency Enhancement Agreement Portfolio and Modeling.** Through the provision of information by the MEEA Entity to the CAISO in accordance with CAISO Tariff Section 27.5.3.2, the CAISO and the MEEA Entity have established a MEEA Portfolio which comprises the supply resources specified in Schedule 1 of this Agreement and which shall be modeled in accordance with Schedule 2 of this Agreement.
- 4.1.1 Use of Information Required to Implement this Market Efficiency Enhancement Agreement.** The CAISO shall use the information specified in Schedule 1, in addition to modeling information set forth in Schedule 2 of this Agreement, solely to model and price imports and exports between the MEEA Entity and the CAISO in accordance with CAISO Tariff Section 27.5.3.2.
- 4.1.2 Updates of Information Provided to Implement a Market Efficiency Enhancement Agreement.** Each Party may request in writing an update to the data specified in Schedule 1 and Schedule 2 of this Agreement. The Parties agree to meet and confer as soon as practicable but not more than within thirty (30) days of any such request for an update to discuss and resolve any such request.

4.1.3 Post-Operations Provision of Data by the MEEA Entity

After the Effective Date, the MEEA Entity has agreed to provide ongoing data to the CAISO (“Ongoing MEEA Data”) in order to assist the CAISO in evaluating MEEA Transactions, including “Identified Transactions,” as set forth in Section 5.1.1 of this Agreement. The Parties agree to meet and confer at least on an annual basis to assess any changes to the Ongoing MEEA Data. The protocol for providing Ongoing MEEA Data and any change management thereto shall be fully set forth in Schedule 3 of this Agreement.

4.2 Market Efficiency Enhancement Agreement-Specific Price. The CAISO shall calculate a MEEA-specific LMP that reflects the nodes where the supply resources are located as specified in Schedule 1 in accordance with CAISO Tariff Section 27.5.3.2 and which applies the modeling information in accordance with Schedule 2 of this Agreement.

4.3 Application of Market Efficiency Enhancement Agreement-Specific Pricing in any Settlement Interval or Settlement Period. The CAISO will establish Resource IDs that are to be used only to submit Bids, including Self-Schedules, for the purpose of obtaining MEEA-specific pricing (“MEEA Resource ID”). MEEA signatories may obtain and use other Resource IDs to submit Bids, including Self-Schedules, that are not covered by this Agreement. Prior to obtaining and settling MEEA Resource ID(s), the relevant Scheduling Coordinator shall attest that use of its MEEA Resource ID(s) shall mean that the MEEA Transaction is supported by a resource identified in its MEEA Portfolio. This attestation shall be executed under oath by an officer of the MEEA Entity with knowledge of the MEEA Entity signatory’s operations.

4.4 Measures of Preserve Confidentiality of Data. Data provided by the MEEA Entity to the CAISO pursuant to Sections 4.1 and 4.3 shall be treated as confidential data in accordance with CAISO Tariff Section 27.5.3.5 and used solely by the CAISO for the purposes set forth in this Agreement.

ARTICLE V

MEEA Pricing

5.1 MEEA-Specific Settlement Pricing. Except as provided in Sections 5.1.1 and 5.1.2 below, transactions conducted by the MEEA Entity using its MEEA Resource ID(s) shall be considered a “MEEA Transaction” and settled by the CAISO at the MEEA-specific price. For purposes of this Agreement and validation, a transaction shall be deemed to be a MEEA Transaction if the amount of Energy scheduled under a MEEA Resource ID is equal to or less than the amount by which the total MEEA Entity

energy exports exceed total imports to the MEEA Entity using non-firm transmission for any scheduling period.

5.1.1 Identified Transactions. Notwithstanding Section 5.1 above, and without waiving the CAISO's formal right to audit MEEA Transactions described in Section 11.10 below, certain pre-identified MEEA Transactions ("Identified Transactions") may, at the CAISO's discretion, trigger the need for additional verification by the CAISO through a less formalized meet and confer process, as further described in Section 5.2 below. Identified Transactions to be evaluated based on final real time Energy include:

- (a) Any transaction where the MEEA Entity's metered Generation is less than the MEEA sale to CAISO; or
- (b) Any transaction where there is an import to the MEEA Entity from the Northwest, or from an entity within the IBAA footprint, tagged using "non-firm" transmission and simultaneously there is a MEEA sale to the CAISO without a corresponding export from the MEEA Entity to another entity within the IBAA footprint, to the CAISO Balancing Authority Area scheduled as an IBAA transaction, or to the Northwest; or
- (c) Any hour where the combined day-ahead and active-day transactions for *MEEA Entity gross MEEA sales* exceed the net of *MEEA Entity total sales less MEEA Entity total imports on non-firm transmission*, where:
 - (i) *MEEA Entity gross MEEA sales* equals day-ahead and active-day MEEA sales; and
 - (ii) *MEEA Entity total sales* equals MEEA Entity gross MEEA sales + MEEA Entity day-ahead and active-day IBAA sales + MEEA Entity day-ahead and active-day non-CAISO sales; and
 - (iii) *MEEA Entity total imports on non-firm transmission* equals day-ahead imports to MEEA Entity on non-firm transmission + active-day imports to MEEA Entity on non-firm transmission.

5.1.2 Informal Review of Identified Transactions. The CAISO may request to meet and confer with the MEEA Entity for any Identified Transaction prior to the issuance of a T+12B recalculation settlement statement for the relevant settlement period. If such a request is made by the CAISO, the MEEA Entity shall cooperate and provide additional information to the CAISO as soon as practicable to support why any of the Identified Transactions are valid MEEA Transactions. If the Parties mutually agree, as evidenced by an email or other form of mutual written confirmation with

as evidenced by an email or other form of mutual written confirmation with sufficient description to identify the subject transaction, that the MEEA Transaction(s) subject to this Section are invalid, the CAISO shall not apply the MEEA-specific price to the agreed-upon transaction(s) for the incremental T+ 55B settlement statement (i.e., the CAISO shall settle the transaction at the IBAA price). If the Parties are unable to agree that the MEEA Transaction(s) subject to this Section are invalid, the CAISO may conduct an audit, as provided in Section 11.10, or institute Dispute Resolution, as provided in Section 7.1 with respect to the Identified Transactions, however, until resolved, the MEEA-specific price shall apply. If there are MEEA Transactions that are reversed to IBAA transactions the Parties will meet and confer as soon as practicable. If there are two (2) or more reversal events per quarter, up to a maximum of four (4) per year after the Effective Date, the Parties shall additionally meet to consider changes to the MEEA Transaction definition. If the Parties are unable to agree within sixty (60) calendar days, then the CAISO shall have the right to terminate this Agreement in accordance with Section 3.2.1.

ARTICLE VI

COSTS

- 6.1 Operating and Maintenance Costs.** The MEEA Entity shall be responsible for all its costs incurred in connection with meeting its obligations under this Agreement.

ARTICLE VII

DISPUTE RESOLUTION

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

ARTICLE VIII

REPRESENTATIONS AND WARRANTIES

- 8.1 Representation and Warranties.** Each Party represents and warrants that the execution, delivery and performance of this Agreement by it has been duly authorized by all necessary corporate and/or governmental actions, to the extent authorized by law.

ARTICLE IX**LIABILITY**

- 9.1 Liability.** The provisions of Section 14 of the CAISO Tariff will apply to liability arising under this Agreement, except that all references in Section 14 of the CAISO Tariff to Market Participants shall be read as references to the Market Efficiency Enhancement Agreement Entity and references to the CAISO Tariff shall be read as references to this Agreement.

ARTICLE X**UNCONTROLLABLE FORCES**

- 10.1 Uncontrollable Forces Tariff Provisions.** Section 14.1 of the CAISO Tariff shall be incorporated by reference into this Agreement except that all references in Section 14.1 of the CAISO Tariff to Market Participants shall be read as a reference to the MEEA Entity and references to the CAISO Tariff shall be read as references to this Agreement.

