

California ISO – Valley Electric MOU: August 1, 2011

## MEMORANDUM OF UNDERSTANDING

The California Independent System Operator Corporation (“ISO”) and Valley Electric Association, Inc. (“Valley Electric”) have been engaged in discussions concerning Valley Electric’s interest in becoming a participating transmission owner, utility distribution company and load serving entity in accordance with the ISO tariff. The ISO and Valley Electric are each referred to herein as a “Party,” and jointly as the “Parties.”

The Parties have identified several integration issues that must be addressed prior to the date when Valley Electric formally becomes a participating transmission owner, utility distribution company and load serving entity in the ISO balancing authority area (the “Transition Date”). This Memorandum of Understanding (“MOU”) represents the understanding of the Parties which, upon approval by the Parties’ respective governing bodies, will form the basis of an agreement (the “Transition Agreement”) that will be filed for approval with the Federal Energy Regulatory Commission (“FERC”) along with any requests for limited waiver of the ISO tariff necessary for the Parties to implement the Transition Agreement.

The purpose of this MOU is to describe the path forward, from now until the Transition Date, in order to: (1) provide certainty for Valley Electric and its customers as well as ISO market participants, (2) address issues with respect to the treatment of Valley Electric and its customers under the ISO tariff, (3) specify the ISO’s responsibilities with regard to Valley Electric and its customers, (4) inform existing ISO participating transmission owners and other ISO stakeholders, (5) identify any foreseeable issues associated with moving Valley Electric’s load from the NV Energy balancing area authority to the ISO balancing area authority, and (6) recognize associated waivers of the ISO tariff or amendments to the transmission control agreement that may be necessary to support the transition process.

---

**WHEREAS**, Valley Electric is a Nevada cooperative corporation without stock that operates as a non-generating distribution cooperative, providing retail electric service to members within its service area located in Nevada and California.

**WHEREAS**, the ISO is a nonprofit public benefit corporation organized and existing under the laws of the State of California that operates transmission facilities under its operational control and wholesale electricity markets pursuant to its tariff on file with FERC.

**WHEREAS**, Valley Electric submitted a transmission interconnection request to Southern California Edison Company (“SCE”) for a 230 kV interconnection between its electric system and the SCE owned facilities at or near the Eldorado substation, which are part of the ISO controlled grid, with the intent of becoming an ISO participating transmission owner pursuant to the transmission control agreement and the ISO tariff. In addition, Valley Electric has existing contract rights associated with the Mead interconnection that will allow Valley Electric to become a participating transmission owner prior to completion of the system interconnection upgrade with SCE.

**WHEREAS**, Valley Electric anticipates the transmission interconnection facilities will be placed in service sometime between the Summer of 2013 and the Summer of 2015. The Parties have determined that Valley Electric’s existing rights with the Western Area Power Administration – Desert Southwest Region at Mead provide the basis for Valley Electric to become a participating transmission owner before the transmission interconnection facilities

are placed in service. The Parties have therefore targeted January 1, 2013 for completion of all agreements and regulatory approvals necessary to recognize Valley Electric as an ISO participating transmission owner and utility distribution company on that date. The earlier of the date that the ISO assumes operational control of Valley Electric's transmission facilities through the Mead interconnection or that the SCE interconnection is operational, but no earlier than January 1, 2013, shall be the date on which Valley Electric will become a participating transmission owner, utility distribution company and load serving entity within the ISO balancing authority area.

**WHEREAS**, the ISO and Valley Electric have identified several issues that must be addressed prior to the Transition Date. As such, the Parties have reached an understanding with respect to these issues as well as the steps they intend to complete prior to the Transition Date. It is the Parties' expectation that Valley Electric and its customers will be treated as other similarly situated entities pursuant to the ISO tariff and transmission control agreement following the Transition Date, except as may be required to complete the transition process.

