

May 19, 2005

Via Hand Delivery

The Honorable Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

**REDACTED VERSION FOR PUBLIC RELEASE
PRIVILEGED INFORMATION CONTAINED IN SEPARATE VOLUME**

**Re: California Independent System Operator Corporation
Docket No. ER05-150-000**

Filed with Request for Privileged Treatment

Dear Secretary Salas:

Enclosed please find an Offer of Settlement and Settlement Agreement ("Settlement Agreement") and accompanying Explanatory Statement in Support of the Settlement Agreement, submitted in the above-captioned docket by the California Independent System Operator Corporation.

Feel free to contact the undersigned with any questions. Thank you for your attention to this matter.

Respectfully submitted,


J. Phillip Jordan
Bradley R. Miliauskas

Counsel for the California
Independent System Operator
Corporation

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

California Independent System Operator Corporation))))	Docket No. ER05-150-000
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**EXPLANATORY STATEMENT IN SUPPORT OF
OFFER OF SETTLEMENT AND SETTLEMENT AGREEMENT**

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 (“ISO”)¹ and the Trinity Public Utilities District (“Trinity PUD”) (together, the “Sponsoring Parties”) submit an Offer of Settlement and Settlement Agreement (“Settlement Agreement”) in the above-captioned docket and hereby provide an explanatory statement in support thereof. In addition, the Western Area Power Administration – Sierra Nevada District (“Western”), a party to this proceeding, has authorized counsel for the Sponsoring Parties to represent that it supports the Settlement Agreement. Further, the Commission Trial Staff has authorized counsel for the Sponsoring Parties to represent that it does not oppose the Settlement Agreement.

FACTUAL BACKGROUND

Trinity PUD is a small utility in Northern California encompassing approximately 2,200 square miles that serves approximately 16,000 people, with only one customer over 200 kW. Trinity PUD is directly connected to the ISO Controlled Grid at both the

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

115 kV and 60 kV transmission facilities owned by Pacific Gas and Electric Company ("PG&E"). Trinity PUD has a total of 8 interconnections with the ISO Controlled Grid and has approximately 6,500 metering devices. The ISO understands that the peak Load for Trinity PUD represents approximately 17 MW and that, pursuant to the Trinity River Division Act, Trinity PUD is a first preference customer of Western. Trinity PUD receives 100% of its power and energy from Western, primarily from United States Bureau of Reclamation federal hydroelectric generating facilities associated with the Central Valley Project.

Pursuant to a 1967 power integration/wheeling agreement commonly known as Contract 2948A, Western's power and energy was delivered to Trinity PUD over certain transmission facilities owned by Western and certain transmission facilities owned by Pacific Gas and Electric Company ("PG&E"), but currently controlled and operated by the ISO. On March 31, 2004, PG&E provided a notice of cancellation of Contract 2948A, which terminated effective January 1, 2005. The pending termination of Contract 2948A prompted the ISO to commence negotiations with Trinity PUD in the summer of 2004 on the contractual arrangement necessary for Trinity PUD to receive service from the ISO effective January 1, 2005.

Section 4.1 of the ISO Tariff provides that "[t]he ISO shall not be obliged to accept Schedules, Adjustment Bids or bids for Ancillary Services which would require Energy to be transmitted to or from the Distribution System of a UDC directly connected to the ISO Controlled Grid unless the relevant UDC has entered into a UDC Operating Agreement." Thus, since Trinity PUD is directly connected to the ISO Controlled Grid and the ISO believes a Utility Distribution Company ("UDC") Operating Agreement is

necessary and prudent with respect to receiving service from the ISO, the ISO insisted that Trinity PUD execute a UDC Operating Agreement. Trinity PUD objected to many of the provisions of the UDC Operating Agreement as being unreasonable, unjust, unduly burdensome and, in some cases, completely unworkable, and asserted that the UDC Operating Agreement was drafted to address issues and operations of large utilities, not a small utility such as Trinity PUD.

While the ISO recognized that Trinity PUD's operations and facilities are significantly different from those of large UDCs, the ISO was also adamant that most of the obligations still existed and Trinity PUD needed to execute a UDC Operating Agreement with the ISO. Unfortunately, the negotiations were not completed by the time the ISO needed to file with the Commission an agreement with Trinity PUD that was necessary for Trinity PUD to receive service from the ISO effective January 1, 2005. Consequently the ISO unilaterally filed a UDC Operating Agreement with Trinity PUD in the above-captioned docket on November 1, 2004.

The *pro forma* UDC Operating Agreement, on which the UDC Operating Agreement between the ISO and Trinity PUD was based,² establishes the rights and obligations of the UDC and the ISO with respect to the UDC's Interconnection with the ISO Controlled Grid and the UDC's cooperation and coordination with the ISO to aid the reliability and the operational control of the ISO Control Area and the UDC's Distribution System. The *pro forma* UDC Operating Agreement includes provisions concerning: compliance with ISO Specifications and ISO Operating Procedures; a Control Center that can communicate with the ISO 24 hours a day, 7 days a week; maintenance

coordination; coordination during System Emergencies and the obligation to follow the directions from the ISO; Load shedding and Load restoration responsibilities; an obligation to cooperate in records, information and reports; requirements for meeting interconnection standards, critical protective systems and reliability criteria; determination of access to facilities for both parties; and cost obligations.

Trinity PUD differs from larger UDCs in a number of ways. For example, Trinity PUD's configuration is such that none of the 8 Trinity PUD substations interconnected to the ISO Controlled Grid has circuit breakers. As a result, to disconnect a substation, a Trinity PUD crewman has to go to the substation and physically disconnect the tap.³ Larger UDCs do not normally use this method of disconnection. Additionally, due to the remoteness of the service area that Trinity PUD serves, it may take several hours before a crewman can reach some of the substations. Larger UDCs can generally reach their substations more quickly. Also, Trinity PUD maintains a staff commensurate with its size (its General Manager is the sole management person) and does not have 24-hour capability, or the computer or communication infrastructure available to larger UDCs. Therefore, absent significant financial investment and substantial increased operational costs, that are not warranted based on the foregoing, Trinity PUD would be unable to meet all of the requirements of the *pro forma* UDC Operating Agreement.

The Sponsoring Parties' discussions focused from the outset on creating a new type of agreement: a Small UDC Operating Agreement ("SUDC Operating Agreement")

² The transmittal letter for the November 1, 2004 filing explained (at page 4) that the UDC Operating Agreement between the ISO and Trinity PUD substantially conforms with the *pro forma* UDC Operating Agreement.

³ Trinity PUD substations were built consistent with Good Utility Practice and are similar to a number of PG&E substations in the same area.

for small UDCs ("SUDCs") that cannot meet the requirements of large UDCs. The Sponsoring Parties envisioned that the requirements under the SUDC Operating Agreement would be mostly derivative of the requirements applicable to a UDC. To reflect the small size and limited operating capacity of a SUDC, the Sponsoring Parties proposed that a SUDC be defined as "an entity that owns a Distribution System that is capable of transmitting or delivery of Energy to and/or from the ISO Controlled Grid that provides retail electric service to End-Use Customers, and has the following characteristics: (1) annual peak Demand of 25 MW or less; (2) the Distribution System is not in a local reliability area defined by the ISO; and (3) Good Utility Practice was used in designing all substations facilities that are owned or operated by the entity and interconnected to the ISO Controlled Grid, and such substations do not have transmission circuit breakers. The Sponsoring Parties proposed that the ISO would submit a SUDC Operating Agreement between the ISO and Trinity PUD for Commission approval and, in a separate filing made pursuant to Section 205 of the Federal Power Act ("FPA"), the ISO would submit for Commission approval a filing containing a new *pro forma* SUDC Operating Agreement and new ISO Tariff language concerning the relationship between the ISO and SUDCs.

PROCEDURAL HISTORY

On November 1, 2004, the ISO unilaterally filed in the captioned docket the unexecuted UDC Operating Agreement between the ISO and Trinity PUD described above. Trinity PUD filed a timely motion to intervene and protest, the ISO filed an answer to Trinity PUD, and Trinity PUD filed an answer to the ISO's answer. PG&E and Western filed timely motions to intervene, but raised no issues.

On December 30, 2004, the Commission issued an order conditionally accepting the UDC Operating Agreement between the ISO and Trinity PUD, suspending its effectiveness for a nominal period, to become effective on January 1, 2005, subject to refund, and setting the matter for hearing and settlement judge procedures. *California Independent System Operator Corporation*, 109 FERC ¶ 61,391, at PP 75-76, Ordering Paragraphs (D)-(H). On January 7, 2005, the Chief Administrative Law Judge issued an order appointing a Settlement Judge and scheduling a settlement conference. The first settlement conference between the ISO and Trinity PUD was held on January 27, 2005. Additional settlement conferences were held on March 1, March 24, and April 1, 2005. Commission Trial Staff participated in these settlement conferences. PG&E and Western did not attend or participate in any of the settlement conferences.

DESCRIPTION OF SETTLEMENT AGREEMENT

The Settlement Agreement resolves all outstanding issues in this docket between the Sponsoring Parties. Settlement Agreement, Section 1. The Settlement Agreement includes the following exhibits: a Small Utility Distribution Company ("SUDC") Operating Agreement between the ISO and Trinity PUD (included as Exhibit A to the Settlement Agreement),⁴ new ISO Tariff language concerning the relationship between the ISO and SUDCs (included as Exhibit B to the Settlement Agreement) and new ISO

⁴ In conformance with Commission Order No. 614, the SUDC Operating Agreement between the ISO and Trinity PUD in Exhibit A has been designated as Original Service Agreement No. 603 Under First Revised ISO Tariff Volume No. 1. In addition, Schedule 3 of the SUDC Operating Agreement between the ISO and Trinity PUD (concerning contact information) contains non-public information. Therefore, included under separate cover with this filing, pursuant to Commission Order Nos. 630 and 630-A, is a sealed copy of the non-public sections of this SUDC Operating Agreement. The ISO is seeking confidential treatment for these materials under 18 C.F.R. § 388.112, because their public disclosure could unnecessarily reveal sensitive information. For these reasons, the ISO submits that these materials should be exempt from public exposure and should be granted privileged treatment.

Tariff language to include in the ISO Tariff a *pro forma* SUDC Operating Agreement (included as Exhibit C to the Settlement Agreement). Settlement Agreement, Section 2.

The Sponsoring Parties submit for Commission acceptance the SUDC Operating Agreement between the ISO and Trinity PUD included as Exhibit A to the Settlement Agreement. They request that the Commission accept the SUDC Operating Agreement between the ISO and Trinity PUD, effective as of the effective date the Commission approves for the new ISO Tariff language described in Section 5 of the Settlement Agreement. Settlement Agreement, Section 3.⁵ Once the SUDC Operating Agreement between the ISO and Trinity PUD becomes effective, that SUDC Operating Agreement will supersede the UDC Operating Agreement between the ISO and Trinity PUD submitted in the above-captioned docket. Settlement Agreement, Section 4.

The Sponsoring Parties recognize that the ISO will, concurrently with or subsequent to the filing of the Settlement Agreement, make a separate filing pursuant to Section 205 of the FPA seeking Commission acceptance of new ISO Tariff language concerning the relationship between the ISO and SUDCs (included as Exhibit B to the Settlement Agreement)⁶ and new ISO Tariff language to include in the ISO Tariff a *pro forma* SUDC Operating Agreement (included as Exhibit C to the Settlement Agreement), to become effective one day after the Section 205 filing is submitted. Trinity PUD agrees to support the filing of the Section 205 filing that includes the new ISO Tariff language included as Exhibits B and C to this Settlement Agreement. Settlement Agreement, Section 5.

