



# CITY OF LODI

# COUNCIL COMMUNICATION

AGENDA TITLE: Agreement by Transmission Agency of Northern California to Render Tesla-Midway Transmission Service to its Members, Including Lodi.

MEETING DATE: January 20, 1993

PREPARED BY: Electric Utility Director

**RECOMMENDED ACTION:** That the City Council approve execution of the "South of Tesla Agreement Between The Transmission Agency of Northern California And Its Members" (Agreement) on file in the office of the City Clerk.

**BACKGROUND INFORMATION:** The City Council approved the Midway-Sunset Third Phase Agreement May 20, 1992. That agreement was between Northern California Power Agency (NCPA) and Midway-Sunset Cogeneration Company (MSCC) and involved purchase and sale of a large quantity of low cost energy for NCPA members, including Lodi. MSCC operates an enhanced oil recovery facility near Bakersfield, California. The savings from the NCPA-MSCC agreement accruing to Lodi is estimated to be approximately \$300,000 per year. Such savings being the difference between estimated annual MSCC price and the expected market price for replacement energy.

However, to obtain the economic benefit of the NCPA-MSCC power purchase, that power must be transferred over high-voltage transmission lines from the Bakersfield site to each of the NCPA member cities. PG&E owns the only high-voltage transmission system which can transmit that power. Therefore, a transmission agreement with PG&E is necessary.

The Transmission Agency of Northern California (TANC) is a joint powers agency which constructed the California-Oregon Transmission Project (COTP) and which has negotiated the necessary transmission rights between Tesla and Midway Substations with PG&E. The negotiation resolved into a regulatory Order issued by the Federal Energy Regulatory Commission (FERC) requiring Tesla-Midway Transmission Service to commence on March 1, 1992 pursuant to terms and conditions contained in principles for certain transmission rights between Tesla and Midway Substations as agreed between the parties. The purpose of this Agreement is to set forth the arrangements under which TANC will render Tesla-Midway Transmission Service to its Members. The City of Lodi and other Northern California cities with internal electric utility operations joined together to create NCPA for procurement of power resources and TANC for procurement of high-voltage transmission resources. FERC is an arm of the U.S. Federal Government which has sole jurisdiction over high-voltage transmission contracts like the subject agreement.

APPROVED

THOMAS A. PETERSON  
City Manager



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Agreement by Transmission Agency of Northern California to Render  
Tesla-Midway Transmission Service to its Members, Including Lodi.  
January 20, 1993  
Page two

This Agreement has been reviewed by TANC Council and approved by the TANC Commission. The Agreement must now also be executed by the participating members of TANC to ensure that the FERC Order is met and the members can begin utilizing this transmission service.

FUNDING: Not applicable.



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Henry J. Rice  
Electric Utility Director

c: City Attorney

RESOLUTION NO. 93-15

APPROVE EXECUTION OF THE  
SOUTH OF TESLA AGREEMENT BETWEEN THE TRANSMISSION AGENCY  
OF NORTHERN CALIFORNIA AND ITS MEMBERS (AGREEMENT)

=====

WHEREAS, the City Council, on May 20, 1992, approved the Midway-Sunset Third Phase Agreement between Northern California Power Agency (NCPA) and the Midway-Sunset Cogeneration Company (MSCC) enhanced oil recovery facility near Bakersfield, California, which involves purchase and sale of a large quantity of low cost energy for NCPA members, including Lodi; and

WHEREAS, the savings from the NCPA-MSCC power purchase agreement attributable to Lodi's participation is estimated to be approximately \$300,000 per year; and

WHEREAS, to obtain the economic benefit of the NCPA-MSCC power purchase, that power must be transferred over high-voltage transmission lines from the Bakersfield site to each of the TANC member cities; and

WHEREAS, since PG&E owns the only high-voltage transmission system which can transmit that power, a transmission agreement with PG&E is necessary; and