**NOW, THEREFORE, the Parties Understand and Agree as Follows:**

**1. Interconnection Queue Merger**

The ISO and Valley Electric currently each conduct their own interconnection queue and study processes. Once Valley Electric becomes a participating transmission owner in the ISO balancing authority area, interconnection customers currently in Valley Electric's queue that achieve commercial operation will become ISO controlled grid connected generators. Therefore, the matter to be addressed here is to specify steps that the parties will take in advance of the Transition Date so that generators in Valley Electric's queue can operate as ISO controlled grid connected generators in a manner that is comparable to generators currently in the ISO's queue such that when the transition occurs they are not being unduly disadvantaged or advantaged. In particular, this section addresses the ability of Valley Electric's interconnection customers to obtain full capacity deliverability status as ISO controlled grid connected generators in anticipation of the Transition Date.

The ISO tariff provides for administration of interconnection requests to the ISO controlled grid through a cluster study process, whereby all requests submitted to the ISO within a specific submission period or "cluster window" are assessed together to determine the reliability and delivery network upgrades needed on the ISO system and each interconnection customer's cost responsibility for those upgrades. Valley Electric administers a generator interconnection queue through a serial study process, which currently includes approximately 2980 MWs of renewable generation, of which two interconnection customers accounting for a total of about 1620 MWs have also applied to the most recent cluster, Cluster 4, of the ISO's generator interconnection process.

Valley Electric's transmission facilities will not become part of the ISO controlled grid until the Transition Date, and until that date the approximate 1360 MW of interconnection customers currently in Valley Electric's queue that have not also submitted an interconnection request with the ISO have no existing mechanism by which to request full capacity deliverability status on the ISO controlled grid. The only option under the ISO tariff prior to Valley Electric becoming a participating transmission owner would be for the interconnection customers in Valley Electric's queue to apply to the ISO to interconnect directly to the ISO controlled grid through construction of a generator tie-line (as the two

interconnection customers noted above have already done), and meet all the financial posting and other requirements associated with delivery network upgrades on the ISO system. As explained below, however, the schedule of the ISO's interconnection process does not offer an opportunity for these 1360 MW of customers to apply to the ISO queue and obtain full capacity deliverability status by the Transition Date. As part of the remedy for this circumstance, Valley Electric will conduct a cluster study process to identify the network upgrades required on Valley Electric's system to make those generators seeking deliverability fully deliverable upon the Transition Date.

Under the ISO's generation interconnection process, the ISO performs two phases of studies to identify the needed reliability and delivery network upgrades and each interconnection customer's cost responsibility for those upgrades. In particular, the phase I study results establish a maximum cost responsibility for each interconnection customer's cost share of the delivery network upgrades that will serve its study group of electrically related projects within the same cluster. For those interconnection customers in the Valley Electric queue that desire full capacity deliverability status on the ISO system and who have not already entered the ISO interconnection queue, under the existing procedures the ISO would not identify the network upgrades needed for their deliverability on the ISO controlled grid and these customers' shares of those costs. This means that absent transition provisions to address this issue, these customers would have no way to obtain full capacity deliverability status when Valley Electric becomes an ISO participating transmission owner on the Transition Date.

The ISO closed the application window for the Cluster 4 study process on March 31, 2011, and is expecting to produce phase I study results in November 2011. The ISO expects to begin work on the phase II studies beginning in January 2012, which should be completed approximately by August 2012. The next queue cluster window, Cluster 5, is currently scheduled to be open for submission of new interconnection requests during the month of March 2012, with the study process lasting until about August 2013. Given the need for the ISO to start the Cluster 4 phase I studies almost immediately, as compared to the expected timing of FERC approval of the Transition Agreement, the ISO must perform its Cluster 4 phase I studies including only the approximate 1620 MWs of Valley's interconnecting generators that are already in Cluster 4 to establish the maximum cost responsibility for those resources, and then perform the phase II studies including up to an additional 1360 MWs in Valley Electric's queue to determine the incremental transmission impacts of those resources interested in full capacity deliverability status on the ISO controlled grid. Once the ISO moves into the Cluster 4 phase II process in January 2012, all of the approximate 2980 MWs of these resources will be eligible, if they satisfy the requirements provided below and elect to participate in Valley Electric's planned cluster study process, to be included in Cluster 4 Phase II process, which will enable them to obtain full capacity deliverability status when the new transmission interconnection facility and associated network upgrades are placed into service.

