

ALSTON & BIRD LLP

The Atlantic Building
950 F Street, NW
Washington, DC 20004-1404

202-756-3300
Fax: 202-756-3333
www.alston.com

Sean A. Atkins

Direct Dial: 202-756-3072

E-mail: sean.atkins@alston.com

December 11, 2007

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

FILED
OFFICE OF THE
SECRETARY
2007 DEC 11 P 4: 38
FEDERAL ENERGY
REGULATORY COMMISSION

REDACTED VERSION FOR PUBLIC RELEASE

PRIVILEGED INFORMATION CONTAINED IN ATTACHMENT

**Re: California Independent System Operator Corporation
Docket No. ER06-227-000**

Dear Secretary Salas:

In accordance with the provisions of Rule 602 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.602 (2007), the California Independent System Operator Corporation ("CAISO") submits, on behalf of itself and the City and County of San Francisco ("CCSF") (together, the "Settling Parties"), the enclosed Offer of Settlement and related documents in connection with the above-captioned proceeding.

The Offer of Settlement, when approved by the Commission, will resolve all issues in this proceeding. The CAISO and CCSF worked towards this filing as part of settlement discussions with the other parties to this proceeding, both informally and pursuant to formal settlement proceedings before Administrative Law Judge Karen V. Johnson, who acted as a settlement judge in this matter. Accordingly, as provided by Rule 602(b)(2), the Office of the Secretary should transmit this filing to Judge Johnson.

I. Information Submitted with this Filing

This submission includes an original and 14 copies of:

- this letter of transmittal;
- an Explanatory Statement (Attachment A);
- the Offer of Settlement (Attachment B);
- the First Amended and Restated Operating Agreement between the CAISO and CCSF (CAISO First Revised Rate Schedule FERC No. 64) (“Operating Agreement”), provided in clean copy in a format that complies with the Commission’s Order No. 614¹ (Attachment C);
- a document that shows, in “DeltaView” format, the differences between the Operating Agreement and the agreement it supersedes, the Interim Operations Agreement between the CAISO and CCSF (CAISO Original Rate Schedule FERC No. 64) (“Interim Agreement”) (Attachment D); and
- a draft form of Commission letter order (Attachment E).

In accordance with Rule 602(c)(iii), the undersigned states that this filing contains copies of, or references to, all documents relevant to this Offer of Settlement.

II. Effective Date of Operating Agreement and Request for Waiver

Pursuant to Rules 35.3 and 35.11 of the Commission's Rules of Practice and Procedure, 18 C.F.R. §§ 35.3, 35.11 (2007), the Settling Parties respectfully request that the Commission grant a waiver of its Rules and permit the Operating Agreement to become effective as of December 1, 2005. Waiver of the 60-day notice requirement is appropriate because granting the requested effective date will permit the Operating Agreement to supersede the Interim Agreement as of the date the Interim Agreement went into effect (December 1, 2005), as intended by the Settling Parties. Moreover, no other party to the above-captioned proceeding or any other CAISO market participant will be adversely affected by the requested effective date for the Operating Agreement of December 1, 2005. Therefore, the requested effective date should be granted.

¹ *Designation of Electric Rate Schedule Sheets*, Order No. 614, 65 Fed. Reg. 18221 (Apr. 7, 2000) FERC Stats. & Regs., Regs. Preambles ¶ 31,096 (2000).

The Honorable Kimberly D. Bose

December 11, 2007

Page 3

III. Request for Privileged Treatment

Included under separate cover with this filing, pursuant to Commission Order Nos. 630 and 630-A, is a sealed copy of the non-public portions of the Operating Agreement (specifically, Schedule 1, which contains a one-line diagram of CCSF's Hetch Hetchy Project facilities, and Schedule 2, which lists CCSF interconnection operating limits). The Settling Parties are seeking confidential treatment for these materials under 18 C. F. R. § 388.112 (2007) because their public disclosure could impair system operations, unnecessarily reveal sensitive information, and pose significant security problems as to the facilities referenced therein. For these reasons, the Settling Parties submit that these materials should be exempt from public exposure and should be granted privileged treatment.

IV. Service

A copy of this submission is being served on all participants in the referenced proceeding and on all other persons required to be served by operation of Rule 602(d).

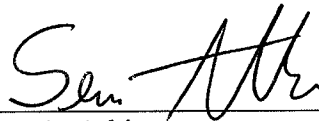
The Honorable Kimberly D. Bose
December 11, 2007
Page 4

V. Notice Regarding Filing of Comments and Reply Comments on Offer of Settlement

In accordance with Rule 602(d)(2), the CAISO hereby notifies all participants in this proceeding, as well as all other persons required to be served with this filing by Rule 602(d)(1), that comments on the Offer of Settlement are to be filed on or before December 31, 2007, and reply comments are to be filed on or before January 10, 2008, unless other dates are chosen by the Commission.

Two extra copies of this submission are provided to be date-stamped and returned to our messenger. Please contact me with any questions.

Respectfully submitted,



Sean A. Atkins

Counsel for the California Independent System
Operator Corporation

cc: The Honorable Karen V. Johnson
All parties and other persons required to be
served under Rule 602(d)

Enclosures

ATTACHMENT A

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

California Independent System) Docket No. ER06-227-000
Operator Corporation)

**EXPLANATORY STATEMENT IN SUPPORT OF
OFFER OF SETTLEMENT**

[NOTE: THIS EXPLANATORY STATEMENT AND AGREEMENT HAVE BEEN APPROVED IN FORM AND CONTENT BY CCSF STAFF AND LEGAL COUNSEL. THE AGREEMENT MUST BE APPROVED BY THE BOARD OF SUPERVISORS FOR THE CITY AND COUNTY OF SAN FRANCISCO AND WILL BE PRESENTED TO THE BOARD WITH A RECOMMENDATION FOR ITS APPROVAL. SUCH APPROVAL, AND SUBSEQUENT EXECUTION, OF THIS AGREEMENT ARE EXPECTED BY JANUARY 29, 2008.]

Pursuant to Rule 602 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.602 (2007), the California Independent System Operator Corporation ("CAISO") and the City and County of San Francisco, California ("CCSF") (together, the "Settling Parties") hereby provide the following Explanatory Statement in support of the Offer of Settlement submitted by the Settling Parties and contained in Attachment B to the instant filing. The Offer of Settlement is intended to resolve all issues in the above-captioned proceeding.

I. BACKGROUND

On November 17, 2005, the CAISO filed an unexecuted Interim Operations Agreement ("Interim Agreement")¹ between itself and CCSF in the above-captioned proceeding. The stated purpose of the Interim Agreement was to govern the operational

¹ CAISO Original Rate Schedule FERC No. 64.

relationship between CAISO and CCSF with respect to CCSF's transactions over the transmission facilities it owns, which are not part of the CAISO-controlled grid and which are interconnected with the control areas of the Sacramento Municipal Utility District ("SMUD") and the Turlock Irrigation District ("TID").² The CAISO sought an effective date for the Interim Agreement of December 1, 2005.

On November 23, 2005, as supplemented on December 8, 2005, CCSF filed a motion to intervene, protest, and request for a nominal suspension of the Interim Agreement. Also, on December 8, 2005, Pacific Gas and Electric Company ("PG&E") and TID filed motions to intervene and protests, and the Transmission Agency of Northern California ("TANC") and MID filed motions to intervene. The CAISO filed an answer to these parties' filings on December 23, 2005.

The Commission issued its "Order Accepting and Suspending Filing, Establishing Hearing and Settlement Judge Procedures, and Dismissing Request for Rehearing"³ on January 13, 2006. The Order suspended the Interim Agreement for a nominal period, made it effective as of December 1, 2005, subject to refund, and set the Interim Agreement for hearing and settlement judge procedures.⁴

² *Inter alia*, as the CAISO stated in its November 17, 2005, filing, the Interim Agreement was intended to establish the special operational and settlement requirements under which CCSF and the CAISO would coordinate and exchange information on schedules for CCSF's transactions with TID and the Modesto Irrigation District ("MID") once TID and MID were no longer in the CAISO control area, for schedules that do not use the CAISO-controlled grid. TID and MID left the CAISO control area effective as of December 1, 2005.

³ 114 FERC ¶ 61,024 (2006) ("Order"). The dismissal of rehearing referenced in the caption for the Order related to a proceeding in a separate docket (ER05-1533-001) concerning the shift of MID from the CAISO control area to the SMUD control area. *Id.* at PP 15, 21.

⁴ *Id.* at PP 17-20 and Ordering Paragraphs (A) and (D)-(G).

On January 19, 2006, the Chief Administrative Law Judge designated Judge Karen V. Johnson as the settlement judge in this proceeding, and an initial settlement conference was held on February 2, 2006. Since that time, CAISO and CCSF have conducted a series of settlement discussions informally in person and by teleconference, and have also conferred with some of the other parties in the proceeding and with Commission Staff. These settlement discussions have resulted in the Offer of Settlement and in the related First Amended and Restated Operating Agreement (“Operating Agreement”)⁵ between the CAISO and CCSF submitted in Attachment C to the instant filing. PG&E, MID, and TID have represented to the Settling Parties that they do not oppose the settlement. Further, Commission Staff does not oppose the settlement.

II. SUMMARY OF SETTLEMENT TERMS

As stated in Article I of the Offer of Settlement, the Operating Agreement is included with the Offer of Settlement and is incorporated therein.⁶ Pursuant to the Offer of Settlement, the Operating Agreement supersedes the Interim Agreement in its entirety

⁵ CAISO First Revised Rate Schedule FERC No. 64.

⁶ Legally authorized representatives of the CAISO have executed, and CCSF staff and legal counsel have approved, the Offer of Settlement and the Operating Agreement contained in Attachments B and C to the instant filing. The Board of Supervisors for CCSF (“CCSF Board”) is expected to review the Offer of Settlement and the Operating Agreement no later than January 29, 2008. The CCSF legal counsel and staff will recommend to the CCSF Board that it approve the Offer of Settlement and the Operating Agreement as filed with the Commission, and such legal counsel and staff anticipate that the CCSF Board will approve both the Offer of Settlement and the Operating Agreement as filed. CCSF will promptly inform the Commission in writing of the decision of the CCSF Board on this issue.

effective as of December 1, 2005.⁷ The differences between the Interim Agreement and the Operating Agreement include those described in Sections II.A through II.K, below.⁸

A. Revisions Made Throughout the Operating Agreement

The Settling Parties have made descriptive changes to definitions and various sections throughout the Operating Agreement to more accurately describe CCSF's generation and transmission facilities, how those facilities interface with the control areas of the CAISO and other control areas, and how transactions using the facilities will be treated under the Operating Agreement. The Operating Agreement also revises the Interim Agreement to delineate the distinction between transactions using CCSF's transmission entitlements through its Existing Transmission Contract ("ETC") with PG&E, transactions using CCSF's owned transmission facilities, and transactions using the CAISO-controlled grid. In addition, the Operating Agreement includes changes to reflect the implementation of the CAISO's Market Redesign and Technology Upgrade ("MRTU") program (which is currently scheduled to occur on March 31, 2008) and to update defined terms in the CAISO Tariff (*e.g.*, by substituting "CAISO" for "the ISO" and "Balancing Authority Area" for "Control Area" in the Operating Agreement).

B. Date of Termination (Section 3.2(a) of the Operating Agreement)

The date of termination has been extended from two years after the effective date (as stated in the Interim Agreement) until July 1, 2015 (as stated in the Operating Agreement), unless termination occurs earlier for one of the other reasons stated in

⁷ The December 1, 2005 effective date for the Operating Agreement is discussed in Section III, below.

⁸ Attachment D to the instant filing contains a document that shows, in "DeltaView" format, the differences between the Operating Agreement and the Interim Agreement.

Section 3.2. The July 1, 2015 date of termination coincides with the date of termination of CCSF's ETC with PG&E.

C. Provision of Ancillary Services (Section 4.1 of the Operating Agreement)

Pursuant to revisions contained in the Operating Agreement, the CAISO has agreed to accommodate CCSF's use of its owned transmission facilities to export ancillary services ("AS") to MID and TID, and to import AS from MID and TID, through its ongoing contractual arrangements with those entities.

D. Emergencies (Section 4.2 of the Operating Agreement)

The Operating Agreement contains revisions concerning the CAISO's ability to call upon CCSF's generation in the event of emergency situations and the limitations on CAISO's ability to do so. As described in Section 4.2, the version of Section 4.2 originally contained in the Interim Agreement will apply from December 1, 2005 through November 30, 2007, and the revised version of Section 4.2 (and subsections thereto) contained in the Operating Agreement will apply starting on December 1, 2007.⁹ The Operating Agreement also provides a rate under which CCSF would be compensated for provision of energy in such circumstances.

F. Real Time Operating Limits (Section 4.6 and Schedule 2 of the Operating Agreement)

The Operating Agreement includes revisions to define the real time operating limits at the various interconnections described in the Operating Agreement.

⁹ See also the discussion in Section III, below.

***G. Transmission Rights and Transmission Curtailment Instructions
(Section 4.7 of the Operating Agreement)***

The Operating Agreement contains revisions to reflect the fact that CCSF will provide Transmission Rights and Transmission Curtailment (“TRTC”) instructions for its Transmission Ownership Rights (“TORs”). The Operating Agreement also provides for the treatment of losses.

H. Reliability Standards (Section 5 of the Operating Agreement)

The Operating Agreement contains revisions that reflect the development by North American Electric Reliability Corporation (“NERC”) and Western Electricity Coordinating Council (“WECC”) of reliability standards since the time the Interim Agreement was filed.

I. Costs, Charges and Payment (Section 6 of the Operating Agreement)

The Operating Agreement contains revisions that describe the MRTU charges applicable to transactions over TOR facilities not using the CAISO-controlled grid.

J. Scheduling (Section 7 of the Operating Agreement)

The Operating Agreement contains changes to clarify provisions on the scheduling of CCSF transactions.

K. Reservation of Rights (Section 13.9 of the Operating Agreement)

The Operating Agreement contains changes to make it clear that both Settling Parties retain their rights to pursue positions they have taken or may take in the MRTU proceedings at the Commission or before the courts, and that the Operating Agreement constitutes a settlement of Docket No. ER06-227-000 only.