ARTICLE XI**MISCELLANEOUS**

- 11.1 Assignments.** Either Party may assign or transfer any or all of its rights and/or obligations under this Agreement with the other Party's prior written consent in accordance with Section 22.2 of the CAISO Tariff. Such consent shall not be unreasonably withheld. Any such transfer or assignment shall be conditioned upon the successor in interest accepting the rights and/or obligations under this Agreement as if said successor in interest was an original Party to this Agreement.
- 11.2 Notices.** Any notice, demand or request which may be given to or made upon either Party regarding this Agreement shall be made in accordance with Section 22.4 of the CAISO Tariff, provided that all references in Section 22.4 of the CAISO Tariff to Market Participants shall be read as a reference to the MEEA Entity and references to the CAISO Tariff shall be read as references to this Agreement, and unless otherwise stated or agreed shall be made to the representative of the other Party indicated in Schedule 4. A Party must update the information in Schedule 4 of this Agreement as information changes. Such changes shall not constitute an amendment to this Agreement.
- 11.3 Waivers.** Any waivers at any time by either Party of its rights with respect to any default under this Agreement, or with respect to any other matter arising in connection with this Agreement, shall not constitute or be deemed a waiver with respect to any subsequent default or other matter arising in connection with this Agreement. Any delay, short of the

statutory period of limitations, in asserting or enforcing any right under this Agreement shall not constitute or be deemed a waiver of such right.


- 11.4 Governing Law and Forum.** This Agreement shall be deemed to be a contract made under, and for all purposes shall be governed by and construed in accordance with, the laws of the State of California, except its conflict of law provisions. The Parties irrevocably consent that any action or proceeding arising under or relating to this Agreement shall be subject to Section 27.5.3.6 of the CAISO Tariff.
- 11.5 Consistency with Federal Laws and Regulations.** This Agreement shall incorporate by reference Section 22.9 of the CAISO Tariff as if the references to the CAISO Tariff were referring to this Agreement.
- 11.6 Merger.** This Agreement constitutes the complete and final agreement of the Parties with respect to the subject matter hereof and supersedes all prior agreements, whether written or oral, with respect to such subject matter.
- 11.7 Severability.** If any term, covenant, or condition of this Agreement or the application or effect of any such term, covenant, or condition is held invalid as to any person, entity, or circumstance, or is determined to be unjust, unreasonable, unlawful, imprudent, or otherwise not in the public interest by any court or government agency of competent jurisdiction, then such term, covenant, or condition shall remain in force and effect to the maximum extent permitted by law, and all other terms, covenants, and conditions of this Agreement and their application shall not be affected thereby, but shall remain in force and effect and the Parties shall be relieved of their obligations only to the extent necessary to eliminate such regulatory or other determination unless a court or governmental agency of competent jurisdiction holds that such provisions are not separable from all other provisions of this Agreement.
- 11.8 Amendments.** Except as provided in Section 4.1.3, this Agreement and the Schedules attached hereto may be amended from time to time by the mutual agreement of the Parties in writing. Amendments that require FERC approval shall not take effect until FERC has accepted such amendments for filing and made them effective. Nothing contained herein shall be construed as affecting in any way the right of the CAISO to unilaterally make application to FERC for a change in the rates, terms and conditions of this Agreement under Section 205 of the FPA and pursuant to FERC's rules and regulations promulgated thereunder.
- 11.9 Counterparts.** This Agreement may be executed in one or more counterparts at different times, each of which shall be regarded as an original and all of which, taken together, shall constitute one and the same Agreement.

11.10 Audit Rights. The CAISO reserves the right to audit data supplied pursuant to Section 4.1 for the limited purposes of verifying that the MEEA Entity accurately represented available resources and met the requirements specified for MEEA-specific LMP pricing in accordance with CAISO Tariff Section 27.5.3.7. The CAISO shall make every effort to provide a reasonable time period for which it chooses to audit the MEEA Entity and further agrees that its audits under this Section shall be limited to those MEEA Transactions that occurred no greater than one (1) year prior to the date of the written audit request provided to the MEEA Entity. Notwithstanding the foregoing, nothing in this Agreement, including specifically the foregoing limitation, shall limit the CAISO's rights under the CAISO Tariff with respect to the Rules of Conduct.

11.11 No-Precedent. The terms and conditions reached by the Parties herein are not intended to limit or otherwise restrict future MEEA negotiations with other entities within the existing IBAA that are not Parties to this Agreement.

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

California Independent System Operator Corporation

By: 
Name: MARK ROTHLEDER
Title: VICE PRESIDENT, MARKET QUALITY & RENEWABLE INTEGRATION
Date: August 8, 2013

Sacramento Municipal Utility District

By: _____
Name: _____
Title: _____
Date: _____

11.10 Audit Rights. The CAISO reserves the right to audit data supplied pursuant to Section 4.1 for the limited purposes of verifying that the MEEA Entity accurately represented available resources and met the requirements specified for MEEA-specific LMP pricing in accordance with CAISO Tariff Section 27.5.3.7. The CAISO shall make every effort to provide a reasonable time period for which it chooses to audit the MEEA Entity and further agrees that its audits under this Section shall be limited to those MEEA Transactions that occurred no greater than one (1) year prior to the date of the written audit request provided to the MEEA Entity. Notwithstanding the foregoing, nothing in this Agreement, including specifically the foregoing limitation, shall limit the CAISO's rights under the CAISO Tariff with respect to the Rules of Conduct.

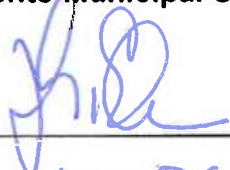
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IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be duly executed on behalf of each by and through their authorized representatives as of the date hereinabove written.

California Independent System Operator Corporation

By: _____
Name: _____
Title: _____
Date: _____

Sacramento Municipal Utility District

By:  _____
Name: JOHN DISTASIO
Title: GENERAL MANAGER & CEO
Date: 8/15/2013

*off
(legals)*

SCHEDULE 1
MEEA ENTITY SPECIFIC INFORMATION
[Sections 4.1 and 4.2]

- a. List of the external supply resources within the IBAA over which the MEEA Entity has control or serves.
 1. Lake Substation
 - i. Loon Lake Powerhouse
 - ii. Camino Powerhouse
 - iii. Robbs Peak Powerhouse
 - iv. Jaybird Powerhouse
 - v. Union Valley Powerhouse
 - vi. Jones Fork Powerhouse
 - vii. White Rock Powerhouse
 2. Hurley Substation
 - i. Campbell Soup Co-Gen
 - ii. Carson Ice Co-Gen
 - iii. Proctor and Gamble Co-Gen
 - iv. McClellan CT
 3. Rancho Seco Substation
 - i. Cosumnes Generating Station
- b. The location of the resources identified in the MEEA for which non-default LMPs will be calculated.
- c. The injection and withdrawal points for the resources identified in the MEEA, including any applicable distribution factors for those resources.
 1. Lake Substation
 2. Hurley Substation
 3. Rancho Seco Substation
- d. The appropriate Resource IDs that apply for the MEEA transactions.

SCHEDULE 2
MODELING INFORMATION
[Section 4.1.1]

The supply resources controlled by the MEEA Entity will be represented in the CAISO's Full Network Model (FNM) as aggregated resources at high-voltage (230 kV) substations located within the MEEA Entity's network that are electrically close to the underlying physical resources, as follows:

- Lake Substation: Upper American River Project hydroelectric generation,
- Rancho Seco Substation: Cosumnes Generating Station, and
- Hurley Substation: Other supply resources.

Distribution factors used in the FNM for representing the MEEA Entity's import bids to the CAISO, and for calculating the weighted average price among these resource locations in the CAISO's settlements, will be established by the CAISO through consultation with the MEEA Entity. The distribution factors will vary by season and time-of-use period based on representative actual output, and be updated at least twice per year to reflect recent years' actual production and expected hydroelectric conditions during the period in which the factors will be applicable.

Initially, the seasons used in the distribution factors will be January through May, and June through December. Time-of-use periods will follow standard definitions established for the WECC region. These seasons and periods may be adjusted as needed during consultations between the CAISO and the MEEA Entity.

The same distribution factors will represent the MEEA Entity's export bids in the CAISO's FNM and for settlements.