WHEREAS, the Transmission Agency of Northern California (TANC) is a joint powers agency which constructed the California-Oregon Transmission Project (COTP) and which has negotiated the necessary transmission rights between Tesla and Midway Substations with PG&E; and

WHEREAS, the negotiation resolved into a regulatory Order issued by the Federal Energy Regulatory Commission (FERC) requiring Tesla-Midway Transmission Service to commence on March 1, 1992 pursuant to terms and conditions contained in a statement of transmission principles between the parties; and

WHEREAS, the purpose of this Agreement is to set forth the arrangements under which TANC will render Tesla-Midway Transmission Service to its Members; and

WHEREAS, this Agreement has been reviewed by FERC, TANC Counsel and approved by the TANC Commission; and

WHEREAS, the Agreement must now also be executed by the participating members of TANC to ensure that the FERC commencement Order is met and the members can begin utilizing this transmission service.

NOW, THEREFORE, BE IT RESOLVED that the City Council hereby authorizes approval of the South of Tesla Agreement between the Transmission Agency of Northern California and its Members.

BE IT FURTHER RESOLVED that the City Manager is authorized to execute the Agreement.

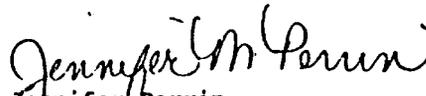
Dated: January 20, 1993

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Resolution 93-15  
January 20, 1993  
Page Two

I hereby certify that Resolution No. 93-15 was passed and adopted by the Lodi City Council in a regular meeting held January 20, 1993 by the following vote:

**Ayes:** Council Members - Davenport, Mann, Sieglock, and Snider  
**Noes:** Council Members - None  
**Absent:** Council Members - Pennino (Mayor)

  
Jennifer Perrin  
City Clerk

The foregoing Document Is Certified  
To Be A Correct Copy Of The Original  
On File In This Office.

Peggy Nicolini  
Deputy City Clerk, City Of Lodi

By Peggy Nicolini  
Dated: 1-26-93

93-15

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SOUTH OF TESLA AGREEMENT  
BETWEEN  
THE TRANSMISSION AGENCY OF NORTHERN CALIFORNIA  
AND ITS MEMBERS

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SOUTH OF TESLA AGREEMENT  
BETWEEN  
THE TRANSMISSION AGENCY OF NORTHERN CALIFORNIA  
AND ITS MEMBERS

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- Commission (FERC) (FERC Docket No. EL91-8-000) seeking relief which would enable TANC to utilize the transmission service provided for in the Principles; and
- F. On June 12, 1991, FERC issued an Order in Docket No. EL91-8-000 which, inter alia, required PG&E to file the Principles with the FERC and rejected an alternative transmission rate schedule previously filed by PG&E for Tesla-Midway Transmission Service. On June 27, 1991, PG&E filed the Principles with FERC and TANC requested the FERC to order the immediate commencement of Tesla-Midway Transmission Service thereunder. On August 26, 1991, the FERC ordered PG&E to file, within thirty (30) days, a transmission rate schedule which is consistent with the Principles, accompanied by appropriate cost support; and
  - G. On October 9, 1991, PG&E filed a "Replacement transmission rate schedule" which is purported by PG&E to be consistent with FERC's August 26, 1991 order; and
  - H. On November 6, 1991, TANC filed a motion to reform on summary disposition PG&E's Replacement transmission rate schedule so that the Replacement transmission rate schedule will be consistent with the Principles and the FERC's August 26, 1991 Order; and
  - I. On December 30, 1991, TANC paid PG&E \$5,000,000 as its contribution to the costs of the Initial Reinforcements. The payment was made pursuant to a letter agreement, dated December 30, 1991, between TANC and PG&E (attached as Appendix E); and
  - J. On February 26, 1992, FERC issued an Order which, inter alia, required Tesla-Midway Transmission Service to commence on March 1, 1992 pursuant to the terms and conditions of the Principles as an interim rate schedule.
  - K. The purpose of this Agreement is to set forth the arrangements under which TANC will render Tesla-Midway Transmission Service to its Members.