L. Other Terms of the Offer of Settlement

In addition to the terms of the Offer of Settlement and the Operating Agreement described above, the Offer of Settlement includes the following terms:

- CCSF agrees to forego any payments to which it might otherwise be entitled if the CAISO were to recalculate payments for any emergency energy (as defined in the Operating Agreement) provided by CCSF for the time period from December 1, 2005 through November 30, 2007.¹⁰
- The Offer of Settlement is non-precedential with regard to any other cases, in any regulatory, judicial, or other forum, except as needed to enforce its terms or the terms of the Operating Agreement.
- The reservations applicable to the Offer of Settlement include:
 - the Offer of Settlement should not be deemed an admission by either Settling Party;
 - the Settling Parties retain their rights under the Federal Power Act;
 - nothing in the Offer of Settlement is to be deemed a “settled practice”;
 - discussions preceding the Offer of Settlement are subject to Rule 602(e) of the Commission’s Rules of Practice and Procedure, and all communications between the Settling Parties to this proceeding during settlement discussions are privileged; and
 - titles of articles and sections of the Offer of Settlement are not to be used for interpreting the Offer of Settlement.
- The benefits and burdens of the Offer of Settlement are binding on successors in interest or assignees of the Settling Parties to this proceeding.
- If the Commission rejects any element of the Offer of Settlement, including any amendment to the Operating Agreement, the Offer of Settlement will be null and void unless otherwise agreed to by the Settling Parties.

¹⁰ See the discussion in Section III, below.

III. EFFECTIVE DATE

As noted above, the Commission accepted the Interim Agreement with an effective date of December 1, 2005. The Settling Parties seek the same December 1, 2005 effective date for the Operating Agreement. However, as discussed in Section II.D, above, the version of Section 4.2 originally contained in the Interim Agreement will apply from December 1, 2005 through November 30, 2007, and the revised version of Section 4.2 (and subsections thereto) contained in the Operating Agreement will apply starting on December 1, 2007. The reason for these different dates with regard to Section 4.2 is that the CAISO believes the costs would outweigh any possible benefits of performing a market re-run to recalculate payments for the very limited amount of emergency energy provided by CCSF from December 1, 2005 through November 30, 2007. Since the proxy price would only be used if it were higher than the other price options, the lack of such recalculation will not detrimentally impact any other CAISO market participant. CCSF has agreed, as part of the Offer of Settlement, to forego any payments to which it might otherwise be entitled if the recalculations were made for the time period from December 1, 2005 through November 30, 2007.

IV. ADDITIONAL INFORMATION

Pursuant to the Chief Administrative Law Judge's October 15, 2003 *Notice of Information to be Provided with Settlement Agreements* ("Notice"), the Settling Parties submit the following responses as to the queries listed in the Notice:

A. *What are the issues underlying the settlement and what are the major implications?*

The issues underlying the Offer of Settlement and the Operating Agreement are discussed above. As to the major implications, after almost two years of negotiations, the Settling Parties have agreed upon a number of revisions to the Interim Agreement, which are reflected in the Operating Agreement, that will allow the Settling Parties to rely on a comprehensive operating agreement going forward to govern transactions that do not use the CAISO-controlled grid. The Operating Agreement will function in conjunction with CCSF's ETC with PG&E, which governs, among other things, CCSF's use of PG&E-owned transmission facilities (which are turned over to CAISO control) for delivery to CCSF of power from generation resources owned by CCSF. The Operating Agreement also makes provision for CCSF operations when the CAISO puts its MRTU Tariff into effect, an event currently scheduled for March 31, 2008.

B. *Do any of the issues raise policy implications?*

Because the Offer of Settlement and the Operating Agreement revise an agreement (the Interim Agreement) that establishes a relationship between the Settling Parties, the Offer of Settlement and the Operating Agreement do not raise broader policy issues, nor would the Commission be making a policy statement by approving the Offer of Settlement and the Operating Agreement. The Offer of Settlement and the Operating Agreement promote smooth and reliable operations by providing for the interaction between the CAISO and CCSF.

C. *Might other pending cases be affected?*

No pending cases may be affected by the Offer of Settlement or the Operating Agreement in this proceeding.

D. Does the settlement involve issues of first impression, or are there any previous reversals on the issues involved?

Neither the Offer of Settlement nor the Operating Agreement involves issues of first impression or reversals of Commission decisions on previously decided issues.

E. Is the proceeding subject to the just and reasonable standard of review or the Mobile-Sierra standard of review?

The Settling Parties intend for the just and reasonable standard of review to apply to the Offer of Settlement and to any future modifications (pursuant to a unilateral application filed with the Commission or on the Commission's own motion) to rates set forth in the Operating Agreement.¹¹

V. DUE DATE FOR COMMENTS AND REPLY COMMENTS ON OFFER OF SETTLEMENT

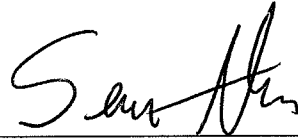
In accordance with Rule 602(d)(2), comments on the Offer of Settlement are due on or before December 31, 2007, and reply comments are due on or before January 10, 2008, unless other dates are chosen by the Commission.

¹¹ See Section 12.2 of the Operating Agreement.

VI. CONCLUSION

The Offer of Settlement and the related Operating Agreement resolve strong disagreements between the Settling Parties and are the product of almost two years of negotiations. Because the Offer of Settlement and Operating Agreement equitably resolve the issues in this proceeding between the CAISO and CCSF, they are just, fair and reasonable and in the public interest. Therefore, the Offer of Settlement should be certified by the presiding officer in this proceeding and approved by the Commission without modification.

Respectfully submitted,



Lisa G. Dowden
Spiegel & McDiarmid LLP
1333 New Hampshire Ave., NW
Washington, DC 20036
Tel: (202) 879-4000
Fax: (202) 393-2866
E-mail: lisa.dowden@spiegelmc.com

Sean A. Atkins
Alston & Bird LLP
950 F Street, NW
Washington, DC 20004
Tel: (202) 756-3072
Fax: (202) 654-4875
E-mail: sean.atkins@alston.com

Counsel for the City and County
of San Francisco

Counsel for the California Independent
System Operator Corporation

Dennis J. Herrera, City Attorney
CITY AND COUNTY OF SAN FRANCISCO
Theresa L. Mueller
Jacqueline P. Minor
Deputy City Attorneys
City Hall, Room 234
San Francisco, CA 94102
Tel: (415) 554-4703

Dated: December 11, 2007

ATTACHMENT B

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

California Independent System) Docket No. ER06-227-000
Operator Corporation)

OFFER OF SETTLEMENT

[NOTE: THIS OFFER OF SETTLEMENT AND AGREEMENT HAVE BEEN APPROVED IN FORM AND CONTENT BY CCSF STAFF AND LEGAL COUNSEL. THE AGREEMENT MUST BE APPROVED BY THE BOARD OF SUPERVISORS FOR THE CITY AND COUNTY OF SAN FRANCISCO AND WILL BE PRESENTED TO THE BOARD WITH A RECOMMENDATION FOR ITS APPROVAL. SUCH APPROVAL, AND SUBSEQUENT EXECUTION, OF THIS AGREEMENT ARE EXPECTED BY JANUARY 29, 2008]

Pursuant to Rule 602 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (“Commission” or “FERC”), 18 C.F.R. § 385.602, the California Independent System Operator Corporation (“CAISO”) and the City and County of San Francisco (“CCSF”) (together, the “Settling Parties”) hereby submit this Offer of Settlement as the full and final resolution of all issues in the above-captioned proceeding.

I. BACKGROUND

On November 17, 2005, the CAISO filed an unexecuted Interim Operations Agreement (“Interim Agreement”)¹ between itself and CCSF in the above-captioned proceeding. The stated purpose of the Interim Agreement was to govern the operational relationship between CAISO and CCSF with respect to CCSF’s transactions over the transmission facilities it owns, which are not part of the CAISO-controlled grid and which are interconnected with the control areas of the Sacramento Municipal Utility

¹ CAISO Original Rate Schedule FERC No. 64. The Interim Agreement is provided in Attachment C to the instant filing.

District (“SMUD”) and the Turlock Irrigation District (“TID”).² The CAISO sought an effective date for the Interim Agreement of December 1, 2005.

On November 23, 2005, as supplemented on December 8, 2005, CCSF filed a motion to intervene, protest, and request for a nominal suspension of the Interim Agreement. Also, on December 8, 2005, Pacific Gas and Electric Company (“PG&E”) and TID filed motions to intervene and protests, and the Transmission Agency of Northern California (“TANC”) and MID filed motions to intervene. The CAISO filed an answer to these parties’ filings on December 23, 2005.

The Commission issued its “Order Accepting and Suspending Filing, Establishing Hearing and Settlement Judge Procedures, and Dismissing Request for Rehearing”³ on January 13, 2006. The Order suspended the Interim Agreement for a nominal period, made it effective as of December 1, 2005, subject to refund, and set the Interim Agreement for hearing and settlement judge procedures.⁴

On January 19, 2006, the Chief Administrative Law Judge designated Judge Karen V. Johnson as the settlement judge in this proceeding, and an initial settlement conference was held on February 2, 2006. Since that time, CAISO and CCSF have conducted a series of settlement discussions informally in person and by teleconference, and have also conferred with some of the other parties in the proceeding and with

² *Inter alia*, as the CAISO stated in its November 17, 2005, filing, the Interim Agreement was intended to establish the special operational and settlement requirements under which CCSF and the CAISO would coordinate and exchange information on schedules for CCSF’s transactions with TID and the Modesto Irrigation District (“MID”) once TID and MID were no longer in the CAISO control area, for schedules that do not use the CAISO-controlled grid. TID and MID left the CAISO control area effective as of December 1, 2005.

³ 114 FERC ¶ 61,024 (2006) (“Order”). The dismissal of rehearing referenced in the caption for the Order related to a proceeding in a separate docket (ER05-1533-001) concerning the shift of MID from the CAISO control area to the SMUD control area. *Id.* at PP 15, 21.

Commission Staff. These settlement discussions have resulted in the Offer of Settlement and in the related First Amended and Restated Operating Agreement (“Operating Agreement”)⁵ between the CAISO and CCSF submitted in Attachment C to the instant filing.

II. OFFER OF SETTLEMENT

Article I: Terms of Settlement

1.1 The Operating Agreement described in Section I, above, is included with this Offer of Settlement and is incorporated herein. The Operating Agreement supersedes the Interim Agreement described in Section I, above, in its entirety, effective as of December 1, 2005.

1.2 CCSF agrees to forego any payments to which it might otherwise be entitled if the CAISO were to recalculate payments for any Emergency Energy (as that term is defined in the Operating Agreement) provided by CCSF from December 1, 2005 through November 30, 2007.

Article II: Precedential Effect

2.1 This Offer of Settlement is non-precedential with respect to any future case, except as necessary to enforce the terms of this Offer of Settlement and the Operating Agreement.

⁴ *Id.* at PP 17-20 and Ordering Paragraphs (A) and (D)-(G).

⁵ CAISO First Revised Rate Schedule FERC No. 64. The Operating Agreement is provided in Attachment C to the instant filing.

Article III: Reservations

- 3.1 This Offer of Settlement shall not be deemed in any respect to constitute an admission by one Settling Party that any allegation or contention made by the other Settling Party in this proceeding is true or valid, except that no Settling Party shall deny or challenge the accuracy of the terms of this Offer of Settlement. This Offer of Settlement is made for the sole purpose of terminating this docket. Except as expressly provided in this Offer of Settlement, no Settling Party shall be deemed to have approved, accepted, agreed to, or consented to any fact, concept, theory, rate methodology, principle or method relating to jurisdiction, prudence, reasonable cost of service, cost classification, cost allocation, rate design, tariff provisions, or other matters underlying or purported to underlie any of the resolution of the issues provided herein. The Commission's approval of this Offer of Settlement shall not constitute approval of, or precedent regarding, any principle or issue in these proceedings.
- 3.2 Nothing in this Offer of Settlement affects the rights of the party furnishing service in accordance with this Agreement to seek a change in rates pursuant to Section 205 of the Federal Power Act, or the rights of the party receiving service to file a complaint under Section 206 of the Federal Power Act. This Offer of Settlement will have no effect on the right of any party to exercise its rights under the Federal Power Act to seek any alteration of the rates contained in the Operating Agreement, as set out in Section 12.2 of the Operating Agreement.

- 3.3 Nothing in this Offer of Settlement shall be deemed to be a “settled practice” as that term was interpreted and applied in *Public Service Commission of the State of New York v. FERC*, 642 F.2d 1335 (D.C. Cir. 1980).
- 3.4 All discussions among the Settling Parties preceding this Offer of Settlement have been conducted on the explicit understanding that they were undertaken subject to Rule 602(e) of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.602(e) (2007), and the rights of the Settling Parties with respect thereto shall not be impaired by this Offer of Settlement. All communications between the Settling Parties during the course of such discussions are privileged and may not be used in any future proceedings.
- 3.5 The titles and headings of the various Articles in this Offer of Settlement are for reference purposes only. They are not to be construed or taken into account in interpreting this Offer of Settlement, and do not qualify, modify, or explain the effects of this Offer of Settlement.

Article IV: Standard of Review

- 4.1 Future modifications to the rates set forth in the Operating Agreement (pursuant to a unilateral application filed with the Commission or on the Commission’s own motion), as defined in Section 12.2 of the Operating Agreement, will be subject to the just and reasonable standard of review.

Article V: Successors and Assigns

- 5.1 The rights conferred and obligations imposed on any Settling Party by this Offer of Settlement shall inure to the benefit of or be binding on that Settling Party’s

successors in interest or assignees as if such successor or assignee were itself a Settling Party in this proceeding.


Article VI: Offer of Settlement is a Unified Whole

6.1 Notwithstanding any other provision of this Offer of Settlement, this Offer of Settlement is to be treated as a unified whole. Should the Commission reject any term of this Offer of Settlement or any portion of the Operating Agreement attached hereto, the entire Offer of Settlement shall be null and void unless the Settling Parties specifically agree otherwise.

III. CONCLUSION

Wherefore, the Settling Parties respectfully request that the Settlement Judge certify this Offer of Settlement and that the Commission issue an order approving the Offer of Settlement without material change or condition.