SCHEDULE 3
ONGOING MEEA DATA PROVISION PROTOCOL
[Section 4.1.3]

1. General Description of Data

SMUD has determined that it can provide the following historical hourly system data for each hour for which sales occurred to the CAISO while using its MEEA Resource ID.

- (i) Total:
 - (1) generation;
 - (2) load;
 - (3) imports; and
 - (4) exports

- (ii) Tagging

Tag information for all purchases and sales where SMUD system (SMUDSYS) is either the source or the sink.

2. Format and Delivery of Data

The data provided shall be formatted to comply with agreed upon format, such as comma separated value file format. The data shall be provided within seven (7) Business days of the trade date (i.e., T + 7B) of the MEEA Transaction.

3. Updates to Schedule 3

The data described in Section 1 above will be provided on a T + 7B rolling basis, as available.

4. No Warranties

Any data provided to the CAISO pursuant to this Schedule carries no warranty or representation of any kind, either express or implied.

5. Confidentiality

All data provided under this Schedule shall be treated as confidential data, consistent with Section 4.4 of this Agreement.

6. Modification(s)

SMUD reserves the right to modify this Schedule 3, after the Parties meet and confer, to the extent it deems it inconsistent with its ongoing business practices or it becomes unduly burdensome. SMUD will meet and confer with the CAISO at least seven (7) business days prior to making any modifications to Schedule 3 or terminating this Agreement.

**SCHEDULE 4
NOTICES
[Section 11.2]**

SMUD / MEEA Entity

Name of Primary

Representative: Steven K. Sorey
 Title: Manager Energy Trading & Contracts
 Company: Sacramento Municipal Utility District
 Address: 6301 S Street
 City/State/Zip Code: Sacramento, California 95852-1830
 Email Address: Steve.Sorey@smud.org
 Phone: 916-732-6521
 Fax No: 916-732-6002

Name of Alternative

Representative: Gary Lawson
 Title: Supervisor Commodity Contracts
 Company: Sacramento Municipal Utility District
 Address: 6301 S Street
 City/State/Zip Code: Sacramento, California 95852-1830
 Email Address: Gary.Lawson@smud.org
 Phone: 916-732-5802
 Fax No: 916-732-6002

CAISO

Name of Primary Representative: Regulatory Contracts
Title: N/A
Address: 250 Outcropping Way
City/State/Zip Code: Folsom, CA 95630
Email Address: regulatorycontracts@caiso.com
Phone: (916) 608-7027
Fax No: (916) 608-5063

Name of Alternative Representative: Christopher J. Sibley
Title: Lead Contract Negotiator
Address: 250 Outcropping Way
City/State/Zip Code: Folsom, CA 95630
Email Address: csibley@caiso.com
Phone: (916) 608-7030
Fax No: (916) 608-5063

Attachment B – Clean

**Market Efficiency Enhancement Agreement between the
California Independent System Operator Corporation and
Sacramento Municipal Utility District**

August 16, 2013

**CALIFORNIA INDEPENDENT SYSTEM
OPERATOR CORPORATION**

AND

**SACRAMENTO MUNICIPAL UTILITY
DISTRICT**

**MARKET EFFICIENCY ENHANCEMENT
AGREEMENT**

MARKET EFFICIENCY ENHANCEMENT AGREEMENT

THIS AGREEMENT is dated this _____ day of _____, _____ and is entered into, by and between:

(1) **Sacramento Municipal Utility District.** having its registered and principal place of business located at 6201 S Street, Sacramento, California 95814 (the "MEEA Entity");

and

(2) **California Independent System Operator Corporation,** a California nonprofit public benefit corporation having a principal executive office located at such place in the State of California as the CAISO Governing Board may from time to time designate, initially 250 Outcropping Way, Folsom, California 95630 (the "CAISO").

The MEEA Entity and the CAISO are hereinafter referred to as the "Parties".

Whereas:

- A.** The CAISO seeks to model and price interchange transactions between the CAISO and the MEEA Entity, which resides within an Integrated Balancing Authority Area ("IBAA"), in a manner that reflects the resources that support those interchange transactions. The CAISO needs certain information in order to perform this modeling and pricing for the MEEA Entity.
- B.** The MEEA Entity seeks alternative pricing for interchange transactions. Accordingly, the MEEA Entity agrees to provide the CAISO with certain information.
- C.** The Parties are entering into this Agreement in order to establish the terms and conditions upon which the CAISO and the MEEA Entity will discharge their respective duties and responsibilities under the CAISO Tariff, namely the modeling and pricing for imports and exports between the IBAA and the CAISO Balancing Authority Area.

NOW THEREFORE, in consideration of the mutual covenants set forth herein, **THE PARTIES AGREE** as follows:

ARTICLE I**DEFINITIONS AND INTERPRETATION**

- 1.1 Master Definitions Supplement.** All capitalized terms and expressions used in this Agreement shall have the same meaning as those contained in the Master Definitions Supplement to the CAISO Tariff unless otherwise defined in this Agreement.
- 1.2 Special Definitions for this Agreement.** In this Agreement, the following words and expressions shall have the meaning set forth below:
- “Control”** means ownership or any contractual arrangements that provide authority to schedule and or receive the financial benefits of a resource.
- “Identified Transaction”** means those transactions described in Section 5.1 of this Agreement.
- “MEEA Portfolio”** means the supply resources set forth in Schedule 1 of this Agreement.
- “MEEA Resource ID”** means those Resource IDs described in Section 4.3 of this Agreement.
- “MEEA Transaction”** means an interchange transaction between the MEEA Entity and the CAISO supported from the MEEA Entity’s MEEA Portfolio, as further described in Section 5.1.
- “Ongoing MEEA Data”** means that data provided by the MEEA Entity on an ongoing basis as set forth in Schedule 3 of this Agreement.
- 1.3 Rules of Interpretation.** The following rules of interpretation and conventions shall apply to this Agreement:
- (a) if there is any inconsistency between this Agreement and the CAISO Tariff, the CAISO Tariff will prevail to the extent of the inconsistency;
 - (b) the singular shall include the plural and vice versa;
 - (c) the masculine shall include the feminine and neutral and vice versa;
 - (d) “includes” or “including” shall mean “including without limitation”;
 - (e) references to a Section, Article or Schedule shall mean a Section, Article or a Schedule of this Agreement, as the case may be, unless the context otherwise requires;

- (f) a reference to a given agreement or instrument shall be a reference to that agreement or instrument as modified, amended, supplemented or restated through the date as of which such reference is made;
- (g) unless the context otherwise requires, references to any law shall be deemed references to such law as it may be amended, replaced or restated from time to time;
- (h) unless the context otherwise requires, any reference to a “person” includes any individual, partnership, firm, company, corporation, joint venture, trust, association, organization or other entity, in each case whether or not having separate legal personality;
- (i) unless the context otherwise requires, any reference to a Party includes a reference to its permitted successors and assigns;
- (j) any reference to a day, week, month or year is to a calendar day, week, month or year; and
- (k) the captions and headings in this Agreement are inserted solely to facilitate reference and shall have no bearing upon the interpretation of any of the terms and conditions of this Agreement.

ARTICLE II

ACKNOWLEDGEMENTS OF MEEA ENTITY AND CAISO

- 2.1 Reliability Standard Compliance.** The Parties acknowledge that they are each responsible for compliance with the Reliability Standards consistent with their registered functions.

ARTICLE III

TERM AND TERMINATION

- 3.1 Effective Date and Term.** This Agreement shall be effective as of the date set forth above, unless accepted for filing and made effective by the Federal Energy Regulatory Commission (“FERC”) on some other date, and shall remain in full force and effect for two (2) years from the effective date or until terminated pursuant to Section 3.2 of this Agreement (“Effective Date”). Except as limited below, one year prior to the expiration of the two-year term, each Party shall determine in its sole discretion whether to extend the Agreement for another two (2) year term. If the Parties agree, they may extend the term of this Agreement for two (2) years by entering into a written instrument extending the term, up to a maximum of two such extensions for a six (6) year term after the Effective Date. Further extensions of this Agreement shall constitute an amendment in accordance with Section 11.8 of this Agreement.