The above approach is prudent for determining the network upgrades needed on the ISO controlled grid and the associated costs to merge Valley Electric's queue into the ISO's Cluster 4 process. This is true because, irrespective of whether the generation is modeled as (a) connecting to Valley Electric's system and then delivering to the ISO controlled grid via the planned new 230 kV interconnection facility, or (b) connecting directly to the ISO controlled grid via a new generator tie line, the impacts on the current ISO controlled grid would be the same since the energy would be delivered to the Eldorado substation (assuming that Valley Electric constructs the upgrades to its own system needed to make

the generation deliverable to the Eldorado substation pursuant to interconnection agreements with these same customers as described below).

The following discussion in this section of the MOU addresses how interconnection customers in the ISO interconnection process and the Valley Electric interconnection process will be treated prior to the Transition Date. For this purpose, the Parties assume that: (1) Valley Electric will construct a new 230 kV transmission line linking its system to the ISO at or near the Eldorado substation, and (2) all interconnection customers in Valley Electric's queue will proceed to interconnect to Valley Electric's system in accordance with Valley Electric's interconnection process up until the Transition Date. Accordingly, the Parties agree that the following steps should be implemented to effect the merger of Valley Electric's queue into the ISO's generator interconnection process.

#### **A. ISO Interconnection Process**

- The ISO will follow its generation interconnection procedures for reliability and delivery network upgrades on the ISO controlled grid prior to the Transition Date assuming Valley Electric will become a participating transmission owner on the Transition Date and the Valley Electric transmission interconnection upgrade will be completed.
- All customers that make up the 2980 MW of generation from Valley Electric's queue will be eligible to be included in the Cluster 4 phase II study process, provided:
  - Interconnection requests submitted by the Valley Electric customers for full capacity deliverability on the ISO controlled grid, and such customers' subsequent actions, comply with the study deposit and other basic requirements of the ISO generator interconnection procedures.
  - These interconnection customers also participate in the Valley Electric study process as described below.
- The maximum cost responsibility for ISO interconnection customers included in the Cluster 4 phase I study results will not increase as a result of including some or all of the additional 1360 MW not already included in the Cluster 4 phase 1 study results.
- Incremental costs due to delivery network upgrades identified in the Cluster 4 phase II studies that are caused by the addition of up to 1360 MWs from the Valley Electric queue will be allocated to all interconnection customers in accordance with the ISO tariff, but not to exceed the Cluster 4 phase I maximum cost responsibility that was established for the customers that were included in the phase I study (1620 MWs of Valley Electric's customers were included in the Cluster 4 phase I studies).
- Any costs in excess of interconnection customers' Cluster 4 phase I maximum cost responsibilities due to delivery network upgrades on the ISO controlled grid identified in the Cluster 4 phase II studies that are caused by the addition of up to 1360 MWs from the Valley Electric queue would be funded by Valley Electric interconnection customers and repaid to the interconnection customers by the ISO in accordance with the ISO tariff over 5 years after the project reaches commercial operation, or up-front funded by the participating transmission owner, and included in the

transmission access charge consistent with the ISO tariff and generator interconnection procedures.