Respectfully submitted,



Lisa G. Dowden
Spiegel & McDiarmid LLP
1333 New Hampshire Ave., NW
Washington, DC 20036
Tel: (202) 879-4000
Fax: (202) 393-2866
E-mail: lisa.dowden@spiegelmc.com

Sean A. Atkins
Alston & Bird LLP
950 F Street, NW
Washington, DC 20004
Tel: (202) 756-3072
Fax: (202) 654-4875
E-mail: sean.atkins@alston.com

Counsel for the City and County
of San Francisco

Counsel for the California Independent
System Operator Corporation

Dennis J. Herrera, City Attorney
CITY AND COUNTY OF SAN FRANCISCO
Theresa L. Mueller
Jacqueline P. Minor
Deputy City Attorneys
City Hall, Room 234
San Francisco, CA 94102
Tel: (415) 554-4703

Dated: December 11, 2007

ATTACHMENT C

**CALIFORNIA INDEPENDENT SYSTEM
OPERATOR CORPORATION**

AND

CITY AND COUNTY OF SAN FRANCISCO

**FIRST AMENDED AND RESTATED
OPERATING AGREEMENT**

Operating Agreement

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

- (1) The San Francisco Public Utilities Commission, a department of the **City and County of San Francisco**, a municipal corporation, operating under the laws of the State of California ("CCSF");

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 (the "CAISO"), hereinafter sometimes referred to collectively as "Parties" and individually as a "Party."

Whereas:

- A. CCSF owns and operates a number of Generating Units associated with its Hetch Hetchy Project ("Hetch Hetchy Units") interconnected to the transmission facilities of Pacific Gas and Electric Company ("PG&E"), Modesto Irrigation District ("MID"), and Turlock Irrigation District ("TID") through CCSF's 115 kV and 230 kV transmission facilities. The Hetch Hetchy Project is maintained and operated in compliance with the Raker Act. CCSF's 115 kV and 230 kV transmission facilities are an integral part of the Hetch Hetchy Project and are not part of the CAISO Controlled Grid. CCSF has not executed the Transmission Control Agreement ("TCA") with the CAISO and therefore retains all rights and obligations associated with ownership and operation of its transmission facilities.
- B. CCSF operates under the Interconnection Agreement between PG&E and CCSF, Federal Energy Regulatory Commission ("FERC") Rate Schedule FERC No. 114 ("CCSF IA").
- C. PG&E has executed the Transmission Control Agreement, thereby turning over Operational Control of its transmission facilities to the CAISO.
- D. As of December 1, 2005, TID has operated within its own Balancing Authority Area and MID operates within the Sacramento Municipal Utility District's ("SMUD") Balancing Authority Area.
- E. CCSF's Electric System remains within the CAISO Balancing Authority Area.
- F. CCSF and the CAISO desire to (i) establish the operational and Settlement requirements under which CCSF and the CAISO will coordinate and exchange

information on schedules for CCSF's transactions with TID and MID now that they are no longer in the CAISO Balancing Authority Area, for schedules that do not use the CAISO Controlled Grid; (ii) establish provisions relating to telemetry and revenue metering data applicable to CCSF's facilities; and (iii) establish provisions for scheduling and Settlement of CCSF's non-CAISO Controlled Grid transactions in accordance with the Raker Act and respecting CCSF's Transmission Ownership Rights of non-CAISO Controlled Grid facilities. This Agreement is not intended to affect the scheduling, operation, assessment of charges or any other element of transactions that are currently performed using the CCSF IA, whether the transactions are scheduled by PG&E, CCSF, or some other entity acting as Scheduling Coordinator for CCSF.

- G. This Agreement does not specify any special terms for the scheduling of CCSF transactions over CAISO Controlled Grid facilities; some of the transactions by CCSF that use the CAISO Controlled Grid are currently scheduled under the CCSF IA in accordance with the CAISO Tariff.
- H. This Agreement recognizes that CCSF is a **Non-Participating** Transmission Owner in that CCSF owns and operates the 115kV and 230kV transmission facilities and has not executed the Transmission Control Agreement transferring Operational Control of those facilities to the CAISO. As such, the CAISO Tariff and the pending MRTU version of the CAISO Tariff provide that the rights and obligations of a Non-Participating Transmission Owner with respect to its own facilities are characterized as "Transmission Ownership Rights" ("TORs"). This Agreement is intended to form the bilateral agreement contemplated under the CAISO Tariff to uphold CCSF's TORs and to ensure reliable and economic operation of CCSF's transmission facilities within the CAISO Balancing Authority Area in conjunction with reliable and economic operation of the CAISO Controlled Grid.
- I. The CAISO has executed an Interconnected Control Area Operating Agreement ("ICAOA") with SMUD, including Amendment No. 4, and has executed an ICAOA with TID.
- J. Section 2.2.11 of the CAISO-SMUD ICAOA and Section 2.2.3 of the CAISO-TID ICAOA define the term "Interconnection" as "Transmission Facilities that connect one control area to another control area. The Interconnection for this Operating Agreement [ICAOA] is described in Service Schedule 1 [of the ICAOA]."
- K. Section 5.1 of the CAISO-SMUD and CAISO-TID ICAOAs provides that the CAISO shall coordinate and exchange information with SMUD and TID respectively on schedules and Control [Balancing Authority] Area checkouts at the Interconnection – which includes the Standiford Interconnection in the CAISO-SMUD ICAOA and the Oakdale Interconnection in the CAISO-TID ICAOA, and further provides that "all energy and/or capacity schedules, as well as any transmission reservation(s) to or from the [CA]ISO Control Area, over any

facilities within the [CA]ISO Control Area shall be submitted via the [CA]ISO scheduling system as described in the [CA]ISO Tariff."

- L. CCSF has the right to provide Ancillary Services to, and to procure Ancillary Services from, entities with rights at the Standiford Interconnection and the Oakdale Interconnection.
- M. CCSF's transmission system is interconnected with the CAISO Controlled Grid at the point where PG&E's 230 kV transmission facilities physically connect with the 230 kV transmission facilities of CCSF's Warnerville Substation and the point where CCSF's 115 kV transmission facilities physically connect with PG&E's Newark Substation. These points are hereinafter referred to as the "CCSF-PG&E Interconnection."
- N. CCSF has not executed the Transmission Control Agreement; thus the 115 kV transmission lines between CCSF's Hetch Hetchy Units and the Standiford and Oakdale Substations and the 115 kV and 230 kV lines between CCSF's Hetch Hetchy Units and the CCSF-PG&E Interconnection are resident within the CAISO Balancing Authority Area but are not part of the CAISO Controlled Grid (CCSF's Transmission Ownership Rights pertain to these facilities).
- O. As of December 1, 2005, one point of interconnection exists between CCSF's Electric System and the SMUD Control Area, the Standiford Interconnection, and one point of interconnection exists between CCSF's Electric System and the TID Control Area, the Oakdale Interconnection.
- P. CCSF plans and operates its Electric System in accordance with the CCSF IA, which, among other things, provides for coordination to meet voltage control and transmission facility Outage requirements.
- Q. The Parties desire certainty to ensure that power transactions between CCSF's Hetch Hetchy Units in the CAISO Balancing Authority Area and the Standiford and Oakdale Substations in the SMUD and TID Balancing Authority Areas, respectively, are operated and scheduled in a reliable manner, and that, to the extent applicable, charges herein are appropriately settled with the CAISO.

NOW, THEREFORE, in consideration of the mutual covenants set forth herein,

THE PARTIES AGREE as follows:

1. DEFINITIONS AND INTERPRETATION

- 1.1 Master Definitions Supplement.** Except as otherwise defined in Section 1.3 of this Agreement or elsewhere in this Agreement, all terms and expressions used in this Agreement with initial capitalization shall have the same meaning as those contained in the Master Definitions Supplement to the CAISO Tariff.

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

- (a) if and to the extent a matter is specifically addressed by a provision of this Agreement, the provision of this Agreement shall govern notwithstanding any inconsistent provisions of the CAISO Tariff;
- (b) if and to the extent this Agreement provides that a matter shall be determined in accordance with the applicable provisions of the CAISO Tariff, the applicable provisions of the CAISO Tariff shall govern;
- (c) the singular shall include the plural and vice versa;
- (d) the masculine shall include the feminine and neutral and vice versa;
- (e) "includes" or "including" shall mean "including without limitation";
- (f) references to a Section or Schedule shall mean a Section or a Schedule of this Agreement, as the case may be, unless the context otherwise requires;
- (g) 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;
- (h) 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;
- (i) 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;
- (j) unless the context otherwise requires, any reference to a Party includes a reference to its permitted successors and assigns;
- (k) any reference to a day, week, month or year is to a calendar day, week, month or year; and
- (l) 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.

1.3 Special Agreement Definitions. In addition to terms defined in the beginning of this Agreement and in Section 1.1 of this Agreement, for purposes of this Agreement the following terms shall have the meanings set forth below.

"Balancing Authority" means the responsible entity that integrates resource plans ahead of time, maintains load-interchange-generation balance within a Balancing Authority Area, and supports Interconnection frequency in real time.

“Balancing Authority Area” means the collection of generation, transmission, and loads within the metered boundaries of the Balancing Authority. The Balancing Authority maintains load-resource balance within this area.

“CAISO Tariff” means the transmission tariff of the CAISO on file with the Federal Energy Regulatory Commission as it may be amended from time to time, specifically including changes to the CAISO Tariff to implement MRTU as may be approved by FERC in FERC Docket Nos. ER06-615, ER07-1257, and other dockets related to MRTU.

“Electric System” means 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.

“Hetch Hetchy Project” means the hydroelectric generating facilities in the Tuolumne River watershed and associated transmission facilities owned by CCSF, as now developed or as may be developed in the future, which are subject to the Raker Act.

“Hetch Hetchy Project Transmission Ownership Rights” or “HH TOR” represents CCSF’s transmission capacity on the Hetch Hetchy Project transmission facilities as detailed in Schedule 1, and all other attendant ownership rights including but not limited to the rights of CCSF to exercise operational control over its facilities and to determine the manner in which its facilities are used.

“MRTU” means the CAISO’s Market Redesign and Technology Upgrade project, the implementation of which is the subject of FERC Docket Nos. ER06-615, ER07-1257 and related dockets.

“Oakdale Interconnection” means the interconnection of the TID and CAISO Balancing Authority Areas, which consists of a physical point of interconnection at the points where CCSF’s Moccasin-Newark 115 kV Lines #3 and #4 interconnect with the Turlock 115 kV bus at the Oakdale Switchyard as shown in Service Schedule 1 to the CAISO-TID ICAOA.

“Raker Act” means that act of Congress, 38 Stat. 242 (1913), which, in part, grants CCSF the rights to own and operate the Hetch Hetchy Project.

“SC Transition Date” means September 1, 2006.

“Standiford Interconnection” means the interconnection of the SMUD and CAISO Balancing Authority Areas which consists of a physical point of interconnection at disconnect switches 907C, 903C, 904C and 908C at the Standiford Substation, as shown in Service Schedule 1 to the CAISO-SMUD ICAOA. Breakers 903 and 904 are and will be open breakers, and if this configuration is proposed to be changed, the CAISO, CCSF, and SMUD will confer and agree on any change to the Interconnection point in advance of the change in this configuration.

“Transmission Control Agreement” (“TCA”) means the agreement between the CAISO and Participating TOs establishing the terms and conditions under which transmission owners will become Participating TOs and how the CAISO and each Participating TO will discharge their respective duties and responsibilities, as may be modified from time to time.

2. SCOPE OF AGREEMENT

This Agreement governs the operational relationship between the CAISO and CCSF with respect to CCSF’s power transactions that are delivered to the CCSF-PG&E Interconnection, that are delivered to, or received from, the SMUD Balancing Authority Area at the Standiford Interconnection and that are delivered to, or received from, the TID Balancing Authority Area at the Oakdale Interconnection over transmission facilities that are not part of the CAISO Controlled Grid, as detailed in Schedule 1, both under the pre-MRTU and post-MRTU versions of the CAISO Tariff. For reliable operation of the CAISO Balancing Authority Area, the CAISO requires a Scheduling Coordinator to provide Bids or Self-Schedules to the CAISO, and CCSF shall ensure the utilization of a Scheduling Coordinator for this function. This Agreement also addresses the creation of a logical meter arrangement that became effective on the SC Transition Date.

3. TERM AND TERMINATION

3.1 Term. This Agreement shall be effective as of the later of i) December 1, 2005, or ii) the date this Agreement is accepted for filing and made effective by FERC and shall continue in effect until terminated.

3.2 Termination. This Agreement will terminate at the earliest of:

(a) July 1, 2015;

- (b) CCSF executes the TCA;
- (c) CCSF becomes a Metered Subsystem, provided that the CAISO has been provided with 45 days advance written notice;
- (d) CCSF's Electric System is resident in a Balancing Authority Area other than that of the CAISO provided the CAISO has been provided with 45 days advance written notice; or
- (d) six months after mutual agreement of the Parties.

With respect to any notice of termination given pursuant to this Section, the CAISO must file a timely notice of termination with FERC, if this Agreement was filed with FERC, or must otherwise comply with the requirements of FERC Order No. 2001 and related FERC orders. The filing of the notice of termination by the CAISO with FERC will be considered timely if the filing of the notice of termination is made after the preconditions for termination have been met or the CAISO files the notice of termination in accordance with the requirements of FERC Order No. 2001. This Agreement shall terminate upon acceptance by FERC of such a notice of termination, if filed with FERC, or thirty (30) days after the date of the CAISO's notice of termination, if terminated in accordance with the requirements of FERC Order No. 2001 and related FERC orders. Any termination by CCSF upon 45 days prior notice to the CAISO shall relieve CCSF of its obligation and cause CCSF to forego its rights herein as of the termination effective date, regardless of action or inaction by the CAISO or FERC, provided that CCSF shall cease taking any service provided under this Agreement by the CAISO as of the effective date of its termination. Any outstanding charges or settlements that arose under this Agreement shall survive until they are satisfied.