3.2 Termination

3.2.1 Termination by CAISO. Subject to Section 3.2.2, the CAISO may terminate this Agreement by giving written notice of termination in the event that the MEEA Entity commits any material default under this Agreement which, if capable of being remedied, is not remedied within thirty (30) days after the CAISO has given, to the MEEA Entity, written notice of the default, unless excused by reason of Uncontrollable Forces in accordance with Article X of this Agreement. With respect to any notice of termination given pursuant to this Section, the CAISO must file a timely notice of termination with FERC. This Agreement shall terminate upon acceptance by FERC of such a notice of termination.

3.2.2 Termination by MEEA Entity. In the event that the MEEA Entity no longer wishes to be eligible for MEEA pricing, it may terminate this Agreement, on giving the CAISO not less than ninety (90) days written notice. With respect to any notice of termination given pursuant to this Section, the CAISO must file a timely notice of termination with FERC. This Agreement shall terminate upon acceptance by FERC of such a notice of termination.

ARTICLE IV

GENERAL TERMS AND CONDITIONS

4.1 Market Efficiency Enhancement Agreement Portfolio and Modeling. Through the provision of information by the MEEA Entity to the CAISO in accordance with CAISO Tariff Section 27.5.3.2, the CAISO and the MEEA Entity have established a MEEA Portfolio which comprises the supply resources specified in Schedule 1 of this Agreement and which shall be modeled in accordance with Schedule 2 of this Agreement.

4.1.1 Use of Information Required to Implement this Market Efficiency Enhancement Agreement. The CAISO shall use the information specified in Schedule 1, in addition to modeling information set forth in Schedule 2 of this Agreement, solely to model and price imports and exports between the MEEA Entity and the CAISO in accordance with CAISO Tariff Section 27.5.3.2.

4.1.2 Updates of Information Provided to Implement a Market Efficiency Enhancement Agreement. Each Party may request in writing an update to the data specified in Schedule 1 and Schedule 2 of this Agreement. The Parties agree to meet and confer as soon as practicable but not more than within thirty (30) days of any such request for an update to discuss and resolve any such request.

4.1.3 Post-Operations Provision of Data by the MEEA Entity

After the Effective Date, the MEEA Entity has agreed to provide ongoing data to the CAISO ("Ongoing MEEA Data") in order to assist the CAISO in evaluating MEEA Transactions, including "Identified Transactions," as set forth in Section 5.1.1 of this Agreement. The Parties agree to meet and confer at least on an

annual basis to assess any changes to the Ongoing MEEA Data. The protocol for providing Ongoing MEEA Data and any change management thereto shall be fully set forth in Schedule 3 of this Agreement.

- 4.2 Market Efficiency Enhancement Agreement-Specific Price.** The CAISO shall calculate a MEEA-specific LMP that reflects the nodes where the supply resources are located as specified in Schedule 1 in accordance with CAISO Tariff Section 27.5.3.2 and which applies the modeling information in accordance with Schedule 2 of this Agreement.
- 4.3 Application of Market Efficiency Enhancement Agreement-Specific Pricing in any Settlement Interval or Settlement Period.** The CAISO will establish Resource IDs that are to be used only to submit Bids, including Self-Schedules, for the purpose of obtaining MEEA-specific pricing (“MEEA Resource ID”). MEEA signatories may obtain and use other Resource IDs to submit Bids, including Self-Schedules, that are not covered by this Agreement. Prior to obtaining and settling MEEA Resource ID(s), the relevant Scheduling Coordinator shall attest that use of its MEEA Resource ID(s) shall mean that the MEEA Transaction is supported by a resource identified in its MEEA Portfolio. This attestation shall be executed under oath by an officer of the MEEA Entity with knowledge of the MEEA Entity signatory’s operations.
- 4.4 Measures of Preserve Confidentiality of Data.** Data provided by the MEEA Entity to the CAISO pursuant to Sections 4.1 and 4.3 shall be treated as confidential data in accordance with CAISO Tariff Section 27.5.3.5 and used solely by the CAISO for the purposes set forth in this Agreement.

ARTICLE V

MEEA Pricing

- 5.1 MEEA-Specific Settlement Pricing.** Except as provided in Sections 5.1.1 and 5.1.2 below, transactions conducted by the MEEA Entity using its MEEA Resource ID(s) shall be considered a “MEEA Transaction” and settled by the CAISO at the MEEA-specific price. For purposes of this Agreement and validation, a transaction shall be deemed to be a MEEA Transaction if the amount of Energy scheduled under a MEEA Resource ID is equal to or less than the amount by which the total MEEA Entity energy exports exceed total imports to the MEEA Entity using non-firm transmission for any scheduling period.
- 5.1.1 Identified Transactions.** Notwithstanding Section 5.1 above, and without waiving the CAISO’s formal right to audit MEEA Transactions described in Section 11.10 below, certain pre-identified MEEA Transactions (“Identified Transactions”) may, at the CAISO’s discretion, trigger the need for additional verification by the CAISO through a less formalized meet and confer process, as further described in Section 5.2 below. Identified Transactions to be evaluated based on final real time Energy include:

- (a) Any transaction where the MEEA Entity's metered Generation is less than the MEEA sale to CAISO; or
- (b) Any transaction where there is an import to the MEEA Entity from the Northwest, or from an entity within the IBAA footprint, tagged using "non-firm" transmission and simultaneously there is a MEEA sale to the CAISO without a corresponding export from the MEEA Entity to another entity within the IBAA footprint, to the CAISO Balancing Authority Area scheduled as an IBAA transaction, or to the Northwest; or
- (c) Any hour where the combined day-ahead and active-day transactions for *MEEA Entity gross MEEA sales* exceed the net of *MEEA Entity total sales less MEEA Entity total imports on non-firm transmission*, where:
 - (i) *MEEA Entity gross MEEA sales* equals day-ahead and active-day MEEA sales; and
 - (ii) *MEEA Entity total sales* equals MEEA Entity gross MEEA sales + MEEA Entity day-ahead and active-day IBAA sales + MEEA Entity day-ahead and active-day non-CAISO sales; and
 - (iii) *MEEA Entity total imports on non-firm transmission* equals day-ahead imports to MEEA Entity on non-firm transmission + active-day imports to MEEA Entity on non-firm transmission.

5.1.2 Informal Review of Identified Transactions. The CAISO may request to meet and confer with the MEEA Entity for any Identified Transaction prior to the issuance of a T+12B recalculation settlement statement for the relevant settlement period. If such a request is made by the CAISO, the MEEA Entity shall cooperate and provide additional information to the CAISO as soon as practicable to support why any of the Identified Transactions are valid MEEA Transactions. If the Parties mutually agree, as evidenced by an email or other form of mutual written confirmation with sufficient description to identify the subject transaction, that the MEEA Transaction(s) subject to this Section are invalid, the CAISO shall not apply the MEEA-specific price to the agreed-upon transaction(s) for the incremental T+55B settlement statement (i.e., the CAISO shall settle the transaction at the IBAA price). If the Parties are unable to agree that the MEEA Transaction(s) subject to this Section are invalid, the CAISO may conduct an audit, as provided in Section 11.10, or institute Dispute Resolution, as provided in Section 7.1 with respect to the Identified Transactions, however, until resolved, the MEEA-specific price shall apply. If there are MEEA Transactions that are reversed to IBAA transactions the Parties will meet and confer as soon as practicable. If there are two (2) or more reversal events per quarter, up to a maximum of four (4) per year after the Effective Date, the Parties shall additionally meet to consider changes to the MEEA Transaction definition. If the Parties are unable to agree within sixty (60)

calendar days, then the CAISO shall have the right to terminate this Agreement in accordance with Section 3.2.1.

ARTICLE VI

COSTS

- 6.1 Operating and Maintenance Costs.** The MEEA Entity shall be responsible for all its costs incurred in connection with meeting its obligations under this Agreement.