NOW, THEREFORE, in consideration of the mutual covenants and conditions set forth in this Agreement, TANC and the Members agree as follows:

1 1. DEFINITIONS

2 Whenever used in this Agreement, the following terms, when initially capitalized, shall  
3 have the following meanings. The singular of any definition shall include the plural and  
4 the plural shall include the singular.

5 1.1 Agreement

6 This South of Tesla Agreement (SOTA), as amended and supplemented from time  
7 to time in accordance with the terms hereof.

8 1.2 Allocation

9 All or part of a SOT Member's portion of the 300 MW of firm bidirectional Tesla-  
10 Midway Transmission Service (measured at Midway Substation) that TANC obtains  
11 from PG&E. The permanent Allocations, as shown in Appendix B-1, and the long-  
12 term Allocations, as shown in Appendix B-2, are expressed as a percentage of  
13 TANC's Tesla-Midway Transmission Service or expressed in megawatts, depending  
14 upon the context of use.

15 1.3 Cash Call

16 A request for funds from one or more of the SOT Members by the TANC Treasurer  
17 for services provided under this Agreement.

18 1.4 Cost Sharing Percentage

19 A percentage which is utilized by the TANC Treasurer to compute each Member's  
20 obligation to pay for its share of the SOT Service Charge. Each SOT Member's Cost  
21 Sharing Percentage shall be equal to its Allocation expressed as a percentage and as  
22 set forth in Appendix B-2.

23 1.5 COTP

24 California-Oregon Transmission Project.

25 1.6 Curtailement

26 A temporary reduction in Tesla-Midway Transmission Service.

27 1.7 FERC

28 The Federal Energy Regulatory Commission, or its regulatory successor.

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1.8 Initial Reinforcements

Those reinforcements to PG&E's transmission system that are specified in Section 4.1 of the Principles and as described in Appendix E of this Agreement.

1.9 Interest Charge

That charge against unpaid amounts due and owing, assessed at an annual interest rate compounded monthly equal to the lesser of the following amounts: two percent (2%) plus the applicable first-of-the-month reference rate of the Bank of America N.T. & S.A., San Francisco, California, or its successor, corresponding to the period during which the payment is overdue; or the maximum interest rate permitted by law.

1.10 PA3

TANC Project Agreement No. 3 for the COTP.

1.11 Principles

The Principles for Tesla-Midway Transmission Service executed on August 29, 1989, by and between TANC and PG&E (attached as Appendix A).

1.12 Reallocation, Permanent Reallocation, Long-Term Reallocation, Short-Term Reallocation

A voluntary transfer of all or a part of a SOT Member's Allocation hereunder. Such transfer can be in one of the following forms:

- a) Permanent Reallocation - Any permanent transfer of a SOT Member's Allocation. Appendix B-1 shall be revised from time to time to reflect any changes occasioned by such Permanent Reallocations.
- b) Long-Term Reallocation - Any temporary transfer which is longer than six (6) months in duration. Appendix B-2 shall be revised from time to time to reflect any changes occasioned by Long-Term Reallocations or Permanent Reallocations.
- c) Short-Term Reallocation - Any temporary transfer which is six (6) months or less in duration.

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When such a Reallocation occurs, the result shall be the new Allocation for that time period.

1.13 SOT

South of Tesla.

1.14 South of Tesla Reinforcements (SOTR)

Those reinforcements to PG&E's transmission system that are described in Section 4.2 of the Principles.

1.15 SOT Member

A TANC Member or a former TANC Member which has withdrawn from TANC pursuant to Section 9 of this Agreement which elects to participate in this Agreement pursuant to Section 3 of this Agreement.