4. OPERATING REQUIREMENTS

4.1 CCSF Transactions Directly with Other Balancing Authority Areas. Hetch-Hetchy Project's associated transmission facilities will be used to export Energy and/or Ancillary Services to, and import Energy and/or Ancillary Services from the SMUD and TID Balancing Authority Areas. For Settlement treatment in accordance with Section 6.3 of this Agreement, the following transactions are delivered to MID at the Standiford Interconnection and to TID at the Oakdale Interconnection and do not use the CAISO Controlled Grid:

4.1.1 Transactions from the Hetch Hetchy Units to MID. CCSF shall schedule in the CAISO's scheduling system ("SI" or "SIBR") and the CAISO will implement the scheduling of all Energy transactions from CCSF's Hetch Hetchy Units to MID in the SMUD Balancing Authority Area using CCSF's transmission facilities; provided, however, interchange schedules may be adjusted in real time by direct communication between the CAISO and MID real time schedulers, as necessary to coordinate

dispatch of energy on the Standiford Interconnection, associated with the Ancillary Services schedules referenced in Section 4.1.3, below.

- 4.1.2 Transactions from the Hetch Hetchy Units to TID.** CCSF shall schedule in the CAISO's scheduling system ("SI" or "SIBR") and the CAISO will implement the scheduling of all Energy transactions from CCSF's Hetch Hetchy Units to the TID Balancing Authority Area using CCSF's transmission facilities; provided, however, interchange schedules may be adjusted in real time by direct communication between the CAISO and TID real time schedulers, as necessary to coordinate dispatch of energy on the Oakdale Interconnection, associated with the Ancillary Services schedules referenced in Section 4.1.3, below.
- 4.1.3 Exports of Ancillary Services.** CAISO will accommodate CCSF's export of Ancillary Services to MID and TID through implementation of a manual process, provided the CAISO continues to receive information from CCSF, MID and TID as reasonably necessary to do so.
- 4.1.4 Imports from MID at Standiford.** CCSF shall schedule in the CAISO's scheduling system ("SI" or "SIBR") and the CAISO will implement the scheduling of all Energy and Ancillary Services imports at the Standiford Interconnection using CCSF's Transmission Ownership Rights, subject to Section 7.3 of this Agreement.
- 4.1.5 Imports from TID at Oakdale.** CCSF shall schedule in the CAISO's scheduling system ("SI" or "SIBR") and the CAISO will implement the scheduling of all Energy and Ancillary Services imports at the Oakdale Interconnection using CCSF's Transmission Ownership Rights, subject to Section 7.3 of this Agreement.
- 4.2 Emergencies.** The provision attached to this Agreement as Schedule 3 shall be effective from December 1, 2005 until November 30, 2007. The following provision and its subsections shall be effective as of December 1, 2007.

The CAISO shall in the event of, and for the duration of, a System Emergency or as a result of Uncontrollable Force, take such immediate action in accordance with Good Utility Practice as the CAISO determines necessary to mitigate or eliminate the System Emergency or Uncontrollable Force, subject to Section 4.2.1 of this Agreement. Such action may include or result in, without limitation, curtailments in accordance with the CAISO Tariff as limited by Section 4.2.1 of this Agreement. CCSF shall be compensated by the CAISO for Energy provided pursuant to this Section 4.2 as described in Section 4.2.2 of this Agreement.

- 4.2.1 Energy Dispatch.** Hetch Hetchy Project generation shall not be dispatched to provide Energy unless: (1) a system contingency occurs that requires the Dispatch of Energy from Hetch Hetchy Project Operating

Reserves to meet applicable WECC Minimum Operating Reliability Criteria; or (2) a Stage Three System Emergency is imminent, thereby requiring the Dispatch of Hetch Hetchy Project generation to prevent involuntary Load curtailments. Hetch Hetchy Project generation shall be dispatched under these circumstances only after the CAISO has made best efforts to dispatch all other sources of Operating Reserves. Further, any Dispatch of Hetch Hetchy Project generation will be subject to the Hetch Hetchy Project's electrical supply, water supply, water quality, and operational constraints. In the event that Hetch Hetchy Project Energy is dispatched to address one of these events, CCSF may assign any resulting positive imbalance Energy to its Balancing Account Counterparty, pursuant to Section 6.5 of this Agreement.

4.2.2 Compensation. CCSF will be compensated for the Energy pursuant to Section 4.2.1 for each Settlement Interval at the higher of: 1) the Resource-Specific Settlement Interval LMP, 2) the Energy Bid price, if applicable, or 3) the "Negotiated Opportunity Cost Proxy Price" described below.

The Negotiated Opportunity Cost Proxy Price is the product of a heat rate of 15,000 MMBTU/MWh and the Applicable Fuel Price for the Trading Day, plus \$5/MWh for variable operations and maintenance ("O&M") costs. For each emergency Dispatch pursuant to Section 4.2.1, CAISO shall pay to CCSF \$900 to cover administrative costs related to providing emergency assistance to the CAISO. The Applicable Fuel Price shall be the same for each hour of a given day and is calculated as the Commodity Price (\$/MMBTU) plus Intrastate Transportation Rate (\$/MMBTU), where the Commodity Price shall be the product of 1.02 and the Gas Daily, PG&E Citygate Index (midpoint). The index to be used for each Settlement Interval in a given day is shown in the table below. Where more than one day's index is shown for a Trading Day, the average of the two daily indices should be used. If an applicable index for a day, which is used to compute the index average for a Trading Day, is not published, then that index will not be used to compute the Commodity Price for that trading day. If no index for a day is published, then the average of applicable index on the Index Publication Date preceding and the Index Publication Date following such day will be substituted for the Index Publication Date index for that day in the table below. In the event that an index ceases to be published, Parties shall agree on a replacement index. The Intrastate Transportation Rate shall be the PG&E intrastate transportation rate charge stated in PG&E Rate Schedule G-EG, or any successor rate for electric generation service divided by one minus the applicable in-kind shrinkage allowance, if any.

Natural Gas Price Index

Index Publication Date*

<u>Trading Day</u>	<u>Gas Daily **</u>
Tuesday	Tuesday/Wednesday
Wednesday	Wednesday/Thursday
Thursday	Thursday/Friday
Friday	Friday/Monday
Saturday	Monday/Tuesday
Sunday	Monday/Tuesday
Monday	Monday/Tuesday

* *The Index Publication Date is the date of the publication which contains the prices for the applicable Trading Day.*

** *Where more than one day's index is shown for a Trading Day, the average of the two daily indices should be used. The "Flow Date(s)" column should match the Trading Day.*

- 4.3 Voltage Control and Reactive Support.** CCSF or its operating agent shall make available the necessary status and telemetry information to the CAISO consistent with the requirements of the CCSF IA and operate the associated voltage control and reactive facilities on its portion of CCSF's Electric System to meet voltage control standards under the CCSF IA. The CAISO shall coordinate and direct the use of the available voltage control and reactive support devices to maintain the reliable operation of the CCSF Electric System and the CAISO Balancing Authority Area in accordance with Good Utility Practice.
- 4.4 Coordination of Operations.** CCSF will act in accordance with all the operational requirements of the CCSF IA, including Outage coordination, Load Shedding and Load restoration.
- 4.5 Telemetry and Revenue Metering.** As of the effective date of this Agreement, CCSF has elected not to enter into arrangements with the CAISO for the participation of its Hetch Hetchy Units in the CAISO's markets or other arrangements that would require telemetry and revenue metering for the Hetch Hetchy Units in accordance with the provisions of the CAISO Tariff. However, CCSF agrees to provide telemetry and revenue metering data from the Hetch Hetchy Units to the CAISO in accordance with this Section 4.5. CCSF agrees to maintain in effect arrangements for telemetry from the Hetch Hetchy Units to the CAISO's EMS system to provide real-time data from the Hetch Hetchy Units to the CAISO, provided that the specific nature and extent of the telemetry arrangements and real-time data points will be as mutually agreed by CAISO and

CCSF representatives consistent with the telemetry arrangements in place on the effective date of this Agreement. The rights and obligations of the Parties with respect to revenue metering for the Hetch Hetchy Units shall be subject to the provisions of the CAISO Tariff applicable to the Scheduling Coordinator for CCSF's transactions as an SC Metered Entity, taking into account the provisions of Section 6.4 of this Agreement. CCSF shall have the ability to aggregate the Hetch Hetchy Units for purposes of provision of telemetry and revenue metering data as a single unit, or in a manner agreed between CCSF and the CAISO.

4.6 Real Time Operating Limits. The real time operating limits for the CCSF-PG&E Interconnection, the Oakdale Interconnection and the Standiford Interconnection will be specified in the Transmission Rights and Transmission Curtailment ("TRTC") Instructions provided by CCSF to the CAISO. As of the effective date of this Agreement, the thermal limits at these interconnections are as shown in Schedule 2. CCSF may schedule or have scheduled up to the total Intertie operating limits between the CAISO Balancing Authority Area and the SMUD and TID Balancing Authority Areas at the Standiford Interconnection and the Oakdale Interconnection, respectively, as those limits are determined from time to time in accordance with applicable agreements as described below. Any disagreement related to TRTC Instructions using CCSF's Existing Contract transmission rights at the CCSF-PG&E Interconnection will be resolved pursuant to the CCSF IA as an Existing Contract in accordance with the CAISO Tariff. Any disagreement related to TRTC Instructions with respect to real time operating limits for the Standiford Interconnection and the Oakdale Interconnection will be resolved in accordance with this Agreement, the ICAOA between the CAISO and SMUD, the ICAOA between the CAISO and TID, and the CCSF TRTC Instructions. The CAISO will work with CCSF, TID, MID, SMUD and PG&E, as needed, if the thermal limits identified in Schedule 2 of this Agreement require further information or action by those entities.

4.7 Transmission Rights and Transmission Curtailment Instructions. CCSF shall provide TRTC Instructions to the CAISO for its Hetch Hetchy Project facilities pursuant to Section 17.1 of the CAISO Tariff. The CAISO will honor the TRTC Instructions provided by CCSF consistent with the HH TOR rights described and referenced in this Agreement and Section 17.1 of the CAISO Tariff.

4.7.1 Treatment of Losses. As contemplated by Section 17.3.3(2) of the CAISO Tariff, CCSF may in the future propose a specific loss percentage for the Hetch Hetchy Project. In the event the CAISO does not agree with CCSF's specific loss percentage, the Parties shall negotiate in good faith for a period of at least ninety (90) days in an effort to reach resolution. If the Parties are unable to reach resolution on the specific loss percentage, the matter shall be resolved in accordance with Section 8 of this Agreement. Nothing in this Section 4.7 shall be considered a waiver of CCSF's objections filed with FERC regarding the assessment or allocation

of losses to transactions occurring under this Agreement, or to any of FERC's orders on such objections.

5. RELIABILITY STANDARDS

5.1 CCSF Reliability Standards Compliance. CCSF represents and warrants that it complies with the applicable WECC reliability standards, pursuant to Section 9620 of the California Public Utilities Code and the CCSF IA. CCSF will continue to comply with applicable WECC reliability standards as they may be modified from time to time, and to provide CAISO with non-confidential information demonstrating such compliance. However, aside from the right to receive such non-confidential information, this Agreement will not alter, enlarge, enhance or otherwise modify any CAISO right (if such right now exists) to enforce such requirements against or upon CCSF beyond such right as CAISO may currently possess outside this Agreement, or which it may receive from WECC in future. Unless expressly provided otherwise by written agreement between the CAISO and CCSF, CCSF will be responsible for payment directly to the WECC of any monetary sanction assessed against CCSF by the WECC with respect to CCSF's compliance with the WECC reliability standards. The CAISO and CCSF will enter into an agreement as appropriate to satisfy CCSF's reliability standards compliance responsibilities consistent with WECC requirements.

6. COSTS, CHARGES AND PAYMENT

6.1 Operating and Maintenance Costs. CCSF shall be responsible for all its costs incurred in connection with operating and maintaining its Electric System. The CAISO shall not be responsible for paying any operating and maintenance charges from CCSF for costs so incurred.

6.2 Charges Not Generally Affected. Nothing in this Agreement is intended to affect the rates and charges paid by transmission service customers of the CAISO for use of the CAISO Controlled Grid. Customers of the CAISO using the CAISO's markets or the CAISO Controlled Grid shall pay rates and charges in accordance with the CAISO Tariff.

6.3 Pre-MRTU Charges for Non-CAISO Controlled Grid Facilities. Prior to the effective date of the MRTU version of the CAISO Tariff, if a Scheduling Coordinator for CCSF transactions from the Hetch Hetchy Units schedules transactions from the CAISO Balancing Authority Area which do not use the CAISO Controlled Grid, then that Scheduling Coordinator shall be responsible for procuring or self-providing: (1) Ancillary Services consistent with the requirements of the CAISO Tariff; (2) Imbalance Energy; and (3) losses consistent with the requirements of the CAISO Tariff. For the transactions scheduled under this Agreement, the CAISO shall apply charges for Ancillary Services, Imbalance Energy, and losses, but only to the extent that such services and losses are not self-provided by the Scheduling Coordinator for the

transactions. In addition, the CAISO will charge the Grid Management Charge to these transactions in accordance with the CAISO Tariff. The CAISO shall not charge the responsible Scheduling Coordinator for any other charge types outside of this Section 6.3, if such transactions do not use the CAISO Controlled Grid.

6.4 Post-MRTU Charges for Transmission Ownership Rights. On and after the effective date of the MRTU version of the CAISO Tariff, if a Scheduling Coordinator for CCSF transactions from the Hetch Hetchy Units submits Bids, or Self-Schedules, for transactions from the CAISO Balancing Authority Area which do not use the CAISO Controlled Grid, then that Scheduling Coordinator shall be responsible for procuring or self-providing: (1) Ancillary Services consistent with the requirements of the CAISO Tariff; (2) Imbalance Energy; and (3) losses consistent with the requirements of the CAISO Tariff and this Agreement. For the transactions using Transmission Ownership Rights submitted as Self-Schedules under this Agreement, the CAISO shall: apply charges for Ancillary Services, Imbalance Energy and Transmission Losses only to the extent they are not self-provided; and will not assess charges for neutrality, UFE, transmission Access Charges, Minimum Load Costs or other charges that might otherwise be applicable to the Demand or exports served solely over CCSF's HH TOR. In addition, the CAISO will charge the Grid Management Charge to these transactions in accordance with the CAISO Tariff. CCSF reserves the right to address cost causation issues in the CAISO filing required to determine the post-MRTU Grid Management Charge. The CAISO shall not charge the responsible Scheduling Coordinator for any other Charge Codes outside of this Section 6.4, if such transactions do not use the CAISO Controlled Grid.

