

Carbon Monoxide Fee Savings =

$$4.76 \times 10^{-7} * \text{Gas Fuel Savings} * \text{Associated Emission Factor for Carbon Monoxide} * \\ \text{Associated Emission Fee for Carbon Monoxide}$$

All Emissions Fees and Emission Factors are determined in accordance with Schedule C.

[If applicable, insert emission cost savings formula for fuel other than natural gas.]

The Owner will be entitled to retain all payments received from the Owner's Scheduling Coordinator for the Unit's scheduled output.

**B. For Pre-empted Ancillary Services Market Transactions:**

ISO shall pay Owner the product of (i) the difference between the MW of the Ancillary Service Owner had scheduled to provide in a Market Transaction and the MW of Ancillary Services Owner is able to provide after complying with the Dispatch Notice and (ii) the Market Clearing Price the Owner pays to buy back its commitment to deliver the preempted MW of Ancillary Services (if the Owner actually incurs such a cost), or the penalty the Owner pays for failure to deliver the preempted MW of Ancillary Services (if the Owner actually incurs such a cost) for the applicable Ancillary Service, market, and hour. In addition, if compliance with the Dispatch Notice causes reduction of a market regulation transaction, the ISO shall also pay the Owner the product of the Regulation Energy Payment Adjustment (REPA) amount, if applicable, and the MW of Regulation which Owner had scheduled but is unable to provide because of its compliance with the Dispatch Notice.

## Schedule E

### Ancillary Services Part 2 for Condition 2

The ISO may call upon the Unit to provide the following Ancillary Services as defined in the ISO Tariff:

- Regulation
- Spinning Reserve
- Nonspinning Reserve
- Replacement Reserve
- Voltage Support (including synchronous condenser operation)
- Black Start

The Owner shall be required to operate the Unit within the Power Factor range of the Unit specified in Schedule A to provide Voltage Support without additional compensation.

The Owner shall receive no payment for any Ancillary Services Capacity provided. However, operation of a Unit in synchronous condenser mode will be compensated as shown below.

#### **Motoring Charge**

When Units are operated as synchronous condensers (i.e., motored using electric power) to provide Ancillary Services, if applicable, the payment for that service is given by the following formula:

$$\text{Motoring Charge} = (\text{Power consumption rate (MWh/hr)}) * (\text{hours operated}) * (\text{Energy Price})$$

Where the Power consumption rate is given by the following table:

<u>Unit</u>	<u>Power consumption rate (MWh/hour)</u>
-------------	--

The Energy Price shall be equal to the total power costs charged to the Facility by its supplier of end-use Energy under the Applicable UDC Tariff for the billing cycle in which the Motoring Charge was incurred divided by the total power consumed at the Facility under such tariff during such billing cycle.

## **Schedule E**

### **Ancillary Services Part 3 for Black Start Services**

For those Units with Black Start capability, the cost of maintaining such capability is included in this Agreement and no additional costs shall be charged to the ISO for maintaining such capability. The ISO will pay for Black Start service, including for a Black Start Test Dispatch Notice, at the rates and prices in this Agreement for Start-Ups and Delivery of Energy in connection with the Black Start service. Owner shall maintain the Black Start capability of the Unit and the Facility and provide Black Starts in accordance with the ISO Ancillary Services Requirements Protocol and the ISO Dispatch Protocol, which shall be deemed incorporated by reference into this Agreement.

When the ISO first gives written notice to the Owner that it has obtained adequate Black Start service through an auction or a separate agreement with Owner or other Generators and Black Start service under this Agreement is no longer required, the ISO shall not be entitled to call upon this Unit to provide Black Start service. Once the ISO has given this notice, the Owner may remove Black Start service from this Agreement by filing unilaterally a change in rate schedule with FERC. Such filing shall not be required to include any reduction in rate or revenue solely because Black Start service is removed. The ISO shall not oppose the absence of any rate or revenue reduction that results solely from removing such service.

# Schedule F

## Determination of Annual Revenue Requirements of Must-Run Generating Units

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## **Article I. Purpose and General Procedures**

### **Part A. Determination of Rates and Charges**

This Schedule F establishes the procedures and methodology for determining the Annual Fixed Revenue Requirements (in dollars) and Variable O&M Rates (in \$/MWh) for facilities designated for must-run service for purposes of calculating certain charges for such service under the RMR Contract.