- Reliability network upgrades on the ISO controlled grid for Valley Electric customers seeking full capacity deliverability status on the ISO controlled grid will be addressed through the ISO generator interconnection procedures and not through the affected system provisions of the ISO tariff.
- The ISO will enter into generator interconnection agreements with any of the 2980 MW of Valley Electric interconnection customers that elect to interconnect based on the Cluster 4, phase II studies results, including provision for:
  - Treatment of costs associated with delivery network upgrades on the ISO controlled grid and any affected systems in the event the transmission interconnection at Eldorado is not completed, unless the network upgrade costs are otherwise utilized by the interconnection customer through construction of a generator tie-line.
  - Incorporation of the rights and obligations associated with the network upgrades on the Valley Electric system funded by the interconnection customer pursuant to interconnection agreements executed prior to the Transition Date. Specifically, if these upgrades are included in the Valley Electric facilities that are turned over to ISO operational control on the Transition Date and the costs of the facilities are included in Valley Electric's transmission revenue requirement for recovery through the transmission access charge, then the ISO will pay Valley Electric its share of the access charge revenue in accordance with the ISO tariff and any compensation to these interconnection customers for the costs of the network upgrades will be addressed by Valley Electric and the interconnection customers. Alternatively, if these upgrades are turned over to ISO operational control on the Transition Date and their costs are not included in Valley Electric's transmission revenue requirement for recovery through the transmission access charge, then these facilities will be considered merchant transmission facilities under the ISO tariff and the interconnection customers that paid for them will be eligible for allocation of merchant congestion revenue rights under the ISO tariff.
  - Other terms and conditions necessary to account for the timing of the interconnections and the costs associated with the network upgrades.
- New Valley Electric customers requesting interconnection after August 1, 2011 would be required to submit an interconnection request to the ISO in the next available cluster window, currently queue Cluster 5, if they desire full capacity deliverability status on the ISO controlled grid.

#### **B. Valley Electric Interconnection Process**

- Valley Electric will conduct a cluster study of those interconnection customers in its queue who are participating or who wish to participate in Cluster 4 phase II to determine the network upgrades on Valley Electric's transmission system necessary to provide full capacity deliverability status as of the Transition Date. This cluster study process will replace the existing Valley Electric serial interconnection study

process.

- Interconnection customers who are in the ISO Cluster 4 study process, or who take the steps described above necessary to join that process, will be required to execute an agreement to fund the cost of the cluster study, as well as other costs determined by Valley Electric. In addition, such customers who are not already in the Cluster 4 process will be required to submit a “special” interconnection request to the ISO following the release of the Cluster 4 phase I study results in order to be included in the Cluster 4 phase II studies, as described above.
- Valley Electric will enter into generator interconnection agreements with its interconnection customers for network upgrades on its system as constituted prior to the Transition Date, assuming in its studies the transmission interconnection will be completed and Valley Electric will become a participating transmission owner on the Transition Date. Interconnection agreements signed with Valley Electric by generators in the Valley Electric queue will provide a mechanism to transition from the transmission credits for network upgrades these customers would receive if Valley Electric remained independent of the ISO to status and operation as ISO controlled grid connected generators receiving transmission service under the ISO tariff, and to account for costs incurred by those interconnection customers in completing the network upgrades. The Valley Electric generator interconnection agreement would include provisions to address the anticipation and need for the transmission interconnection to be completed, including:
  - Termination in favor of the ISO generator interconnection agreement, including specifically the treatment of any rights and obligations associated with the network upgrades on the Valley Electric system funded by the interconnection customer.
  - Reimbursement of costs for network upgrades on facilities turned over to ISO operational control and included in Valley Electric’s transmission revenue requirement would be accounted for through a repayment mechanism by Valley Electric from the transmission access charge revenues it would receive for those facilities.
  - Network upgrades on facilities owned by the interconnection customer and turned over to ISO operational control but whose costs are not included in Valley Electric’s transmission revenue requirement for recovery through the transmission access charge, which would qualify as merchant transmission facilities under the ISO tariff and would be eligible for allocation of congestion revenue rights commensurate with the grid capacity added by the upgrades.
  - Other terms and conditions necessary to account for the timing of the interconnections and the costs associated with the network upgrades.
- New Valley Electric customers requesting interconnection after August 1, 2011 would be required to submit an interconnection request to the ISO in the next available window, currently queue Cluster 5, as well as the Valley Electric interconnection queue, if they desired full capacity deliverability status on the ISO controlled grid.