⁵ The new Section 205 filing will be Amendment No. 70 to the ISO Tariff, submitted in Docket No. ER05-____-000 ("Amendment No. 70"). Therefore, the Order No. 614-compliant cover sheet for the SUDC Agreement between the ISO and Trinity PUD states that the effective date of the agreement will be the effective date of the ISO Tariff language contained in Amendment No. 70.

The Settlement Agreement contains provisions concerning: the rights of each Sponsoring Party to withdraw its respective offer of settlement as set forth in the Settlement Agreement in the event that any element of the Settlement Agreement is materially modified or is rejected by the Commission, in a manner unacceptable to any such Sponsoring Party (Settlement Agreement, Section 6); the non-precedential effect of the Settlement Agreement with respect to any future proceeding (Settlement Agreement, Section 7); the effect of agreement to or acquiescence in the Settlement Agreement and the Commission's approval of the Settlement Agreement (Settlement Agreement, Section 8); and the non-impairment of the rights of the Sponsoring Parties by the Settlement Agreement (Settlement Agreement, Section 9).

The SUDC Operating Agreement included as Exhibit A to the Settlement Agreement establishes the rights and obligations of the SUDC and the ISO with respect to the SUDC's facilities interconnected with the ISO Controlled Grid and the SUDC's cooperation and coordination with the ISO to aid the reliability and the Operational Control of the ISO Control Area and the SUDC's Distribution System. The SUDC Operating Agreement includes a statement of the SUDC's facilities and responsibilities; a requirement to comply with ISO Specifications and ISO Operating Procedures; a single point of contact for communications with the ISO; maintenance coordination; procedures during System Emergencies that require the SUDC to participate in voluntary Load shedding in Stage 1 of the System Emergency; System Disturbance Load restoration responsibilities; an obligation to cooperate in records, information and reports; *determination of access to facilities for both parties; and cost obligations.* The

⁶ The new ISO Tariff language is contained in new Section 31 of the ISO Tariff.

Trinity PUD SUDC Operating Agreement is attached to the Settlement Agreement. The main differences between the UDC Operating Agreement and SUDC Operating Agreement are to reflect the following:

- A UDC is required to have a Control Center that can communicate with the ISO 24 hours a day, 7 days a week, whereas a SUDC must provide the ISO with a single point of contact that can be reached 24 hours a day, 7 days a week;
- A SUDC cannot shed Load absent physically disconnecting each individual substation whereas a UDC has remote systems and relays to disconnect substations automatically to shed Load; and
- A SUDC will be directed to reduce Load on a voluntary basis when the ISO reaches a Stage 1 System Emergency whereas a UDC does not shed Load until the ISO reaches a Stage 3 System Emergency.

The proposed new provisions in Section 31 of the ISO Tariff and included as Exhibit B to the Settlement Agreement, concerning the relationship between the ISO and SUDCs, mirror the existing UDC requirements in Section 4 of the ISO Tariff with the exceptions noted above with regard to the SUDC Operating Agreement.

POLICY IMPLICATIONS, OTHER PENDING CASES, ISSUES OF FIRST IMPRESSION AND APPLICABLE STANDARD OF REVIEW

Policy Implications

The essential policy issue underlying the Settlement Agreement is the question of whether it is just and reasonable to require a small UDC to comply with the same terms and conditions as a large UDC. The Sponsoring Parties have created a set of

requirements they believe are just and reasonable for a small UDC. As the rights and obligations applicable to a SUDC will be available in accordance with the ISO Tariff, any policy issues related to the underpinnings of the Settlement Agreement are better suited to discussion in connection with the filing to be submitted pursuant to Section 205 of the FPA.

Other Pending Cases

PG&E unilaterally filed an unexecuted Interconnection Agreement with Trinity PUD in Docket No. ER05-130-000. PG&E expressed a willingness to not oppose the Settlement Agreement if the Sponsoring Parties agreed to add certain conditions to the Settlement Agreement that would have affected the outcome of ER05-130-000 and, although the Sponsoring Parties incorporated some of PG&E's comments, they could not agree to all of PG&E's conditions and would prefer that the Commission address PG&E's issues in Docket No. ER05-130-000. The parties anticipate that PG&E will oppose the Settlement Agreement and may raise issues before the Commission in both this docket and Docket No. ER05-130-000.

Issues of First Impression

There are no issues of first impression presented by this filing.

Applicable Standard of Review

The applicable standard of review for Commission approval of the Settlement Agreement is the just and reasonable standard.

Attachment A to the present filing contains notice of this filing, suitable for publication in the *Federal Register* (also provided in electronic format).

Respectfully Submitted,

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By: 

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Dated: May 19, 2005

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

**California Independent System Operator
Corporation**

Docket No. ER05-150-000

OFFER OF SETTLEMENT AND SETTLEMENT AGREEMENT

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 (“ISO”) and the Trinity Public Utilities District (“Trinity PUD”) (together, the “Sponsoring Parties”) hereby offer and agree to the terms of this Offer of Settlement and Settlement Agreement (“Settlement Agreement”) in the above-captioned docket. In addition, the Western Area Power Administration – Sierra Nevada Region (“Western”), a party to this proceeding, has authorized counsel for the Sponsoring Parties to represent that it supports this Settlement Agreement. Further, the Commission Trial Staff has authorized counsel for the Sponsoring Parties to represent that it does not oppose this Settlement Agreement.

This Settlement Agreement resolves all issues concerning the Utility Distribution Company (“UDC”) Operating Agreement submitted in this docket.

In accordance with Rule 602(d), 18 C.F.R. § 385.602(d), this Settlement Agreement is being served on all parties on the Commission’s official service list for this docket. Under Rule 602(f), 18 C.F.R. § 385.602(f), those entities will have an opportunity to comment on this Settlement Agreement.

I. BACKGROUND AND INTRODUCTION

On November 1, 2004, the ISO unilaterally filed an unexecuted UDC Operating Agreement between the ISO and Trinity PUD. Trinity PUD filed a timely motion to intervene and protest, the ISO filed an answer to Trinity PUD, and Trinity PUD filed an answer to the ISO's answer. Pacific Gas and Electric Company ("PG&E") and Western filed timely motions to intervene.

On December 30, 2004, the Commission issued an order conditionally accepting the UDC Operating Agreement between the ISO and Trinity PUD, suspended its effectiveness for a nominal period, to become effective on January 1, 2005, subject to refund, and setting the matter for hearing and settlement judge procedures. *California Independent System Operator Corporation*, 109 FERC ¶ 61,391, at PP 75-76, Ordering Paragraphs (D)-(H). On January 7, 2005, the Chief Administrative Law Judge issued an order appointing a Settlement Judge and scheduling a settlement conference. The first settlement conference was held on January 27, 2005. Additional settlement conferences were held on March 1, March 24, and April 1, 2005.

This Settlement Agreement resolves all disputed issues in this docket. The disputed issues relate to the application of the UDC Operating Agreement described above to Trinity PUD.

II. DESCRIPTION OF TERMS OF SETTLEMENT AGREEMENT

1. This Settlement Agreement resolves all outstanding issues in this docket between the Sponsoring Parties.

2. This Settlement Agreement includes the following exhibits: a Small Utility Distribution Company ("SUDC") Operating Agreement between the ISO and

Trinity PUD (included as Exhibit A to this Settlement Agreement), new ISO Tariff language concerning the relationship between the ISO and SUDCs (included as Exhibit B to this Settlement Agreement) and new ISO Tariff language to include in the ISO Tariff a *pro forma* SUDC Operating Agreement (included as Exhibit C to this Settlement Agreement).

3. The Sponsoring Parties hereby submit for Commission acceptance the SUDC Operating Agreement between the ISO and Trinity PUD included as Exhibit A to this Settlement Agreement. The Sponsoring Parties request that the Commission accept the SUDC Operating Agreement between the ISO and Trinity PUD, effective as of the effective date the Commission approves for the new ISO Tariff language described in Section (5), below.

4. Once the SUDC Operating Agreement between the ISO and Trinity PUD becomes effective, that SUDC Operating Agreement will supersede the UDC Operating Agreement between the ISO and Trinity PUD submitted in the above-captioned docket.

5. The Sponsoring Parties recognize that the ISO will, concurrently with or subsequent to the filing of this Settlement Agreement, make a separate filing pursuant to Section 205 of the Federal Power Act seeking Commission acceptance of new ISO Tariff language concerning the relationship between the ISO and SUDCs (included as Exhibit B to this Settlement Agreement) and new ISO Tariff language to include in the ISO Tariff a *pro forma* SUDC Operating Agreement (included as Exhibit C to this Settlement Agreement), to become effective one day after the Section 205 filing is submitted. Trinity PUD agrees to support the filing of the Section 205 filing with

regard to the new ISO Tariff language included as Exhibits B and C to this Settlement Agreement.

6. Each Sponsoring Party reserves its rights to withdraw its respective offer of settlement as set forth in this Settlement Agreement in the event that any element of the Settlement Agreement is materially modified or is rejected by the Commission, in a manner unacceptable to any such Sponsoring Party. The Sponsoring Parties agree, however, that they will attempt, in good faith, to negotiate changes to the Settlement Agreement in the event of any such unacceptable material modification or rejection. In the event the Sponsoring Parties cannot reach agreement on any such changes, each Sponsoring Party retains all of its rights and remedies as if this Settlement Agreement had not been executed.

7. This Settlement Agreement is non-precedential with respect to any future proceeding and its terms may not be referred to in any future proceeding before the Commission for the purpose of supporting any specific approach to any issue. Notwithstanding the foregoing, the rights and obligations established by this Settlement Agreement may be enforced by either Sponsoring Party in any future rate case or other proceeding.

8. Agreement to or acquiescence in this Settlement Agreement shall not be deemed in any respect to constitute an admission by either Sponsoring Party that any allegation or contention made by any other party in these proceedings is true or valid. In negotiating the Settlement Agreement, the Sponsoring Parties specifically agreed that the Settlement Agreement represents a negotiated agreement for the sole purpose of settling all issues in the captioned docket. Except as expressly provided in

this Settlement Agreement, no Sponsoring Party or affiliate of any Sponsoring 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 resolutions of the issues provided herein. The Commission's approval of the Settlement Agreement shall not constitute approval of, or precedent regarding, any principle or issue in these proceedings. The resolution of any matter in this Settlement Agreement shall not 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).

9. The discussions between the Sponsoring Parties that have produced the Settlement Agreement 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), and the rights of the Sponsoring Parties with respect thereto shall not be impaired by the Settlement Agreement.

WHEREFORE, the Sponsoring Parties respectfully request that the Commission approve this Settlement Agreement without condition or modification.

IN WITNESS WHEREOF, the Sponsoring Parties have agreed to and caused this Settlement Agreement to be executed by their duly authorized representatives as indicated below.

