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September 30, 2005

The Honorable Magalie Roman Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

**Re: California Independent System Operator Corporation
Rate Schedule FERC No. 61
Docket No. ER05-____-000**

Dear Secretary Salas:

Pursuant to Section 205 of the Federal Power Act ("FPA"), 16 U.S.C. § 824d, the California Independent System Operator Corporation ("ISO") submits for Commission filing and acceptance this California-Oregon Intertie ("COI") Control Area Operating Agreement between the ISO and the Sacramento Municipal Utility District ("SMUD").¹ The purpose of this filing is to facilitate the transfer of the 500 kV California-Oregon Transmission Project ("COTP") transmission line from the ISO Control Area to the SMUD Control Area, as requested by participants in the COTP. That transfer is one of several planned modifications to the current ISO Control Area footprint that are scheduled to occur on December 1, 2005. The ISO requests an effective date of December 1, 2005 for this filing.

¹ Capitalized terms not otherwise defined herein have the meanings set forth in the Master Definitions Supplement, Appendix A to the ISO Tariff, and in the COI Operating Agreement.

I. Background Concerning Modifications to the ISO Control Area Footprint

As described above, the transfer of the 500 kV COTP transmission line from the ISO Control Area to the SMUD Control Area is one of several planned modifications to the current ISO Control Area footprint that are scheduled to occur on December 1, 2005. In addition to that transfer, the following modifications to the current footprint will occur:

- The Modesto Irrigation District will, as it has requested, be incorporated into the SMUD Control Area.
- The Turlock Irrigation District will, as it has requested, become an independent Control Area.
- As requested by the Plumas-Sierra Rural Electric Cooperative and the Northern California Power Agency, a new intertie will be created at the Plumas-Sierra Marble Substation, between the ISO Control Area and the Control Area of the Sierra Pacific Power Company.
- The ISO will establish a pilot program to create a pseudo tie (*i.e.*, remote tie) of a Generating Unit currently in the SMUD Control Area to the ISO Control Area.

To minimize the impact of these modifications on customers, the ISO proposes to implement them in a single, new scheduling applications network model, called "C1."² None of the modifications requires any changes to the ISO Tariff.

In addition, the ISO is exploring how to recover or offset the one-time costs to the ISO's customers that will result from the changes to ISO systems and the ISO Control Area footprint caused by these transfers – particularly the transfers of systems and facilities out of the ISO Control Area.

² On September 14 and 16, 2005, the ISO issued market notices concerning the implementation of the C1 network model, and explained that the technical information file and associated Master File modifications for the C1 network model had been posted on the ISO's website, to become effective on December 1. The ISO held a conference call with stakeholders about the C1 network model on September 20, 2005. The C1 network model also includes changes that are beyond the scope of those discussed in this transmittal letter, which will remain "off" until the ISO reaches agreement with the interested party(ies) and the agreement(s) is filed with the Commission. The ISO mentions these changes here only to indicate the ISO's intention to request expedited approval in an effort to have as many agreed-to changes made effective as of December 1, 2005, should the ISO be unable to reach agreement with the interested party(ies) prior to October 1, 2005.

II. The COI Control Area Operating Agreement

The ISO and SMUD entered into the COI Control Area Operating Agreement to provide for the continued reliable coordinated operation, subsequent to December 1, 2005, of the Pacific AC Intertie ("PACI")³ and COTP with the Pacific Northwest Path Operator.⁴ COI Control Area Operating Agreement, § 2.10. The ISO and SMUD are committed, in accordance with the COI Control Area Operating Agreement, to assure the continued reliable operation of COI. This agreement is required by the COI Path Operating Agreement between the COI Owners and the Path Operator for COI that has previously been approved by the Commission. COI Path Operating Agreement, § 8.3.19.⁵

Section 1 of the COI Control Area Operating Agreement states the parties to the agreement. Section 2 contains the parties' recitals. Section 3 states that the parties have reached agreement. Section 4 sets forth defined terms that are used in the agreement. Section 5 describes the scope of the agreement. Section 6 states the agreement's effective date and term. Section 7 contains provisions that apply as to administrative and technical matters.

Section 8.1 of the COI Control Area Operating Agreement sets forth the duties of the Path Operator for COI. Those duties include the following:

- Compliance with the terms of the COI Path Operating Agreement and the COI Operating Procedures established pursuant to that agreement.
- Compliance with Schedule 1 to the COI Control Area Operating Agreement, which outlines the specific share that each respective COI Control Area Operator will take of Power Flow Reduction Measures called for by the Path Operator for COI and the specific share of Western Electricity Coordinating Council ("WECC") Reliability Management System ("RMS") sanctions for which each respective COI Control Area Operator is responsible in instances when a single responsible COI Control Area Operator cannot be identified for a particular sanction.

³ The PACI comprises transmission facilities that operate in parallel with the COTP between the Malin (California) and Tesla (California) substations. COI Control Area Operating Agreement, §§ 2.1, 4.35.

⁴ The Pacific Northwest Path Operator is the entity (currently the Bonneville Power Administration) that is responsible for operating the electric transmission path and managing transfer capability north of the California-Oregon Border corresponding to COI south of the California-Oregon Border. COI Control Area Operating Agreement, § 4.40.

⁵ The COI Path Operating Agreement was filed on October 21, 2004, in Docket No. ER04-693-001, and was accepted by the Commission in *Pacific Gas and Electric Company*, 109 FERC ¶ 61,255, at P 18 (2004).

Section 8.2 of the COI Control Area Operating Agreement sets forth the duties of a COI Control Area Operator. Those duties include the following:

- Provision to the Path Operator for COI of the scheduled net interchange and actual power flows on the System facilities in the COI Control Area Operator's Control Area.
- Provision to the Path Operator for COI of COI outage schedules for equipment that may impact the rating of COI when required by the Path Operator of COI.
- Provision of the ability to transmit real-time information to the Path Operator for COI.
- Compliance with directions issued by the Path Operator for COI to implement the Operating Procedures for Unscheduled Flow and to implement appropriate allocation of Available System Transfer Capability ("ASTC").
- Provision of communications to the Path Operator for COI concerning matters required to be communicated under the COI Control Area Operating Agreement.
- Provision to the Path Operator for COI of all information determined to be necessary by the Path Operator for COI to permit it to monitor all Electric System conditions that may reasonably affect ASTC and Available Scheduling Capability.
- Becoming and remaining a party to the WECC Reliability Management System Agreement and WECC Reliability Criteria Agreement.
- Provision to the Path Operator for COI of the COI Control Area Operator's equipment outage plans to the extent such outage plans affect the Operational Transfer Capability Limit.
- Maintenance of continuous, reliable communication with the applicable WECC Reliability Coordinator.
- Operation, maintenance, and replacement of facilities, and recruitment, retention, and development of sufficient trained and certified personnel, as necessary to comply with applicable WECC and North American Electric Reliability Council requirements.