## **2. Transmission Planning**

The ISO and Valley Electric each regularly perform transmission planning activities to ensure their respective systems meet applicable reliability standards. It is appropriate that development of the planned transmission interconnection, as well as planning for any additional network upgrades that may be needed to reinforce the transmission grid, be coordinated prior to the Transition Date. The ISO's transmission planning process includes the opportunity to work with transmission providers outside of its balancing authority area to jointly plan transmission development. It is anticipated that the Parties will utilize this process to engage in joint transmission planning activities. Since Valley Electric's system currently is not within the ISO balancing area authority, construction of the facilities necessary to interconnect with the ISO grid, as well as network upgrades completed prior to the Transition Date, will be studied as a transmission interconnection request under the applicable participating transmission owner process. Any network upgrades on Valley Electric's system that are planned or under construction pursuant to a generator interconnection agreement executed prior to the Transition Date shall not be subject to the ISO's transmission planning process.

## **3. Participating Transmission Owner Status**

Valley Electric will become a participating transmission owner effective as of the Transition Date and turn over to the ISO operational control of all Valley Electric network transmission facilities and entitlements. The ISO tariff and transmission control agreement define the process by which an entity files an application to become a participating transmission owner, and the Parties expect that Valley Electric will initiate this process at least six months prior to the Transition Date to allow sufficient time for the ISO process, including negotiation of the transmission control agreement to add Valley Electric as a party to the transmission control agreement. The transmission control agreement would thereafter be filed with the FERC for approval. Valley Electric will also file its transmission owner tariff and transmission revenue requirement with the FERC prior to the Transition Date. The Parties anticipate that the costs associated with the Valley Electric transmission interconnection would be included in its transmission revenue requirement. FERC conditional approval of these filings will be the minimum regulatory approval required as a condition precedent to the Transition Date as defined in this MOU.

Valley Electric will provide the ISO with detailed information with respect to its system and any interconnection or transmission agreements between Valley Electric and NV Energy, Western Area Power Administration or other entities that entitle Valley Electric to transmission service on these other entities' systems and that would be turned over to ISO operational control in accordance with the transmission control agreement. In addition, Valley Electric will provide the ISO with information regarding any transmission service agreements or third party ownership rights that encumber Valley Electric's system so the Parties can ensure that any such contracts or ownership rights that existed on Valley Electric's system prior to August 1, 2011 will continue to be honored after the Transition Date.

## **4. Load Serving Entity Status**

Valley Electric will enter into a utility distribution company operating agreement and other agreements with the ISO as necessary to address operational issues associated with

reliably serving its load in the ISO balancing authority area. These elements of the Parties' understanding are described in more detail below.

#### **A. Utility Distribution Company Operations Status**

Valley Electric will enter into a utility distribution company operating agreement with the ISO to address operational issues associated with reliably serving its load in the ISO balancing authority area.

#### **B. Scheduling Coordinator Status**

Valley Electric will become or retain the services of a certified scheduling coordinator to interface with the ISO scheduling, settlement and billing systems. If Valley Electric wishes to itself become a certified scheduling coordinator, application will be made to the ISO at least six months prior to the Transition Date.

#### **C. Resource Adequacy Requirements**

Valley Electric will need to meet the resource adequacy requirements of the ISO tariff applicable to load serving entities as of the Transition Date. Pursuant to the ISO tariff, the ISO will recognize Valley Electric as a non-CPUC jurisdictional entity and its own "local regulatory authority."