1.16 SOT Service Charge

The charge, as determined by the TANC Commission pursuant to the voting provisions of Section 5, that shall be applied to the bills rendered by TANC to its SOT Members. The charge shall be based upon the rate determined pursuant to Appendix D and applied in accordance with Section 12 of this Agreement.

1.17 SOT Short-Term Reallocation Rate

The rate, as determined pursuant to Appendix D, which shall be used as the maximum rate for Short-Term Reallocations.

1.18 TANC Commission

The governing body of TANC as described in the Joint Powers Agreement.

1.19 TANC Member

Any of the Members of TANC including: Cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, and Ukiah; the Sacramento Municipal Utility District; the Modesto Irrigation District; the Turlock Irrigation District; or the Plumas-Sierra Rural Electric Cooperative, which, at any given point in time, is a party to the Joint Powers Agreement.

1 1.20 TANC Treasurer and TANC Controller

2 The persons appointed by the Commission to serve respectively as TANC Treasurer,  
3 and TANC Controller, as provided in the Joint Powers Agreement.

4 1.21 Tesla-Midway Transmission Service (TMTS)

5 Three hundred (300) megawatts of firm bidirectional transmission service provided  
6 by PG&E to TANC, which is allocable by TANC to its SOT Members, pursuant to  
7 the Principles or a FERC accepted transmission rate schedule (TRS).

8 1.22 Tesla-Midway Transmission Service Agreement (TMTS Agreement)

9 An agreement that may be made between TANC and PG&E, including the  
10 Principles or a FERC accepted TRS, which provides for certain transmission and  
11 other services over PG&E's facilities.

12 1.23 Tesla-Midway Transmission Service Charge (TMTS Charge)

13 Those charges that are made from time to time by PG&E to TANC pursuant to the  
14 TMTS Agreement, including but not limited to, monthly transmission service  
15 charges, mitigation charges, and special facilities charges related to TANC's share  
16 of the Initial Reinforcements.

17  
18 2. AUTHORIZATION

19 TANC is hereby authorized and directed to act on behalf of the SOT Members in any  
20 activities necessary to fulfill its obligations or enforce its rights related to the Principles, a  
21 successor TMTS Agreement, subject to procedures for SOT Member approval and  
22 authorization established by the TANC Commission pursuant to this Agreement and the  
23 terms and conditions of the Joint Powers Agreement.

24  
25 3. PARTICIPATION

26 3.1 Subject to Sections 3.2 and 3.3 below, each SOT Member, by executing this  
27 Agreement, hereby elects to receive an Allocation of TANC's TMTS. Such election,  
28 and payment of its share of the SOT Service Charges, permits a SOT Member to

1 receive an Allocation in accordance with Appendices B-1 and B-2, as those  
2 Allocations may be revised pursuant to this Agreement. Further, such election shall  
3 obligate the SOT Member to all terms and conditions provided for by this  
4 Agreement.

5 3.2 While Section 3.1 above permits SOT Members to participate in this Agreement, the  
6 SOT Members recognize that the services and obligations under this Agreement are  
7 contingent upon the TANC Commission's acceptance of TMTS provided by PG&E.

8 3.3 In the event that fewer than all of the SOT Members elect to accept an Allocation  
9 from TANC once the TANC Commission accepts the TMTS Agreement, Appendix  
10 B-1 shall, within thirty (30) days of the date that the TMTS Agreement is approved  
11 by the TANC Commission, be revised to reflect the participation by those SOT  
12 Members electing to take service. Such revision shall be determined in accordance  
13 with the procedures as established in Section 4.3 of this Agreement.