Respectfully Submitted,

JOHN C. ANDERS

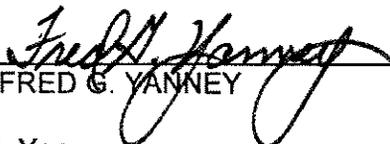
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Dated: May 19, 2005

EXHIBIT A

**California Independent System Operator Corporation Original
Service Agreement No. 603 Under First Revised Tariff Volume No. 1**

**SMALL UTILITY DISTRIBUTION COMPANY OPERATING AGREEMENT
WITH
TRINITY PUBLIC UTILITY DISTRICT**

**Effective: The Effective Date of the
ISO Tariff Language
Contained in Amendment
No. 70 to the ISO Tariff,
Docket No. ER05-____-000**

**CALIFORNIA INDEPENDENT SYSTEM
OPERATOR**

AND

TRINITY PUBLIC UTILITIES DISTRICT

**SMALL UTILITY DISTRIBUTION
COMPANY OPERATING AGREEMENT**

**SMALL UTILITY DISTRIBUTION COMPANY
OPERATING AGREEMENT**

THIS OPERATING AGREEMENT is dated this 19th day of May, 2005 and is entered into, by and between:

- (1) **Trinity Public Utilities District**, a California public utilities district having its registered and principal place of business located at P.O. Box 1216, Weaverville, California 96093 (the "SUDC");
and
- (2) **California Independent System Operator Corporation**, a California non-profit public benefit corporation having its principal place of business located in such place in the State of California as the ISO Governing Board may from time to time designate, initially 151 Blue Ravine Road, Folsom, California 95630 (the "ISO").

The SUDC and the ISO are hereinafter referred to individually as "Party" and collectively as "Parties".

Whereas:

- A. The purpose of this Operating Agreement is to establish the rights and obligations of the SUDC and the ISO with respect to the SUDC's Facilities interconnected with the ISO Controlled Grid and the SUDC's cooperation and coordination with the ISO regarding reliability and the operational control of the ISO Controlled Grid and the SUDC's Distribution System.
- B. The SUDC owns and operates a small Distribution System within the ISO Control Area subject to the authority of a Local Regulatory Authority.
- C. The SUDC wishes to receive and transmit Energy and/or Ancillary Services to and/or from the ISO Controlled Grid under the terms and conditions set forth in the ISO Tariff.
- D. The ISO has certain statutory obligations under California law to maintain the reliability of the ISO Controlled Grid.
- E. The Parties recognize that while a single SUDC has little or no ability to materially, adversely affect reliability of the ISO Controlled Grid or the ISO Control Area, the SUDC agrees to support and be part of the coordinated response to System Emergencies and to reliability concerns relating to the ISO Control Area as set forth in this Operating Agreement.
- F. This Operating Agreement obligates the SUDC to comply with the sections of the ISO Tariff, the ISO Operating Procedures and the ISO Specifications specified in this Operating Agreement.

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

**ARTICLE I
DEFINITIONS AND INTERPRETATION**

- 1.1 Master Definitions Supplement.** Unless defined in Section 1.2 of this Operating Agreement, all defined terms and expressions used in this Operating Agreement shall have the same meaning as those contained in the Master Definitions Supplement to the ISO Tariff.
- 1.2 Special Definitions for this Operating Agreement.** In this Operating Agreement, the following words and expressions shall have the meanings set opposite them:
- “**ISO Specifications**” means those standards pertaining to the areas of operation listed in Article IV of this Operating Agreement and listed in Schedule 6, approved by the ISO to establish detailed technical performance and reliability parameters at the ISO Controlled Grid and SUDC Interconnection, associated with the ISO Tariff, as those standards may be amended from time to time.
- “**ISO Operating Procedures**” means those procedures pertaining to the areas of operation listed in Article IV of this Operating Agreement and listed in Schedule 9, created by the ISO to establish detailed operating procedures at the ISO Controlled Grid and SUDC Interconnection, associated with general provisions required in the ISO Tariff, as those standards may be amended from time to time.
- “**SUDC Facilities**” shall have the meaning accorded to such term as provided in Section 3.2 of this Operating Agreement.
- 1.3 Rules of Interpretation.** The following rules of interpretation and conventions shall apply to this Operating Agreement:
- (a) if there is any inconsistency between this Operating Agreement and the ISO Tariff, the ISO Tariff will prevail to the extent of the inconsistency;
 - (b) the singular shall include the plural and vice versa;
 - (c) the masculine shall include the feminine and neutral and vice versa;
 - (d) “includes” or “including” shall mean “including without limitation”;
 - (e) references to a Section, Article or Schedule shall mean a Section, Article or a Schedule of this Operating Agreement, as the case may be, unless the context otherwise requires;
 - (f) a reference in this Operating Agreement to a given agreement, instrument or the ISO Tariff shall be a reference to that agreement, instrument or the ISO Tariff as modified, amended, supplemented or restated through the date as of which such reference is made;

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

ARTICLE II TERM AND TERMINATION

- 2.1 Effective Date.** This Operating Agreement shall be effective as of the date it is accepted for filing and made effective by the FERC and shall remain in full force and effect until the earlier of the termination date, the termination of the Transmission Control Agreement or such other date as the Parties shall mutually agree. With respect to any such termination, the ISO must file a timely notice of termination with FERC, and this Operating Agreement shall terminate on the date FERC permits such a notice of termination to be effective.
- 2.2 Termination Date.**
- 2.2.1 Termination by Default.** Either Party (the terminating Party) may terminate this Operating Agreement by giving written notice in the event that the other Party (the defaulting Party) commits any default under this Operating Agreement and/or the ISO Tariff which, if capable of being remedied, is not remedied within 30 days after the terminating Party has given the defaulting Party written notice of the default, unless excused by reason of Uncontrollable Forces under Article X of this Operating Agreement.
- 2.2.2 Failure To Meet SUDC Definition.** Failure of a SUDC to satisfy the ISO Tariff definition of a SUDC shall be grounds for the ISO to terminate this Operating Agreement. In the event the ISO believes the SUDC no longer satisfies the ISO Tariff definition of a SUDC, the ISO shall provide written notification of the same to the SUDC and the SUDC shall have 60 days to respond. Following the 60-day response period and regardless of the position of the SUDC, if the ISO believes the SUDC no longer satisfies the ISO Tariff definition of a SUDC regardless of

the response, the ISO may file a notice of termination with FERC in accordance with Section 2.2.3.

- 2.2.3 Filing.** With respect to any notice of termination given pursuant to this Section 2.2, the ISO must file a timely notice of termination with FERC. The filing of the notice of termination by the ISO will be considered timely if: (1) the request by either Party to file a notice of termination is made after the preconditions for termination have been met, and (2) the ISO files the notice of termination within 30 days of receipt of such request. This Operating Agreement shall terminate on the date FERC permits such a notice of termination to be effective.

ARTICLE III GENERAL TERMS AND CONDITIONS

- 3.1 SUDC Responsibilities.** The SUDC will be responsible to operate and maintain its SUDC Facilities in accordance with applicable reliability standards, statutes, and regulations and Good Utility Practice so as to avoid any material adverse impact on the reliability of the ISO Control Area and the ISO Controlled Grid.
- 3.2 Interconnection and SUDC Facilities.** Schedule 1 sets forth the SUDC's Generating Units, if any, and those facilities that comprise the interconnection of the SUDC Distribution System and the ISO Controlled Grid. These facilities will be considered the "SUDC Facilities" and, except as otherwise expressly provided, the provisions of this Operating Agreement shall apply only to such SUDC Facilities.
- 3.3 Non-SUDC Facilities.** To assist the ISO in cataloging non-SUDC facilities located in the ISO Control Area and for information purposes only, Schedule 2 sets forth any non-SUDC Generating Units or other facilities that are interconnected to the SUDC Distribution System. Such non-SUDC facilities are not owned or operated by the SUDC.
- 3.4 Agreement Subject to ISO Tariff.** Notwithstanding anything to the contrary herein, the Parties agree that they will comply with Section 31 of the ISO Tariff, and any other applicable provisions of the ISO Tariff specifically referenced in this Operating Agreement. This Operating Agreement shall be subject to such provisions of the ISO Tariff, which shall be deemed to be incorporated to the extent referenced herein, as the same may be changed or superseded from time to time pursuant to Sections 16.1 and 20.1.3 of the ISO Tariff. Nothing in this Operating Agreement shall affect in any way the authority of the ISO to unilaterally make application to FERC for a change in the ISO Tariff under Section 205 of the Federal Power Act, nor shall anything in this Operating Agreement affect the right of either Party to file a complaint under Section 206 of the Federal Power Act regarding the ISO Tariff.

3.5 Operation of ISO Controlled Grid. The ISO shall operate the ISO Control Area and the ISO Controlled Grid in accordance with the ISO Tariff and the Transmission Control Agreement to which it is a party.

3.6 ISO Specifications and ISO Operating Procedures.

3.6.1 Compliance with ISO Specifications and ISO Operating Procedures. The SUDC will abide by and will perform all of the obligations under the ISO Specifications identified in Schedule 6 and ISO Operating Procedures identified in Schedule 9 in respect of all matters set forth therein as the same may be changed or superseded from time to time pursuant to the procedures set forth in Sections 16.1 and 20.1.3 of the ISO Tariff. In the event of any conflict or dispute over interpretation, those sections of the ISO Tariff identified herein shall, at all times, take precedence over such ISO Specifications and ISO Operating Procedures. The ISO shall not implement any reliability requirements, operating requirements or performance standards that would impose increased costs on the SUDC without giving due consideration to whether the benefits of such requirements or standards are sufficient to justify such increased costs. In any proceeding concerning the cost recovery by the SUDC of capital and operation and maintenance costs incurred to comply with ISO Specifications and ISO Operating Procedures, the ISO shall to the extent practicable, at the request of the SUDC, provide specific information in a form that may be readily understood by the general public regarding the nature of, and need for, the ISO-imposed requirements or standards to enable the SUDC to use this information in public hearings in support of cost recovery through rates and tariffs.

3.6.2 Review of ISO Specifications and ISO Operating Procedures. The ISO shall periodically review with the SUDC the ISO Specifications identified in Schedule 6 and ISO Operating Procedures identified in Schedule 9 and shall modify such ISO Specifications and/or ISO Operating Procedure as provided in Section 3.6.1. If a new ISO Specification or ISO Operating Procedure applicable to the SUDC is adopted pursuant to Section 3.6.1, the ISO shall provide a revised version of Schedule 6 or Schedule 9 to the SUDC. Any changes to Schedule 6 or Schedule 9 will not constitute an amendment to this Operating Agreement.

3.6.3 Periods When Compliance is Required. While awaiting dispute resolution or regulatory review, the SUDC shall not be required to comply with changes to the ISO Specifications and ISO Operating Procedures, except where compliance is necessary in order to prevent or remedy an imminent System Emergency.

3.7 Utilization of Certified Scheduling Coordinator. The SUDC shall utilize an ISO-certified Scheduling Coordinator to schedule Energy and Ancillary Services to or from the ISO Controlled Grid. At the time when the SUDC retains such Scheduling Coordinator, the SUDC shall confirm that the Scheduling Coordinator has entered into a Scheduling Coordinator Agreement with the ISO that is currently in effect.

- 3.8 Single Point of Contact.** The ISO and the SUDC shall each provide a single point of contact for the exchange of operational procedures and information. Details of requirements relating to and the identity of the initial points of contact are set forth in Schedule 3.
- 3.9 SUDC Compliance.** In the event the ISO believes that the SUDC has failed to comply with any provision of the ISO Tariff created after the effective date applicable to the SUDC in accordance with this Operating Agreement, the ISO shall notify the SUDC of such alleged failure and, if requested, shall meet with the SUDC regarding such alleged failure to comply. If the Parties cannot reach agreement on the alleged failure to comply, then the ISO may, if applicable, invoke Section 2.2.1 of this Operating Agreement.