ARTICLE VII

DISPUTE RESOLUTION

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

ARTICLE VIII

REPRESENTATIONS AND WARRANTIES

- 8.1 Representation and Warranties.** Each Party represents and warrants that the execution, delivery and performance of this Agreement by it has been duly authorized by all necessary corporate and/or governmental actions, to the extent authorized by law.

ARTICLE IX

LIABILITY

- 9.1 Liability.** The provisions of Section 14 of the CAISO Tariff will apply to liability arising under this Agreement, except that all references in Section 14 of the CAISO Tariff to Market Participants shall be read as references to the Market Efficiency Enhancement Agreement Entity and references to the CAISO Tariff shall be read as references to this Agreement.

ARTICLE X

UNCONTROLLABLE FORCES

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

reference to the MEEA Entity and references to the CAISO Tariff shall be read as references to this Agreement.

ARTICLE XI

MISCELLANEOUS

- 11.1 Assignments.** Either Party may assign or transfer any or all of its rights and/or obligations under this Agreement with the other Party's prior written consent in accordance with Section 22.2 of the CAISO Tariff. Such consent shall not be unreasonably withheld. Any such transfer or assignment shall be conditioned upon the successor in interest accepting the rights and/or obligations under this Agreement as if said successor in interest was an original Party to this Agreement.
- 11.2 Notices.** Any notice, demand or request which may be given to or made upon either Party regarding this Agreement shall be made in accordance with Section 22.4 of the CAISO Tariff, provided that all references in Section 22.4 of the CAISO Tariff to Market Participants shall be read as a reference to the MEEA Entity and references to the CAISO Tariff shall be read as references to this Agreement, and unless otherwise stated or agreed shall be made to the representative of the other Party indicated in Schedule 4. A Party must update the information in Schedule 4 of this Agreement as information changes. Such changes shall not constitute an amendment to this Agreement.
- 11.3 Waivers.** Any waivers at any time by either Party of its rights with respect to any default under this Agreement, or with respect to any other matter arising in connection with this Agreement, shall not constitute or be deemed a waiver with respect to any subsequent default or other matter arising in connection with this Agreement. Any delay, short of the statutory period of limitations, in asserting or enforcing any right under this Agreement shall not constitute or be deemed a waiver of such right.
- 11.4 Governing Law and Forum.** This Agreement shall be deemed to be a contract made under, and for all purposes shall be governed by and construed in accordance with, the laws of the State of California, except its conflict of law provisions. The Parties irrevocably consent that any action or proceeding arising under or relating to this Agreement shall be subject to Section 27.5.3.6 of the CAISO Tariff.
- 11.5 Consistency with Federal Laws and Regulations.** This Agreement shall incorporate by reference Section 22.9 of the CAISO Tariff as if the references to the CAISO Tariff were referring to this Agreement.
- 11.6 Merger.** This Agreement constitutes the complete and final agreement of the Parties with respect to the subject matter hereof and supersedes all prior agreements, whether written or oral, with respect to such subject matter.

- 11.7 Severability.** If any term, covenant, or condition of this Agreement or the application or effect of any such term, covenant, or condition is held invalid as to any person, entity, or circumstance, or is determined to be unjust, unreasonable, unlawful, imprudent, or otherwise not in the public interest by any court or government agency of competent jurisdiction, then such term, covenant, or condition shall remain in force and effect to the maximum extent permitted by law, and all other terms, covenants, and conditions of this Agreement and their application shall not be affected thereby, but shall remain in force and effect and the Parties shall be relieved of their obligations only to the extent necessary to eliminate such regulatory or other determination unless a court or governmental agency of competent jurisdiction holds that such provisions are not separable from all other provisions of this Agreement.
- 11.8 Amendments.** Except as provided in Section 4.1.3, this Agreement and the Schedules attached hereto may be amended from time to time by the mutual agreement of the Parties in writing. Amendments that require FERC approval shall not take effect until FERC has accepted such amendments for filing and made them effective. Nothing contained herein shall be construed as affecting in any way the right of the CAISO to unilaterally make application to FERC for a change in the rates, terms and conditions of this Agreement under Section 205 of the FPA and pursuant to FERC's rules and regulations promulgated thereunder.
- 11.9 Counterparts.** This Agreement may be executed in one or more counterparts at different times, each of which shall be regarded as an original and all of which, taken together, shall constitute one and the same Agreement.
- 11.10 Audit Rights.** The CAISO reserves the right to audit data supplied pursuant to Section 4.1 for the limited purposes of verifying that the MEEA Entity accurately represented available resources and met the requirements specified for MEEA-specific LMP pricing in accordance with CAISO Tariff Section 27.5.3.7. The CAISO shall make every effort to provide a reasonable time period for which it chooses to audit the MEEA Entity and further agrees that its audits under this Section shall be limited to those MEEA Transactions that occurred no greater than one (1) year prior to the date of the written audit request provided to the MEEA Entity. Notwithstanding the foregoing, nothing in this Agreement, including specifically the foregoing limitation, shall limit the CAISO's rights under the CAISO Tariff with respect to the Rules of Conduct.
- 11.11 No-Precedent.** The terms and conditions reached by the Parties herein are not intended to limit or otherwise restrict future MEEA negotiations with other entities within the existing IBAA that are not Parties to this Agreement.

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

California Independent System Operator Corporation

By: _____

Name: _____

Title: _____

Date: _____

Sacramento Municipal Utility District

By: _____

Name: _____

Title: _____

Date: _____

**SCHEDULE 1
MEEA ENTITY SPECIFIC INFORMATION
[Sections 4.1 and 4.2]**

- a. List of the external supply resources within the IBAA over which the MEEA Entity has control or serves.
 - 1. Lake Substation
 - i. Loon Lake Powerhouse
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 - v. Union Valley Powerhouse
 - vi. Jones Fork Powerhouse
 - vii. White Rock Powerhouse

2. Hurley Substation
 - i. Campbell Soup Co-Gen
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 - i. Cosumnes Generating Station
- b. The location of the resources identified in the MEEA for which non-default LMPs will be calculated.
- c. The injection and withdrawal points for the resources identified in the MEEA, including any applicable distribution factors for those resources.
 1. Lake Substation
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- d. The appropriate Resource IDs that apply for the MEEA transactions.

SCHEDULE 2
MODELING INFORMATION
[Section 4.1.1]

The supply resources controlled by the MEEA Entity will be represented in the CAISO's Full Network Model (FNM) as aggregated resources at high-voltage (230 kV) substations located within the MEEA Entity's network that are electrically close to the underlying physical resources, as follows:

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- Rancho Seco Substation: Cosumnes Generating Station, and
- Hurley Substation: Other supply resources.

Distribution factors used in the FNM for representing the MEEA Entity's import bids to the CAISO, and for calculating the weighted average price among these resource locations in the CAISO's settlements, will be established by the CAISO through consultation with the MEEA Entity. The distribution factors will vary by season and time-of-use period based on representative actual output, and be updated at least twice per year to reflect recent years' actual production and expected hydroelectric conditions during the period in which the factors will be applicable.

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The same distribution factors will represent the MEEA Entity's export bids in the CAISO's FNM and for settlements.

SCHEDULE 3
ONGOING MEEA DATA PROVISION PROTOCOL
[Section 4.1.3]

1. General Description of Data

SMUD has determined that it can provide the following historical hourly system data for each hour for which sales occurred to the CAISO while using its MEEA Resource ID.

- (i) Total:
 - (1) generation;
 - (2) load;
 - (3) imports; and
 - (4) exports
- (ii) Tagging

Tag information for all purchases and sales where SMUD system (SMUDSYS) is either the source or the sink.

2. Format and Delivery of Data

The data provided shall be formatted to comply with agreed upon format, such as comma separated value file format. The data shall be provided within seven (7) Business days of the trade date (i.e., T + 7B) of the MEEA Transaction.

3. Updates to Schedule 3

The data described in Section 1 above will be provided on a T + 7B rolling basis, as available.

4. No Warranties

Any data provided to the CAISO pursuant to this Schedule carries no warranty or representation of any kind, either express or implied.

5. Confidentiality

All data provided under this Schedule shall be treated as confidential data, consistent with Section 4.4 of this Agreement.