The Annual Fixed Revenue Requirements and the Variable O&M Rate for each designated must-run generating facility shall be determined annually. The Annual Fixed Revenue Requirements and the Variable O&M Rate for each such facility that shall be used for calculating charges to the ISO during each calendar year shall be determined by application of the Formula set forth in Article II hereof to the Owner's costs incurred during the twelve-month period ended on June 30 of the prior calendar year. Each twelve-month period ending on June 30 of each year is hereinafter referred to as the "Cost Year" relating to the rates and charges that are effective during the succeeding calendar year.

### **Part B. Informational Filings**

In connection with the determination of rates and charges for each calendar year, reflecting costs incurred during the June 30 Cost Year as described in the foregoing Part A of this Article I, the Owner shall provide to the ISO an Information Package detailing and supporting all calculations involved in such determination. A single Information Package may contain all such informational materials pertaining to all of the Owner's designated must-run facilities. On or before October 1, 2001, the Owner shall provide to the ISO the Information Package relating to the rates and charges to become effective on January 1, 2002. Thereafter, on November 1 of each year, the Owner shall provide to the ISO the Information Package relating to the rates and charges to be effective during the calendar year beginning on the following January 1.

Each such Information Package shall be in a clear and readable format and shall contain:

1. detailed workpapers showing the derivation of costs under the Formula for the relevant Cost Year along with supporting schedules showing the data used in applying the formula, presented in a format consistent with the presentation of information in the FERC Form No. 1;
2. a clear identification of the depreciation rates reflected in claimed costs for the Cost Year and the rate of return and every other stated item (*i.e.*, any item which appears as a numerical value in the Formula and which only may be changed by a filing with the FERC);
3. a comparison of the major components of the resulting revenue requirements for the relevant Cost Year with the corresponding components of the revenue requirements that result from the application of the Formula using costs from the Owner's FERC Form No. 1 relating to the preceding calendar year;
4. such additional documentation as to specific items of costs required by the Formula.

The Owner shall provide each Information Package to the ISO in printed form and a suitable electronic format. The ISO shall post the Information Package on its web site. A suitable electronic format shall be any format that the FERC permits for electronic filings.

Coincident with providing each such Information Package to the ISO, the Owner shall also submit the Information Package to the FERC in an informational filing so as to allow for review of the related rates and charges by the FERC staff and affected parties. As to the informational filing relating to rates and charges to be effective during calendar year 2002, (i) discovery requests by the FERC staff and affected

parties shall be made within 45 days of the filing, with responses by the Owner due within 60 days of the filing, and (ii) protests, if any, by affected parties shall be filed with the FERC within 75 days of the filing. As to each subsequent informational filing, (i) discovery requests by the FERC staff and affected parties shall be made within 20 days of the filing, with responses by the Owner due within 35 days of the filing, and (ii) protests, if any, by affected parties shall be filed with the FERC within 45 days of the filing. In the event that the need arises during the discovery process for the nondisclosure or confidentiality of information, the Owner and affected parties, other than FERC Staff and state regulatory agencies, shall utilize the procedures contained in Schedules N-1 and N-2 of the RMR Contract. If the Owner seeks the confidentiality or nondisclosure of information provided to FERC or state regulatory agencies, it shall follow the applicable rules, regulations and statutory provisions of those agencies.

Protests to the Information Package challenging arithmetic calculations or conformity to the Rate Formula, not resolved by summary disposition of the FERC, shall be resolved by the use of the Alternative Dispute Resolution procedures in Schedule K of the RMR contract. In such a proceeding, the Owner will bear the burden of proof as in a proceeding under Section 205 of the Federal Power Act (FPA). If it is found that an erroneous calculation or non-conforming formula element has been used, refunds shall be ordered. The amount of refunds shall restore the parties to the positions they would have occupied had the erroneous calculations or non-conforming formula elements not been used, with interest calculated pursuant to Section 35.19a of the Commission's regulations, 18 C.F.R. Section 35.19a.

If a matter is set for hearing, additional discovery shall be permitted in accordance with the Commission's Rules of Practice and Procedure. Under hearings established pursuant to this provision, refund rights will be as in a proceeding under Section 205 of the FPA. Any refunds due as the result of a final Commission order will be credited or paid to the ISO with interest in accordance with 18 C.F.R. 35.19a.

In addition to the discovery provided above, affected parties shall have the ability to audit the Owner's books and records as provided in Section 12.2 of the RMR Contract. To the extent that an audit discloses that the formula was not correctly applied for a particular year, the affected prior billings shall be corrected, and appropriate refunds or credits shall be provided to the ISO, with interest determined in accordance with 18 C.F.R. 35.19a.