6.5 CCSF Balancing Account. In recognition of the provisions of the Raker Act and the CCSF IA, CCSF shall have the right to enter into an arrangement with PG&E or a third party ("Balancing Account Counterparty") for a balancing account for the purpose of assuring that power from the Hetch Hetchy Units is not delivered in contravention of the Raker Act or the CCSF IA. CCSF's arrangements with the Balancing Account Counterparty for this CCSF balancing account, and the CAISO's implementation of this CCSF balancing account, shall have the following provisions. CCSF shall have the right to report its Meter Data for scheduled Generation and Load using logical Generation and/or Load meters. CCSF shall determine the amount of Energy to report to the CAISO using a combination of the CCSF portfolio logical Generation and Load meters and the Balancing Account Counterparty logical Generation and Load meters. The logical meter amounts reported for each meter must be greater than or equal to zero and must be equal in aggregate to the CCSF actual physical Generation and Load meter amounts.

6.6 Payment. All payments to the CAISO or CCSF will be made by or to CCSF's Scheduling Coordinator in accordance with the Scheduling Coordinator Agreement, this Agreement, and Section 11 of the CAISO Tariff. Nothing in this

Section 6.6 shall be construed to limit CCSF's Scheduling Coordinator's obligations under its Scheduling Coordinator Agreement with the CAISO.

7. SCHEDULING

7.1 Scheduling. CCSF or its designee shall act as the Scheduling Coordinator for CCSF's rights described in this Agreement. Scheduling of all transactions using CCSF's rights in this Agreement shall be performed by CCSF's Scheduling Coordinator, including TOR Self-Schedules, in accordance with the Scheduling Coordinator Agreement and the bidding and scheduling provisions of the CAISO Tariff; provided, however, CCSF's Scheduling Coordinator shall be entitled to all related rights under this Agreement, and CCSF shall have post-HASP scheduling rights on the two non-CAISO Controlled Grid Interties at the Standiford Interconnection and the Oakdale Interconnection associated with CCSF's Hetch Hetchy Transmission Ownership Rights. Nothing in this Section 7.1 shall be considered a waiver of CCSF's objections filed with FERC in ER06-615.

7.2 Scheduling Points. The CAISO will establish Scheduling Points and PNodes at the Oakdale Interconnection and the Standiford Interconnection, as well as PNodes at the CCSF-PG&E Interconnection, for post-MRTU transactions using CCSF's rights under this Agreement and operating limits identified in Schedule 2 of this Agreement.

7.3 No Use of CCSF Facilities by Others. Nothing in this Agreement will allow use of CCSF-owned facilities not turned over to CAISO Operational Control by any other entity, without the express consent of CCSF. The CAISO will only accept Bids or Self-Schedules at the Oakdale Interconnection, the Standiford Interconnection, or the CCSF-PG&E Interconnection from CCSF's designated Scheduling Coordinator or from the designated Scheduling Coordinator of either MID or TID. Nothing in this provision is intended to alter, modify, enlarge, reduce, or otherwise affect any rights MID or TID may have pursuant to other agreements or arrangements to schedule across the CCSF-PG&E Interconnection. CCSF's ETC rights to schedule across the CCSF-PG&E Interconnection are identified in the CCSF IA.

8. DISPUTE RESOLUTION

8.1 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 CCSF and references to the CAISO Tariff shall be read as references to this Agreement.

9. 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 Scheduling Coordinator for CCSF and references to the CAISO Tariff shall be read as references to this Agreement.

10. UNCONTROLLABLE FORCES

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

11. NO DEDICATION OF FACILITIES

11.1 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 CCSF's facilities 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. CCSF's facilities shall at all times be, and remain, in the exclusive ownership, possession, and control of CCSF or such other entity as CCSF, in its sole judgment, may specify, and nothing in this Agreement shall be construed to give any other Party any right of ownership, possession or control of such Electric System.

12. REGULATORY AUTHORITY

12.1 FERC Jurisdiction. This Agreement is subject to acceptance for filing by, and with respect to the CAISO, the regulatory jurisdiction of, FERC.

12.2 Changes in Rates. Nothing contained herein shall be construed as affecting in any way the right of a Party furnishing services in accordance with this Agreement unilaterally to make application to FERC for a change in rates presently included in Sections 6.3 and 6.4 of this Agreement, under Section 205 of the Federal Power Act and pursuant to the FERC's Rules and Regulations promulgated thereunder, nor shall it affect the right of any Party taking service under this Agreement to file a complaint under Section 206 of the Federal Power Act. The standard of review FERC shall apply when acting on proposed modifications of the rates included in Section 6.3 and 6.4 of this Agreement, either on FERC's own motion or on behalf of a signatory or non-signatory, shall be the "just and reasonable" standard of review rather than the "public interest" standard of review. The term "rates" as used herein shall mean a statement of electric services provided in accordance with the CAISO Tariff, rates and charges for, or in accordance with, those services, and all classifications, practices, rules,

regulations, or contracts which in any manner affect or relate to such services, rates and charges; provided, however, the definition of "rates" shall not, for this purpose, include additions to the list of CAISO Tariff charges specifically set forth in Sections 6.3 and 6.4 of this Agreement, which list of CAISO Tariff charges shall be considered a term or condition of this Agreement. Nothing contained herein shall be construed as affecting in any way the right of the CAISO unilaterally to make application for an amendment to the CAISO Tariff to the Federal Energy Regulatory Commission under Section 205 of the Federal Power Act and pursuant to FERC's Rules and Regulations promulgated thereunder.

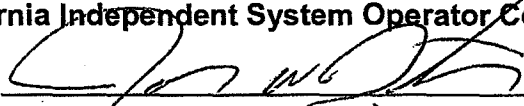
13. MISCELLANEOUS

- 13.1 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.
- 13.2 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 any reference therein to the CAISO Tariff or to Market Participant shall be understood to mean this Agreement or CCSF, respectively, 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.
- 13.3 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.
- 13.4 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 legal action or proceeding arising under or relating to this Agreement to which the CAISO ADR Procedures do not apply, shall be brought in any of the following forums, as appropriate: any court of the State of California, any federal court of the United States of America located in the State of California, or, where subject to its jurisdiction, before the Federal Energy Regulatory Commission.

- 13.5 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.
- 13.6 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.
- 13.7 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.
- 13.8 Amendments.** 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.
- 13.9 Settlement.** This Agreement is a settlement of FERC Docket No. ER06-227-000. Nothing in this Agreement shall be construed as waiving, modifying or withdrawing any position taken to date by either Party in any other pending FERC docket related to the rates, terms and conditions of the pre-MRTU or post-MRTU versions of the CAISO Tariff, whether before FERC or in any petition for review of such FERC orders by a court. Each Party remains free to pursue such positions as it deems appropriate.
- 13.10 Counterparts.** This Agreement may be executed in one or more counterparts at different times, each of which shall be regarded as an original and all of which, taken together, shall constitute one and the same Agreement.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their respective authorized officials.

California Independent System Operator Corporation:

By: 
Name: JAMES W. DETMERS
Title: VP OPERATIONS
Date: 12/10/07

City and County of San Francisco:

By: _____
Susan Leal
General Manager,
San Francisco Public Utilities Commission
1155 Market Street, 11th Floor
San Francisco, 94103

APPROVED AS TO FORM:

DENNIS J. HERRERA
CITY ATTORNEY

Deputy City Attorney

REDACTED

PURSUANT

TO

18 C.F.R. § 388.112

SCHEDULE 1

SCHEDULE 1 – CCSF's Hetch Hetchy Project Facilities

[Section 2]

SCHEDULE 2
CCSF's Interconnection Operating Limits
[Section 4.6]

REDACTED

PURSUANT

TO

18 C.F.R. § 388.112

SCHEDULE 3

Emergencies Provision

[Section 4.2]

- 4.2 Emergencies.** The CAISO shall in the event of, and for the duration of, a System Emergency or as a result of Uncontrollable Force, take such immediate action in accordance with Good Utility Practice as the CAISO determines necessary to mitigate or eliminate the System Emergency or Uncontrollable Force. Such action may include or result in, without limitation, curtailments in accordance with Section 5.6 of the CAISO Tariff, and directing the operation of CCSF facilities in a manner that is reasonable and practical under the circumstances.

SCHEDULE 4

NOTICES

[Section 13.2]

CCSF

Name of Primary

Representative: William Gibson
Title: Utility Specialist
Address: P.O. Box 160
Moccasin, CA 95347
Email Address: wgibson@sewater.org
Phone: (209) 989-2192
Fax No: (209) 989-2045

Name of Alternative

Representative: Camron Samii
Title: Power Purchasing and Scheduling Manager
Address: P.O. Box 160
City/State/Zip Code: Moccasin, California 95347
Email Address: csamii@sewater.org
Phone: (209) 989-2191
Fax No: (209) 989-2045

CAISO

Name of Primary

Representative: Roni L. Reese
Title: Senior Contracts Analyst
Address: 151 Blue Ravine Road
City/State/Zip Code: Folsom, CA 95630
Email Address: rreese@caiso.com
Phone: (916) 608-7027
Fax No: (916) 608-7292

Name of Alternative

Representative: Philip D. Pettingill
Title: Manager of Infrastructure Policy & Contracts
Address: 151 Blue Ravine Road
City/State/Zip Code: Folsom, CA 95630
Email Address: ppettingill@caiso.com
Phone: (916) 608-7241
Fax No: (916) 608-7292

ATTACHMENT D

**CALIFORNIA INDEPENDENT SYSTEM
OPERATOR CORPORATION**

AND

CITY AND COUNTY OF SAN FRANCISCO

FIRST AMENDED AND RESTATED

**INTERIM OPERATIONS OPERATING
AGREEMENT**

Interim Operations Operating Agreement

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

(1) The San Francisco Public Utilities Commission, a department of the City and County of San Francisco, having its registered and principal place of business located at City Hall, #1 Dr. Carlton B. Goodlett Place, San Francisco, California 94102-4682 a municipal corporation, operating under the laws of the State of California ("CCSF");

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 ISOCAISO Governing Board may from time to time designate (the "ISOCAISO"), hereinafter sometimes referred to collectively as "Parties" and individually as a "Party."

Whereas:

- A.** CCSF owns and operates a number of Generating Units associated with its Hetch Hetchy Project ("Hetch Hetchy Units") interconnected to the transmission facilities of Pacific Gas and Electric Company ("PG&E"), Modesto Irrigation District ("MID"), and Turlock Irrigation District ("TID") through CCSF's 115 kV and 230 kV transmission facilities. The Hetch Hetchy Project is maintained and operated in compliance with the Raker Act. CCSF's 115 kV and 230 kV transmission facilities are an integral part of the Hetch Hetchy Project and are not part of the CAISO Controlled Grid. CCSF has not executed the Transmission Control Agreement ("TCA") with the CAISO and therefore retains all rights and obligations associated with ownership and operation of its transmission facilities.
- B.** CCSF operates under the Interconnection Agreement Betweenbetween PG&E and CCSF, Federal Energy Regulatory Commission ("FERC") Rate Schedule FERC No. 114 ("PG&E IA") and the PG&E Scheduling Coordinator Services-TariffCCSF IA".
- C.** PG&E has executed the Transmission Control Agreement ("TCA"), thereby turning over Operational Control of its transmission facilities to the ISOCAISO.
- D.** As of December 1, 2005, TID will operatehas operated within its own ControlBalancing Authority Area and MID will operateoperates within the

- Sacramento Municipal Utility District's ("SMUD") ~~Control~~Balancing Authority Area.
- E. CCSF's Electric System ~~will remain~~remains within the ~~ISO Control~~CAISO Balancing Authority Area.
- F. CCSF and the ~~ISO~~CAISO desire to (i) establish the operational and ~~settlement~~Settlement requirements under which CCSF and the ~~ISO~~CAISO will coordinate and exchange information on schedules for CCSF's transactions with TID and MID ~~and now that they are no longer in the ISO Control~~CAISO Balancing Authority Area, for ~~Schedule~~schedules that do not use the ~~ISO~~CAISO Controlled Grid; (ii) establish provisions relating to telemetry and revenue metering data applicable to CCSF's facilities; and (iii) establish provisions for scheduling and ~~settlement~~Settlement of CCSF's non-~~ISO~~CAISO Controlled Grid transactions in accordance with the Raker Act and respecting CCSF's ~~transmission ownership rights~~Transmission Ownership Rights of non-~~ISO~~CAISO Controlled Grid facilities. This Agreement is not intended to affect the scheduling, operation, assessment of charges or any other element of transactions that are currently performed using the ~~PG&E~~CCSF IA and the ~~SCS~~Tariff, whether the transactions are scheduled by PG&E, CCSF, or some other entity acting as Scheduling Coordinator for CCSF.
- G. This Agreement does not specify any special terms for the scheduling of CCSF transactions over ~~ISO~~CAISO Controlled Grid facilities; ~~all some of the~~ transactions by CCSF that use the ~~ISO~~CAISO Controlled Grid are currently scheduled under the ~~PG&E~~CCSF IA and ~~SCS~~Tariff in accordance with the ~~ISO~~CAISO Tariff.
- H. This Agreement recognizes that CCSF is a Non-Participating Transmission Owner in that CCSF owns and operates the 115kV and 230kV transmission facilities and has not executed the Transmission Control Agreement transferring Operational Control of those facilities to the CAISO. As such, the CAISO Tariff and the pending MRTU version of the CAISO Tariff provide that the rights and obligations of a Non-Participating Transmission Owner with respect to its own facilities are characterized as "Transmission Ownership Rights" ("TORs"). This Agreement is intended to form the bilateral agreement contemplated under the CAISO Tariff to uphold CCSF's TORs and to ensure reliable and economic operation of CCSF's transmission facilities within the CAISO Balancing Authority Area in conjunction with reliable and economic operation of the CAISO Controlled Grid.
- I. The ~~ISO~~CAISO has executed an Interconnected Control Area Operating Agreement ("ICAOA") with SMUD, including Amendment No. 4, and has ~~filed with FERC a proposed~~executed an ICAOA with TID.