6. Modification(s)

SMUD reserves the right to modify this Schedule 3, after the Parties meet and confer, to the extent it deems it inconsistent with its ongoing business practices or it becomes unduly burdensome. SMUD will meet and confer with the CAISO at least seven (7) business days prior to making any modifications to Schedule 3 or terminating this Agreement.

SCHEDULE 4

NOTICES

[Section 11.2]

SMUD / MEEA Entity

Name of Primary

Representative: Steven K. Sorey
 Title: Manager Energy Trading & Contracts
 Company: Sacramento Municipal Utility District
 Address: 6301 S Street
 City/State/Zip Code: Sacramento, California 95852-1830
 Email Address: Steve.Sorey@smud.org
 Phone: 916-732-6521
 Fax No: 916-732-6002

Name of Alternative

Representative: Gary Lawson
 Title: Supervisor Commodity Contracts
 Company: Sacramento Municipal Utility District
 Address: 6301 S Street
 City/State/Zip Code: Sacramento, California 95852-1830
 Email Address: Gary.Lawson@smud.org
 Phone: 916-732-5802
 Fax No: 916-732-6002

CAISO

Name of Primary Representative: Regulatory Contracts
Title: N/A
Address: 250 Outcropping Way
City/State/Zip Code: Folsom, CA 95630
Email Address: regulatorycontracts@caiso.com
Phone: (916) 608-7027
Fax No: (916) 608-5063

Name of Alternative Representative: Christopher J. Sibley
Title: Lead Contract Negotiator
Address: 250 Outcropping Way
City/State/Zip Code: Folsom, CA 95630
Email Address: csibley@caiso.com
Phone: (916) 608-7030
Fax No: (916) 608-5063

Attachment C – Marked

**Market Efficiency Enhancement Agreement between the
California Independent System Operator Corporation and
Sacramento Municipal Utility District**

August 16, 2013

CALIFORNIA INDEPENDENT SYSTEM
OPERATOR CORPORATION

AND

SACRAMENTO MUNICIPAL UTILITY
DISTRICT

MARKET EFFICIENCY ENHANCEMENT
AGREEMENT

MARKET EFFICIENCY ENHANCEMENT AGREEMENT

THIS AGREEMENT is dated this _____ day of _____, _____ and is entered into, by and between:

(1) **Sacramento Municipal Utility District**, having its registered and principal place of business located at 6201 S Street, Sacramento, California 95814 (the "MEEA Entity");

and

(2) **California Independent System Operator Corporation**, a California nonprofit public benefit corporation having a principal executive office located at such place in the State of California as the CAISO Governing Board may from time to time designate, initially 250 Outcropping Way, Folsom, California 95630 (the "CAISO").

The MEEA Entity and the CAISO are hereinafter referred to as the "Parties".

Whereas:

- A.** The CAISO seeks to model and price interchange transactions between the CAISO and the MEEA Entity, which resides within an Integrated Balancing Authority Area ("IBAA"), in a manner that reflects the resources that support those interchange transactions. The CAISO needs certain information in order to perform this modeling and pricing for the MEEA Entity.
- B.** The MEEA Entity seeks alternative pricing for interchange transactions. Accordingly, the MEEA Entity agrees to provide the CAISO with certain information.
- C.** The Parties are entering into this Agreement in order to establish the terms and conditions upon which the CAISO and the MEEA Entity will discharge their respective duties and responsibilities under the CAISO Tariff, namely the modeling and pricing for imports and exports between the IBAA and the CAISO Balancing Authority Area.

NOW THEREFORE, in consideration of the mutual covenants set forth herein, **THE PARTIES AGREE** as follows:

ARTICLE I

DEFINITIONS AND INTERPRETATION

1.1 Master Definitions Supplement. All capitalized terms and expressions used in this Agreement shall have the same meaning as those contained in the Master Definitions Supplement to the CAISO Tariff unless otherwise defined in this Agreement.

1.2 Special Definitions for this Agreement. In this Agreement, the following words and expressions shall have the meaning set forth below:

“Control” means ownership or any contractual arrangements that provide authority to schedule and or receive the financial benefits of a resource.

“Identified Transaction” means those transactions described in Section 5.1 of this Agreement.

“MEEA Portfolio” means the supply resources set forth in Schedule 1 of this Agreement.

“MEEA Resource ID” means those Resource IDs described in Section 4.3 of this Agreement.

“MEEA Transaction” means an interchange transaction between the MEEA Entity and the CAISO supported from the MEEA Entity’s MEEA Portfolio, as further described in Section 5.1.

“Ongoing MEEA Data” means that data provided by the MEEA Entity on an ongoing basis as set forth in Schedule 3 of this Agreement.

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

(a) if there is any inconsistency between this Agreement and the CAISO Tariff, the CAISO Tariff will prevail to the extent of the inconsistency;

(b) the singular shall include the plural and vice versa;

(c) the masculine shall include the feminine and neutral and vice versa;

(d) “includes” or “including” shall mean “including without limitation”;

(e) references to a Section, Article or Schedule shall mean a Section, Article or a Schedule of this Agreement, as the case may be, unless the context otherwise requires;

- (f) a reference to a given agreement or instrument shall be a reference to that agreement or instrument as modified, amended, supplemented or restated through the date as of which such reference is made;
- (g) unless the context otherwise requires, references to any law shall be deemed references to such law as it may be amended, replaced or restated from time to time;
- (h) unless the context otherwise requires, any reference to a “person” includes any individual, partnership, firm, company, corporation, joint venture, trust, association, organization or other entity, in each case whether or not having separate legal personality;
- (i) unless the context otherwise requires, any reference to a Party includes a reference to its permitted successors and assigns;
- (j) any reference to a day, week, month or year is to a calendar day, week, month or year; and
- (k) the captions and headings in this Agreement are inserted solely to facilitate reference and shall have no bearing upon the interpretation of any of the terms and conditions of this Agreement.

ARTICLE II

ACKNOWLEDGEMENTS OF MEEA ENTITY AND CAISO

2.1 Reliability Standard Compliance. The Parties acknowledge that they are each responsible for compliance with the Reliability Standards consistent with their registered functions.

ARTICLE III

TERM AND TERMINATION

3.1 Effective Date and Term. This Agreement shall be effective as of the date set forth above, unless accepted for filing and made effective by the Federal Energy Regulatory Commission (“FERC”) on some other date, and shall remain in full force and effect for two (2) years from the effective date or until terminated pursuant to Section 3.2 of this Agreement (“Effective Date”). Except as limited below, one year prior to the expiration of the two-year term, each Party shall determine in its sole discretion whether to extend the Agreement for another two (2) year term. If the Parties agree, they may extend the term of this Agreement for two (2) years by entering into a written instrument extending the term, up to a maximum of two such extensions for a six (6) year term after the Effective Date. Further extensions of this Agreement shall constitute an amendment in accordance with Section 11.8 of this Agreement.

3.2 Termination

3.2.1 Termination by CAISO. Subject to Section 3.2.2, the CAISO may terminate this Agreement by giving written notice of termination in the event that the MEEA Entity commits any material default under this Agreement which, if capable of being remedied, is not remedied within thirty (30) days after the CAISO has given, to the MEEA Entity, written notice of the default, unless excused by reason of Uncontrollable Forces in accordance with Article X of this Agreement. With respect to any notice of termination given pursuant to this Section, the CAISO must file a timely notice of termination with FERC. This Agreement shall terminate upon acceptance by FERC of such a notice of termination.

3.2.2 Termination by MEEA Entity. In the event that the MEEA Entity no longer wishes to be eligible for MEEA pricing, it may terminate this Agreement, on giving the CAISO not less than ninety (90) days written notice. With respect to any notice of termination given pursuant to this Section, the CAISO must file a timely notice of termination with FERC. This Agreement shall terminate upon acceptance by FERC of such a notice of termination.

ARTICLE IV

GENERAL TERMS AND CONDITIONS

4.1 Market Efficiency Enhancement Agreement Portfolio and Modeling. Through the provision of information by the MEEA Entity to the CAISO in accordance with CAISO Tariff Section 27.5.3.2, the CAISO and the MEEA Entity have established a MEEA Portfolio which comprises the supply resources specified in Schedule 1 of this Agreement and which shall be modeled in accordance with Schedule 2 of this Agreement.