Notwithstanding the above procedures, all parties retain full rights to make filings at any time under Sections 205 and 206 of the FPA, as appropriate.

## **Article II. Formula for Determination of Annual Revenue Requirements**

### **Part A. Purpose and Overview**

The purpose of this Formula For Determination of Annual Revenue Requirements ("Formula") is to specify the method for determining the Annual Revenue Requirements, and certain components thereof, of particular must-run generating units for each Cost Year.

Part B of this Formula contains the specifications for the components of costs that may be included in the Annual Revenue Requirements of individual designated must-run generating units (*i.e.*, for each "Subject Resource").

Part C of this Formula sets forth (i) general instructions for the use and application of the Formula, and (ii) certain general definitions of terms used herein.

## **Part B. Determination of Annual Revenue Requirements**

### **Section 1. Annual Fixed Revenue Requirements and Variable O&M Rate**

#### **(A) Annual Fixed Revenue Requirements**

The "Annual Fixed Revenue Requirements" for the Subject Resource is the amount determined as the following difference:

1. Total Annual Revenue Requirements, as defined below; less
2. Total Annual Variable Costs, as defined below.

#### **(B) Variable O&M Rate**

The "Variable O&M Rate" for the Subject Resource is the rate (in \$/MWh) determined as the follows:

$$\text{Variable O\&M Rate} = [\text{Annual Variable O\&M Expenses}]/[\text{Annual Net Generation}]$$

where "Annual Variable O&M Expenses" is defined hereinbelow, and "Annual Net Generation" is the net generation (in MWh) of the Subject Resource during the Cost Year.

Notwithstanding the foregoing, whenever the Annual Net Generation of the Subject Resource is zero or negative, the Variable O&M Rate shall be deemed to be zero.

#### **(C) Total Annual Revenue Requirements**

The "Total Annual Revenue Requirements" for the Subject Resource is the amount that is the sum of the following amounts:

1. Operating Expenses, determined pursuant to Section 2 below; and
2. Return and Income Tax Allowance, determined pursuant to Section 3 below.

### **Section 2. Operating Expenses**

"**Operating Expenses**" for the Subject Resource is the quantity that is the sum of the following amounts:

1. Total O&M Expenses, as defined below;
2. Depreciation Expenses, as defined below;
3. Taxes Other Than Income Taxes, as defined below; and
4. Revenue Credits, as defined below.

#### **(A) Total O&M Expenses**

"Total O&M Expenses" is the amount of expenses arising from the operation and maintenance of the Subject Resource, including Production O&M Expenses, Transmission O&M Expenses, Distribution O&M Expenses, and Administrative & General Expenses, all as defined below.



- (1) **Production O&M Expenses:** Expenses incurred directly in operating and maintaining the Subject Resource:
  - (a) **Steam Production O&M:** For steam units only, amounts properly recorded in Accounts 500-515.
  - (b) **Hydro Production O&M:** For hydro units only, amounts properly recorded in Accounts 535-545.
  - (c) **Other Power Generation O&M:** For other types of units, amounts properly recorded in Accounts 546-554.
  - (d) **Other Power Supply Expenses:** Amounts properly recorded in Accounts 555-557, if any, that are reasonably assignable or allocable to the Subject Resource.
- (2) **Transmission O&M Expenses:** Expenses incurred directly in operating and maintaining the transmission facilities associated with the Subject Resource, as properly recorded in Accounts 560-573 and reasonably assignable or allocable to the Subject Resource.
- (3) **Distribution O&M Expenses:** Expenses incurred directly in operating and maintaining the distribution facilities associated with the Subject Resource, as properly recorded in Accounts 580-598 and reasonably assignable or allocable to the Subject Resource.
- (4) **Administrative and General (A&G) Expenses:** Those portions, if any, of administrative and general expenses, as properly recorded in Accounts 920-935, that are reasonably related to the operation of the Subject Resource, determined from appropriate direct assignment or reasonable allocation. Such expenses shall exclude (i) franchise fees related solely to the Owner's retail sales, (ii) retail regulatory expenses, (iii) assessments under 18 CFR Section 382.201 of the FERC Regulations, (iv) association dues, and (v) general advertising expenses.

Notwithstanding the foregoing, O&M Expenses hereunder shall exclude all PX Administration charges as charged under the PX Tariff, irrespective of in which Account or Accounts such charges are included.