Sections 8.3 and 8.4 of the COI Control Area Operating Agreement concern unscheduled flow mitigation and modifications and biennial updates to the agreement, respectively. Section 9 contains provisions concerning the WECC RMS. Sections 10 through 33 contain standard provisions regarding such matters as assignment of rights and obligations, liability, Uncontrollable Force, dispute resolution, etc.

The ISO has designated the COI Control Area Operating Agreement as Rate Schedule FERC No. 61.

III. Expenses

No expense or cost associated with this filing has been alleged or judged in any judicial or administrative proceeding to be illegal, duplicative, unnecessary, or demonstratively the product of discriminatory employment practices.

IV. Service

Copies of this filing have been served upon SMUD, the Bonneville Power Administration, Pacific Gas and Electric Company, the California Public Utilities Commission, and the California Electricity Oversight Board. In addition, the filing has been posted on the ISO's website.

Enclosed for filing are six copies of each of the following:

- (1) this letter of transmittal; and
- (2) the COI Control Area Operating Agreement, which is in a format that complies with the Order No. 614, *Designation of Electric Rate Schedule Sheets*, FERC Stats and Regs. ¶ 31,096 (2000) (Attachment A).

Also enclosed are two additional copies of this filing to be date-stamped and returned to our messenger.

V. Correspondence

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

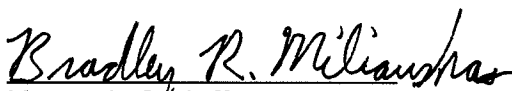
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ATTACHMENT A

California-Oregon Intertie Control Area Operating Agreement

Between

Sacramento Municipal Utility District

And

California Independent System Operator Corporation

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Table of Acronyms and Abbreviations

Agreement:	This California-Oregon Intertie Control Area Operating Agreement
ASC:	Available Scheduling Capability
ASTC:	Available System Transfer Capability
BPA:	Bonneville Power Administration
CAISO:	California Independent System Operator Corporation
CCPIA:	The California Companies Pacific Intertie Agreement
COB:	California-Oregon Border
COI:	California-Oregon Intertie
COTP:	California-Oregon Transmission Project
CVP:	Central Valley Project
Edison:	Southern California Edison Company
FERC:	The Federal Energy Regulatory Commission, or its regulatory successor
NERC:	The North American Electric Reliability Council, or its successor
NOB:	Nevada-Oregon Border
OCOA:	Owners Coordinated Operation Agreement
OTC:	Operational Transfer Capability Limit
PACI:	Pacific AC Intertie
PDCI:	Pacific DC Intertie
PG&E:	Pacific Gas and Electric Company
RAS:	Remedial Action Schemes
RSTC:	Rates System Transfer Capability
SDG&E:	San Diego Gas & Electric Company
TANC:	Transmission Agency of Northern California
Western:	Western Area Power Administration
WECC:	The Western Electricity Coordinating Council, or its successor

California-Oregon Intertie Control Area Operating Agreement

Between

Sacramento Municipal Utility District

And

California Independent System Operator Corporation

1 PARTIES

This California-Oregon Intertie Control Area Operating Agreement Between Sacramento Municipal Utility District and the California Independent System Operator Corporation, governing the operation of Control Area Operators in whose Control Areas the Pacific AC Intertie and the California-Oregon Transmission Project are located ("Agreement"), is entered into by and among the following: Sacramento Municipal Utility District ("SMUD") and the California Independent System Operator Corporation ("CAISO"), hereinafter sometimes referred to collectively as "Parties" and individually as a "Party." The CAISO is the Path Operator for COI.

2 RECITALS

This Agreement is made with reference to the following facts, among others:

- 2.1 The COTP Participants constructed the COTP to operate in parallel with the Pacific AC Intertie ("PACI") between Malin and Tesla substations.
- 2.2 PG&E constructed and owns most of the portions of the PACI in northern California, which operates in parallel with the COTP ("PACI-P").
- 2.3 PG&E, Edison and SDG&E (collectively "The Companies" and individually a "Company") are parties to the California Companies' Pacific Intertie Agreement ("CCPIA") under which PG&E has operated the PACI-P since December 20, 1967, and pursuant to which Edison and SDG&E obtain rights and have obligations regarding use of the PACI which, under this Agreement, will be coordinated with the COTP Participants and Western for the

remaining term of the CCPIA. PG&E, Edison and SDG&E turned over the operational control of the PACI-P on March 31, 1998, to the California Independent System Operator Corporation ("CAISO"), which operates the Control Area in which the PACI is presently located.

- 2.4 Western owns a portion of the PACI ("PACI-W"), which has been coordinated with the PACI-P pursuant to Western's Contract With California Companies For Extra High Voltage Transmission And Exchange Service ("Contract 2947A"), which expired on January 1, 2005.
- 2.5 PacifiCorp owns a portion of the PACI, which is coordinated with the PACI-P pursuant to an agreement between PacifiCorp and the Companies, which terminates on July 31, 2007.
- 2.6 Prior to the execution of this Agreement, the CAISO has performed, and continues to perform, the functions of the Path Operator for the California-Oregon Intertie ("COI") in coordination with the Pacific Northwest Path Operator, and those entities have developed certain procedures to provide for the reliable operation of the COI.
- 2.7 The Companies, COTP Participants, and Western, (collectively, the "Owners" and individually, an "Owner") agreed to the terms and conditions of the Owners Coordinated Operations Agreement ("OCA") which has been in effect as of January 1, 2005.
- 2.8 The OCA provides, in Section 8, that the parties to the OCA shall develop and enter into an Operating Agreement with the Path Operator for the COI (the COI Path Operating Agreement).
- 2.9 The COTP Participants have elected to transfer the COTP to the SMUD Control Area.
- 2.10 It is the COI Control Area Operators' desire, in accordance with the COI Path Operating Agreement, to enter into this Agreement with the CAISO as the Path Operator for COI to provide for the continued reliable coordinated operation of the PACI and COTP with the Pacific Northwest Path Operator.