ARTICLE IV OPERATIONAL COORDINATION

- 4.1 Maintenance Coordination.** The SUDC shall coordinate its SUDC Facilities Outage requirements with the Participating TO with which it is interconnected. The SUDC will provide the ISO with copy of any written information regarding Outages of the SUDC Facilities that could cause a material adverse impact on the reliability of the ISO Controlled Grid. To the extent the SUDC schedules maintenance of SUDC Facilities that has a reasonable potential to cause a material adverse impact to reliability of the ISO Controlled Grid, the SUDC shall notify the ISO of such maintenance when it becomes known, and that information will be updated quarterly or as changes occur to the proposed schedule. Consistent with the SUDC's normal record generation and retention practices, the SUDC will record the details for all such work and shall provide available records when it is known, quarterly, or upon written request by the ISO.
- 4.2 System Emergencies.** The responsibilities of the Parties in relation to System Emergencies are stated in Sections 31.4, 31.5 and the Dispatch Protocol of the ISO Tariff, the ISO Operating Procedures identified in Schedule 9, and in Schedule 4.
- 4.3 System Emergency Response.** The SUDC will participate in Load Shedding by reducing Load on a voluntary basis when the ISO declares a Stage 1 System Emergency. The SUDC will use any available local communication infrastructure to request that its customers curtail their electricity usage. The SUDC will not be called separately in Stage 3 System Emergencies to manually shed Load. Load restoration of any voluntary Load reduction may not commence until such time as the ISO declares that a System Emergency no longer exists. The responsibilities of the Parties to direct and to accept direction for Load reduction or other emergency plans are stated in Sections 31.4 and 31.5 of the ISO Tariff, and the

ISO Operating Procedures identified in Schedule 9 and ISO Specifications identified in Schedule 6.

- 4.4 System Disturbance Load Restoration.** The responsibilities of the Parties for restoring Load following a system disturbance are stated in Section 31.5.2 of the ISO Tariff, the ISO Operating Procedures identified in Schedule 9 and ISO Specifications identified in Schedule 6, and in Schedule 5.
- 4.5 Interconnection Operation Standards.** The ISO and SUDC shall maintain stable established operating parameters and control power and reactive flow within standards stated in Schedule 6.
- 4.6 Records, Information and Reports.** The Parties are required to maintain such records, to share information, and to make such reports as are stated in Section 31.1.2, 31.6 and 31.8 of the ISO Tariff, and the ISO Operating Procedures identified in Schedule 9 and the ISO Specifications identified in Schedule 6. In accordance with Schedule 7, the SUDC will cooperate with the ISO regarding its collection, study and transmittal of system data, information, reports, and forecasts, provided that the SUDC need only provide available information to the ISO. Upon the request of the ISO, the SUDC will cooperate with the ISO regarding any ISO review following a major Outage and provide any requested information that is available.
- 4.7 SUDC Distribution System.** The ISO shall (in accordance with Section 11.2 of this Operating Agreement) notify the SUDC as soon as is reasonably practicable of any condition which the ISO becomes aware that may compromise the operation and reliability of the SUDC Distribution System.

ARTICLE V ACCESS TO FACILITIES

- 5.1 Access Rights.** Pursuant to Section 31.9.1 of the ISO Tariff and Schedule 8 of this Operating Agreement, the ISO and the SUDC shall each have the right to install or to have installed equipment or other facilities, including metering equipment, on the electric utility property of the other necessary for the implementation of this Operating Agreement. The ISO's installation of equipment on the property of the SUDC shall comply with Local Regulatory Authority regulations, except where compliance with Local Regulatory Authority regulations would cause the ISO to violate the ISO Tariff, and with all relevant safety standards. In such case, the SUDC and ISO will work together to resolve the conflict between the Local Regulatory Authority regulations and the ISO Tariff.

- 5.2 Meter Testing.** The SUDC shall, at the request of the ISO and upon reasonable notice, provide access to its facilities necessary to permit the ISO or an ISO-approved meter inspector to perform such testing as necessary in accordance with Section 31.9.2 or 31.9.4 of the ISO Tariff and the procedures set forth in Schedule 8. For meters that are not owned by the SUDC, the ISO will obtain approval from the meter owner in advance of accessing SUDC's Facilities. Such approval shall be provided to the SUDC upon request.
- 5.3 Emergency Access Rights.** The ISO shall have a right to access the SUDC's equipment or other facilities during a System Emergency in accordance with Section 31.9.3 of the ISO Tariff. In a System Emergency, the SUDC shall have a right of access to ISO equipment on SUDC property and SUDC equipment on ISO property without notice.

ARTICLE VI COSTS

- 6.1 SUDC Operating and Maintenance Costs.** The SUDC shall be responsible for all costs incurred in connection with procuring, installing, operating and maintaining its facilities identified in Schedule 1 for the purpose of meeting its obligations under this Operating Agreement.
- 6.2 ISO Operating and Maintenance Costs.** The ISO shall be responsible for the procurement, installation, operation and maintenance costs of ISO equipment set out in Article V of this Operating Agreement installed on SUDC property.

ARTICLE VII DISPUTE RESOLUTION

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

ARTICLE VIII REPRESENTATIONS AND WARRANTIES

- 8.1 Representations and Warranties.** Each Party represents and warrants that its execution, delivery and performance of this Operating Agreement has been duly

authorized by all necessary corporate and/or governmental actions, to the extent authorized by law.

- 8.2 Necessary Approvals.** Each Party represents that all necessary approvals, permits, licenses, easements, right of way or access to install, own and operate its facilities subject to this Operating Agreement have been obtained prior to the effective date of this Operating Agreement.

ARTICLE IX LIABILITY

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

ARTICLE X UNCONTROLLABLE FORCES

- 10.1 Uncontrollable Forces Tariff Provisions.** Section 15 of the ISO Tariff shall be incorporated by reference into this Operating Agreement, except that all references in Section 15 of the ISO Tariff to Market Participants shall be read as a reference to the SUDC and references to the ISO Tariff shall be read as references to this Operating Agreement.

ARTICLE XI MISCELLANEOUS

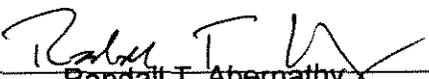
- 11.1 Assignments.** Either Party may assign its obligations under this Operating Agreement, with the other Party's prior written consent, in accordance with Section 17 of the ISO Tariff, which is incorporated by reference into this Operating Agreement. Such consent shall not be unreasonably withheld.
- 11.2 Notices.** Any notice, demand or request which may be given to or made upon either Party regarding this Operating Agreement shall be made in accordance with Section 20.1 of the ISO Tariff, which is incorporated by reference, except that all reference in Section 20.1 to Market Participants shall be read as a reference to the SUDC. A Party must update the information in Schedule 3 of this Operating Agreement as that information changes in accordance with Section 20.1 of the ISO Tariff. Such changes will not constitute an amendment to this Operating Agreement.

- 11.3 Waivers.** Any waiver at any time by either Party of its rights with respect to any default under this Operating Agreement, or with respect to any other matter arising in connection with this Operating Agreement, shall not constitute or be deemed a waiver with respect to any subsequent default or matter arising in connection with this Operating Agreement. Any delay short of the statutory period of limitations, in asserting or enforcing any right under this Operating Agreement, shall not constitute or be deemed a waiver of such right.
- 11.4 Governing Law and Forum.** This Operating 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 in its conflict of laws provisions. The Parties irrevocably consent that any legal action or proceeding arising under or in relation to this Operating Agreement to which the ISO 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.
- 11.5 Consistency with Federal Laws and Regulations.**
- (a) Nothing in this Operating Agreement shall compel any person or federal entity to: (1) violate federal statutes or regulations; or (2) in the case of a federal agency, to exceed its statutory authority, as defined by any applicable federal statutes, regulations, or orders lawfully promulgated thereunder. If any provision of this Operating Agreement is inconsistent with any obligation imposed on any person or federal entity by federal law or regulation to that extent, it shall be inapplicable to that person or federal entity. No person or federal entity shall incur any liability by failing to comply with this Operating Agreement that is inapplicable to it by reason of being inconsistent with any federal statutes, regulations, or orders lawfully promulgated thereunder; provided, however, that such person or federal entity shall use its best efforts to comply with the ISO Tariff to the extent that applicable federal laws, regulations, and orders lawfully promulgated thereunder permit it to do so.
- (b) If any provision of this Operating Agreement requiring any person or federal entity to give an indemnity or impose a sanction on any person is unenforceable against a federal entity, the ISO shall submit to the Secretary of Energy or other appropriate Departmental Secretary a report of any circumstances that would, but for this provision, have rendered a federal entity liable to indemnify any person or incur a sanction and may request the Secretary of Energy or other appropriate Departmental Secretary to take such steps as are necessary to give effect to any provisions of this Operating Agreement that are not enforceable against the federal entity.

- 11.6 Integration.** This Operating Agreement constitutes the full agreement of the Parties with respect to the subject matter hereto and supercedes all prior agreements, whether written or oral, with respect to such subject matter.
- 11.7 Severability.** If any term, covenant, or condition of this Operating 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 Operating 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 Operating Agreement.
- 11.8 Penalties.** Any penalties to be levied under this Operating Agreement shall be established in accordance with the ISO Tariff and approved by the FERC. Nothing in this Operating Agreement, with the exception of the provisions relating to ADR, shall be construed as waiving the rights of the SUDC to oppose or protest any penalty proposed by the ISO to the FERC or the specific imposition by the ISO of any FERC-approved penalty on the SUDC.
- 11.9 Section Headings:** Section headings provided in this Operating Agreement are for ease of reading and are not meant to interpret the text in each Section.
- 11.10 Amendments.** This Operating 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.
- 11.11 Counterparts.** This Operating 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 Operating Agreement.

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

California Independent System Operator Corporation

By: 
Name: Randall T. Abernathy
Title: Vice President,
Market Services
Date: 5/19/05

Trinity Public Utilities District

By: 
Name: RICK COLEMAN
Title: GENERAL MANAGER
Date: MAY 6, 2005

SCHEDULE 1

SYSTEM INTERCONNECTION FACILITIES

System Interconnections:

Mill Street, Weaverville - 60 kV Cottonwood - Humboldt

Douglas City - 60 kV Cottonwood - Humboldt

Hayfork - 60 kV Cottonwood - Humboldt

Hampton - 60 kV Cottonwood - Humboldt

Grouse Creek - 60 kV Cottonwood - Humboldt

Big Bar / Big Flat - 60 kV Cottonwood - Humboldt

Lewiston - 60 kV Cottonwood - Humboldt

Forest Glen - 115 kV Cottonwood - Humboldt

SCHEDULE 2

Non-SUDC FACILITIES

Generation Facilities:

Pan Pacific QF - power purchase agreement with Pacific Gas & Electric Company; approximately 600 kW

USBR Fish Hatchery - approximately 300 kW, which is used primarily to serve the load of such Fish Hatchery.

SCHEDULE 3

OPERATIONAL CONTACTS

**[Privileged Information Has Been Redacted
Pursuant to 18 C.F.R. § 388.112]**

SCHEDULE 4

SYSTEM EMERGENCIES

The ISO will notify the SUDC's operational contact, as identified in Schedule 2, of the emergency, including information regarding the cause, nature, extent, and potential duration of the emergency. The SUDC contact will then take such actions as are appropriate for the emergency.