**(B) Depreciation Expenses**

"Depreciation Expenses" are provisions for depreciation and amortization for the Subject Resource, as properly recorded in Accounts 403, 404, 405, 406, and 407, including only:

- (1) **Production Plant Depreciation:** Depreciation and amortization, if any, of investment in the Subject Resource;
- (2) **Transmission Plant Depreciation:** Depreciation and amortization, if any, of investment in the transmission facilities associated with the Subject Resource, as reasonably assignable or allocable to the Subject Resource;
- (3) **Distribution Plant Depreciation:** Depreciation and amortization, if any, of investment in the distribution facilities associated with the Subject Resource, as reasonably assignable or allocable to the Subject Resource;

- (4) **General and Intangible Plant Depreciation:** Depreciation and amortization, if any, of general and intangible plant investments that are reasonably assignable or allocable to the Subject Resource.

Notwithstanding the foregoing, costs recorded in Accounts 405, 406 and 407 shall be included hereunder only if, and to the extent that, FERC shall have permitted the inclusion of such costs for ratemaking purposes for the Owner under the RMR Contract.

**(C) Taxes Other Than Income Taxes**

"Taxes Other Than Income Taxes" are taxes other than income and revenue taxes, as properly recorded in Account 408.1, that are reasonably assignable and allocable to the Subject Resource, including for example:

1. Property and Property-Related Taxes;
2. Payroll and Labor-Related Taxes;
3. Other Taxes, if any, identifiable as reasonably assignable or allocable to the Subject Resource.

Taxes Other Than Income Taxes assignable and allocable to the Subject Resource shall not include any taxes related solely to, or arising solely from, the Owner's retail sales.

**(D) Revenue Credits**

"Revenue Credits" are those revenues, if any, that are (i) properly recorded in Account 451 (Miscellaneous Service Revenues), Account 453 (Sales of Water and Water Power), Account 454 (Rent From Electric Property), Account 455 (Interdepartmental Sales), and Account 456 (Other Electric Revenues), and (ii) directly related to, or reasonably allocable to, the Subject Resource. Such Revenue Credits shall be treated as negative values hereunder.

**(E) Treatment of Capital Leases**

The foregoing components of Operating Expenses may include expenses associated with capital leases as approved by the Commission, as set forth more fully under Article II, Part B, Section 4(A) of this Formula.

**Section 3. Return and Income Tax Allowance**

"Return and Income Tax Allowance" is the quantity that is the sum of:

1. the product of:
  - a. Allowable Pre-Tax Rate of Return, and
  - b. Net Investment,as both such quantities are hereinafter defined; and
2. the quantity equal to:

$$[ITC Amortization]/(1-t)$$

where:

- a. "t" is the effective, combined state and federal income tax rate.
- b. "ITC Amortization," is amortization, if any, of investment tax credits, as properly recorded in Account 411.4, that are reasonably assignable or allocable to the Subject Resource and to those portions of general and intangible plant investments that are reasonably assignable or allocable to the Subject Resource. Notwithstanding the foregoing, this term shall include only those amounts of amortization of investment tax credits which the Owner shall have elected to receive under Section 46(f)(1) of the Internal Revenue Code. ITC Amortization amounts that reduce net income shall be treated as negative values hereunder, while ITC Amortization amounts, if any, that increase net income shall be treated as positive values hereunder.

#### **Section 4. Net Investment**

"Net Investment" is the quantity that is determined as follows:

$$\text{Net Investment} = \text{Gross Plant Investment} - \text{Depreciation Reserve} + \text{CWIP} + \text{PHFU} - \text{ADIT} + \text{Working Capital}$$

where the quantities appearing in the foregoing equation are defined hereinafter below.

In determining Net Investment hereunder, each component thereof, other than Cash Allowance, shall be determined as the end-of-year balances in the Accounts specified for the relevant Cost Year.

##### **(A) Gross Plant Investment**

"Gross Plant Investment" is gross original cost plant investment as properly recorded in Accounts 101, 102, 106, and 114, including only the following amounts:

- (1) **Production Plant Investment:** investment in the generating unit itself and in common facilities associated with the unit, as recorded in Accounts 310-316, 330-336, or 340-346, 106 and 114;
- (2) **Transmission Plant Investment:** investment in transmission facilities associated with the Subject Resource, as properly recorded in Accounts 350-359, 106, and 114, and reasonably assignable or allocable to the Subject Resource;
- (3) **Distribution Plant Investment:** investment in distribution facilities associated with the Subject Resource, as properly recorded in Accounts 360-373, 106, and 114, and reasonably assignable or allocable to the Subject Resource; and
- (4) **General and Intangible Plant Investment:** reasonably assignable and allocable portions, if any, of general and intangible plant investment, recorded in Accounts 389-399 and 301-303, 106 and 114.