2.11 It is the Parties' desire, in accordance with this Agreement, to:

2.11.1 Assure the continued reliable operation of the COI; and

2.11.2 Establish requirements for the obligations and rights to be included in the agreement(s) between the Path Operator for COI and a COI Control Area Operator necessary to carry out Path Operator duties in relation to a Control Area operated by such Control Area Operator.

2.12 Nothing in this Agreement is intended to limit the Pacific Northwest Path Operator's discretion in performing its duties.

3 AGREEMENT

In consideration of the covenants and conditions herein, the Parties agree as follows:

4 DEFINITIONS

Whenever used in this Agreement, the following terms, when initially capitalized, shall have the meanings set forth in this Section 4. The singular of any definition shall include the plural and the plural shall include the singular. A Table of Acronyms and Abbreviations, incorporated in this Section 4, follows the Table of Contents.

4.1 Administrative Committee:

The committee created under Section 7 of the OCOA, composed of one representative from the Companies, one from Western, and one from the COTP Participants. The Path Operator for COI shall be an ex-officio, non-voting member of this committee for matters related to Path Operation.

4.2 Applicable Requirements:

In relation to a Party's interest in the System, any applicable law or regulation; any standards, procedures or requirements of (i) NERC, (ii) WECC, or (iii) any other person or entity or tariff or rate schedule, that are legally binding on a Party's interest in the System, which may include operational control; in each case as amended from time to time and whether now existing or hereafter imposed or arising. The requirements applicable

to one Party's interest in the System may not be applicable to another Party's interest in the System.

4.3 Available Scheduling Capability ("ASC"):

The maximum amount of power that can be scheduled over the System, as measured across COI and determined in accordance with Section 11.1 of the OCOA.

4.4 ASC Share:

The allocation of ASC to the PACI-P, PACI-W or COTP as calculated pursuant to Section 11.2 of the OCOA.

4.5 Available System Transfer Capability ("ASTC"):

The portion of Rated System Transfer Capability ("RSTC") that is physically capable of transmitting power based on operating conditions of the System, other than Unscheduled Flow, existing at a given time as determined in accordance with Sections 8.5 and 11.1 of the OCOA.

4.6 California Companies Pacific Intertie Agreement ("CCPIA"):

That agreement dated August 25, 1966, among the Companies, as it may be amended or superseded.

4.7 California Independent System Operator Corporation ("CAISO"):

A California nonprofit, public benefit corporation that has operational control of the transmission facilities of certain Parties, dispatches certain generating units and loads, and is a Control Area Operator, or its successor in interest in performing these functions.

4.8 California-Oregon Border ("COB"):

The cut-plane where the COI crosses the border between the State of California and the State of Oregon, parallel to such border.

4.9 California-Oregon Intertie ("COI"):

The two 500-kV transmission lines between Malin Substation and Round Mountain Substation and the one 500-kV transmission line between Captain Jack Substation and Olinda Substation.

4.10 California-Oregon Intertie Control Area Operator (“COI Control Area Operator”):

A Control Area Operator who has a Control Area in California that includes at least one of the three transmission lines that constitutes the COI.

4.11 California-Oregon Intertie Path Operating Agreement (“COI Path Operating Agreement”):

The California-Oregon Intertie Path Operating Agreement among Southern California Edison Company, Pacific Gas and Electric Company, San Diego Gas & Electric Company, COTP Participants, Western Area Power Administration, and the CAISO, as it may be amended.

4.12 Clearance:

The disconnecting and de-energizing and reconnecting and re-energizing of equipment to ensure the safety of a COI Control Area Operator’s customers, employees and equipment, and to maintain reliable service.

4.13 Companies:

Edison, PG&E, and SDG&E, and their successors and assigns, provided that following the termination of service under the CCPIA, the term Companies shall mean PG&E and its successors and assigns.

4.14 Control Area:

An area comprised of an Electric System or Electric Systems, bounded by interconnection metering and telemetry, controlling generation to maintain its load and net interchange schedule with other Control Areas, contributing to frequency regulation of the interconnection, and providing sufficient capacity to maintain operating reserves in accordance with Prudent Utility Practice. For purposes of this definition, a Control Area must be certified by WECC and operate in conformance with Applicable Requirements.

4.15 Control Area Operator:

The operator of a Control Area, which performs all duties for such an entity specified by applicable NERC and WECC documents.

4.16 Cost:

All just, reasonable, necessary and prudently incurred expenses or capital expenditures, including but not limited to those for operation, maintenance and engineering, contract modification, administrative and general expenses, taxes, depreciation, and fees for consultants, as determined in accordance with the FERC Uniform System of Accounts as such may be amended or superseded from time to time, and costs of capital. The appropriate components of the Cost, as defined herein, shall be applied for the particular circumstances associated with the incurrence of costs.

4.17 COTP:

The California-Oregon Transmission Project, a 500-kV transmission line and associated facilities between the Captain Jack substation near COB and the COTP Terminus.

4.18 COTP Participants:

Western, Transmission Agency of Northern California ("TANC"), California Department of Water Resources, the City of Shasta Lake, Carmichael Water District, the California City of Vernon, PG&E, San Juan Suburban Water District, and their successors and assigns.

4.19 COTP Terminus:

The point of interconnection between the PG&E Electric System and the COTP, located at the eastern boundary of the existing right-of-way of PG&E's Tesla-Los Banos No. 2 500 kV line, at which the COTP's conductors extending from the Tracy Substation Expansion meet PG&E's conductors extending from PG&E's Tesla-Los Banos No. 2 500 kV line.

4.20 Curtailment:

A reduction in schedules across COI in accordance with Section 11 of the OCOA.

4.21 E&O Committee:

The body composed of one representative each of the Companies, Western, and the COTP Participants pursuant to Section 7 of the OCOA. The Path Operator for COI

shall be an ex-officio, non-voting member of this committee for matters related to Path Operation.

