

**AMENDMENT NO. 1
TO THE
UTILITY DISTRIBUTION COMPANY OPERATING AGREEMENT**

THIS AMENDMENT is dated this ___ day of April, 1998 and is entered into, by and between:

(1) Pacific Gas and Electric Company having its registered and principal place of business located in 77 Beale Street, San Francisco, CA 94177 ("PG&E");

and

(2) California Independent System Operator Corporation, a California nonprofit public benefit Corporation having a principal executive office located at such place in the State of California as the ISO Governing Board may from time to time designate, initially 151 Blue Ravine Road, Folsom, California 95630 (the "ISO").

PG&E and the ISO are hereinafter referred to as the "Amending Parties."

Whereas:

- A. The Amending Parties entered into the Utility Distribution Company Operating Agreement dated November 27, 1997 (the "Principal Agreement").
- B. By orders issued on December 17, 1997, and February 25, 1998, the Federal Energy Regulatory Commission required that the Utility Distribution Company Operating Agreement be amended.

NOW THEREFORE, THE AMENDING PARTIES AGREE as follows:

- 1) **Effective Date.** This Amendment shall be effective as of the effective date of the Principal Agreement and shall remain in full force and effect until the termination of the Principal Agreement.

- 2) Amendment to the Principal Agreement. The Principal Agreement shall be amended as set out below :
- a) Recital C is amended to read as follows:
- C. The UDC wishes to transmit Energy and/or supply Ancillary Services to or from the ISO Controlled Grid under the terms and conditions set forth in the ISO Tariff. The UDC also wishes to support and be part of the coordinated response to System Emergencies and to System Reliability concerns relating to the ISO Controlled Grid.
- b) Recital E is amended to read as follows:
- E. This Operating Agreement obligates the UDC and the ISO to comply with the relevant sections of the ISO Tariff, the ISO Operating Procedures and the ISO Specifications.
- c) Section 1.1 is amended to read as follows:
- 1.1 Master Definitions Supplement. Any word or expression defined in the Master Definitions Supplement to the ISO Tariff shall have the same meaning where used in this Operating Agreement.
- d) In Section 1.2, the definition of "ISO Specifications" is amended to read as follows:
- "ISO Specifications" means those standards pertaining to the areas of operation listed in Article IV of this Operating Agreement, approved by the ISO to establish detailed technical performance and reliability parameters at the ISO Controlled Grid and UDC Interconnection, associated with the ISO Tariff, as those standards may be amended from time to time.
- Further in Section 1.2, the definition of "ISO Operating Procedure" is amended to read as follows:
- "ISO Operating Procedure" means those procedures pertaining to the areas of operation listed in Article IV of this Operating Agreement, created by the ISO to establish detailed operating practices at the ISO Controlled Grid and UDC Interconnection, associated with general provisions required in the ISO Tariff, as those standards may be amended from time to time.

- e) Section 1.3(a) is amended to read as follows:
- (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;
- f) Section 1.3(f) is amended to read as follows:
- (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) Section 2.1 is amended to read as follows:
- 2.1 **Effective Date.** This Operating Agreement shall be effective as of the later of the date it is executed by the Parties or the date 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 TCA 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 upon acceptance by FERC of such a notice of termination.
- h) Section 2.2 is amended to read as follows:
- 2.2 **Termination Date.** 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. With respect to any notice of termination given pursuant to this section, the ISO must file a timely notice of termination with FERC. This Operating Agreement shall terminate upon acceptance by FERC of such a notice of termination.

i) Section 2.3 is amended to read as follows:

2.3 Termination Pursuant to the TCA. If the UDC is a party to the Transmission Control Agreement ("TCA"), this Operating Agreement shall terminate upon the effective date of the UDC's withdrawal from the TCA in accordance with Section 3.3 of the TCA, provided, however, that first the ISO shall have filed a timely notice of termination with FERC and FERC shall have accepted such notice of termination.

j) Section 3.2 is amended to read as follows:

3.2 Agreement Subject to ISO Tariff. This Operating Agreement shall be subject to the provisions of the ISO Tariff which shall be deemed to be incorporated by reference 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. The Parties agree that they will comply with Section 4, and any other applicable provisions, of the ISO Tariff.

k) Section 3.3 is amended to read as follows:

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

l) Section 3.4.1 is amended to read as follows:

3.4.1 Compliance with ISO Specifications and ISO Operating Procedure. The UDC will abide by and will perform all of the obligations under the ISO Specifications and the ISO Operating Procedure placed on UDCs 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, the ISO Tariff shall, at all times, take precedence over the ISO Specifications and ISO Operating Procedure. The ISO shall not implement any reliability requirements, operating requirements or performance standards that would impose increased costs on the UDC 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 UDC of

capital and operation and maintenance costs incurred to comply with ISO Specifications and Operating Procedure, the ISO shall, at the request of the UDC, provide specific information regarding the nature of, and need for, the ISO-imposed requirements or standards to enable the UDC to use this information in support of cost recovery through rates and tariffs.

- m) The paragraph under the heading "Article IV, Operational Coordination" is amended to read as follows:

The Parties will perform the operational coordination obligations and responsibilities assigned to them under the ISO Tariff, the ISO Operating Procedures, and the ISO Specifications. The obligations and responsibilities include:

- n) Section 4.1.1 is amended to read as follows:

4.1.1 Maintenance Coordination for Facilities under ISO Control. The UDC shall schedule with the ISO on an annual basis any maintenance outages of the equipment included in Schedule 1 pursuant to Schedule 4 in compliance with the Outage Coordination Protocol of the ISO Tariff and shall coordinate its outage requirements with the Participating TO with which it is interconnected.

- o) Section 4.2 is amended to read as follows:

4.2 System Emergencies. The responsibilities of the Parties in relation to System Emergencies are stated in Section 4.4 of the ISO Tariff, the Dispatch Protocol of the ISO Tariff and in Schedule 5. The ISO shall adopt fair and non-discriminatory procedures among the UDCs to ensure that no UDC bears a disproportionate share of the ISO's load shedding program.

- p) Section 5.1 is amended to read as follows:

5.1 Access Rights. Pursuant to Section 4.8.4 of the ISO Tariff and Schedule 14 of this Operating Agreement, the ISO and the UDC 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 UDC shall

com ply 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 .

q) Section 8.2 is amended to read as follows :

8.2 Necessary Approvals. The 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 execution of this Operating Agreement.

r) Section 11.8 is amended to read as follows :

11.8 Penalties. Any penalties to be levied under this Operating Agreement shall be established in accordance with the ISO Tariff after consultation between the UDC and the ISO , and approval by the FERC, and shall be set out in Schedule 15. No penalties or sanctions may be imposed under this Operating Agreement unless a Schedule providing for such penalties or sanctions has first been filed with and made effective by FERC. Nothing in this Operating Agreement, with the exception of the provisions relating to ADR, shall be construed as waiving the rights of the UDC 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 UDC.

IN WITNESS WHEREOF, the Amending Parties have caused this Amendment No. 1 to be duly executed by and through their respective authorized representatives as of the date hereinabove written.

California Independent System Operator Corporation

By: _____

Name: _____

Title: _____

Pacific Gas and Electric Company

By: _____

Name: _____

Title: _____