The SUDC will make requests for information from the ISO regarding emergencies through the ISO Operations Shift Manager, by the SUDC's operational contact, or the SUDC may coordinate public information with the ISO Communication Coordinator.

For transmission system caused outages the ISO Operations Shift Manager will notify the SUDC contact of any information related to the outage such as cause, nature, extent, potential duration and customers affected.

Available SUDC information and ISO Grid Control Center logs, ISO Electric Switching Orders and ISO Energy Management System temporal database will be used in the ISO's preparation of outage reviews. These documents are defined as the chronological record of the operation of the activities which occur with the portion of the electrical system assigned to that control center. The log shall contain all pertinent information, including orders received and transmitted, relay operations, messages, clearances, accidents, trouble reports, daily switching program, etc.

The SUDC will retain records in accordance with its record retention policy or practice, provided the records associated with this Operating Agreement are retained for a minimum of six years.

SCHEDULE 5

SYSTEM DISTURBANCE LOAD RESTORATION

If the SUDC is required to shed load, the SUDC will follow the procedures set forth below in this Schedule 5 in promoting orderly, coordinated restoration of electric systems after a major system disturbance has occurred which resulted in load shedding by frequency relays in California.

1. Immediately after load shedding has occurred in the SUDC, the SUDC will remain in contact with their respective Participating Transmission Owner (PTO) Area Control Center (ACC) until normal frequency has been restored throughout the ISO Control Area or the ISO Shift Manager has concluded that such full-time communications can be terminated. Emergency communications over the California ACC Hot-line will be under the direction of the ISO Shift Manager and the senior dispatcher present at the affected PTO ACC(s).
2. Manual load restoration will not normally be initiated until the California ACC Hot Line is attended. No load is to be manually restored unless directed by the ISO, either directly or through its assignee, provided that the procedure for the ISO's designation of any assignee is agreed to by the SUDC, after the frequency has recovered and there is indication that the frequency can be maintained. The SUDC will await direction from the ISO or its assignee, who will be in contact with the ISO Shift Manager. The ISO Shift Manager will determine whether adequate generation resources are available on line to support the load to be restored.
3. If the ISO cannot meet the WECC and NERC Control Area Disturbance Control Standard or the Control Performance Standard post disturbance, no manual load restoration will be permitted. If the frequency is such that automatic load restoration occurs under these conditions, if the SUDC has restored load automatically, it will manually shed an equivalent amount of load to offset the load which was automatically restored.

SCHEDULE 6

INTERCONNECTION OPERATION STANDARDS

The ISO and SUDC shall jointly maintain stable operating parameters and control power and reactive flow in accordance with the capabilities of the SUDC, the ISO Tariff and the following interconnection operation standards.

SUDC Responsibilities

1. The SUDC shall operate its SUDC Facilities at each point of *interconnection* with the ISO Controlled Grid in such manner as to avoid any material adverse impact on the reliability of the ISO Controlled Grid. In accordance with this performance goal, the SUDC shall: i) operate its SUDC Facilities at each point of interconnection with the ISO Controlled Grid in accordance with Good Utility Practice with respect to normal ratings, emergency ratings, voltage limits, and balance of load between electrical phases; and ii) maintain load power factor at each point of interconnection with the ISO Controlled Grid as close as reasonably possible to unity power factor and consistent with Good Utility Practice.

ISO Responsibilities

1. The ISO shall operate the ISO Controlled Grid at each point of interconnection with the SUDC in accordance with the ISO Tariff and in such manner as to avoid any material adverse impact on the SUDC Facilities. In accordance with this performance goal, the ISO shall:
2. At the request of the SUDC, participate with the SUDC and Participating TO in the development of joint power quality performance standards and jointly maintain compliance with such standards.
3. Observe SUDC grid voltage limits specified in Attachment 1 including requirements for reduced voltage on ISO Controlled Grid facilities which apply during heavy fog (or other unusual operating conditions) as needed to minimize the risk of insulator flashover.
4. At the request of the SUDC, support SUDC investigation of power quality incidents, and provide related data to the SUDC in a timely manner.
5. Support installation of apparatus on the ISO Controlled Grid to improve power quality, and take all reasonable measures to investigate and mitigate

power quality concerns caused by actions or events in neighboring systems or Control Areas.

6. Maintain, or cause to be maintained, load power factor at each SUDC Interconnection as close as reasonably possible to unity power factor and consistent with Good Utility Practice, pursuant to Section 2.5.3.4 of the ISO Tariff.

The Parties may adopt additional operations standards for the interconnection provided such standards are in writing and are mutually agreed to.

SCHEDULE 6
ATTACHMENT 1

SUDC GRID VOLTAGE LIMITS

There are no SUDC grid voltage limitations at the present time.

SCHEDULE 7**RECORDS, INFORMATION, REPORTS**

The SUDC shall provide available information to the ISO relating to SUDC system operations reasonably related to system reliability of the ISO Controlled Grid. The Parties shall jointly develop any necessary forms and procedures for collection, study and transmittal of system data, information, reports and forecasts.

SCHEDULE 8**RIGHTS OF ACCESS TO FACILITIES**

1. **Equipment Installation.** In order to give effect to this Operating Agreement, a Party that requires the use of particular equipment (the equipment owner) may require installation of such equipment on property owned by the other Party (the property owner), provided that the equipment is necessary to meet the equipment owner's service obligations and that the equipment shall not have a negative impact on the reliability of the service provided, nor prevent the property owner from performing its own obligations or exercising its rights under this Operating Agreement.
2. **Free Access.** The property owner shall grant to the equipment owner free of charge reasonable installation rights and rights of access to accommodate equipment inspection, maintenance, repair, upgrading, or removal for the purposes of this Operating Agreement, subject to the property owner's reasonable safety, operational, and future expansion needs.
3. **Notice.** The equipment owner shall provide reasonable notice to the property owner when requesting access for site assessment, equipment installation, or other relevant purposes. Such access shall not be provided unless the parties mutually agree to the date, time, and purpose of each access. Agreement on the terms of the access shall not be unreasonably withheld or delayed.
4. **Removal of Installed Equipment.** Following reasonable notice, the equipment owner shall be required, at its own expense, to remove or relocate equipment, at the request of the property owner, provided that the equipment owner shall not be required to do so if it would have a negative impact on the reliability of the service provided, or be prevented from performing its own obligations or exercising its rights under this Operating Agreement.
5. **Costs.** The equipment owner shall repair at its own expense any property damage it causes in exercising its rights and shall reimburse the property owner for any other reasonable costs that it may be required to incur to accommodate the equipment owner's exercise of its rights under Section 1 or Section 4.
6. **Rights to Assets.** The Parties shall not interfere with each other's assets, without prior written agreement.
7. **Inspection of Facilities.** In order to meet their respective obligations under this Operating Agreement, the ISO may view or inspect SUDC

Facilities and the SUDC may view or inspect ISO Grid facilities. Provided that reasonable notice is given, a Party shall not unreasonably deny access to such facilities for viewing or inspection by the requesting Party.

8. **Access During Emergencies.** Either Party shall have rights of access, without prior notice, to the other Party's equipment as necessary during times of a System Emergency.

SCHEDULE 9**SUDC OPERATING PROCEDURES**

The following ISO Operating Procedures are applicable to SUDCs:

D-51	Reporting Requirements for the ISO and Other Operating Entities
E-502	Emergency Manual Load Shedding
E-508	Electrical System Emergency
N-703	Significant Event Notification, Reporting and Investigation
RC-902	Reliability Coordinator
T-113	Scheduled and Forced Outages

EXHIBIT B

ISO Tariff Amendment for SUDC

Add a new Section 31 to the ISO Tariff as follows:

31. RELATIONSHIP BETWEEN ISO AND SUDCS.

31.1 General Nature of Relationship Between ISO and SUDCs.

31.1.1 The ISO shall not be obliged to accept Schedules, Adjustment Bids or bids for Ancillary Services which would require Energy to be transmitted to or from the Distribution System of a SUDC directly connected to the ISO Controlled Grid unless the relevant SUDC has entered into a SUDC Operating Agreement. The SUDC Operating Agreement shall require SUDCs to comply with the applicable provisions of this Section 31 and any other expressly applicable Sections of this ISO Tariff and the ISO Protocols, as they may be amended from time to time. The ISO shall maintain a pro forma SUDC Operating Agreement available for SUDCs to enter into with the ISO.

31.1.2 The ISO shall operate the ISO Control Area and the ISO Controlled Grid and each SUDC shall operate its Distribution System at all times in accordance with Good Utility Practice and in a manner which ensures safe and reliable operation. The ISO shall, in respect of its obligations set forth in this Section 31, have the right by mutual agreement to delegate certain operational responsibilities to the relevant Participating TO or SUDC pursuant to this Section 31. All information made available to SUDCs by the ISO shall also be made available to Scheduling Coordinators. Any information, pertaining to the physical state, operation, maintenance or failure of the SUDC Distribution System that may cause a material adverse affect to the operation of the ISO Controlled Grid, that is made available to the ISO by the SUDC shall also be made available to Scheduling Coordinators upon receipt of reasonable notice.

31.2 Coordinating Maintenance Outages of SUDC Facilities.

Each SUDC and the Participating TO with which it is interconnected shall coordinate their Outage requirements with respect to their transmission interconnection facilities prior to the submission by that Participating TO of its maintenance Outage requirements under Section 2.3.3.

ISO Tariff Amendment for SUDC

31.3 SUDC Responsibilities.

Recognizing the ISO's duty to ensure efficient use and reliable operation of the ISO Control Area and the ISO Controlled Grid consistent with the Applicable Reliability Criteria, each SUDC shall:

31.3.1 operate and maintain its Distribution System in accordance with applicable reliability standards, statutes and regulations, and Good Utility Practice so as to avoid any material adverse impact on the reliability of the ISO Control Area and the ISO Controlled Grid;

31.3.2 provide the ISO Outage Coordination Office each year with a schedule of upcoming maintenance on its transmission interconnection facilities with the ISO Controlled Grid that has a reasonable potential of causing a material adverse impact to the reliability of the ISO Controlled Grid.

31.4 System Emergencies.

31.4.1 In the event of a System Emergency, SUDCs shall comply with all directions from the ISO concerning the management and alleviation of the System Emergency and shall comply with all procedures concerning SUDCs for System Emergencies set out in the individual SUDC Operating Agreements.

31.4.2 During a System Emergency, the ISO and SUDCs shall communicate in accordance with procedures established in individual SUDC operating agreements.

31.5 Load Reduction.

31.5.1 If the ISO declares a Stage 1 System Emergency, the SUDC shall use any reasonably available local communication infrastructure to request that its customers curtail their electricity usage. The SUDC shall not be called separately in Stage 3 System Emergencies to manually shed Load. Load restoration of any voluntary Load reduction will occur once the ISO declares that a System Emergency no longer exists.

31.5.2 If the Participating TO sheds the SUDC Load associated with the Participating TO's transmission facilities, the Participating TO will provide timely information and work with the SUDC regarding SUDC Load restoration.

ISO Tariff Amendment for SUDC

31.6 System Emergency Reports: SUDC Obligations.

31.6.1 Each SUDC shall maintain all appropriate records pertaining to a System Emergency in accordance with the SUDC's then-existing record retention practice or policy, provided the records are kept for a minimum of six (6) years.