4.22 Effective Date:

The date on which this Agreement becomes effective as specified in Section 6.1 herein.

4.23 Electric System:

All physically connected properties and other assets, now or hereafter existing, owned or controlled by a single entity, and used for, or pertaining to, the generation, transmission, transformation, distribution, or sale of electric power and energy, including all additions, extensions, expansions, and improvements, but excluding subsidiaries and their properties and assets. To the extent that an entity is not the sole owner of an asset or property, only that entity's ownership interest in such asset or property shall be considered to be part of its Electric System. For purposes of this Agreement, the Electric System of a COI Control Area Operator shall not be deemed to be the Electric System of the Path Operator for COI.

4.24 FERC:

The Federal Energy Regulatory Commission, or its regulatory successor.

4.25 Federal Power Act:

That federal law, originally enacted as Title II of the Public Utilities Act of 1935, as amended, which provides, inter alia, for federal regulation of transmission and the sale at wholesale of electric power and energy in interstate commerce, codified at 16 U.S.C. Sections 824 et seq., as it may be amended.

4.26 Indian Spring:

The point of change of ownership along the PACI-P portion of the PACI between PG&E and PacifiCorp, between Round Mountain and Malin Substations.

4.27 NERC:

The North American Electric Reliability Council, or its successor national electric reliability organization.

4.28 Nomogram:

A set of operating or scheduling rules used to ensure that simultaneous operating limits are complied with, in order to meet NERC and WECC operating criteria.

4.29 Non-Simultaneous Transfer Capability:

The capability or capacity of a transmission circuit or path, in megawatts, to transfer power reliably and in accordance with prescribed reliability criteria independent of concurrent flows on other circuits or paths. It is normally determined with all potentially interacting circuits or paths loaded below the levels at which limitations are observed and studied.

4.30 Operating Emergency:

An unexpected event or circumstance, or series of events or circumstances, that has caused or is reasonably anticipated to cause a sudden loss or interruption of a facility in a Party's Electric System or any other electric generating or transmitting facilities and that, in the judgment of the Party taking or requesting action, requires immediate action to:

4.30.1 Preserve, maintain, or reestablish the safety, reliability, integrity or operability of the affected Control Area(s), the System, or such other electric facilities as have been affected;

4.30.2 Avoid a hazard to the property, health or safety of employees or the public;

4.30.3 Minimize or avoid loss of load or the inability to furnish any electric service; or

4.30.4 Maintain the frequency or voltage of a Party's Electric System.

4.31 Operating Procedures:

The procedures and instructions developed and approved pursuant to this Agreement for the Path Operator for COI.

4.32 Operational Transfer Capability Limit ("OTC"):

The amount as defined under that name in the WECC Reliability Criteria Agreement Annex A, as it may be amended or superseded. As of the Effective Date, this amount is the maximum value of the most critical system operating parameter(s) which meets: (a) pre-contingency criteria as determined by equipment loading capability and acceptable voltage conditions, (b) transient criteria as determined by equipment loading capability and acceptable voltage conditions, (c) transient performance criteria and (d) post-contingency loading and voltage criteria. The OTC for COI shall be the lesser of ASTC and the Transfer Capability of that path determined by the Pacific Northwest Path Operator. Where used in this Agreement without specific locational reference, OTC shall mean the OTC for COI unless otherwise noted.

4.33 Owner:

Each of the Companies, each of the COTP Participants, and Western.

4.34 Owners Coordinated Operation Agreement ("OCA"):

The contract among the Owners governing the coordinated operation of the Pacific AC Intertie and the California-Oregon Transmission Project, as it may be amended.

4.35 Pacific AC Intertie ("PACI"):

For purposes of this Agreement, that portion of the 500 kV AC Pacific Intertie located between COB and PG&E's Tesla Substation, associated 500 kV facilities at Tesla Substation and that portion of the Tesla-Tracy 500 kV AC transmission line between Tesla Substation and the COTP Terminus, including lines, substations and associated facilities.

4.36 PACI-P:

For purposes of this Agreement, the portion of the PACI owned by PG&E and located between Indian Spring and the COTP Terminus and the portion of the PACI owned by PacifiCorp between Malin Substation and Indian Spring to which the Companies have rights.

4.37 PACI-W:

For purposes of this Agreement, the portion of the PACI owned by Western and located between the Malin and Round Mountain Substations.

4.38 Pacific DC Intertie ("PDCI"):

The ± 500 kV direct current transmission line that includes, and is located between, the Celilo Converter Station in Oregon and the Sylmar Converter Station in California.

4.39 Pacific Intertie:

Those AC and DC facilities described in the CCPIA.

4.40 Pacific Northwest Path Operator:

The entity, currently the Bonneville Power Administration ("Bonneville"), responsible for operating the electric transmission path and managing transfer capability north of COB corresponding to the COI south of COB.

4.41 Path Operator for COI:

The entity that performs the duties described in Section 8.1 herein.

4.42 Power Flow Reduction Measures:

Actions taken to promptly and rapidly reduce power flow, including but not limited to: the circulation of power on the PDCI, the increase of generation within the control area through changes initiated by a Control Area Operator that create counter flow, and Curtailments that result in immediate responses from the parties to scheduled transactions to change the amount of generation or load accordingly.

4.43 Prudent Utility Practice:

Any of the practices, methods, and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period, or any of the practices, methods, and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety, and expedition. Prudent Utility Practice is not intended to be any one of a number of the

optimum practices, methods, or acts to the exclusion of all others, but rather to be acceptable practices, methods or acts generally accepted in the region.

4.44 Rated System Transfer Capability ("RSTC"):

The Non-Simultaneous Transfer Capability of the System across COI as determined by the OCOA Administrative Committee in accordance with Section 9 of the OCOA.

4.45 Remedial Actions:

The automated actions taken under a Remedial Action Scheme, such as equipment insertion or removal and load or generation tripping.

4.46 Remedial Action Schemes ("RAS"):

The procedures that are required to maintain reliable operation of the System after a disturbance on the interconnected Electric Systems.

4.47 RSTC Share:

The allocation of RSTC to each of the three 500 kV lines comprising the PACI and COTP in accordance with Section 10 of the OCOA.