Subject to the limitations detailed in this paragraph, when the Owner has a capital lease in lieu of gross plant investment, it may include Account 101.1 hereunder. A lease may be capitalized and the costs included for ratemaking purposes if the Owner demonstrates that the lease qualifies as a capital lease under 18 C.F.R. Part 101, General Instruction No. 19 (1998), and the Owner has obtained, prior to the informational filing, approval to include such costs for ratemaking purposes from the

FERC under the FPA. Capital leases shall be accounted for in accordance with 18 C.F.R. Part 101, General Instruction No. 20 (1998).

**(B) Depreciation Reserve**

"Depreciation Reserve" is accumulated provision for depreciation and amortization, as properly recorded in Accounts 108, 111, and 115, related to the Subject Resource, including the following amounts:

- (1) Production Plant Depreciation Reserve:** amounts of Depreciation Reserve for the investment in the unit itself and in common facilities associated with the unit;
- (2) Transmission Plant Depreciation Reserve:** amounts of Depreciation Reserve for the investment in transmission facilities associated with the Subject Resource, as reasonably assignable or allocable to the Subject Resource;
- (3) Distribution Plant Depreciation Reserve:** amounts of Depreciation Reserve for the investment in distribution facilities associated with the Subject Resource, as reasonably assignable or allocable to the Subject Resource;
- (4) General and Intangible Plant Reserve:** amounts of Depreciation Reserve for the portions, if any, of general and intangible plant investments reasonably assignable and allocable to the Subject Resource.

Credit balances in the aforementioned accounts shall be treated as positive values hereunder, and debit balances in such accounts shall be treated as negative values.

**(C) CWIP**

"CWIP" is the amount of construction work in progress, as properly recorded in Account 107 for construction projects associated with the Subject Resource related solely and directly to pollution control for the Subject Resource.

**(D) PHFU**

"PHFU" is the cost of plant held for future use, as properly recorded in Account 105 that is reasonably assignable or allocable to the Subject Resource.

**(E) ADIT**

"ADIT" is accumulated provision for deferred income taxes, as properly recorded in Accounts 190, 281, 282, 283, and 255, that are reasonably assignable or allocable to the investment in, or operation of, the Subject Resource, including the following amounts:

- (1) Production Plant ADIT:** amounts of ADIT arising directly from the investment in, or operation of, the Subject Resource itself and common facilities associated with the Subject Resource;
- (2) Transmission Plant ADIT:** amounts of ADIT arising directly from the investment in, or operation of, the transmission facilities, if any, associated with the Subject Resource;
- (3) Distribution Plant ADIT:** amounts of ADIT arising directly from the investment

in, or operation of, distribution facilities, if any, associated with the Subject Resource; and

- (4) **General and Intangible Plant ADIT:** amounts of ADIT arising from the portions, if any, of general and intangible plant investments reasonably assignable and allocable to the Subject Resource.

For purposes of this Formula, ADIT means accumulated provision for deferred income taxes, as properly recorded in the aforementioned Accounts, *including* amounts previously recorded in such accounts and reclassified as a result of the adoption of SFAS No. 109, but *excluding* amounts recorded in such accounts as a result of the adoption of SFAS No. 109, such that the required adoption of SFAS No. 109 will have no effect on the costs determined hereunder.

Notwithstanding the foregoing, as to Account 255, ADIT hereunder shall include only those amounts, if any, related to investment tax credits which the Owner shall have elected to receive under Section 46(f)(2) of the Internal Revenue Code.

ADIT balances that are credit balances shall be treated as positive values hereunder, while ADIT balances that are debit balances shall be treated as negative values hereunder.

Owner shall support all amounts of ADIT included and not included hereunder in the manner described in sections 35.13(h)(6) and (7) of the Commission's regulations (Statements AF and AG, respectively), except that the time period for the relevant data for the informational package will be consistent with the requirements of this formula, rather than the "Periods" referenced in those regulations.