4.1.1 Use of Information Required to Implement this Market Efficiency Enhancement Agreement. The CAISO shall use the information specified in Schedule 1, in addition to modeling information set forth in Schedule 2 of this Agreement, solely to model and price imports and exports between the MEEA Entity and the CAISO in accordance with CAISO Tariff Section 27.5.3.2.

4.1.2 Updates of Information Provided to Implement a Market Efficiency Enhancement Agreement. Each Party may request in writing an update to the data specified in Schedule 1 and Schedule 2 of this Agreement. The Parties agree to meet and confer as soon as practicable but not more than within thirty (30) days of any such request for an update to discuss and resolve any such request.

4.1.3 Post-Operations Provision of Data by the MEEA Entity

After the Effective Date, the MEEA Entity has agreed to provide ongoing data to the CAISO ("Ongoing MEEA Data") in order to assist the CAISO in evaluating MEEA Transactions, including "Identified Transactions," as set forth in Section 5.1.1 of this Agreement. The Parties agree to meet and confer at least on an

annual basis to assess any changes to the Ongoing MEEA Data. The protocol for providing Ongoing MEEA Data and any change management thereto shall be fully set forth in Schedule 3 of this Agreement.

4.2 Market Efficiency Enhancement Agreement-Specific Price. The CAISO shall calculate a MEEA-specific LMP that reflects the nodes where the supply resources are located as specified in Schedule 1 in accordance with CAISO Tariff Section 27.5.3.2 and which applies the modeling information in accordance with Schedule 2 of this Agreement.

4.3 Application of Market Efficiency Enhancement Agreement-Specific Pricing in any Settlement Interval or Settlement Period. The CAISO will establish Resource IDs that are to be used only to submit Bids, including Self-Schedules, for the purpose of obtaining MEEA-specific pricing ("MEEA Resource ID"). MEEA signatories may obtain and use other Resource IDs to submit Bids, including Self-Schedules, that are not covered by this Agreement. Prior to obtaining and settling MEEA Resource ID(s), the relevant Scheduling Coordinator shall attest that use of its MEEA Resource ID(s) shall mean that the MEEA Transaction is supported by a resource identified in its MEEA Portfolio. This attestation shall be executed under oath by an officer of the MEEA Entity with knowledge of the MEEA Entity signatory's operations.

4.4 Measures of Preserve Confidentiality of Data. Data provided by the MEEA Entity to the CAISO pursuant to Sections 4.1 and 4.3 shall be treated as confidential data in accordance with CAISO Tariff Section 27.5.3.5 and used solely by the CAISO for the purposes set forth in this Agreement.

ARTICLE V

MEEA Pricing

5.1 MEEA-Specific Settlement Pricing. Except as provided in Sections 5.1.1 and 5.1.2 below, transactions conducted by the MEEA Entity using its MEEA Resource ID(s) shall be considered a "MEEA Transaction" and settled by the CAISO at the MEEA-specific price. For purposes of this Agreement and validation, a transaction shall be deemed to be a MEEA Transaction if the amount of Energy scheduled under a MEEA Resource ID is equal to or less than the amount by which the total MEEA Entity energy exports exceed total imports to the MEEA Entity using non-firm transmission for any scheduling period.

5.1.1 Identified Transactions. Notwithstanding Section 5.1 above, and without waiving the CAISO's formal right to audit MEEA Transactions described in Section 11.10 below, certain pre-identified MEEA Transactions ("Identified Transactions") may, at the CAISO's discretion, trigger the need for additional verification by the CAISO through a less formalized meet and confer process, as further described in Section 5.2 below. Identified Transactions to be evaluated based on final real time Energy include:

- (a) Any transaction where the MEEA Entity's metered Generation is less than the MEEA sale to CAISO; or
- (b) Any transaction where there is an import to the MEEA Entity from the Northwest, or from an entity within the IBAA footprint, tagged using "non-firm" transmission and simultaneously there is a MEEA sale to the CAISO without a corresponding export from the MEEA Entity to another entity within the IBAA footprint, to the CAISO Balancing Authority Area scheduled as an IBAA transaction, or to the Northwest; or
- (c) Any hour where the combined day-ahead and active-day transactions for MEEA Entity gross MEEA sales exceed the net of MEEA Entity total sales less MEEA Entity total imports on non-firm transmission, where:
 - (i) MEEA Entity gross MEEA sales equals day-ahead and active-day MEEA sales; and
 - (ii) MEEA Entity total sales equals MEEA Entity gross MEEA sales + MEEA Entity day-ahead and active-day IBAA sales + MEEA Entity day-ahead and active-day non-CAISO sales; and
 - (iii) MEEA Entity total imports on non-firm transmission equals day-ahead imports to MEEA Entity on non-firm transmission + active-day imports to MEEA Entity on non-firm transmission.

5.1.2 Informal Review of Identified Transactions. The CAISO may request to meet and confer with the MEEA Entity for any Identified Transaction prior to the issuance of a T+12B recalculation settlement statement for the relevant settlement period. If such a request is made by the CAISO, the MEEA Entity shall cooperate and provide additional information to the CAISO as soon as practicable to support why any of the Identified Transactions are valid MEEA Transactions. If the Parties mutually agree, as evidenced by an email or other form of mutual written confirmation with sufficient description to identify the subject transaction, that the MEEA Transaction(s) subject to this Section are invalid, the CAISO shall not apply the MEEA-specific price to the agreed-upon transaction(s) for the incremental T+55B settlement statement (i.e., the CAISO shall settle the transaction at the IBAA price). If the Parties are unable to agree that the MEEA Transaction(s) subject to this Section are invalid, the CAISO may conduct an audit, as provided in Section 11.10, or institute Dispute Resolution, as provided in Section 7.1 with respect to the Identified Transactions, however, until resolved, the MEEA-specific price shall apply. If there are MEEA Transactions that are reversed to IBAA transactions the Parties will meet and confer as soon as practicable. If there are two (2) or more reversal events per quarter, up to a maximum of four (4) per year after the Effective Date, the Parties shall additionally meet to consider changes to the MEEA Transaction definition. If the Parties are unable to agree within sixty (60)

calendar days, then the CAISO shall have the right to terminate this Agreement in accordance with Section 3.2.1.

ARTICLE VI

COSTS

6.1 Operating and Maintenance Costs. The MEEA Entity shall be responsible for all its costs incurred in connection with meeting its obligations under this Agreement.

ARTICLE VII

DISPUTE RESOLUTION

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

ARTICLE VIII

REPRESENTATIONS AND WARRANTIES

8.1 Representation and Warranties. Each Party represents and warrants that the execution, delivery and performance of this Agreement by it has been duly authorized by all necessary corporate and/or governmental actions, to the extent authorized by law.

ARTICLE IX

LIABILITY

9.1 Liability. The provisions of Section 14 of the CAISO Tariff will apply to liability arising under this Agreement, except that all references in Section 14 of the CAISO Tariff to Market Participants shall be read as references to the Market Efficiency Enhancement Agreement Entity and references to the CAISO Tariff shall be read as references to this Agreement.

ARTICLE X

UNCONTROLLABLE FORCES

10.1 Uncontrollable Forces Tariff Provisions. Section 14.1 of the CAISO Tariff shall be incorporated by reference into this Agreement except that all references in Section 14.1 of the CAISO Tariff to Market Participants shall be read as a

reference to the MEEA Entity and references to the CAISO Tariff shall be read as references to this Agreement.