4.48 Simultaneous Transfer Capability:

The capability or capacity of a transmission circuit or path, in megawatts, to transfer power reliably and in accordance with prescribed reliability criteria in concert with other interacting paths or circuits. It is normally defined by its interactive relationship in the form of nomograms with the flows on other transfer paths or circuits.

4.49 System:

The combined PACI-P, PACI-W and COTP.

4.50 Tesla ByPass:

The approximately 6.8 miles of double-circuit 500-kV facilities, together with associated 500-kV bus work and circuit breakers at the 500-kV Tracy Substation, which interconnect the COTP with the PACI-P at the COTP Terminus.

4.51 Transfer Capability:

The amount of electric power, expressed in megawatts, that can be transferred in a designated direction on the System between the Pacific Northwest and

California, as measured across COI, using the Transmission Network in a reliable manner and in accordance with Prudent Utility Practice and Applicable Requirements.

4.52 Transmission Agency of Northern California ("TANC"):

A joint powers agency authorized by Section 6502 of the California Government Code, and, as of the Effective Date, composed of the California cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, and Ukiah; the Plumas-Sierra Rural Electric Cooperative; the Sacramento Municipal Utility District; the Modesto Irrigation District; and the Turlock Irrigation District.

4.53 Transmission Network:

The interconnected Electric Systems represented in the power system studies of Transfer Capability, which include the System and the Electric Systems of all Parties and certain third parties, as represented in such rating or operating studies.

4.54 Unscheduled Flow (also called Loop Flow):

Actual flow minus scheduled flow across a path.

4.55 Uncontrollable Force:

Any cause beyond the control of a Party which renders it unable to perform an obligation, including, but not limited to, failure of or threat of failure of facilities, flood, earthquake, volcanic activity, tornado, storm, drought, fire, pestilence, lightning, and other natural catastrophes, epidemic, war, riot, civil disturbance or disobedience, vandalism, strike, labor dispute, labor or material shortage, sabotage, terrorism, governmental priorities or restraint by court order or public authority and action or non-action by, or inability to obtain or maintain in effect any necessary authorizations or approvals from, any governmental agency or authority, which by exercise of due diligence such Party could not reasonably have been expected to avoid and which by exercise of due diligence it has been unable to overcome.

4.56 WECC:

The Western Electricity Coordinating Council or its successor.

4.57 Willful Action:

4.57.1 Action taken or not taken by, or on behalf of, a Party at the direction of its members, directors, members of its governing body or bodies, authority or authorities, officers or employees having management or administrative responsibility, or agents acting in comparable capacity, which is either of the following:

4.57.1.1 Knowingly or intentionally taken or not taken with conscious indifference to the consequences thereof or with intent that injury or damage to person or property or a material default of this Agreement would result, or would probably result, therefrom; or

4.57.1.2 Determined by binding arbitration award or decision or final judgment or judicial decree to be a material default under this Agreement and occurs or continues beyond the time specified in such award, decision, judgment or decree for curing such default or, if no time to cure is specified therein, occurs or continues thereafter beyond a reasonable time to cure such default.

4.57.2 The phrase “employees having management or administrative responsibility,” as used in Section 4.57.1, means the employees of a Party who have one or more of the functions of planning, organizing, coordinating, directing, controlling, or supervising such Party’s performance under this Agreement with responsibility for results.

4.57.3 Willful Action does not include any act or failure to act that is merely involuntary, accidental or negligent.

5 SCOPE OF AGREEMENT

This Agreement establishes the COI Control Area Operators’ arrangement with the Path Operator for COI to ensure the reliable operation of the COI. In the case of any

conflict between any tariff or rate schedule of the Path Operator for COI and this Agreement, this Agreement shall prevail.

6 EFFECTIVE DATE AND TERM

6.1 Effective Date

This Agreement shall become effective and shall have an Effective Date on the later of: (a) December 1, 2005, or (b) the date on which FERC permits this Agreement to become effective without change or new condition unacceptable to any Party, and shall thereafter be binding upon and enforceable against each Party taking or providing service under this Agreement.

6.2 Term

This Agreement shall terminate on the earliest of:

- (a) termination of the OCOA;
- (b) termination of the COI Path Operating Agreement; or
- (c) upon one year's written notice by the Path Operator for COI.

If this Agreement is terminated pursuant to this Section 6.2, then any Party that requires FERC authorization to terminate service under this Agreement promptly shall file a notice of termination with the FERC. If and when this Agreement terminates pursuant to this Section 6.2, then all Parties that do not require authorization from FERC to terminate providing any service under this Agreement shall cease both to provide and to take any service under this Agreement or any rate schedule resulting in whole or in part from this Agreement, regardless of any action or inaction by FERC as to any application by another Party to terminate service.

7 ADMINISTRATION

To secure prompt and orderly cooperation and consultation or exchange of information between and among the Parties and the Path Operator for COI concerning administrative and technical matters that may be of concern to the Owners in connection with this Agreement, the COI Control Area Operator(s) shall attend any meeting of the

OCOIA Administrative Committee or the E&O Committee to which invited to discuss and resolve any such administrative or technical matters.

8 SYSTEM OPERATION

8.1 Path Operator for COI Duties

The Path Operator for COI shall comply with the terms of the COI Path Operating Agreement and the COI Operating Procedures established pursuant to that agreement, including establishing Operating Procedures that, among other things, permit all affected entities with applicable transmission availability posting or service offer requirements to meet the timing requirements of such posting or service offer requirements. . The Path Operator for COI shall also follow Schedule 1 of this Agreement, as it may be updated from time to time, outlining the specific share that each respective COI Control Area Operator will take under Power Flow Reduction Measures called for by the Path Operator for COI.