(F) **Working Capital**

"Working Capital" is the sum of the portions, if any, of the following items that are reasonably assignable or allocable to the Subject Resource:

- (1) **Fuel Stocks**, which is the amount of fossil fuel stock, if any, maintained for the Subject Resource, as properly recorded in Account 151;
- (2) **Plant Materials and Supplies**, consisting of the value of plant materials and supplies reasonably assignable or allocable to the Subject Resource, as properly recorded in Accounts 154 and 163;
- (3) **Prepayments**, consisting of the amount, if any, of prepayments reasonably assignable or allocable to the Subject Resource, as properly recorded in Account 165;
- (4) **Working Cash Allowance**, which is one-eighth of O&M Expenses (as defined herein), less (a) Total Annual Fuel Costs (as defined hereinbelow), and (b) all amounts or portions, if any, of Account 555 (Purchased Power) that may be included in such O&M Expenses; and

**Unamortized Deferred Costs**, which shall be that portion, if any, of Account 186 directly related to, or reasonably allocable to, the Subject Resource.

**Section 5. Allowable Pre-Tax Rate of Return**

The Allowable Pre-Tax Rate of Return shall be the sum of:

- (a) 12.25%, and
- (b) 30% of the amount, if any, by which (a) the latest available 6-month average of yields on 10-year U.S. Treasury Bonds, as of the date of the first Informational Filing, exceeds (b) the latest available 6-month average of yields on 10-year U.S. Treasury Bonds as of *[the effective date of the settlement]*.

Notwithstanding the foregoing, the Owner may make application to the FERC, prior to or in conjunction with the first Informational Filing, in a limited proceeding to seek to establish a different Allowable Pre-Tax Rate of Return under Section 205 of the Federal Power Act.

## **Section 6. Additional Quantities**

### **(A) Annual Variable O&M Expenses**

"Annual Variable O&M Expenses" is the sum of the following quantities:

- (1) **Variable Production O&M Expenses:** those portions of Production O&M Expenses, as defined above, other than fuel expenses, that are reasonably determined to be variable expenses, in the sense that they are incurred as a result of, or otherwise are reasonably associated with, the production of energy by the Subject Resource.
- (2) **Variable A&G Expenses:** that portion of A&G Expenses that is related or allocable to the foregoing Variable Production O&M Expenses.

Notwithstanding the foregoing, starting with the first information filing hereunder and continuing until the Owner elects to use a different method to determine its Annual Variable O&M Expenses, the Owner may compute Annual Variable O&M Expenses as the amount equal to the product of (a) the Initial Variable O&M Rate, in \$/MWh, for the Subject Resource, as set forth in Exhibit A hereto (Exhibit A can be found in Appendix B to the Stipulation and Agreement), times (b) the Net Generation of the Subject Resource (as defined hereinabove). Whenever the Owner does not compute Annual Variable O&M Expenses based on the Initial Variable O&M Rate in the foregoing manner, the Owner shall include in each of Informational Package a detailed explanation of the method or methods used to classify O&M expenses as between fixed (*i.e.*, capacity-related) expenses and variable (*i.e.*, energy-related) expenses and the reason(s) such method results in just and reasonable rates.

### **(B) Annual Fixed O&M Expenses**

"Annual Fixed O&M Expenses" is the quantity that is equal to the following:

- (1) Total O&M Expenses, as defined hereinabove, less
- (2) the sum of:
  - a. Annual Variable O&M Expenses, as defined hereinabove, and
  - b. Annual Variable Fuel Costs, as defined hereinbelow,
  - c. Annual Emissions Costs, as defined hereinbelow, and
  - d. Annual Non-Fuel Start-Up Costs, as defined hereinbelow.

**(C) Fuel Expenses**

**(1) Total Annual Fuel Costs**

"Total Annual Fuel Costs" is the total fuel expense for the Subject Resource for the Cost Year properly recorded in Account 501 or Account 547, as appropriate depending on the nature of the Subject Resource.

**(2) Annual Fixed Fuel Costs**

"Annual Fixed Fuel Costs" is that portion, if any, of Total Annual Fuel Costs related to fuel handling and administration of fuel planning, procurement and transportation which do not vary with the amount of fuel purchased.

**(3) Annual Variable Fuel Costs**

"Annual Variable Fuel Costs" is the quantity that is the following difference:

1. Total Annual Fuel Costs, less
2. Annual Fixed Fuel Costs.

**(D) Annual Emissions Costs**

"Annual Emissions Costs" is the total emissions costs that are related to the operation of the Subject Resource during the Cost Year.

**(E) Annual Non-Fuel Start-Up Costs**

"Annual Non-Fuel Start-Up Costs" is the aggregate sum of costs, other than fuel costs, attributable to start-ups of the Subject Resource during the Cost Year, consisting of start-up power costs, shut-down power costs, and other non-fuel start-up costs, all as determined pursuant to the applicable sections of Schedule D of the RMR Contract, as applied to all start-ups of the Subject Resource during the Cost Year.