31.6.2 In accordance with its SUDC Operating Agreement, each SUDC shall provide available information to the ISO regarding the ISO's preparation of an Outage review.

31.7 Coordination of Expansion or Modifications to SUDC Facilities.

Each SUDC and the Participating TO with which it is interconnected shall coordinate in the planning and implementation of any expansion or modifications of a SUDC's or Participating TO's system that will materially affect the reliability of their transmission interconnection facilities, the ISO Controlled Grid or the transmission services to be required by the SUDC. The Participating TO shall be responsible for coordinating with the ISO.

31.8 Information Sharing.

31.8.1 System Planning Studies.

The ISO, Participating TOs and SUDCs shall share available information such as projected SUDC Load growth and SUDC system expansions necessary for the ISO or the Participating TOs to conduct necessary system planning studies to the extent that such SUDC Load growth or SUDC system expansions will materially impact the operation of the ISO Control Area and the ISO Controlled Grid.

31.8.2 System Surveys and Inspections.

The ISO, each UDC and each SUDC shall cooperate, to the extent economically feasible for the SUDC, in performing system surveys and inspections regarding the operation of the ISO Control Area and the ISO Controlled Grid.

31.8.3 Reports.

31.8.3.1 The ISO shall make available to the SUDCs any public annual reviews or reports regarding performance standards, measurements and incentives relating to the ISO Control Area and

ISO Tariff Amendment for SUDC

the ISO Controlled Grid and shall also make available, upon reasonable notice, any such reports that the ISO receives from the Participating TOs. Each SUDC shall make available to the ISO upon request any public annual reviews or reports regarding performance standards, measurements and incentives relating to the SUDC's Distribution System to the extent these relate to the operation of the ISO Control Area and the ISO Controlled Grid.

31.8.3.2 The ISO and SUDCs shall develop an operating procedure for the ISO to record *requests received from the SUDC for Maintenance Outages* and the completion of the requested maintenance and turnaround times.

31.9 Installation of Equipment on and Rights of Access to SUDC Facilities.

31.9.1 Installation of Facilities.

The ISO and the SUDC shall each have the right on reasonable notice to install or to have installed equipment (including metering equipment) or other facilities on the property of the other, to the extent that such installation is necessary for the installing party to meet its service obligations unless to do so would have a negative impact on the reliability of the service provided by the party owning the property. The ISO and the SUDC shall enter into agreements governing the installation of such equipment or other facilities containing customary, reasonable terms and conditions.

31.9.2 Access to Facilities.

The SUDCs shall grant, free of charge, the ISO reasonable access to SUDC facilities for purposes of inspection, repair, maintenance, or upgrading of facilities installed by the ISO on the SUDC's system, provided that the ISO must provide reasonable advance notice of its intent to access SUDC facilities and opportunity for SUDC staff to be present. Such access shall not be provided unless the parties mutually agree to the date, time and purpose of each access. Agreement on the terms of the access shall not be unreasonably withheld.

31.9.3 Access During Emergencies.

Notwithstanding any provision in this Section 31 the ISO may have access, without giving prior notice, to any SUDC's equipment or other facilities during times of a System Emergency.

ISO Tariff Amendment for SUDC

31.9.4 Access For Audit Functions.

Notwithstanding any provision in this Section 31 the ISO may have access, without giving prior notice, to any SUDC's equipment or other facilities where the ISO has a reasonable basis to believe the SUDC has failed to comply with the SUDC Operating Agreement, applicable ISO Tariff or ISO Protocol provisions and access is required to conduct an audit to gather relevant facts.

ISO Tariff Amendment for SUDC

Amend the ISO Tariff Appendix A, Master Definitions Supplement, by adding the following definition:

**SUDC (Small Utility
Distribution Company)**

An entity that owns a Distribution System that is capable of transmitting or delivery of Energy to and/or from the ISO Controlled Grid that provides retail electric service to End-Use Customers, and has the following characteristics:

1. Annual peak Demand is 25 MW or less;
2. The Distribution System is not in a local reliability area defined by the ISO; and
3. Good Utility Practice was used in designing all substation facilities that are owned or operated by the entity and interconnected to the ISO Controlled Grid, and none of those substations have transmission circuit breakers.

EXHIBIT C

**CALIFORNIA INDEPENDENT SYSTEM
OPERATOR**

AND

[SMALL UTILITY DISTRIBUTION COMPANY]

**SMALL UTILITY DISTRIBUTION
COMPANY OPERATING AGREEMENT**

**SMALL UTILITY DISTRIBUTION COMPANY
OPERATING AGREEMENT**

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

- (1) **[Full legal name of SUDC]**, having its registered and principal place of business located at **[Address]** (the "SUDC");
and
- (2) **California Independent System Operator Corporation**, a California non-profit public benefit corporation having its principal place of business located in such place in the State of California as the ISO Governing Board may from time to time designate, initially 151 Blue Ravine Road, Folsom, California 95630 (the "ISO").

The SUDC and the ISO are hereinafter referred to individually as "Party" and collectively as "Parties".

Whereas:

- A. The purpose of this Operating Agreement is to establish the rights and obligations of the SUDC and the ISO with respect to the SUDC's Facilities interconnected with the ISO Controlled Grid and the SUDC's cooperation and coordination with the ISO regarding reliability and the operational control of the ISO Controlled Grid and the SUDC's Distribution System.
- B. The SUDC owns and operates a small Distribution System within the ISO Control Area subject to the authority of a Local Regulatory Authority.
- C. The SUDC wishes to receive and transmit Energy and/or Ancillary Services to and/or from the ISO Controlled Grid under the terms and conditions set forth in the ISO Tariff.
- D. The ISO has certain statutory obligations under California law to maintain the reliability of the ISO Controlled Grid.
- E. The Parties recognize that while a single SUDC has little or no ability to materially, adversely affect reliability of the ISO Controlled Grid or the ISO Control Area, the SUDC agrees to support and be part of the coordinated response to System Emergencies and to reliability concerns relating to the ISO Control Area as set forth in this Operating Agreement.
- F. This Operating Agreement obligates the SUDC to comply with the sections of the ISO Tariff, the ISO Operating Procedures and the ISO Specifications specified in this Operating Agreement.

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

**ARTICLE I
DEFINITIONS AND INTERPRETATION**

1.1 Master Definitions Supplement. Unless defined in Section 1.2 of this Operating Agreement, all defined terms and expressions used in this Operating Agreement shall have the same meaning as those contained in the Master Definitions Supplement to the ISO Tariff.

1.2 Special Definitions for this Operating Agreement. In this Operating Agreement, the following words and expressions shall have the meanings set opposite them:

“ISO Specifications” means those standards pertaining to the areas of operation listed in Article IV of this Operating Agreement and listed in Schedule 6, approved by the ISO to establish detailed technical performance and reliability parameters at the ISO Controlled Grid and SUDC Interconnection, associated with the ISO Tariff, as those standards may be amended from time to time.

“ISO Operating Procedures” means those procedures pertaining to the areas of operation listed in Article IV of this Operating Agreement and listed in Schedule 9, created by the ISO to establish detailed operating procedures at the ISO Controlled Grid and SUDC Interconnection, associated with general provisions required in the ISO Tariff, as those standards may be amended from time to time.

“SUDC Facilities” shall have the meaning accorded to such term as provided in Section 3.2 of this Operating Agreement.

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

- (a) if there is any inconsistency between this Operating Agreement and the ISO Tariff, the ISO Tariff will prevail to the extent of the inconsistency;
- (b) the singular shall include the plural and vice versa;
- (c) the masculine shall include the feminine and neutral and vice versa;
- (d) “includes” or “including” shall mean “including without limitation”;
- (e) references to a Section, Article or Schedule shall mean a Section, Article or a Schedule of this Operating Agreement, as the case may be, unless the context otherwise requires;
- (f) a reference in this Operating Agreement to a given agreement, instrument or the ISO Tariff shall be a reference to that agreement, instrument or the ISO Tariff as modified, amended, supplemented or restated through the date as of which such reference is made;

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

ARTICLE II TERM AND TERMINATION

- 2.1 Effective Date.** This Operating Agreement shall be effective as of the date it is accepted for filing and made effective by the FERC and shall remain in full force and effect until the earlier of the termination date, the termination of the Transmission Control Agreement or such other date as the Parties shall mutually agree. With respect to any such termination, the ISO must file a timely notice of termination with FERC, and this Operating Agreement shall terminate on the date FERC permits such a notice of termination to be effective.
- 2.2 Termination Date.**
- 2.2.1 Termination by Default.** Either Party (the terminating Party) may terminate this Operating Agreement by giving written notice in the event that the other Party (the defaulting Party) commits any default under this Operating Agreement and/or the ISO Tariff which, if capable of being remedied, is not remedied within 30 days after the terminating Party has given the defaulting Party written notice of the default, unless excused by reason of Uncontrollable Forces under Article X of this Operating Agreement.
- 2.2.2 Failure To Meet SUDC Definition.** Failure of a SUDC to satisfy the ISO Tariff definition of a SUDC shall be grounds for the ISO to terminate this Operating Agreement. In the event the ISO believes the SUDC no longer satisfies the ISO Tariff definition of a SUDC, the ISO shall provide written notification of the same to the SUDC and the SUDC shall have 60 days to respond. Following the 60-day response period and regardless of the position of the SUDC, if the ISO believes the SUDC no longer satisfies the ISO Tariff definition of a SUDC regardless of

the response, the ISO may file a notice of termination with FERC in accordance with Section 2.2.3.

- 2.2.3 Filing.** With respect to any notice of termination given pursuant to this Section 2.2, the ISO must file a timely notice of termination with FERC. The filing of the notice of termination by the ISO will be considered timely if: (1) the request by either Party to file a notice of termination is made after the preconditions for termination have been met, and (2) the ISO files the notice of termination within 30 days of receipt of such request. This Operating Agreement shall terminate on the date FERC permits such a notice of termination to be effective.

ARTICLE III GENERAL TERMS AND CONDITIONS

- 3.1 SUDC Responsibilities.** The SUDC will be responsible to operate and maintain its SUDC Facilities in accordance with applicable reliability standards, statutes, and regulations and Good Utility Practice so as to avoid any material adverse impact on the reliability of the ISO Control Area and the ISO Controlled Grid.
- 3.2 Interconnection and SUDC Facilities.** Schedule 1 sets forth the SUDC's Generating Units, if any, and those facilities that comprise the interconnection of the SUDC Distribution System and the ISO Controlled Grid. These facilities will be considered the "SUDC Facilities" and, except as otherwise expressly provided, the provisions of this Operating Agreement shall apply only to such SUDC Facilities.
- 3.3 Non-SUDC Facilities.** To assist the ISO in cataloging non-SUDC facilities located in the ISO Control Area and for information purposes only, Schedule 2 sets forth any non-SUDC Generating Units or other facilities that are interconnected to the SUDC Distribution System. Such non-SUDC facilities are not owned or operated by the SUDC.
- 3.4 Agreement Subject to ISO Tariff.** Notwithstanding anything to the contrary herein, the Parties agree that they will comply with Section 31 of the ISO Tariff, and any other applicable provisions of the ISO Tariff specifically referenced in this Operating Agreement. This Operating Agreement shall be subject to such provisions of the ISO Tariff, which shall be deemed to be incorporated to the extent referenced herein, as the same may be changed or superseded from time to time pursuant to Sections 16.1 and 20.1.3 of the ISO Tariff. Nothing in this Operating Agreement shall affect in any way the authority of the ISO to unilaterally make application to FERC for a change in the ISO Tariff under Section 205 of the Federal Power Act, nor shall anything in this Operating Agreement affect the right of either Party to file a complaint under Section 206 of the Federal Power Act regarding the ISO Tariff.