8.2 COI Control Area Operator Duties:

Each COI Control Area Operator shall, in accordance with Prudent Utility Practice and Applicable Requirements, and in a timely manner:

- 8.2.1 Provide the Path Operator for COI the scheduled net interchange and actual power flows on the System facilities in its Control Area;
- 8.2.2 Provide the Path Operator for COI real-time status, power flow, voltage, RAS and other information related to the Party's Electric System elements that affect ASTC or as the Path Operator for COI determines is reasonably needed to determine ASTC;
- 8.2.3 Provide the Path Operator for COI outage schedules for equipment that may impact the rating of the COI when required by the Path Operator of COI;
- 8.2.4 Provide or make arrangements for the provision of reliable telecommunications facilities and service required to transmit real-

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- time information, specified in Section 8.2.2, to the Path Operator for COI to enable the Path Operator for COI to comply with its obligations under the COI Path Operating Agreement;
- 8.2.5 At the Path Operator for COI's request, provide the Path Operator for COI WECC seasonal studies and information regarding hydroelectric generation conditions in Northern California, to the extent needed to determine ASTC or OTC;
- 8.2.6 Comply with directions issued by the Path Operator for COI to implement the Operating Procedures for Unscheduled Flow and to implement appropriate allocation of ASTC;
- 8.2.7 Provide communications to the Path Operator for COI concerning matters required to be communicated under this Agreement;
- 8.2.8 Provide notice to the Path Operator for COI of all information necessary for the Path Operator for COI to determine the need for and the amount of Power Flow Reduction Measures, and promptly comply with direction from the Path Operator for COI to take their share of such Power Flow Reduction Measures in the amounts in accordance with Schedule 1 of this Agreement;
- 8.2.9 Provide the Path Operator for COI all information determined necessary by the Path Operator for COI to permit it to monitor all Electric System conditions that may reasonably affect ASTC and ASC, including, but not limited to, the following:
- 8.2.9.1 Operating status of 500 kV and 230 kV equipment and related power flows and voltages;
- 8.2.9.2 Operating status of generators and related power flows and voltages; and
- 8.2.9.3 RAS and telecommunications status and available remedial actions.

-
- 8.2.10 Provide the Path Operator for COI real time information on flows and scheduled net interchange for the COTP and PACI at COB and power flows on other paths interacting with COI where Nomograms for the COI are used;
 - 8.2.11 Become and remain a party to the WECC Reliability Management System Agreement and the WECC Reliability Criteria Agreement;
 - 8.2.12 Provide the Path Operator for COI its equipment outage plans to the extent such outage plans affect OTC;
 - 8.2.13 In the event of, and for the duration of, an Operating Emergency or as a result of Uncontrollable Force, comply with any limitations on OTC or ASC due to the Operating Emergency or Uncontrollable Force, as notified by the Path Operator for COI and as in accordance with applicable agreements and operating procedures, including, without limitation, Power Flow Reduction Measures, and operate System facilities in compliance with this Agreement;
 - 8.2.14 Maintain continuous, reliable communication with the applicable WECC Reliability Coordinator and promptly inform such Reliability Coordinator of all conditions or events required by WECC rules and procedures;
 - 8.2.15 Operate, maintain and replace those facilities, and recruit, retain and develop sufficient trained and certified personnel, as necessary to comply with applicable NERC and WECC requirements.

8.3 Unscheduled Flow Mitigation

Nothing in this Section or any other provision of this Agreement shall be interpreted to require a Control Area Operator or the Path Operator for COI to violate the WECC Unscheduled Flow Mitigation Plan or operate phase shifters or other system elements for which such Party retains operational control in order to reduce Unscheduled Flow for the benefit of any other Party prior to the initiation of the WECC Unscheduled Flow Mitigation Plan, as that plan may be amended or superseded.

8.4 Agreement Modifications and Updates

No Party shall have the authority to modify any term or condition of this Agreement, whether by course of conduct of any entity or otherwise, without the written agreement of all Parties. The Parties agree that the sharing obligations of each COI Control Area Operator for Power Flow Reduction Measures contained in Schedule 1 of this Agreement will be reviewed and updated on a biennial basis.

9 WECC RELIABILITY MANAGEMENT SYSTEM

The COI Control Area Operators have executed the WECC Reliability Management System Agreement and are subject to the agreements comprising the program. If sanctions are received by the Path Operator for COI for operation of the COI, such sanctions shall be applied as follows: (i) to the extent the cause of the sanction is determined, then the sanction shall be applied to the COI Control Area Operator that caused the sanction; or (ii) to the extent the cause of the sanction can not be determined to have been caused by a particular COI Control Area Operator, then the sanction shall be applied to the COI Control Area Operators based on the proportional equation for sharing such obligations set forth in Schedule 1 of this Agreement. Under no circumstances will the Path Operator for COI be held responsible for paying any portion of a sanction; such responsibility will always fall upon the COI Control Area Operators according to the terms of (i) and (ii) of this Section 9.

10 ASSIGNMENT

A Party may assign its rights and obligations under this Agreement to another person with the consent of the other Parties, which consent shall not be unreasonably withheld. The assignee shall expressly assume in writing the duties and obligations hereunder of the assigning Party, and within 30 days after any such assignment and assumption of duties and obligations the assigning Party shall deliver or cause to be delivered to all the other Parties a true and correct copy of such assignment and assumption of duties and obligations. If such

assignment and assumption is not delivered within 30 days following the assignment, then any such purported assignment shall be of no force or effect.

11 LIABILITY

11.1 Scope of Liability

Except for any loss, damage, claim, cost, charge or expense relating from Willful Action, or for the nonpayment of monies due, no Party, its directors, members of its governing body, officers, employees or agents shall be liable to any other Party for any death, injury, loss, damage, claim, cost, charge or expense of any kind or nature incurred by any other Party, including, without limitation, direct, indirect or consequential loss, damage, claim, cost, charge or expense, and whether or not resulting from the negligence of any Party, its directors, members of its governing body, officers, employees or any person or entity whose negligence would be imputed to such Party, arising from the performance or non-performance of obligations under this Agreement. Except for any death, injury, loss, damage, claim, cost, charge or expense resulting from Willful Action or nonpayment of monies due, each Party releases the other Parties, their directors, members of governing bodies, officers, employees and agents from any such liability.

11.2 Claims of Electric Customers

Except for liability resulting from Willful Action by another Party, a Party whose electric customer shall make a claim or bring an action against such other Party for any death, injury, loss or damage arising out of or in connection with the delivery of, interruption to, or curtailment of electric service to such customer resulting from the performance or non-performance of any obligation under this Agreement shall indemnify and hold harmless, to the extent allowed by law, such other Party, its directors, members of its governing body, officers, employees and agents from and against any liability for such death, injury, loss or damage; provided that no Party shall be obligated to indemnify another Party if it is prevented from doing so by law, and no Party shall be obligated to indemnify another Party which cannot lawfully indemnify pursuant to this Section 11.2. The term

“electric customer” shall mean any electric customer to which no power or energy is delivered for resale.