**(F) Total Annual Variable Costs**

"Total Annual Variable Costs" is the sum of:

1. Annual Variable O&M Expenses,
2. Annual Variable Fuel Costs, and
3. Annual Emissions Costs.

**Part C. General Instructions and Explanatory Notes**

**Section 1. General Instructions**

In applying this Formula to a Subject Resource, the following instructions and explanations shall be followed:

**(A) No Duplicative Charges**

The costs determined and referenced by this Formula shall exclude costs that are recoverable, or that are actually recovered, elsewhere under the applicable contract or agreement between the Owner and the ISO. There shall be no double counting of costs hereunder.

**(B) Determination of Depreciation Expenses**

Depreciation Expenses, Depreciation Reserve, and Deferred Income Taxes reflected in the revenue requirements determined pursuant to this Formula shall be computed using either fixed depreciation rates or depreciation rates determined annually from fixed mortality characteristics (i.e., service lives, net salvage ratios, etc.). Such depreciation rates and/or mortality characteristics, which may differ for particular assets or groups of assets comprising, or related to, the Subject Resource, are set forth on Exhibit B, which is attached hereto and made a part hereof. Such depreciation rates and/or mortality characteristics may not be changed except pursuant to Section 205 or Section 206 of the FPA. Nothing herein shall be construed as affecting any requirements of the FERC regarding the use by the Owner of depreciation rates for financial reporting purposes.

**(C) Costs in Excess of Original Cost**

The components of rate base and the costs reflected under the Formula shall not include an acquisition adjustment or costs associated with an acquisition adjustment unless the Owner shall have obtained approval from the FERC to include under the Formula such an adjustment or such costs for ratemaking purposes under the FPA. The effective date for the inclusion of such costs shall be as set forth in the FERC order.

**(D) Use of FERC Accounting**

The costs determined and referenced by this Formula shall reflect only FERC-basis accounting, and shall not reflect any accounting for costs approved by any state regulatory commission or other body if not approved or accepted by the FERC for use in connection with the RMR Contract. Except as otherwise provided herein, the accounting for costs for purposes of applying this Formula shall be consistent with the requirements of the Uniform System of Accounts.

**(E) Accounting Methods**

The costs determined and referenced by this Formula shall reflect only such accounting methods prescribed by such authorities as AICPA and FASB that shall have been approved or accepted by the FERC for use in connection with the RMR Contract. The Owner shall be required to seek and gain such approval or acceptance from the FERC prior to reflecting any changed accounting methods in the determination of costs in connection with this Formula.

The Owner shall carry the burden of demonstrating that its accounting methods and entries reflected in the costs determined and referenced by this Formula produce just, reasonable, and nondiscriminatory rates for its customers.

**(F) Out-of-Period Adjustments**

The costs determined and referenced by this Formula shall not reflect any accounting entries the purpose of which is to adjust or correct for accounting entries in years other



than the Cost Year if such adjusting or correcting entries would have an unjust, unreasonable, or discriminatory effect on the ISO.

**(G) Extraordinary Costs**

Extraordinary costs included in the costs determined and referenced by this Formula shall be subject to amortization over a reasonable period of time. In determining how costs should be amortized, the parties shall also determine how the costs being amortized should be recovered in the event that the plant closes and does not reopen.

As used herein, "extraordinary costs" mean costs arising from events and transactions that are of an unusual nature and infrequent occurrence, the effects of which are abnormal and significantly different from the ordinary and typical activities of the Owner, and would not reasonably be expected to recur in the foreseeable future. In determining significance, items should be considered individually and not in the aggregate. However, the effects of a series of related transactions arising from a single specific and identifiable event or plan of action should be considered in the aggregate. An item can be extraordinary even if it is less than five (5) percent of income computed before the extraordinary item. In its annual Information Package, the Owner shall identify and provide explanations for all extraordinary costs which it seeks to include in the rates and charges determined pursuant to this Formula, and the Owner shall bear the burden of proof, as in a proceeding under Section 205 of the FPA, that its proposed treatment of extraordinary costs is just and reasonable.

**(H) Imprudently Incurred Costs**

The costs determined and referenced by this Formula shall not include any costs which have been determined by the FERC in a proceeding under Section 206 of the FPA to have been imprudently incurred by the Owner.