- Valley Electric can establish its own system resource adequacy requirements based on its share of ISO system peak load. Valley Electric will provide sufficient historical load data to enable the ISO to perform a coincident peak historic load analysis for purposes of determining the Valley Electric share of ISO system peak load. In addition, the Parties will work together to develop a mutually acceptable method for forecasting Valley Electric's load as needed for both the resource adequacy process and, as discussed below, the allocation of congestion revenue rights, which will be described in the Transition Agreement.
- Valley Electric may or may not have local resource adequacy requirements, which ISO engineers will assess not later than six months prior to the Transition Date. Valley Electric may be able to estimate what its local resource adequacy requirement would be after transitioning to the ISO system, by doing its own local congestion study that follows a process to be specified by the ISO prior to the Transition Date.
- Valley Electric, through its scheduling coordinator, will need to participate in the year-ahead and month-ahead demonstrations to demonstrate that it has met its resource adequacy requirements, and the entities that supply resource adequacy capacity to Valley Electric will need to file supply plans with the ISO.
- Valley Electric currently serves its load via imports over the Mead interconnection, utilizing its interconnection rights with the Western Area Power Administration – Desert Southwest Region. Upon Valley Electric's transition to the ISO as a participating transmission owner, Valley Electric will turn over to ISO operational control these interconnection rights at Mead. As a result, to enable Valley Electric to rely on imports over the Mead interconnection to meet its resource adequacy requirements after the transition, the resource adequacy import allocation on the Mead intertie will need to provide Valley Electric an appropriate share of the import



capacity. The ISO and Valley Electric will determine the extent to which Valley Electric's Mead import supplies are expected to fulfill Valley Electric's resource adequacy obligations, including considering Valley Electric's historic rights to its Mead import capacity to serve its load and the possibility of limited resource adequacy import capacity at Mead. The ISO will count the amount determined in accordance with the foregoing methodology, which methodology will be specified in the Transition Agreement, as "Pre-RA Commitments" under the ISO's resource adequacy import allocation rules, even though the Transition Date will occur after 2006. This will ensure that Valley Electric as the load serving entity will receive a sufficient share of the Mead intertie import capacity for resource adequacy purposes, recognizing this share can be met by the Mead import rights Valley Electric turns over to ISO operational control on the Transition Date and, therefore, not compromise allocations of Mead import capacity for resource adequacy purposes to other ISO load serving entities.

- All resources within the Valley Electric system and included in Valley Electric's resource adequacy plan will be evaluated under the ISO tariff with respect to resource adequacy requirements, including "eligible resource and determination of qualifying capacity", "net qualifying capacity report", "general qualifications for supplying net qualifying capacity", "reduction for testing", "reduction for performance criteria", "reduction for deliverability" and "submission of supply plans".

#### **D. Congestion Revenue Rights**

Valley Electric as a load serving entity in the ISO balancing authority area will be eligible for an allocation of congestion revenue rights at a quantity based on its load metric, which is calculated based on historical load data for the ISO's annual congestion revenue rights allocation process and is based on forecast data for each monthly congestion revenue rights process. The following matters need to be addressed with respect to the congestion revenue rights allocation process:

- For California load serving entities, the ISO obtains load forecasts from the California Energy Commission, but Valley Electric may not be part of the California Energy Commission forecast process since it is not a California load serving entity. Accordingly, the Parties will work together to develop a mutually acceptable method for forecasting Valley Electric's load as needed for both the allocation of congestion revenue rights and, as discussed above, the resource adequacy process, which will be described in the Transition Agreement. The ISO will use the monthly load forecast for determining Valley Electric's eligibility for monthly congestion revenue rights.
- Tier 1 of the ISO's annual congestion revenue rights allocation process (the priority nomination process) is restricted to load serving entities who want to nominate renewal of congestion revenue rights they were allocated the previous year. Because Valley Electric will not have been allocated congestion revenue rights for periods prior to the Transition Date, it would be ineligible under the ISO tariff to participate in the priority nomination process for its first full year as an ISO load serving entity, which may adversely affect its ability to acquire sufficient congestion revenue rights to hedge the congestion cost of serving its load. In light of this, during its first year as an ISO load serving entity, the ISO will permit participation by Valley Electric in Tier 1 nominations as if Valley Electric held a portfolio of congestion

revenue rights developed by the Parties to reflect Valley Electric's historic use of the grid to serve its load and consistent with the quantity of congestion revenue rights that Valley Electric would be eligible for based on the historical analysis of Valley Electric's load.