- IJ.** Section ICAA-2.2.11 of the ISOCAISO-SMUD ICAOA, and Section ICAA-2.2.3 of the ISOCAISO-TID ICAOA define the term "Interconnection" as "Transmission Facilities that connect one control area to another control area. The Interconnection for this Operating Agreement [ICAOA] is described in Service Schedule 1 [of the ICAOA]."
- JK.** Section ICAA-5.1 of the ISOCAISO-SMUD and ISOCAISO-TID ICAOAs provides that the ISOCAISO shall coordinate and exchange information with SMUD and TID respectively on schedules and Control [Balancing Authority] Area checkouts at the Interconnection – which includes the Standiford Interconnection in the ISOCAISO-SMUD ICAOA and the Oakdale Interconnection in the ISOCAISO-TID ICAOA, and further provides that "all energy and/or capacity schedules, as well as any transmission reservation(s) to or from the [CA]ISO Control Area, over any facilities within the [CA]ISO Control Area shall be submitted via the [CA]ISO scheduling system as described in the [CA]ISO Tariff."
- KL.** CCSF has the right to provide Ancillary Services to, and to procure Ancillary Services from, entities with rights at the Standiford Interconnection and the Oakdale Interconnection.
- M.** CCSF's transmission system is interconnected with the ISOCAISO Controlled Grid at the point where CCSFPG&E's 230 kV transmission facilities physically connect with the double-circuit-230 kV transmission linefacilities of PG&E'CCSF's Warnerville Substation and the point where CCSF's 115 kV transmission facilities physically connect with PG&E's Newark Substation. This point is These points are hereinafter referred to as the "CCSF-PG&E Interconnection."
- L.N.** CCSF has not executed the Transmission Control Agreement; thus the 115 kV transmission lines between CCSF's Hetch Hetchy Units and the Standiford and Oakdale Substations and the 115 kV and 230 kV lines atbetween CCSF's Hetch Hetchy Units and the CCSF-PG&E Interconnection are resident within the ISO-ControlCAISO Balancing Authority Area but are not part of the ISOCAISO Controlled Grid (CCSF's Transmission Ownership Rights pertain to these facilities).
- M.O.** As of December 1, 2005, one point of interconnection will-existexists between CCSF's Electric System and the SMUD Control Area, the Standiford Interconnection, and one point of interconnection will-existexists between CCSF's Electric System and the TID Control Area, the Oakdale Interconnection.
- NP.** CCSF plans and operates its Electric System in accordance with the PG&ECCSF IA, which, among other things, provides for coordination to meet voltage control and transmission facility outageOutage requirements.

00. The Parties desire certainty to ensure that power transactions between CCSF's Hetch Hetchy Units in the ~~ISO Control~~ CAISO Balancing Authority Area and the Standiford and Oakdale Substations in the SMUD and TID ~~Control~~ Balancing Authority Areas, respectively, are operated and scheduled in a reliable manner, and that, to the extent applicable, charges herein are appropriately settled with the ~~ISO~~ CAISO.

NOW, THEREFORE, in consideration of the mutual covenants set forth herein,

THE PARTIES AGREE as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Master Definitions Supplement. Except as otherwise defined in Section 1.3 of this Agreement or elsewhere in this Agreement, all terms and expressions used in this Agreement with initial capitalization shall have the same meaning as those contained in the Master Definitions Supplement to the ~~ISO~~ CAISO Tariff.

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

- (a) if and to the extent a matter is specifically addressed by a provision of this Agreement, the provision of this Agreement shall govern notwithstanding any inconsistent provisions of the ~~ISO~~ CAISO Tariff;
- (b) if and to the extent this Agreement provides that a matter shall be determined in accordance with the applicable provisions of the ~~ISO~~ CAISO Tariff, the applicable provisions of the ~~ISO~~ CAISO Tariff shall govern;
- (c) the singular shall include the plural and vice versa;
- (d) the masculine shall include the feminine and neutral and vice versa;
- (e) "includes" or "including" shall mean "including without limitation";
- (f) references to a Section or Schedule shall mean a Section or a Schedule of this Agreement, as the case may be, unless the context otherwise requires;
- (g) 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;
- (h) 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;
- (i) 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;

- (j) unless the context otherwise requires, any reference to a Party includes a reference to its permitted successors and assigns;
- (k) any reference to a day, week, month or year is to a calendar day, week, month or year; and
- (l) 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.

1.3 Special Agreement Definitions. In addition to terms defined in the beginning of this Agreement and in Section 1.1 of this Agreement, for purposes of this Agreement the following terms shall have the meanings set forth below.

“Balancing Authority” means the responsible entity that integrates resource plans ahead of time, maintains load-interchange-generation balance within a Balancing Authority Area, and supports Interconnection frequency in real time.

“Balancing Authority Area” means the collection of generation, transmission, and loads within the metered boundaries of the Balancing Authority. The Balancing Authority maintains load-resource balance within this area.

“CAISO Tariff” means the transmission tariff of the CAISO on file with the Federal Energy Regulatory Commission as it may be amended from time to time, specifically including changes to the CAISO Tariff to implement MRTU as may be approved by FERC in FERC Docket Nos. ER06-615, ER07-1257, and other dockets related to MRTU.

“Electric System” means 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.

“Hetch Hetchy Project” means the hydroelectric generating facilities in the Tuolumne River watershed and associated transmission facilities owned by CCSF, as now developed or as may be developed in the future, which are

subject to the Raker Act.

“Hetch Hetchy Project Transmission Ownership Rights” or “HH TOR”
represents CCSF’s transmission capacity on the Hetch Hetchy Project
transmission facilities as detailed in Schedule 1, and all other attendant
ownership rights including but not limited to the rights of CCSF to exercise
operational control over its facilities and to determine the manner in which its
facilities are used.

“MRTU” means the CAISO's Market Redesign and Technology Upgrade project,
the implementation of which is the subject of FERC Docket Nos. ER06-615,
ER07-1257 and related dockets.

“Oakdale Interconnection” means the interconnection of the TID and ISO-
~~Control~~CAISO Balancing Authority Areas, which consists of a physical point of
interconnection at the points where CCSF’s TID 115 kV tap line sections connect
~~CCSF’s Moccasin-Newark 115 kV Lines #3 and #4, respectively, to~~
interconnect with the Turlock 115 kV bus at the Oakdale Switchyard as shown in
Service Schedule 1 to the ISO-TID ICAOA. ~~There is currently some question~~
~~between CCSF and TID over the ownership of the tap lines off of the Moccasin-~~
~~Newark 115 kV Lines # 3 and #4.~~CAISO-TID ICAOA.

“Raker Act” means that act of Congress, 38 Stat. 242 (1913), which, in part,
grants CCSF the rights to own and operate the Hetch Hetchy Project.

“SC Transition Date” means ~~December 30, 2005 or such date as CCSF~~
~~transitions to a Scheduling Coordinator other than PG&E.~~September 1, 2006.

“Standiford Interconnection” means the interconnection of the SMUD and ISO-
~~Control~~CAISO Balancing Authority Areas which consists of a physical point of
interconnection at disconnect switches 907C, 903C, 904C and 908C at the
Standiford Substation, as shown in Service Schedule 1 to the ISOCAISO-SMUD
ICAOA. Breakers 903 and 904 are and will be open breakers, and if this
configuration is proposed to be changed, the ISOCAISO, CCSF, and SMUD will
confer and agree on any change to the Interconnection point in advance of the
change in this configuration.

“WECC RMSTransmission Control Agreement” (“TCA”) means the Reliability-
Management System Agreementagreement between the WECC and the ISO-
requiring the ISO to comply with the reliability criteria contained in the WECC-
Reliability Criteria Agreement, as suchCAISO and Participating TOs establishing
the terms and conditions under which transmission owners will become

Participating TOs and how the CAISO and each Participating TO will discharge their respective duties and responsibilities, as may be amended/modified from time to time.

2. SCOPE OF AGREEMENT

This Agreement governs the operational relationship between the ISOCAISO and CCSF with respect to CCSF's power transactions that are delivered to the SMUD Control/CCSF-PG&E Interconnection, that are delivered to, or received from, the SMUD Balancing Authority Area at the Standiford Interconnection and that are delivered to, or received from, the TID Control/Balancing Authority Area at the Oakdale Interconnection over transmission facilities that are not part of the ISOCAISO Controlled Grid, as detailed in Schedule 4-1, both under the pre-MRTU and post-MRTU versions of the CAISO Tariff. For reliable operation of the Control/CAISO Balancing Authority Area, the ISOCAISO requires a Scheduling Coordinator to provide schedules/Bids or Self-Schedules to the ISOCAISO, and CCSF shall ensure the utilization of a Scheduling Coordinator for this function. This Agreement also addresses the creation of a logical meter arrangement that would ~~become~~became effective on the SC Transition Date.

3. TERM AND TERMINATION

3.1 Term. This Agreement shall be effective as of the later of i) December 1, 2005, or ii) the date this Agreement is accepted for filing and made effective by FERC and shall continue in effect until terminated.

3.2 Termination. This Agreement will terminate at the earliest of:

- ~~(a) Two (2) years after the effective date of this Agreement;~~
- (a) July 1, 2015;
- (b) CCSF executes the TCA;
- (c) CCSF becomes a Metered Subsystem, provided that the ISOCAISO has been provided with 45 days advance written notice;
- (d) CCSF's Electric System is resident in a Control/Balancing Authority Area other than that of the ISOCAISO provided the ISOCAISO has been provided with 45 days advance written notice; or
- (d) six months after mutual agreement of the Parties.

With respect to any notice of termination given pursuant to this Section, the ISOCAISO must file a timely notice of termination with FERC, if this Agreement was filed with FERC, or must otherwise comply with the requirements of FERC Order No. 2001 and related FERC orders. The filing of the notice of termination

by the ISOCAISO with FERC will be considered timely if (1) the filing of the notice of termination is made after the preconditions for termination have been met, or (2) ~~the ISOCAISO files the notice of termination within sixty (60) days after issuance of the notice of default in accordance with the requirements of FERC Order No. 2001.~~ This Agreement shall terminate upon acceptance by FERC of such a notice of termination, if filed with FERC, or thirty (30) days after the date of the ISOCAISO's notice of default termination, if terminated in accordance with the requirements of FERC Order No. 2001 and related FERC orders. Any termination by CCSF upon 45 days prior notice to the ISOCAISO shall relieve CCSF of its obligation and cause CCSF to forego its rights herein as of the termination effective date, regardless of action or inaction by the ISOCAISO or FERC, provided that CCSF shall cease taking any service provided under this Agreement by the ISOCAISO as of the effective date of its termination, ~~and provided further that any.~~ Any outstanding charges or settlements that arose under this Agreement shall survive until they are satisfied.

4. OPERATING REQUIREMENTS

4.1 CCSF Transactions Directly ~~to~~with Other ControlBalancing Authority Areas. Hetch-Hetchy Project's associated transmission facilities will be used to export Energy ~~to~~and/or Ancillary Services to, and import Energy and/or Ancillary Services from the SMUD and TID ControlBalancing Authority Areas. For ~~settlement~~Settlement treatment in accordance with Section 6.3 of this Agreement, the following transactions are delivered to MID at the Standiford Interconnection and to TID at the Oakdale Interconnection and do not use the ISOCAISO Controlled Grid:

4.1.1 Transactions from the Hetch Hetchy Units to MID. CCSF shall ~~have~~scheduled~~schedule~~ in the ISOCAISO's scheduling system ("SI" or "SIBR") and the ISOCAISO will implement the scheduling of all Energy transactions from CCSF's Hetch Hetchy Units to MID in the SMUD ControlBalancing Authority Area using CCSF's transmission facilities; provided, however, interchange schedules may be adjusted in real time by direct communication between the CAISO and MID real time schedulers, as necessary to coordinate dispatch of energy on the Standiford Interconnection, associated with the Ancillary Services schedules referenced in Section 4.1.3, below.

4.1.2 Transactions from the Hetch Hetchy Units to TID. CCSF shall ~~have~~scheduled~~schedule~~ in the ISOCAISO's scheduling system ("SI" or "SIBR") and the ISOCAISO will implement the scheduling of all Energy transactions from CCSF's Hetch Hetchy Units to the TID ControlBalancing Authority Area using CCSF's transmission facilities; provided, however, interchange schedules may be adjusted in real time by direct communication between the CAISO and TID real time schedulers, as necessary to coordinate dispatch of energy on the Oakdale

Interconnection, associated with the Ancillary Services schedules
referenced in Section 4.1.3, below.

4.1.3 Exports of Ancillary Services. CAISO will accommodate CCSF's export of Ancillary Services to MID and TID through implementation of a manual process, provided the CAISO continues to receive information from CCSF, MID and TID as reasonably necessary to do so.

4.1.4 Imports from MID at Standiford. CCSF shall schedule in the CAISO's scheduling system ("SI" or "SIBR") and the CAISO will implement the scheduling of all Energy and Ancillary Services imports at the Standiford Interconnection using CCSF's Transmission Ownership Rights, subject to Section 7.3 of this Agreement.

4.1.5 Imports from TID at Oakdale. CCSF shall schedule in the CAISO's scheduling system ("SI" or "SIBR") and the CAISO will implement the scheduling of all Energy and Ancillary Services imports at the Oakdale Interconnection using CCSF's Transmission Ownership Rights, subject to Section 7.3 of this Agreement.

4.2 Emergencies. The ISO provision attached to this Agreement as Schedule 3 shall be effective from December 1, 2005 until November 30, 2007. The following provision and its subsections shall be effective as of December 1, 2007.

The CAISO shall in the event of, and for the duration of, a System Emergency or as a result of Uncontrollable Force, take such immediate action in accordance with Good Utility Practice as the ISO/CAISO determines necessary to mitigate or eliminate the System Emergency or Uncontrollable Force, subject to Section 4.2.1 of this Agreement. Such action may include or result in, without limitation, curtailments in accordance with Section 5.6 of the ISO Tariff, and directing the operation of CCSF facilities in a manner that is reasonable and practical under the circumstances, the CAISO Tariff as limited by Section 4.2.1 of this Agreement. CCSF shall be compensated by the CAISO for Energy provided pursuant to this Section 4.2 as described in Section 4.2.2 of this Agreement.