**(I) Transmission Cost Assignments and Allocations**

Costs of transmission facilities assigned and/or allocated to the Subject Resource hereunder are intended to include only those costs, if any, related to the step-up substation facilities and other transmission facilities directly connected to the Subject Resource and used to deliver the output of the Subject Resource to the transmission grid. In each annual Informational Package, the Owner shall clearly identify and fully describe all transmission facilities which it claims satisfy the foregoing criteria.

**(J) Distribution Cost Assignments and Allocations**

Costs of distribution facilities assigned and/or allocated to the Subject Resource hereunder are intended to include only those costs, if any, related to the step-up substation facilities and other distribution facilities directly connected to the Subject Resource and used to deliver the output of the Subject Resource to the transmission or distribution system. In each annual Informational Package, the Owner shall clearly identify and fully describe all distribution facilities which it claims satisfy the foregoing criteria.

**(K) Inclusion of Certain Costs**

The Owner shall include in its annual Informational Package detailed workpapers and explanations supporting the reasonableness of including in the revenue requirements determined pursuant to this formula any amounts recorded in Accounts 501, 547, 555, 561, 927, 105, and 186. The Owner shall bear the burden of proof, as in a proceeding under Section 205 of the FPA, to affirmatively demonstrate that all such included

amounts are directly related to the provisions of service under the RMR Contract and are reasonably assignable or allocable to the Subject Resource. As to Account 105, the requirement for a definitive plan required by the description of Account 105 in the Uniform System of Accounts, and the affirmative demonstration required by this paragraph, shall be deemed to be met upon a showing that the ISO has approved, in accordance with the provisions of Section 7.4 of the RMR Contract, a plan for the future use of the property.

**(L) Direct Assignments and Allocations**

Where Part B of this Formula provides for the identification and/or assignment of costs incurred directly in connection with a particular facility or facilities (including a Subject Resource), or directly related to such a facility or facilities, the Owner shall bear the burden of demonstrating the reasonableness of each such identification and/or assignment, and each failure to make such an identification and/or assignment. Notwithstanding the foregoing, where this Formula provides for such a direct identification or assignment of costs, the Owner may use an allocation method to apportion such costs among particular facilities; provided, however, that (i) the Owner shall in its Informational Package clearly identify and describe such allocation method and the basis for it, and (ii) the Owner shall bear the burden of demonstrating the reasonableness of the method. It is recognized that such allocation methods may, for example, be appropriate for apportioning certain types of costs between individual generating units at a multi-unit generating station. Such allocations of costs between individual generating units at a plant site shall be consistent with the requirements for such allocations, if any, provided in the RMR Contract.

**(M) No Adverse Distinction**

In applying this Formula and in maintaining its books and records insofar as they affect the results of applying this Formula, the Owner shall not make an adverse distinction between the Subject Resource and any other facility or facilities owned or operated by the Owner; *e.g.*, the Owner shall assign certain costs directly to the Subject Resource only if, and to the extent that, the Owner directly assigns such costs to other, similar facilities.

**Section 2. General Definitions**

Except as may be expressly stated otherwise, the following terms have the followings meanings as used herein:

**(A) Account**

"Account" refers to a particular account for "major" utilities as prescribed by the Uniform System of Accounts.

**(B) FERC**

"FERC" means the Federal Energy Regulatory Commission or its successor.

**(C) Uniform System of Accounts**

"Uniform System of Accounts" means the FERC's "Uniform System of Accounts Prescribed For Public Utilities and Licensees Subject to the Provisions of the Federal Power Act," as such uniform system of accounts was in effect as of the first effective date of the RMR Contract.

**(D) RMR Contract**

"RMR Contract" means the contract to which this Formula is attached and made a part thereof.

**(E) Subject Resource**

"Subject Resource" means any particular generating unit to which this Formula is applied for purposes of determining the annual costs thereof.

**(F) Cost Year**

"Cost Year" means the twelve-month period ended June 30 to which this Formula is applied to determine the Annual Fixed Revenue Requirements and Variable O&M Rate for a Subject Resource to be applicable during the next succeeding calendar year.

**(G) Owner**

"Owner" means the entity, other than the ISO, that is a party to the RMR Contract.

**(H) ISO**

The "ISO" means the California Independent System Operator Corporation.

**Exhibit A - Initial Variable O&M Rates<sup>9</sup>**

Line	RMR Facility	Unit	Initial Variable O&M Rate (\$/MWh)

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<sup>9</sup> Exhibit A for each owner is filed in Appendix to the Stipulation and Agreement.