ARTICLE XI

MISCELLANEOUS

- 11.1 Assignments.** Either Party may assign or transfer any or all of its rights and/or obligations under this Agreement with the other Party's prior written consent in accordance with Section 22.2 of the CAISO Tariff. Such consent shall not be unreasonably withheld. Any such transfer or assignment shall be conditioned upon the successor in interest accepting the rights and/or obligations under this Agreement as if said successor in interest was an original Party to this Agreement.
- 11.2 Notices.** Any notice, demand or request which may be given to or made upon either Party regarding this Agreement shall be made in accordance with Section 22.4 of the CAISO Tariff, provided that all references in Section 22.4 of the CAISO Tariff to Market Participants shall be read as a reference to the MEEA Entity and references to the CAISO Tariff shall be read as references to this Agreement, and unless otherwise stated or agreed shall be made to the representative of the other Party indicated in Schedule 4. A Party must update the information in Schedule 4 of this Agreement as information changes. Such changes shall not constitute an amendment to this Agreement.
- 11.3 Waivers.** Any waivers at any time by either Party of its rights with respect to any default under this Agreement, or with respect to any other matter arising in connection with this Agreement, shall not constitute or be deemed a waiver with respect to any subsequent default or other matter arising in connection with this Agreement. Any delay, short of the statutory period of limitations, in asserting or enforcing any right under this Agreement shall not constitute or be deemed a waiver of such right.
- 11.4 Governing Law and Forum.** This Agreement shall be deemed to be a contract made under, and for all purposes shall be governed by and construed in accordance with, the laws of the State of California, except its conflict of law provisions. The Parties irrevocably consent that any action or proceeding arising under or relating to this Agreement shall be subject to Section 27.5.3.6 of the CAISO Tariff.
- 11.5 Consistency with Federal Laws and Regulations.** This Agreement shall incorporate by reference Section 22.9 of the CAISO Tariff as if the references to the CAISO Tariff were referring to this Agreement.
- 11.6 Merger.** This Agreement constitutes the complete and final agreement of the Parties with respect to the subject matter hereof and supersedes all prior agreements, whether written or oral, with respect to such subject matter.

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

11.8 Amendments. Except as provided in Section 4.1.3, this Agreement and the Schedules attached hereto may be amended from time to time by the mutual agreement of the Parties in writing. Amendments that require FERC approval shall not take effect until FERC has accepted such amendments for filing and made them effective. Nothing contained herein shall be construed as affecting in any way the right of the CAISO to unilaterally make application to FERC for a change in the rates, terms and conditions of this Agreement under Section 205 of the FPA and pursuant to FERC's rules and regulations promulgated thereunder.

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

11.10 Audit Rights. The CAISO reserves the right to audit data supplied pursuant to Section 4.1 for the limited purposes of verifying that the MEEA Entity accurately represented available resources and met the requirements specified for MEEA-specific LMP pricing in accordance with CAISO Tariff Section 27.5.3.7. The CAISO shall make every effort to provide a reasonable time period for which it chooses to audit the MEEA Entity and further agrees that its audits under this Section shall be limited to those MEEA Transactions that occurred no greater than one (1) year prior to the date of the written audit request provided to the MEEA Entity. Notwithstanding the foregoing, nothing in this Agreement, including specifically the foregoing limitation, shall limit the CAISO's rights under the CAISO Tariff with respect to the Rules of Conduct.

11.11 No-Precedent. The terms and conditions reached by the Parties herein are not intended to limit or otherwise restrict future MEEA negotiations with other entities within the existing IBAA that are not Parties to this Agreement.

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

California Independent System Operator Corporation

By: _____

Name: _____

Title: _____

Date: _____

Sacramento Municipal Utility District

By: _____

Name: _____

Title: _____

Date: _____

SCHEDULE 1
MEEA ENTITY SPECIFIC INFORMATION
[Sections 4.1 and 4.2]

a. List of the external supply resources within the IBAA over which the MEEA Entity has control or serves.

1. Lake Substation

i. Loon Lake Powerhouse

ii. Camino Powerhouse

iii. Robbs Peak Powerhouse

iv. Jaybird Powerhouse

v. Union Valley Powerhouse

vi. Jones Fork Powerhouse

vii. White Rock Powerhouse

- 2. Hurley Substation
 - i. Campbell Soup Co-Gen
 - ii. Carson Ice Co-Gen
 - iii. Proctor and Gamble Co-Gen
 - iv. McClellan CT
- 3. Rancho Seco Substation
 - i. Cosumnes Generating Station
- b. The location of the resources identified in the MEEA for which non-default LMPs will be calculated.
- c. The injection and withdrawal points for the resources identified in the MEEA, including any applicable distribution factors for those resources.
 - 1. Lake Substation
 - 2. Hurley Substation
 - 3. Rancho Seco Substation
- d. The appropriate Resource IDs that apply for the MEEA transactions.

SCHEDULE 2
MODELING INFORMATION

[Section 4.1.1]

The supply resources controlled by the MEEA Entity will be represented in the CAISO's Full Network Model (FNM) as aggregated resources at high-voltage (230 kV) substations located within the MEEA Entity's network that are electrically close to the underlying physical resources, as follows:

- Lake Substation: Upper American River Project hydroelectric generation,
- Rancho Seco Substation: Cosumnes Generating Station, and
- Hurley Substation: Other supply resources.

Distribution factors used in the FNM for representing the MEEA Entity's import bids to the CAISO, and for calculating the weighted average price among these resource locations in the CAISO's settlements, will be established by the CAISO through consultation with the MEEA Entity. The distribution factors will vary by season and time-of-use period based on representative actual output, and be updated at least twice per year to reflect recent years' actual production and expected hydroelectric conditions during the period in which the factors will be applicable.

Initially, the seasons used in the distribution factors will be January through May, and June through December. Time-of-use periods will follow standard definitions established for the WECC region. These seasons and periods may be adjusted as needed during consultations between the CAISO and the MEEA Entity.

The same distribution factors will represent the MEEA Entity's export bids in the CAISO's FNM and for settlements.

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ONGOING MEEA DATA PROVISION PROTOCOL
[Section 4.1.3]

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SMUD has determined that it can provide the following historical hourly system data for each hour for which sales occurred to the CAISO while using its MEEA Resource ID.

(i) Total:

(1) generation;

(2) load;

(3) imports; and

(4) exports

(ii) Tagging

Tag information for all purchases and sales where SMUD system (SMUDSYS) is either the source or the sink.

2. Format and Delivery of Data

The data provided shall be formatted to comply with agreed upon format, such as comma separated value file format. The data shall be provided within seven (7) Business days of the trade date (i.e., T + 7B) of the MEEA Transaction.

3. Updates to Schedule 3

The data described in Section 1 above will be provided on a T + 7B rolling basis, as available.

4. No Warranties

Any data provided to the CAISO pursuant to this Schedule carries no warranty or representation of any kind, either express or implied.

5. Confidentiality

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6. Modification(s)

SMUD reserves the right to modify this Schedule 3, after the Parties meet and confer, to the extent it deems it inconsistent with its ongoing business practices or it becomes unduly burdensome. SMUD will meet and confer with the CAISO at least seven (7) business days prior to making any modifications to Schedule 3 or terminating this Agreement.

SCHEDULE 4
NOTICES
[Section 11.2]

SMUD / MEEA Entity

Name of Primary

Representative: Steven K. Sorey

Title: Manager Energy Trading & Contracts

Company: Sacramento Municipal Utility District

Address: 6301 S Street

City/State/Zip Code Sacramento, California 95852-1830

Email Address: Steve.Sorey@smud.org

Phone: 916-732-6521

Fax No: 916-732-6002

Name of Alternative

Representative: Gary Lawson

Title: Supervisor Commodity Contracts

Company: Sacramento Municipal Utility District

Address: 6301 S Street

City/State/Zip Code Sacramento, California 95852-1830

Email Address: Gary.Lawson@smud.org

Phone: 916-732-5802

Fax No: 916-732-6002

CAISOName of PrimaryRepresentative: Regulatory ContractsTitle: N/AAddress: 250 Outcropping WayCity/State/Zip Code Folsom, CA 95630Email Address: regulatorycontracts@caiso.comPhone: (916) 608-7027Fax No: (916) 608-5063Name of AlternativeRepresentative: Christopher J. SibleyTitle: Lead Contract NegotiatorAddress: 250 Outcropping WayCity/State/Zip Code Folsom, CA 95630Email Address: csibley@caiso.comPhone: (916) 608-7030Fax No: (916) 608-5063