4.2.1 Energy Dispatch. Hetch Hetchy Project generation shall not be dispatched to provide Energy unless: (1) a system contingency occurs that requires the Dispatch of Energy from Hetch Hetchy Project Operating Reserves to meet applicable WECC Minimum Operating Reliability Criteria; or (2) a Stage Three System Emergency is imminent, thereby requiring the Dispatch of Hetch Hetchy Project generation to prevent involuntary Load curtailments. Hetch Hetchy Project generation shall be dispatched under these circumstances only after the CAISO has made best efforts to dispatch all other sources of Operating Reserves. Further, any Dispatch of Hetch Hetchy Project generation will be subject to the

Hetch Hetchy Project's electrical supply, water supply, water quality, and operational constraints. In the event that Hetch Hetchy Project Energy is dispatched to address one of these events, CCSF may assign any resulting positive imbalance Energy to its Balancing Account Counterparty, pursuant to Section 6.5 of this Agreement.

4.2.2 Compensation. CCSF will be compensated for the Energy pursuant to Section 4.2.1 for each Settlement Interval at the higher of: 1) the Resource-Specific Settlement Interval LMP, 2) the Energy Bid price, if applicable, or 3) the "Negotiated Opportunity Cost Proxy Price" described below.

The Negotiated Opportunity Cost Proxy Price is the product of a heat rate of 15,000 MMBTU/MWh and the Applicable Fuel Price for the Trading Day, plus \$5/MWh for variable operations and maintenance ("O&M") costs. For each emergency Dispatch pursuant to Section 4.2.1, CAISO shall pay to CCSF \$900 to cover administrative costs related to providing emergency assistance to the CAISO. The Applicable Fuel Price shall be the same for each hour of a given day and is calculated as the Commodity Price (\$/MMBTU) plus Intrastate Transportation Rate (\$/MMBTU), where the Commodity Price shall be the product of 1.02 and the Gas Daily, PG&E Citygate Index (midpoint). The index to be used for each Settlement Interval in a given day is shown in the table below. Where more than one day's index is shown for a Trading Day, the average of the two daily indices should be used. If an applicable index for a day, which is used to compute the index average for a Trading Day, is not published, then that index will not be used to compute the Commodity Price for that trading day. If no index for a day is published, then the average of applicable index on the Index Publication Date preceding and the Index Publication Date following such day will be substituted for the Index Publication Date index for that day in the table below. In the event that an index ceases to be published, Parties shall agree on a replacement index. The Intrastate Transportation Rate shall be the PG&E intrastate transportation rate charge stated in PG&E Rate Schedule G-EG, or any successor rate for electric generation service divided by one minus the applicable in-kind shrinkage allowance, if any.

Natural Gas Price Index

Index Publication Date*

<u>Trading Day</u>	<u>Gas Daily **</u>
<u>Tuesday</u>	<u>Tuesday/Wednesday</u>
<u>Wednesday</u>	<u>Wednesday/Thursday</u>
<u>Thursday</u>	<u>Thursday/Friday</u>
<u>Friday</u>	<u>Friday/Monday</u>
<u>Saturday</u>	<u>Monday/Tuesday</u>
<u>Sunday</u>	<u>Monday/Tuesday</u>
<u>Monday</u>	<u>Monday/Tuesday</u>

* The Index Publication Date is the date of the publication which contains the prices for the applicable Trading Day.

** Where more than one day's index is shown for a Trading Day, the average of the two daily indices should be used. The "Flow Date(s)" column should match the Trading Day.

- 4.3 Voltage Control and Reactive Support.** CCSF or its operating agent shall make available the necessary status and telemetry information to the ISO and shall, to the extent that such directions do not conflict with the requirements of the PG&E CCSF IA, and operate under the direction of the ISO the associated voltage control and reactive facilities on its portion of CCSF's Electric System to meet voltage control standards under Applicable Reliability Criteria and the ISO Tariff the CCSF IA. The ISO CAISO shall coordinate and direct the use of the available voltage control and reactive support devices to maintain the reliable operation of the CCSF Electric System and the ISO Control CAISO Balancing Authority Area in accordance with Good Utility Practice.
- 4.4 Coordination of Operations:** CCSF will act in coordination with PG&E, in accordance with the all the operational requirements of the PG&E CCSF IA, including outage Outage coordination, Load shedding Shedding and Load restoration.
- 4.5 Telemetry and Revenue Metering.** As of the effective date of this Agreement, CCSF has elected not to enter into arrangements with the ISO CAISO for the participation of its Hetch Hetchy Units in the ISO CAISO's markets or other arrangements that would require telemetry and revenue metering for the Hetch Hetchy Units in accordance with the provisions of the ISO CAISO Tariff. However, CCSF agrees to provide telemetry and revenue metering data from the Hetch Hetchy Units to the ISO CAISO in accordance with this Section 4.5. CCSF agrees to maintain in effect arrangements for telemetry from the Hetch Hetchy

Units to the ISOCAISO's EMS system to provide real-time data from the Hetch Hetchy Units to the ISOCAISO, provided that the specific nature and extent of the telemetry arrangements and real-time data points will be as mutually agreed by ISOCAISO and CCSF representatives consistent with the telemetry arrangements in place on the effective date of this Agreement. The rights and obligations of the Parties with respect to revenue metering for the Hetch Hetchy Units shall be subject to the provisions of the ISOCAISO Tariff applicable to the Scheduling Coordinator for CCSF's transactions as an SC Metered Entity, taking into account the provisions of Section 6.4.6.4 of this Agreement. CCSF shall have the ability to aggregate the Hetch Hetchy Units for purposes of provision of telemetry and revenue metering data as a single unit, or in a manner agreed between CCSF and the ISOCAISO.

4.6 Real Time Operating Limits. The real time operating limits for the CCSF-PG&E Interconnection, the Oakdale Interconnection and the Standiford Interconnection will be specified in the Transmission Rights and Transmission Curtailment ("TRTC") Instructions provided by CCSF to the CAISO. As of the effective date of this Agreement, the thermal limits at these interconnections are as shown in Schedule 2. CCSF may schedule or have scheduled up to the total Intertie operating limits between the CAISO Balancing Authority Area and the SMUD and TID Balancing Authority Areas at the Standiford Interconnection and the Oakdale Interconnection, respectively, as those limits are determined from time to time in accordance with applicable agreements as described below. Any disagreement related to TRTC Instructions using CCSF's Existing Contract transmission rights at the CCSF-PG&E Interconnection will be resolved pursuant to the CCSF IA as an Existing Contract in accordance with the CAISO Tariff. Any disagreement related to TRTC Instructions with respect to real time operating limits for the Standiford Interconnection and the Oakdale Interconnection will be resolved in accordance with this Agreement, the ICAOA between the CAISO and SMUD, the ICAOA between the CAISO and TID, and the CCSF TRTC Instructions. The CAISO will work with CCSF, TID, MID, SMUD and PG&E, as needed, if the thermal limits identified in Schedule 2 of this Agreement require further information or action by those entities.

4.7 Transmission Rights and Transmission Curtailment Instructions. CCSF shall provide TRTC Instructions to the CAISO for its Hetch Hetchy Project facilities pursuant to Section 17.1 of the CAISO Tariff. The CAISO will honor the TRTC Instructions provided by CCSF consistent with the HH TOR rights described and referenced in this Agreement and Section 17.1 of the CAISO Tariff.

4.7.1 Treatment of Losses. As contemplated by Section 17.3.3(2) of the CAISO Tariff, CCSF may in the future propose a specific loss percentage for the Hetch Hetchy Project. In the event the CAISO does not agree with CCSF's specific loss percentage, the Parties shall negotiate in good faith for a period of at least ninety (90) days in an effort to reach resolution. If

the Parties are unable to reach resolution on the specific loss percentage, the matter shall be resolved in accordance with Section 8 of this Agreement. Nothing in this Section 4.7 shall be considered a waiver of CCSF's objections filed with FERC regarding the assessment or allocation of losses to transactions occurring under this Agreement, or to any of FERC's orders on such objections.

5. RELIABILITY MANAGEMENT SYSTEM STANDARDS

5.1- Purpose. ~~In order to maintain the reliable operation of the transmission grid, the WECC RMS Agreement provides for commitment by transmission operators to comply with WECC standards that result in the reliable operation of the western interconnection, and the WECC Reliability Criteria Agreement sets forth reliability criteria adopted by the WECC with which the ISO shall be required to comply.~~ **CCSF Reliability Standards Compliance.** CCSF represents and warrants that it complies with the applicable WECC reliability standards, pursuant to Section 9620 of the California Public Utilities Code and the CCSF IA. CCSF will continue to comply with applicable WECC reliability standards as they may be modified from time to time, and to provide CAISO with non-confidential information demonstrating such compliance. However, aside from the right to receive such non-confidential information, this Agreement will not alter, enlarge, enhance or otherwise modify any CAISO right (if such right now exists) to enforce such requirements against or upon CCSF beyond such right as CAISO may currently possess outside this Agreement, or which it may receive from WECC in future. Unless expressly provided otherwise by written agreement between the CAISO and CCSF, CCSF will be responsible for payment directly to the WECC of any monetary sanction assessed against CCSF by the WECC with respect to CCSF's compliance with the WECC reliability standards. The CAISO and CCSF will enter into an agreement as appropriate to satisfy CCSF's reliability standards compliance responsibilities consistent with WECC requirements.

5.2 Compliance. ~~The WECC requirements provide that both transmission paths and generators comply with the program.~~

5.2.1 Generating Unit Performance Standard. ~~CCSF shall, in relation to each of its Generating Units, meet all applicable WECC standards including any standards regarding governor response capabilities, use of power system stabilizers, voltage control capabilities and hourly Energy delivery. CCSF shall operate under the voltage schedules issued by the ISO from time to time, to the extent that such directions do not conflict with the requirements of the PG&E IA.~~

5.2.2 Generating Unit Reliability Criteria. ~~CCSF shall comply with the requirements of the WECC Reliability Criteria Agreement, including the applicable WECC Reliability Criteria set forth in Section IV of Annex A thereof. In the event that CCSF fails to comply, it will be subject to the~~

~~sanctions applicable to such failure. Such sanctions shall be assessed pursuant to the procedures contained in the WECC Reliability Criteria Agreement. Each and all of the provisions of the WECC Reliability Criteria Agreement are hereby incorporated by reference into this Section 5.2.2 as though set forth fully herein, and CCSF shall for all purposes be considered Participants as defined in that agreement, and shall be subject to all of the obligations of Participants, under and in connection with the WECC Reliability Criteria Agreement. CCSF shall copy the ISO on all reports supplied to the WECC in accordance with Section IV of Annex A of the WECC Reliability Criteria Agreement.~~

~~**5.2.3 Generating Unit Payment of Sanctions.** CCSF shall be responsible for payment directly to the WECC of any monetary sanction assessed against CCSF by the WECC pursuant to the WECC Reliability Criteria Agreement. Any such payment shall be made pursuant to the procedures specified in the WECC Reliability Criteria Agreement.~~

~~**5.3 Publication.** CCSF hereby provides consent to the release by the WECC of information related to CCSF's compliance with this Agreement only in accordance with the WECC Reliability Criteria Agreement.~~

~~**5.4 Reserved Rights.** Nothing in the WECC RMS Agreement or the WECC Reliability Criteria Agreement shall affect the right of the ISO, subject to any necessary regulatory approval, to take such other measures to maintain reliability, which the ISO may otherwise be entitled to take.~~

6. COSTS, CHARGES AND PAYMENT

6.1 Operating and Maintenance Costs. CCSF shall be responsible for all its costs incurred in connection with operating and maintaining its Electric System. The CAISO shall not be responsible for paying any operating and maintenance charges from CCSF for costs so incurred.

6.2 Charges Not Generally Affected. Nothing in this Agreement is intended to affect the rates and charges paid by transmission service customers of the ISOCAISO for use of the ISOCAISO Controlled Grid. Customers of the ISOCAISO using the ISOCAISO's markets or the ISOCAISO Controlled Grid shall pay rates and charges in accordance with the ISOCAISO Tariff.

6.3 Pre-MRTU Charges for Non-ISOCAISO Controlled Grid Facilities. If Prior to the effective date of the MRTU version of the CAISO Tariff, if a Scheduling Coordinator for CCSF transactions from the Hetch Hetchy Units schedules transactions from the ISO Control CAISO Balancing Authority Area which do not use the ISOCAISO Controlled Grid, then that Scheduling Coordinator shall be responsible for procuring or self-providing: (1) Ancillary Services consistent with the requirements of the ISOCAISO Tariff; (2) Imbalance Energy; and (3) losses

consistent with the requirements of the ISOCAISO Tariff. For the transactions scheduled under this Agreement, the ISOCAISO shall apply charges for Ancillary Services, Imbalance Energy, and losses, but only to the extent that such services and losses are not self-provided by the Scheduling Coordinator for the transactions. In addition, the ISOCAISO will charge the Grid Management Charge to these transactions in accordance with the ISOCAISO Tariff. The ISOCAISO shall not charge the responsible Scheduling Coordinator for any other charge types outside of this Section 6.3, if such transactions do not use the ISOCAISO Controlled Grid.

6.4 CCSF Balancing Account. Post-MRTU Charges for Transmission Ownership Rights. On and after the effective date of the MRTU version of the CAISO Tariff, if a Scheduling Coordinator for CCSF transactions from the Hetch Hetchy Units submits Bids, or Self-Schedules, for transactions from the CAISO Balancing Authority Area which do not use the CAISO Controlled Grid, then that Scheduling Coordinator shall be responsible for procuring or self-providing: (1) Ancillary Services consistent with the requirements of the CAISO Tariff; (2) Imbalance Energy; and (3) losses consistent with the requirements of the CAISO Tariff and this Agreement. For the transactions using Transmission Ownership Rights submitted as Self-Schedules under this Agreement, the CAISO shall: apply charges for Ancillary Services, Imbalance Energy and Transmission Losses only to the extent they are not self-provided; and will not assess charges for neutrality, UFE, transmission Access Charges, Minimum Load Costs or other charges that might otherwise be applicable to the Demand or exports served solely over CCSF's HH TOR. In addition, the CAISO will charge the Grid Management Charge to these transactions in accordance with the CAISO Tariff. CCSF reserves the right to address cost causation issues in the CAISO filing required to determine the post-MRTU Grid Management Charge. The CAISO shall not charge the responsible Scheduling Coordinator for any other Charge Codes outside of this Section 6.4, if such transactions do not use the CAISO Controlled Grid.