- 3.5 Operation of ISO Controlled Grid.** The ISO shall operate the ISO Control Area and the ISO Controlled Grid in accordance with the ISO Tariff and the Transmission Control Agreement to which it is a party.
- 3.6 ISO Specifications and ISO Operating Procedures.**
- 3.6.1 Compliance with ISO Specifications and ISO Operating Procedures.** The SUDC will abide by and will perform all of the obligations under the ISO Specifications identified in Schedule 6 and ISO Operating Procedures identified in Schedule 9 in respect of all matters set forth therein as the same may be changed or superseded from time to time pursuant to the procedures set forth in Sections 16.1 and 20.1.3 of the ISO Tariff. In the event of any conflict or dispute over interpretation, those sections of the ISO Tariff identified herein shall, at all times, take precedence over such ISO Specifications and ISO Operating Procedures. The ISO shall not implement any reliability requirements, operating requirements or performance standards that would impose increased costs on the SUDC without giving due consideration to whether the benefits of such requirements or standards are sufficient to justify such increased costs. In any proceeding concerning the cost recovery by the SUDC of capital and operation and maintenance costs incurred to comply with ISO Specifications and ISO Operating Procedures, the ISO shall to the extent practicable, at the request of the SUDC, provide specific information in a form that may be readily understood by the general public regarding the nature of, and need for, the ISO-imposed requirements or standards to enable the SUDC to use this information in public hearings in support of cost recovery through rates and tariffs.
- 3.6.2 Review of ISO Specifications and ISO Operating Procedures.** The ISO shall periodically review with the SUDC the ISO Specifications identified in Schedule 6 and ISO Operating Procedures identified in Schedule 9 and shall modify such ISO Specifications and/or ISO Operating Procedure as provided in Section 3.6.1. If a new ISO Specification or ISO Operating Procedure applicable to the SUDC is adopted pursuant to Section 3.6.1, the ISO shall provide a revised version of Schedule 6 or Schedule 9 to the SUDC. Any changes to Schedule 6 or Schedule 9 will not constitute an amendment to this Operating Agreement.
- 3.6.3 Periods When Compliance is Required.** While awaiting dispute resolution or regulatory review, the SUDC shall not be required to comply with changes to the ISO Specifications and ISO Operating Procedures, except where compliance is necessary in order to prevent or remedy an imminent System Emergency.
- 3.7 Utilization of Certified Scheduling Coordinator.** The SUDC shall utilize an ISO-certified Scheduling Coordinator to schedule Energy and Ancillary Services to or from the ISO Controlled Grid. At the time when the SUDC retains such Scheduling Coordinator, the SUDC shall confirm that the Scheduling Coordinator has entered into a Scheduling Coordinator Agreement with the ISO that is currently in effect.

- 3.8 Single Point of Contact.** The ISO and the SUDC shall each provide a single point of contact for the exchange of operational procedures and information. Details of requirements relating to and the identity of the initial points of contact are set forth in Schedule 3.
- 3.9 SUDC Compliance.** In the event the ISO believes that the SUDC has failed to comply with any provision of the ISO Tariff created after the effective date applicable to the SUDC in accordance with this Operating Agreement, the ISO shall notify the SUDC of such alleged failure and, if requested, shall meet with the SUDC regarding such alleged failure to comply. If the Parties cannot reach agreement on the alleged failure to comply, then the ISO may, if applicable, invoke Section 2.2.1 of this Operating Agreement.

ARTICLE IV OPERATIONAL COORDINATION

- 4.1 Maintenance Coordination.** The SUDC shall coordinate its SUDC Facilities Outage requirements with the Participating TO with which it is interconnected. The SUDC will provide the ISO with copy of any written information regarding Outages of the SUDC Facilities that could cause a material adverse impact on the reliability of the ISO Controlled Grid. To the extent the SUDC schedules maintenance of SUDC Facilities that has a reasonable potential to cause a material adverse impact to reliability of the ISO Controlled Grid, the SUDC shall notify the ISO of such maintenance when it becomes known, and that information will be updated quarterly or as changes occur to the proposed schedule. Consistent with the SUDC's normal record generation and retention practices, the SUDC will record the details for all such work and shall provide available records when it is known, quarterly, or upon written request by the ISO.
- 4.2 System Emergencies.** The responsibilities of the Parties in relation to System Emergencies are stated in Sections 31.4, 31.5 and the Dispatch Protocol of the ISO Tariff, the ISO Operating Procedures identified in Schedule 9, and in Schedule 4.
- 4.3 System Emergency Response.** The SUDC will participate in Load Shedding by reducing Load on a voluntary basis when the ISO declares a Stage 1 System Emergency. The SUDC will use any available local communication infrastructure to request that its customers curtail their electricity usage. The SUDC will not be called separately in Stage 3 System Emergencies to manually shed Load. Load restoration of any voluntary Load reduction may not commence until such time as the ISO declares that a System Emergency no longer exists. The responsibilities

of the Parties to direct and to accept direction for Load reduction or other emergency plans are stated in Sections 31.4 and 31.5 of the ISO Tariff, and the ISO Operating Procedures identified in Schedule 9 and ISO Specifications identified in Schedule 6.

- 4.4 System Disturbance Load Restoration.** The responsibilities of the Parties for restoring Load following a system disturbance are stated in Section 31.5.2 of the ISO Tariff, the ISO Operating Procedures identified in Schedule 9 and ISO Specifications identified in Schedule 6, and in Schedule 5.
- 4.5 Interconnection Operation Standards.** The ISO and SUDC shall maintain stable established operating parameters and control power and reactive flow within standards stated in Schedule 6.
- 4.6 Records, Information and Reports.** The Parties are required to maintain such records, to share information, and to make such reports as are stated in Section 31.1.2, 31.6 and 31.8 of the ISO Tariff, and the ISO Operating Procedures identified in Schedule 9 and the ISO Specifications identified in Schedule 6. In accordance with Schedule 7, the SUDC will cooperate with the ISO regarding its collection, study and transmittal of system data, information, reports, and forecasts, provided that the SUDC need only provide available information to the ISO. Upon the request of the ISO, the SUDC will cooperate with the ISO regarding any ISO review following a major Outage and provide any requested information that is available.
- 4.7 SUDC Distribution System.** The ISO shall (in accordance with Section 11.2 of this Operating Agreement) notify the SUDC as soon as is reasonably practicable of any condition which the ISO becomes aware that may compromise the operation and reliability of the SUDC Distribution System.

ARTICLE V ACCESS TO FACILITIES

- 5.1 Access Rights.** Pursuant to Section 31.9.1 of the ISO Tariff and Schedule 8 of this Operating Agreement, the ISO and the SUDC shall each have the right to install or to have installed equipment or other facilities, including metering equipment, on the electric utility property of the other necessary for the implementation of this Operating Agreement. The ISO's installation of equipment on the property of the SUDC shall comply with Local Regulatory Authority regulations, except where compliance with Local Regulatory Authority regulations would cause the ISO to violate the ISO Tariff, and with all relevant safety standards. In such case, the SUDC and ISO will work together to resolve the conflict between the Local Regulatory Authority regulations and the ISO Tariff.

- 5.2 Meter Testing.** The SUDC shall, at the request of the ISO and upon reasonable notice, provide access to its facilities necessary to permit the ISO or an ISO-approved meter inspector to perform such testing as necessary in accordance with Section 31.9.2 or 31.9.4 of the ISO Tariff and the procedures set forth in Schedule 8. For meters that are not owned by the SUDC, the ISO will obtain approval from the meter owner in advance of accessing SUDC's Facilities. Such approval shall be provided to the SUDC upon request.
- 5.3 Emergency Access Rights.** The ISO shall have a right to access the SUDC's equipment or other facilities during a System Emergency in accordance with Section 31.9.3 of the ISO Tariff. In a System Emergency, the SUDC shall have a right of access to ISO equipment on SUDC property and SUDC equipment on ISO property without notice.

ARTICLE VI COSTS

- 6.1 SUDC Operating and Maintenance Costs.** The SUDC shall be responsible for all costs incurred in connection with procuring, installing, operating and maintaining its facilities identified in Schedule 1 for the purpose of meeting its obligations under this Operating Agreement.
- 6.2 ISO Operating and Maintenance Costs.** The ISO shall be responsible for the procurement, installation, operation and maintenance costs of ISO equipment set out in Article V of this Operating Agreement installed on SUDC property.

ARTICLE VII DISPUTE RESOLUTION

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

**ARTICLE VIII
REPRESENTATIONS AND WARRANTIES**

- 8.1 Representations and Warranties.** Each Party represents and warrants that its execution, delivery and performance of this Operating Agreement has been duly authorized by all necessary corporate and/or governmental actions, to the extent authorized by law.
- 8.2 Necessary Approvals.** Each Party represents that all necessary approvals, permits, licenses, easements, right of way or access to install, own and operate its facilities subject to this Operating Agreement have been obtained prior to the effective date of this Operating Agreement.

**ARTICLE IX
LIABILITY**

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

**ARTICLE X
UNCONTROLLABLE FORCES**

- 10.1 Uncontrollable Forces Tariff Provisions.** Section 15 of the ISO Tariff shall be incorporated by reference into this Operating Agreement, except that all references in Section 15 of the ISO Tariff to Market Participants shall be read as a reference to the SUDC and references to the ISO Tariff shall be read as references to this Operating Agreement.

**ARTICLE XI
MISCELLANEOUS**

- 11.1 Assignments.** Either Party may assign its obligations under this Operating Agreement, with the other Party's prior written consent, in accordance with Section 17 of the ISO Tariff, which is incorporated by reference into this Operating Agreement. Such consent shall not be unreasonably withheld.
- 11.2 Notices.** Any notice, demand or request which may be given to or made upon either Party regarding this Operating Agreement shall be made in accordance with Section 20.1 of the ISO Tariff, which is incorporated by reference, except that all reference in Section 20.1 to Market Participants shall be read as a

reference to the SUDC. A Party must update the information in Schedule 3 of this Operating Agreement as that information changes in accordance with Section 20.1 of the ISO Tariff. Such changes will not constitute an amendment to this Operating Agreement.

- 11.3 Waivers.** Any waiver at any time by either Party of its rights with respect to any default under this Operating Agreement, or with respect to any other matter arising in connection with this Operating Agreement, shall not constitute or be deemed a waiver with respect to any subsequent default or matter arising in connection with this Operating Agreement. Any delay short of the statutory period of limitations, in asserting or enforcing any right under this Operating Agreement, shall not constitute or be deemed a waiver of such right.
- 11.4 Governing Law and Forum.** This Operating 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 in its conflict of laws provisions. The Parties irrevocably consent that any legal action or proceeding arising under or in relation to this Operating Agreement to which the ISO 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.
- 11.5 Consistency with Federal Laws and Regulations.**
- (a) Nothing in this Operating Agreement shall compel any person or federal entity to: (1) violate federal statutes or regulations; or (2) in the case of a federal agency, to exceed its statutory authority, as defined by any applicable federal statutes, regulations, or orders lawfully promulgated thereunder. If any provision of this Operating Agreement is inconsistent with any obligation imposed on any person or federal entity by federal law or regulation to that extent, it shall be inapplicable to that person or federal entity. No person or federal entity shall incur any liability by failing to comply with this Operating Agreement that is inapplicable to it by reason of being inconsistent with any federal statutes, regulations, or orders lawfully promulgated thereunder; provided, however, that such person or federal entity shall use its best efforts to comply with the ISO Tariff to the extent that applicable federal laws, regulations, and orders lawfully promulgated thereunder permit it to do so.
 - (b) If any provision of this Operating Agreement requiring any person or federal entity to give an indemnity or impose a sanction on any person is unenforceable against a federal entity, the ISO shall submit to the Secretary of Energy or other appropriate Departmental Secretary a report of any circumstances that would, but for this provision, have rendered a federal entity liable to indemnify any person or incur a sanction and may

request the Secretary of Energy or other appropriate Departmental Secretary to take such steps as are necessary to give effect to any provisions of this Operating Agreement that are not enforceable against the federal entity.