11.3 Protection of Facilities

Each Party shall be responsible for protecting its facilities from possible damage by reason of electrical disturbances or faults caused by the operation, faulty operation or non-operation of any other Party’s facilities, and no other Party shall be liable for any damages so caused.

12 UNCONTROLLABLE FORCE

12.1 No Default

No Party shall be considered to be in default in the performance of any obligation under this Agreement when a failure of performance is due to an Uncontrollable Force.

12.2 No Settlement Obligation

Nothing in this Agreement shall be construed to require a Party to settle any strike or labor dispute in which it may be involved.

12.3 Notice and Removal Obligation

In the event a Party is rendered unable to fulfill any of its obligations under this Agreement by reason of an Uncontrollable Force, such Party shall give prompt written notice of such fact to the other Parties and shall seek to remove such inability with all reasonable dispatch.

13 NO DEDICATION OF FACILITIES

Any undertaking by a Party under any provision of this Agreement is rendered strictly as an accommodation and shall not constitute the dedication of its Electric System or any portion thereof by the undertaking Party to the public, to any other Party or to any third party, and any such undertaking by a Party shall cease upon the termination of such Party’s obligations under this Agreement. The Electric System of a Party shall, at all times be, and remain, in the exclusive ownership, possession, and control of that Party, and nothing in this

Agreement shall be construed to give any other Party any right of ownership, possession or control of such Electric System.

14 REGULATORY AUTHORITY

14.1 FERC Jurisdiction

This agreement is subject to acceptance for filing by, and the regulatory jurisdiction of, FERC.

15 DISPUTE RESOLUTION

15.1 Disputes generally.

The Parties shall use good faith efforts to settle promptly all disputes arising under this Agreement. In the event that a dispute, including a billing dispute or a dispute regarding the interpretation of this Agreement, is not settled by good faith efforts within a reasonable time, the Parties involved in the dispute may agree to arbitrate the dispute. Any such arbitration shall be binding as to result on those Parties. Absent an agreement to arbitrate, a Party may pursue any legal, equitable or regulatory right or remedy available to it for the resolution of the dispute.

15.2 Technical Disputes.

If a dispute arises between the Path Operator for COI and one or more COI Control Area Operators concerning matters under this Agreement, then, before resolving the dispute under this Section 15, the involved Parties shall attempt in good faith to resolve the dispute promptly by negotiations among a vice president or executive of similar authority from each Party involved in the dispute or his or her designated representative. Within 20 calendar days after delivery by the Party seeking dispute resolution of notice to each other Party, the executives shall meet at a mutually acceptable time and place for not less than six meetings, and thereafter as often as they reasonably deem necessary but at least weekly, to exchange information and to attempt to resolve the dispute. If the matter has not been resolved within 45 calendar days of the first meeting, then any Party involved in the dispute may initiate mediation or may initiate formal dispute resolution under this Section 15. If the

other involved Parties agree to mediation, then the involved Parties shall select a mediator and engage in mediation for at least three meetings over at least 60 days.

15.3 Rules.

All negotiations, settlement conferences, compromise discussions and any mediation conducted pursuant to this Section 15 are confidential and shall be treated as compromise and settlement negotiations. Each Party shall bear its own costs of participating in dispute resolution under this Agreement. Each involved Party shall pay the share of the costs of any mediation in accordance with the agreement of the involved Parties to engage in mediation. Nothing in this Section 15 is intended to prevent or delay a Party from seeking a preliminary injunction or other provisional judicial remedy.

16 NO EXCLUSIVE REMEDY

Subject to the provisions of Section 14, no remedy conferred upon or reserved to any Party by this Agreement is intended to be exclusive of any other remedy or remedies available under this Agreement or existing at law, in equity, by statute or otherwise, but each and every such remedy shall be cumulative and shall be in addition to every other remedy under this Agreement or now or hereafter existing at law or in equity or otherwise provided by statute or regulation. The pursuit by any Party of any specific remedy shall not be deemed to be an election of that remedy to the exclusion of any other or others, whether provided hereunder or at law, in equity, by statute or otherwise.

17 GOVERNING LAW

This Agreement is made and entered into in the State of California. Interpretation of this Agreement, and performance and enforcement thereof, shall be determined in accordance with California law or federal law as applicable.

18 NON-WAIVER

Any waiver at any time by any Party of its rights with respect to any default or other matter arising in connection with this Agreement shall not constitute or be deemed a waiver

with respect to any subsequent default or any other matter arising in connection with this Agreement. Any delay short of the statutory period of limitations in asserting or enforcing any right shall not constitute or be deemed a waiver.

19 NOTICES

Any notice, demand or request in accordance with this Agreement, unless otherwise provided in this Agreement, shall be in writing and shall be deemed properly served, given or made if delivered in person or sent by first class United States mail, postage prepaid, by confirmed electronic facsimile or by prepaid commercial courier service to a Party at the address set forth in Appendix A. Any notice of a routine character in connection with service under this Agreement or in connection with operation of facilities shall be given in such a manner as the Parties may determine from time to time, unless otherwise provided in this Agreement. By notice to all Parties, any Party may revise the person designated to receive notices. Such revision shall not constitute an amendment to this Agreement.

20 NO THIRD PARTY BENEFICIARIES

No right or obligation contained in this Agreement shall inure to the benefit of any person or entity which is not a Party. Nothing in this Agreement shall be construed to create any duty to, any standard of care with reference to, or any liability to any third party.

21 RELATIONSHIP OF THE PARTIES

21.1 Except as otherwise provided in this Agreement, the covenants, obligations, rights and liabilities of the Parties under this Agreement are intended to be several and not joint or collective. It is the intent of the Parties not to create an association, joint venture, trust or partnership, or to impose a trust or partnership covenant, obligation or liability on, or with regard to, any Party.