6.5 CCSF Balancing Account. In recognition of the provisions of the Raker Act and the PG&E CCSF IA, CCSF shall have the right to enter into an arrangement with PG&E or a third party, to be effective by the SC Transition Date, ("Balancing Account Counterparty") for a balancing account for the purpose of assuring that power from the Hetch Hetchy Units is not delivered in contravention of the Raker Act or the PG&E IA ("Balancing Account Counterparty") CCSF IA. CCSF's arrangements with the Balancing Account Counterparty for this CCSF balancing account, and the ISOCAISO's implementation of this CCSF balancing account, shall have the following provisions. CCSF shall have the right to report its Meter Data for scheduled Generation and Load using logical generation Generation and/or load Load meters. CCSF shall determine the amount of energy Energy to report to the ISOCAISO using a combination of the CCSF portfolio logical generation Generation and load Load meters and the Balancing Account Counterparty logical generation Generation and load Load meters. The logical

meter amounts reported for each meter must be greater than or equal to zero and must be equal in aggregate to the CCSF actual physical generation Generation and load Load meter amounts.

6.56.6 Payment. All payments to the ISO CAISO or CCSF will be made by or to CCSF's Scheduling Coordinator in accordance with the Settlement and Billing Protocol and the ISO Tariff, Scheduling Coordinator Agreement, this Agreement, and Section 11 of the CAISO Tariff. Nothing in this Section 6.6 shall be construed to limit CCSF's Scheduling Coordinator's obligations under its Scheduling Coordinator Agreement with the CAISO.

7. SCHEDULING

7.1 Scheduling. CCSF or its designee shall act as the Scheduling Coordinator for CCSF's rights described in this Agreement. Scheduling of all transactions using CCSF's rights in Section 4.1 of this Agreement shall be performed by CCSF's Scheduling Coordinator, including TOR Self-Schedules, in accordance with the Scheduling Coordinator Agreement and the bidding and scheduling provisions of the ISO Tariff, the ISO Scheduling Protocols, and other ISO procedures and time-lines. CCSF or its designee shall act as the Scheduling Coordinator for CCSF's rights CAISO Tariff; provided, however, CCSF's Scheduling Coordinator shall be entitled to all related rights under this Agreement, and CCSF shall have post-HASP scheduling rights on the two non-CAISO Controlled Grid Interties at the Standiford Interconnection and the Oakdale Interconnection associated with CCSF's Hetch Hetchy Transmission Ownership Rights. Nothing in this Section 7.1 shall be considered a waiver of CCSF's objections filed with FERC in ER06-615.

7.2 Scheduling Points. The CAISO will establish Scheduling Points and PNodes at the Oakdale Interconnection and the Standiford Interconnection, as well as PNodes at the CCSF-PG&E Interconnection, for post-MRTU transactions using CCSF's rights under this Agreement and operating limits identified in Schedule 2 of this Agreement.

7.3 No Use of CCSF Facilities by Others: Nothing in this Agreement will allow use of CCSF-owned facilities not turned over to ISO CAISO Operational Control by any other entity, without the express consent of CCSF. The ISO CAISO will only accept schedules Bids or Self-Schedules at the Oakdale and Interconnection, the Standiford Interties Interconnection, or the CCSF-PG&E Interconnection from CCSF's designated Scheduling Coordinator or from the designated Scheduling Coordinator of either MID or TID. Nothing in this provision is intended to alter, modify, enlarge, reduce, or otherwise affect any rights MID or TID may have pursuant to other agreements or arrangements to schedule across the CCSF-

PG&E Interconnection. CCSF's ETC rights to schedule across the CCSF-PG&E Interconnection are identified in the CCSF IA.

8. DISPUTE RESOLUTION

8.1 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 ISOCAISO ADR Procedures set forth in Section 13 of the ISOCAISO Tariff, which is incorporated by reference, except that any reference in Section 13 of the ISOCAISO Tariff to Market Participants shall be read as a reference to CCSF and references to the ISOCAISO Tariff shall be read as references to this Agreement.

9. LIABILITY

9.1 Liability. The provisions of Section 14 of the ISOCAISO Tariff will apply to liability arising under this Agreement, except that all references in Section 14 of the ISOCAISO Tariff to Market Participants shall be read as references to the Scheduling Coordinator for CCSF and references to the ISOCAISO Tariff shall be read as references to this Agreement.

10. UNCONTROLLABLE FORCES

10.1 Uncontrollable Forces. Section 4514.1 of the ISOCAISO Tariff shall be incorporated by reference into this Agreement except that all references in Section 4514.1 of the ISOCAISO Tariff to Market Participants shall be read as a reference to CCSF and references to the ISOCAISO Tariff shall be read as references to this Agreement.

11. NO DEDICATION OF FACILITIES

11.1 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 CCSF's facilities 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. CCSF's facilities shall at all times be, and remain, in the exclusive ownership, possession, and control of CCSF or such other entity as CCSF, in its sole judgment, may specify, and nothing in this Agreement shall be construed to give any other Party any right of ownership, possession or control of such Electric System.

12. REGULATORY AUTHORITY

12.1 FERC Jurisdiction. This Agreement is subject to acceptance for filing by, and with respect to the ~~ISO~~CAISO, the regulatory jurisdiction of, FERC.

12.2 Changes in Rates. Nothing contained herein shall be construed as affecting in any way the right of a Party furnishing services in accordance with this Agreement unilaterally to make application to FERC for a change in rates presently included in ~~Section 6~~Sections 6.3 and 6.4 of this Agreement, under Section 205 of the Federal Power Act and pursuant to the FERC's Rules and Regulations ~~promulgate~~promulgated thereunder, nor shall it affect the right of any Party taking service under this Agreement to file a complaint under Section 206 of the Federal Power Act. The standard of review FERC shall apply when acting on proposed modifications of the rates included in Section 6.3 and 6.4 of this Agreement, either on FERC's own motion or on behalf of a signatory or non-signatory, shall be the "just and reasonable" standard of review rather than the "public interest" standard of review. The term "rates" as used herein shall mean a statement of electric services provided in accordance with this Agreement~~the CAISO Tariff~~, rates and charges for, or in accordance with, those services, and all classifications, practices, rules, regulations, or contracts which in any manner affect or relate to such services, rates and charges. ~~A change in rates may include, but not be limited to, changes in rates, charges and the underlying methodology by which such rates and charges are developed. A change in rates shall not include changes to the terms and conditions of this Agreement;~~ provided, however, the definition of "rates" shall not, for this purpose, include additions to the list of CAISO Tariff charges specifically set forth in Sections 6.3 and 6.4 of this Agreement, which list of CAISO Tariff charges shall be considered a term or condition of this Agreement. Nothing contained herein shall be construed as affecting in any way the right of the CAISO unilaterally to make application for an amendment to the CAISO Tariff to the Federal Energy Regulatory Commission under Section 205 of the Federal Power Act and pursuant to FERC's Rules and Regulations promulgated thereunder.

13. MISCELLANEOUS

13.1 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 ~~4722.2~~ of the ~~ISO~~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.

13.2 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 ~~20-122.4~~ of the ~~ISO~~CAISO Tariff, provided that any reference therein to the ~~ISO~~CAISO Tariff or to Market Participant shall be understood to mean this Agreement or CCSF, respectively; 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 34 of this Agreement as information changes. Such changes shall not constitute an amendment to this Agreement.

13.3 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.

13.4 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 legal action or proceeding arising under or relating to this Agreement to which the ISOCAISO ADR Procedures do not apply, shall be brought in any of the following forums, as appropriate: any court of the State of California, any federal court of the United States of America located in the State of California, or, where subject to its jurisdiction, before the Federal Energy Regulatory Commission.

13.5 Consistency with Federal Laws and Regulations. This Agreement shall incorporate by reference Section 20.822.9 of the ISOCAISO Tariff as if the references to the ISOCAISO Tariff were referring to this Agreement.

13.6 Merger. This Agreement constitutes the complete and final agreement of the Parties with respect to the subject matter hereto~~hereto~~hereof and supersedes all prior agreements, whether written or oral, with respect to such subject matter.

13.7 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.

13.8 Amendments. 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. ~~If the amendment does not require FERC approval, the amendment will be filed with FERC for information.~~

13.9 Settlement. This Agreement is a settlement of FERC Docket No. ER06-227-000. Nothing in this Agreement shall be construed as waiving, modifying or withdrawing any position taken to date by either Party in any other pending FERC docket related to the rates, terms and conditions of the pre-MRTU or post-MRTU versions of the CAISO Tariff, whether before FERC or in any petition for review of such FERC orders by a court. Each Party remains free to pursue such positions as it deems appropriate.

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

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their respective authorized officials.

California Independent System Operator Corporation:

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

City and County of San Francisco:

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

Susan Leal
General Manager,
San Francisco Public Utilities Commission
1155 Market Street, 11th Floor
San Francisco, 94103

APPROVED AS TO FORM:

DENNIS J. HERRERA
CITY ATTORNEY

Deputy City Attorney

SCHEDULE 1

~~CCSF's Intertie Operating Limits~~

~~[Section 2]~~

~~CCSF may schedule or have scheduled up to the total intertie operating limits from the ISO Control Area to the SMUD and TID Control Areas at the Standiford and Oakdale Interconnections, as those limits are determined from time to time.~~

SCHEDULE 1

SCHEDULE 1 – CCSF's Hetch Hetchy Project Facilities

[Section 2]

REDACTED

PURSUANT

TO

18 C.F.R. § 388.112

SCHEDULE 2
CCSF's Interconnection Operating Limits
[Section 4.6]

REDACTED

PURSUANT

TO

18 C.F.R. § 388.112

SCHEDULE 3

Emergencies Provision

[Section 4.2]

4.2 Emergencies. The CAISO shall in the event of, and for the duration of, a System Emergency or as a result of Uncontrollable Force, take such immediate action in accordance with Good Utility Practice as the CAISO determines necessary to mitigate or eliminate the System Emergency or Uncontrollable

Issued By: Charles A. King, PE, Vice President of Market Development Effective: December 1, 2005
and Program Management
Issued On: December 11, 2007

Force. Such action may include or result in, without limitation, curtailments in accordance with Section 5.6 of the CAISO Tariff, and directing the operation of CCSF facilities in a manner that is reasonable and practical under the circumstances.

SCHEDULE 4

NOTICES

[Section 13.2]

CCSF

Name of Primary

Representative: ~~Sandra Rovetti~~William Gibson
Title: ~~Retail Services Manager~~Utility Specialist
Address: ~~1155 Market Street, 4th Floor~~P.O. Box 160
City/State/Zip Code: ~~San Francisco, California 94103~~
Moccasin, CA 95347
Email Address: ~~srovetti~~wgibson@sfwater.org
Phone: ~~(415209) 554-3179~~989-2192
Fax No: ~~(415209) 554-1854~~989-2045

Name of Alternative

Representative: Camron Samii
Title: Power Purchasing and Scheduling Manager
Address: P.O. Box 160
City/State/Zip Code: Moccasin, California 95347
Email Address: csamii@sfwater.org
Phone: (209) 989-2191
Fax No: (209) 989-2045

ISO

CAISO

Name of Primary

Representative: Michael D. Dozier Roni L. Reese

Title: LeadSenior Contracts Negotiator Analyst

Address: 151 Blue Ravine Road____

City/State/Zip Code: Folsom, CA 95630

Email Address: mdozier_rreese@caiso.com_____

Phone: (916) 608-57087027

Fax No: (916) 351-2487608-7292

Name of Alternative

Representative: Philip D. Pettingill

Title: Manager of Infrastructure Policy & Contracts-
Negotiation

Address: 151 Blue Ravine Road

City/State/Zip Code: Folsom, CA 95630

Email Address: ppettingill@caiso.com

Phone: (916) 608-7241

Fax No: (916) 351-2264608-7292

Document comparison done by Workshare DeltaView on Tuesday, December 11, 2007
 1:41:12 PM

Input:	
Document 1	interwovenSite://IWDMSWDC01/LEGAL02/30623010/1
Document 2	interwovenSite://IWDMSWDC01/LEGAL02/30632972/1
Rendering set	standard

Legend:	
<u>Insertion</u>	
Deletion	
Moved from	
<u>Moved to</u>	
Style change	
Format change	
Moved deletion	
Inserted cell	
Deleted cell	
Moved cell	
Split/Merged cell	
Padding cell	

Statistics:	
	Count
Insertions	412
Deletions	268
Moved from	7
Moved to	7
Style change	0
Format changed	0
Total changes	694

ATTACHMENT E

**FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, DC 20426**

DRAFT

_____, 2008

In Reply Refer To:
California Independent System
Operator Corporation
Docket No. ER06-227-000

Attn: Sean A. Atkins
Counsel for the California Independent
System Operator Corporation
Alston & Bird LLP
The Atlantic Building
950 F Street, NW
Washington, DC 20004

Dear Mr. Atkins:

On December 11, 2007, you filed an Offer of Settlement in Docket No. ER06-227-000 on behalf of the California Independent System Operator Corporation and the City and County of San Francisco. Comments in this proceeding were filed by _____ on _____, 2007. Reply comments were filed by _____ on _____, 2008. On _____, 2008, Judge Karen V. Johnson, settlement judge for the proceeding, certified the Offer of Settlement to the Commission.

The subject Offer of Settlement is in the public interest and is hereby accepted. The Commission's acceptance of this Offer of Settlement does not constitute approval of, or precedent regarding, any principle or issue in this proceeding. The Commission retains the right to investigate the rates, terms and conditions under the just and reasonable and not unduly discriminatory or preferential standard of Section 206 of the Federal Power Act, 16 U.S.C. § 824e.

By direction of the Commission.

Secretary

Enclosure

cc: To All Parties