- 11.6 Integration.** This Operating Agreement constitutes the full agreement of the Parties with respect to the subject matter hereto and supercedes all prior agreements, whether written or oral, with respect to such subject matter.
- 11.7 Severability.** If any term, covenant, or condition of this Operating 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 Operating 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 Operating Agreement.
- 11.8 Penalties.** Any penalties to be levied under this Operating Agreement shall be established in accordance with the ISO Tariff and approved by the FERC. Nothing in this Operating Agreement, with the exception of the provisions relating to ADR, shall be construed as waiving the rights of the SUDC to oppose or protest any penalty proposed by the ISO to the FERC or the specific imposition by the ISO of any FERC-approved penalty on the SUDC.
- 11.9 Section Headings:** Section headings provided in this Operating Agreement are for ease of reading and are not meant to interpret the text in each Section.
- 11.10 Amendments.** This Operating 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.
- 11.11 Counterparts.** This Operating 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 Operating Agreement.

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

California Independent System Operator Corporation

By: _____

Name: _____

Title: _____

Date: _____

[Full name of SUDC]

By: _____

Name: _____

Title: _____

Date: _____

SCHEDULE 1

SYSTEM INTERCONNECTION FACILITIES

[List to be provided in accordance with the SUDC Operating Agreement.]

SCHEDULE 2

Non-SUDC FACILITIES

[List to be provided in accordance with the SUDC Operating Agreement.]

SCHEDULE 3

OPERATIONAL CONTACTS

ISO:

Transmission Dispatcher
(Folsom): _____

Transmission Dispatcher
(Alhambra): _____

Generator Dispatcher:
(Folsom-Primary) _____

Generator Dispatcher:
(Alhambra-Backup) _____

Real Time Scheduler:
(Folsom) _____

Real Time Scheduler:
(Alhambra) _____

Pre Scheduler: _____

Shift Manager: _____
Control Room fax: _____

Outage Coordination: _____
Fax: _____

Director of Grid Operations: _____

WECC Reliability Coordinator: _____

SUDC:

Name of Operations
Representative: _____

Title: _____

Address: _____

City/State/Zip Code: _____

Email address: _____

Phone: _____

Fax: _____

Name of Alternative
Representative: _____

Title: _____

Email address: _____

Phone: _____

Fax: _____

CONTACTS FOR NOTICES

SUDC

Name of Primary

Representative:

Title:

Address:

City/State/Zip Code:

Email Address:

Phone:

Fax No:

Name of Alternative

Representative:

Title:

Address:

City/State/Zip Code:

Email Address:

Phone:

Fax No:

ISO

Name of Primary

Representative: _____

Title: _____

Address: _____

City/State/Zip Code: _____

Email Address: _____

Phone: _____

Fax No: _____

Name of Alternative

Representative: _____

Title: _____

Address: _____

City/State/Zip Code: _____

Email Address: _____

Phone: _____

Fax No: _____

SCHEDULE 4

SYSTEM EMERGENCIES

The ISO will notify the SUDC's operational contact, as identified in Schedule 2, of the emergency, including information regarding the cause, nature, extent, and potential duration of the emergency. The SUDC contact will then take such actions as are appropriate for the emergency.

The SUDC will make requests for information from the ISO regarding emergencies through the ISO Operations Shift Manager, by the SUDC's operational contact, or the SUDC may coordinate public information with the ISO Communication Coordinator.

For transmission system caused outages the ISO Operations Shift Manager will notify the SUDC contact of any information related to the outage such as cause, nature, extent, potential duration and customers affected.

Available SUDC information and ISO Grid Control Center logs, ISO Electric Switching Orders and ISO Energy Management System temporal database will be used in the ISO's preparation of outage reviews. These documents are defined as the chronological record of the operation of the activities which occur with the portion of the electrical system assigned to that control center. The log shall contain all pertinent information, including orders received and transmitted, relay operations, messages, clearances, accidents, trouble reports, daily switching program, etc.

The SUDC will retain records in accordance with its record retention policy or practice, provided the records associated with this Operating Agreement are retained for a minimum of six years.

SCHEDULE 5

SYSTEM DISTURBANCE LOAD RESTORATION

If the SUDC is required to shed load, the SUDC will follow the procedures set forth below in this Schedule 5 in promoting orderly, coordinated restoration of electric systems after a major system disturbance has occurred which resulted in load shedding by frequency relays in California.

1. Immediately after load shedding has occurred in the SUDC, the SUDC will remain in contact with their respective Participating Transmission Owner (PTO) Area Control Center (ACC) until normal frequency has been restored throughout the ISO Control Area or the ISO Shift Manager has concluded that such full-time communications can be terminated. Emergency communications over the California ACC Hot-line will be under *the direction of the ISO Shift Manager and the senior dispatcher present at the affected PTO ACC(s)*.
2. Manual load restoration will not normally be initiated until the California ACC Hot Line is attended. No load is to be manually restored unless directed by the ISO, either directly or through its assignee, provided that the procedure for the ISO's designation of any assignee is agreed to by the SUDC, after the frequency has recovered and there is indication that the frequency can be maintained. The SUDC will await direction from the ISO or its assignee, who will be in contact with the ISO Shift Manager. The ISO Shift Manager will determine whether adequate generation resources are available on line to support the load to be restored.
3. If the ISO cannot meet the WECC and NERC Control Area Disturbance Control Standard or the Control Performance Standard post disturbance, no manual load restoration will be permitted. If the frequency is such that automatic load restoration occurs under these conditions, if the SUDC has restored load automatically, it will manually shed an equivalent amount of load to offset the load which was automatically restored.

SCHEDULE 6

INTERCONNECTION OPERATION STANDARDS

The ISO and SUDC shall jointly maintain stable operating parameters and control power and reactive flow in accordance with the capabilities of the SUDC, the ISO Tariff and the following interconnection operation standards.

SUDC Responsibilities

1. The SUDC shall operate its SUDC Facilities at each point of interconnection with the ISO Controlled Grid in such manner as to avoid any material adverse impact on the reliability of the ISO Controlled Grid. In accordance with this performance goal, the SUDC shall: i) operate its SUDC Facilities at each point of interconnection with the ISO Controlled Grid in accordance with Good Utility Practice with respect to normal ratings, emergency ratings, voltage limits, and balance of load between electrical phases; and ii) maintain load power factor at each point of interconnection with the ISO Controlled Grid as close as reasonably possible to unity power factor and consistent with Good Utility Practice.

ISO Responsibilities

1. The ISO shall operate the ISO Controlled Grid at each point of interconnection with the SUDC in accordance with the ISO Tariff and in such manner as to avoid any material adverse impact on the SUDC Facilities. In accordance with this performance goal, the ISO shall:
2. At the request of the SUDC, participate with the SUDC and Participating TO in the development of joint power quality performance standards and jointly maintain compliance with such standards.
3. Observe SUDC grid voltage limits specified in Attachment 1 including requirements for reduced voltage on ISO Controlled Grid facilities which apply during heavy fog (or other unusual operating conditions) as needed to minimize the risk of insulator flashover.
4. At the request of the SUDC, support SUDC investigation of power quality incidents, and provide related data to the SUDC in a timely manner.
5. Support installation of apparatus on the ISO Controlled Grid to improve power quality, and take all reasonable measures to investigate and

mitigate power quality concerns caused by actions or events in neighboring systems or Control Areas.

6. Maintain, or cause to be maintained, load power factor at each SUDC Interconnection as close as reasonably possible to unity power factor and consistent with Good Utility Practice, pursuant to Section 2.5.3.4 of the ISO Tariff.

The Parties may adopt additional operations standards for the interconnection provided such standards are in writing and are mutually agreed to.

SCHEDULE 6
ATTACHMENT 1

SUDC GRID VOLTAGE LIMITS

[To be determined.]

SCHEDULE 7**RECORDS, INFORMATION, REPORTS**

The SUDC shall provide available information to the ISO relating to SUDC system operations reasonably related to system reliability of the ISO Controlled Grid. The Parties shall jointly develop any necessary forms and procedures for collection, study and transmittal of system data, information, reports and forecasts.

SCHEDULE 8

RIGHTS OF ACCESS TO FACILITIES

1. **Equipment Installation.** In order to give effect to this Operating Agreement, a Party that requires the use of particular equipment (the equipment owner) may require installation of such equipment on property owned by the other Party (the property owner), provided that the equipment is necessary to meet the equipment owner's service obligations and that the equipment shall not have a negative impact on the reliability of the service provided, nor prevent the property owner from performing its own obligations or exercising its rights under this Operating Agreement.
2. **Free Access.** The property owner shall grant to the equipment owner free of charge reasonable installation rights and rights of access to accommodate equipment inspection, maintenance, repair, upgrading, or removal for the purposes of this Operating Agreement, subject to the property owner's reasonable safety, operational, and future expansion needs.
3. **Notice.** The equipment owner shall provide reasonable notice to the property owner when requesting access for site assessment, equipment installation, or other relevant purposes. Such access shall not be provided unless the parties mutually agree to the date, time, and purpose of each access. Agreement on the terms of the access shall not be unreasonably withheld or delayed.
4. **Removal of Installed Equipment.** Following reasonable notice, the equipment owner shall be required, at its own expense, to remove or relocate equipment, at the request of the property owner, provided that the equipment owner shall not be required to do so if it would have a negative impact on the reliability of the service provided, or be prevented from performing its own obligations or exercising its rights under this Operating Agreement.
5. **Costs.** The equipment owner shall repair at its own expense any property damage it causes in exercising its rights and shall reimburse the property owner for any other reasonable costs that it may be required to incur to accommodate the equipment owner's exercise of its rights under Section 1 or Section 4.
6. **Rights to Assets.** The Parties shall not interfere with each other's assets, without prior written agreement.
7. **Inspection of Facilities.** In order to meet their respective obligations under this Operating Agreement, the ISO may view or inspect SUDC

Facilities and the SUDC may view or inspect ISO Grid facilities. Provided that reasonable notice is given, a Party shall not unreasonably deny access to such facilities for viewing or inspection by the requesting Party.

8. **Access During Emergencies.** Either Party shall have rights of access, without prior notice, to the other Party's equipment as necessary during times of a System Emergency.

SCHEDULE 9

SUDC OPERATING PROCEDURES

[To be determined.]

ATTACHMENT A

385.2001(a)(1)(iii) and the instructions on the Commission's web site under the "e-Filing" link. The Commission strongly encourages electronic filings.

Comment Date: _____