- To construct such a congestion revenue rights portfolio, the Parties will establish the eligible sources, sinks and MW quantities as follows. The sink will be the Valley Electric custom load aggregation point. Eligible sources will be determined based upon Valley Electric's historic pattern of acquiring energy to serve its load, including any relevant energy contracts, analogous to how the ISO developed the initial allocation of congestion revenue rights for the start of its locational marginal priced markets.

Assuming Valley Electric becomes a participating transmission owner and load serving entity in the ISO balancing authority area by January 1, 2013, Valley Electric would participate in the ISO's annual congestion revenue rights allocation process for the 2013 calendar year, which is conducted over the summer of 2012, and would receive annual congestion revenue rights for 2013. Should the Transition Date be delayed past January 1, 2013, any rights allocated to Valley Electric otherwise applicable prior to the occurrence of the Transition Date will be deemed not effective.

The ISO will modify its congestion revenue rights network model to reflect the planned incorporation of Valley Electric's facilities and its import rights at Mead, effective as of the Transition Date, for purposes of the 2013 annual congestion revenue rights allocation process. This will result in the allocation of congestion revenue rights to Valley Electric that will be contingent on the Transition Date occurring on January 1, 2013, the date when 2013 congestion revenue rights normally become effective. This could also result in the allocation or auction to other ISO participants of 2013 congestion revenue rights that are feasible as a result of including Valley Electric's facilities and import rights at Mead in the network model. The ISO will inform market participants of this contingency and will include relevant network information within the congestion revenue rights network model. In addition, the ISO will develop a transparent and equitable method for pro rata reductions to congestion revenue rights that utilize Valley Electric's facilities or import rights at Mead, and appropriate adjustments to congestion revenue rights auction settlements, for the period from January 1, 2013 until the transition occurs, which will be addressed in the Transition Agreement.

## **5. Network Model Updates and Market Simulation**

The ISO operates the transmission system and wholesale electricity markets utilizing a full network model. The network model is updated approximately every other month, and there is approximately a two-month lead time for updating the network model. In addition to including Valley Electric's facilities in the ISO's full network model, the ISO may find it prudent to add or modify intertie points.

The Parties will cooperate to incorporate Valley Electric's facilities into the full network model in advance of the Transition Date such that the revised model can be used in market simulation and be proven accurate and reliable prior to the Transition Date. Parties will make best efforts to initiate this process such that an applicable revised full network model will also be available to the ISO for the generator interconnection process and the transmission planning process. The Parties will also exchange any additional network information needed to coordinate with NV Energy and the Western Area Power

Administration – Desert Southwest Region to facilitate any necessary balancing authority boundary changes to be incorporated into amendments to the ISO's contractual arrangements with these entities.

The ISO generally conducts a market simulation exercise when new facilities are added to its system to assure all market participants have the opportunity to test the impacts of the change on their systems, practices and procedures. This will be scheduled approximately two months prior to the Transition Date. In addition, the ISO may need to update operating procedures and other materials to account for the additional facilities and interties. The ISO and Valley Electric will work together to establish a timetable for these activities that supports the intended Transition Date.

In addition to the needs for the ISO spot markets and pre-Transition Date market simulation, Valley Electric will provide to the ISO the transmission, generation and load data required for its congestion revenue right system data bases, approximately six months prior to the beginning of the annual congestion revenue rights allocation process for the 2013 calendar year.