21.2 Each Party shall be individually responsible for its own covenants, obligations and liabilities under this Agreement. No Party or group of Parties shall be under the control of or shall be deemed to control any other Party or Parties.

21.3 No Party shall be the agent of, or have the right or power to bind another Party without its written consent, except as expressly provided for in this Agreement.

22 TITLES

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 rates, terms or conditions of this Agreement.

23 NO PRECEDENTS

Nothing contained in this Agreement shall be construed to establish any precedent for any other rate schedule or agreement or to grant any right to or impose any obligation on any Party beyond the scope and terms of this Agreement. No Party, by entering into this Agreement, holds itself out to furnish like or similar service to any other person or entity.

24 ADVERSE DETERMINATION OR EXPANSION OF OBLIGATIONS

24.1 Adverse Determination

If, after the Effective Date of this Agreement, FERC or any other regulatory body, agency or court of competent jurisdiction determines that all or any part of this Agreement, its operation or effect is unjust, unreasonable, unlawful, imprudent or otherwise not in the public interest, each Party shall be relieved of any obligations hereunder to the extent necessary to comply with or eliminate such adverse determination. The Parties shall promptly enter into good faith negotiations in an attempt to achieve a mutually agreeable modification to this Agreement to address any such adverse determination.

24.2 Expansion Of Obligations

If, after the Effective Date of this Agreement, FERC or any other regulatory body, agency or court of competent jurisdiction orders or determines that this Agreement should be interpreted, modified, or significantly extended in such a manner that any Party may be required to extend its obligations under this Agreement to a third party, or to incur significant new or different obligations to another Party or to third parties not contemplated

by this Agreement, or to forego any right under this Agreement, then the Parties shall be relieved of their obligations to the extent lawful and necessary to eliminate the effect of that order or determination, and the Parties shall attempt to renegotiate in good faith the terms and conditions of the Agreement to restore the original balance of benefits and burdens contemplated by the Parties at the time this Agreement was made.

24.3 Renegotiation

If, within three months after an order or decision as described in Sections 24.1 and 24.2, the Parties either: (i) do not agree that a renegotiation is feasible or necessary; or (ii) cannot agree to amend or supersede this Agreement, then (a) any Party may initiate dispute resolution in accordance with Section 15; (b) any Party subject to Section 205 of the Federal Power Act may unilaterally file with the FERC an amendment to this Agreement or a replacement agreement; or (c) any Party may take any action before the FERC or elsewhere that it deems appropriate, including filing under Section 206 of the Federal Power Act. As used in this Section 24, the term "Agreement" includes both this Agreement and any tariff, rate or rate schedule that in whole or in part results from this Agreement.

25 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 full force and effect, and the Parties shall be relieved of their obligations only to the extent necessary to eliminate such determination unless a court or governmental agency of competent jurisdiction holds that such provision is not separable from all other provisions of this Agreement. Nothing in this Section 25 shall limit the rights of any Party under Section 24.

26 PRESERVATION OF OBLIGATIONS

Upon termination of this Agreement, all unsatisfied obligations of each Party shall be preserved until satisfied.

27 INTEGRATION OF AGREEMENT

This Agreement constitutes the complete and final expression of the rights and obligations of the Parties in connection with the subject matter of this Agreement and is intended as a complete and exclusive statement of the terms of their agreement which supersedes all prior and contemporaneous offers, promises, representations, negotiations, discussions, communications and contracts which may have been made in connection with the subject matter of this Agreement.

28 APPENDICES INCORPORATED

All appendices to this Agreement are attached to this Agreement and are incorporated by reference as if herein fully set forth.

29 JUDGMENTS AND DETERMINATIONS

When the terms of this Agreement provide that an action may or must be taken, or that the existence of a condition may be established, based on a judgment or determination of a Party, such action or judgment shall be exercised or such determination shall be made in good faith and where applicable in accordance with Prudent Utility Practice and shall not be arbitrary or capricious.

30 [INTENTIONALLY LEFT BLANK]

31 SUCCESSOR IN INTEREST:

Each successor in interest to any Party shall be bound by all terms and conditions of this Agreement as if such successor had duly executed this Agreement. Any transfer limited

to the operational control of a Party's right or interest in the System is not intended to create a successor in interest unless the transfer is permanent and irrevocable.

32 AMENDMENTS

No amendment, waiver, or modification to this Agreement shall be enforceable unless it is (1) reduced to writing and executed by all of the Parties, and (2) submitted to and made effective by FERC.

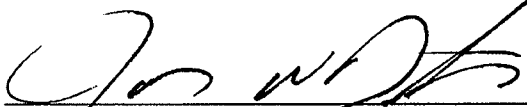
33 SIGNATURES; EXECUTION IN COUNTERPARTS:

Each signatory to this Agreement represents that he or she has been duly authorized to enter into this Agreement on behalf of the Party for whom he or she signs. This Agreement may be executed in counterparts, each of which shall be deemed an original.


IN WITNESS WHEREOF, the Parties have affixed their signatures as of the date(s)
set forth below.

California Independent System Operator Corporation

(as both the Path Operator for COI and a COI Control Area Operator)

By: 
Name: JAMES W DETMERS
Title: VP OPERATIONS
Date: 9/28/05

Sacramento Municipal Utility District

*RR
(copy)*
By: 
Name: James R. Shetler
Title: Assistant General Manager, Energy Supply
Date: 9/28/05

APPENDIX A
Recipients of Notices

APPENDIX A

ADDRESSES FOR NOTICES

California Independent System Operator Corporation
Michael D. Dozier
Lead Contracts Negotiator
151 Blue Ravine Road
Folsom, CA 95630

Sacramento Municipal Utility District
Vicken Kasarjian
6001 S Street
Sacramento, CA 95813

SCHEDULE 1

COI CONTROL AREA OPERATOR SHARING OBLIGATIONS

The COI Control Area Operators agree, consistent with Sections 8.2, 8.4 and 9 of this Agreement, to use the following percentages for the following purposes:

Power Flow Reduction Measures:

CAISO: 79%

SMUD: 21%

WECC RMS Sanctions:

CAISO: 79%

SMUD: 21%

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing documents as described in those documents, in accordance with Rule 2010 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 835.2010.

Dated at Folsom, California, on this 30th day of September, 2005.


John Anders