## **6. Greenhouse Gas Obligations and Reporting**

The Parties recognize that although Valley Electric expects to become an ISO load serving entity on the Transition Date, Valley Electric's load is predominantly located within Nevada. The Parties agree to cooperate amongst themselves and with California agencies such as the California Air Resources Board to ensure that sufficient tracking and reporting procedures are put in place, and to advocate for properly designed implementing practices, such that Valley Electric will not incur a California carbon obligation for its Nevada load as a result of Valley Electric becoming a participating transmission owner and an ISO load serving entity.

## **7. Agreement**

The Parties agree to negotiate in good faith a definitive Transition Agreement, suitable for filing with FERC, consistent with the timelines outlined in this MOU. Unless otherwise agreed by the Parties, if the Parties have not completed a mutually agreeable definitive Transition Agreement by October 15, 2011, either party may terminate this MOU with 30-days written notice. In addition, the Parties may develop a detailed implementation plan consistent with the Transition Agreement to address details and accommodate changing circumstances.

## **8. Proposed Transition Timeline**

The Parties will seek authorization from their respective governing bodies no later than August 31, 2011 to enter into the Transition Agreement, subject to completion of a definitive agreement with terms acceptable to both Parties, which will be filed with FERC in October of 2011. The effective date of the Transition Agreement will be January 1, 2012. Valley Electric may become a participating transmission owner and be treated as a load serving entity in the ISO balancing authority area as early as January 1, 2013. Because the Parties have assumed January 1, 2013 to be the Transition Date for purposes of some of the transition-related activities discussed in this MOU, if the transition is delayed so as to affect any such activities in ways that were not anticipated in this MOU, the Parties will cooperate to revise the time lines of those activities as needed.

**9. Third Parties**

The Parties intend to engage in discussions with third parties essential to the transition process, including in particular NV Energy and Western Area Power Administration – Desert Southwest Region. In addition, the Parties will enter into binding agreements with such third parties as may be necessary to implement the terms and conditions of the Transition Agreement. These agreements will address interconnected operations and other matters as necessary and appropriate.

**10. Responsibilities**

Each Party shall be individually responsible for all of its own costs, expenses or financial obligations that may be incurred as a result of this MOU. Third parties, particularly interconnection customers, will be obligated in accordance with agreements entered into with the Parties and not this MOU or the Transition Agreement. Valley Electric shall be responsible for satisfaction of any obligations associated with its departure from the NV Energy balancing authority area.

**11. Necessary Approvals**

The Parties will seek to obtain all necessary regulatory and other approvals with respect to implementation of this MOU. For the ISO, this will include approval by the ISO board of governors and authorization by FERC. For Valley Electric, the approval process will include approval by Valley Electric's Board of Directors. Further approvals will be sought as necessary to support the transition process, including any state or federal regulatory approvals necessary to exit the NV Energy balancing authority area or to comply with applicable reliability standards.


**12. General**

This MOU is a non-binding statement of intent and only creates an obligation for both Parties to negotiate in good faith to complete the Transition Agreement as outlined above. The decision to execute the Transition Agreement shall be within the sole discretion of each Party, and no party shall have any liability for failure to execute the Transition Agreement. In addition, the Transition Agreement shall not become effective until all necessary approvals have been obtained, which itself may require further approvals to implement its terms including conditions necessary for the Transition Date.


\*\*\*\*\*REMAINDER OF PAGE INTENTIONALLY LEFT BLANK\*\*\*\*\*

**IN WITNESS WHEREOF**, the Parties have caused this memorandum of understanding to be executed by their respective authorized representatives.

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**  
250 Outcropping Way  
Folsom, CA 95639

Signature:   
Name: Steve Berberich  
Title: CEO  
Date: 8/2/11

**VALLEY ELECTRIC ASSOCIATION, INC.**  
800 E. Highway 372  
Pahrump, NV 89048

Signature:   
Name: Thomas H. Husted  
Title: Chief Executive Officer  
Date: 08-01-2011