14  
15 4. REALLOCATIONS

16 TMTS may be reallocated among SOT Members consistent with the Principles or the TMTS  
17 Agreement. Such Reallocations shall be permitted, provided that the resulting total  
18 Allocations equal 300 MW in each direction. Procedures for Reallocation shall be as  
19 follows:

20 4.1 Short-Term Reallocations - A Short-Term Reallocation, to be in effect for no longer  
21 than six (6) months, may be made pursuant to an agreement reached among the  
22 SOT Members participating in the Short-Term Reallocation. Such Short-Term  
23 Reallocation shall be made provided that such a reallocation is offered to one or  
24 more SOT Members and such offer is at a price in accordance with Section 4.4.1  
25 below. Such Short-Term Reallocations shall not relieve any SOT Member of its  
26 responsibilities for payments or any other related obligations to TANC.

27 4.2 Long-Term Reallocations - A Long-Term Reallocation, which shall be effective upon  
28 the first day of a future month and continue in effect for more than six (6) months,

1 may be made by the TANC Commission. Such a Long-Term Reallocation shall be  
2 made pursuant to a resolution approving a revised Appendix B-2 by the TANC  
3 Commission, provided that such a Long-Term Reallocation is offered in the  
4 following manner:

5 4.2.1 A SOT Member may make a written request to the TANC Commission to  
6 offer a Long-Term Reallocation. The other SOT Members shall be notified  
7 immediately of such a written request. All SOT Members shall have a pro-  
8 rata right to the available Allocation in accordance with the Permanent  
9 Allocations as shown in Appendix B-1. The pro rata right, in percent, of  
10 each SOT Member, other than the SOT Member making the offer, shall be  
11 equal to:

$$12 \text{ Pro rata right, in percent} = \frac{\text{SOT Member's P.A., in MW}}{\text{Sum of all P.A., in MW} - (\text{Amt. of P.A. of the SOT Member making the offer, in MW})} \times 100\%$$

13 Where P.A. equals the Permanent Allocations, as shown in Appendix B-1, at the time the offer is made.

14 Within forty-five (45) days of the date of that written request, all SOT  
15 Members must notify the TANC Commission of their desired amount of  
16 such available Allocation.

17 4.2.2 To the extent that there remains a residual amount of the available  
18 Allocation after following the procedures set forth in Section 4.2.1 above,  
19 the remainder of the available Allocation may be offered, in accordance  
20 with the TMTS Agreement, to third parties and any such Allocation shall  
21 be made available at negotiated terms and conditions.

22 4.2.3 Such Long-Term Reallocations shall not relieve any SOT Member of its  
23 ultimate responsibilities for payments or any other related obligations to  
24 TANC.

25 4.3 Permanent Reallocations - A Permanent Reallocation shall be made by the TANC  
26 Commission pursuant to the following procedures:  
27  
28

1 4.3.1 A SOT Member may make a written request to the TANC Commission to  
2 offer a Permanent Reallocation. The other SOT Members shall be notified  
3 immediately of such a request. All SOT Members shall have a pro rata  
4 right to the available allocation in accordance with the Permanent  
5 Allocations as shown in Appendix B-1. The pro rata right, in percent, of  
6 each SOT Member, other than the SOT Member making the offer, shall be  
7 equal to:

8 
$$\text{Pro rata right, in percent} = \frac{\text{SOT Member's P.A., in MW}}{\text{(Sum of all P.A., in MW) - (Amt. of P.A. of the SOT Member making the offer, in MW)}} \times 100\%$$

9 Where P.A. equals the Permanent Allocations, as shown in Appendix B-1, at the time the offer is made.

10 4.3.2 To the extent that there remains a residual amount of the available  
11 Allocation after following the procedures set forth in Section 4.3.1 above,  
12 the remainder of the available Allocation may be offered, in accordance  
13 with the TMTS Agreement, to third parties and any such Allocation shall  
14 be made available at negotiated terms and conditions.

15 4.3.3 Such Permanent Reallocations to a SOT Member shall relieve the SOT  
16 Member of its obligations under this Agreement to TANC with respect to  
17 that Permanent Reallocation. Any SOT Member receiving such Permanent  
18 Reallocation shall assume all rights and obligations under this Agreement  
19 with respect to that Permanent Reallocation. Any third party to which a  
20 Permanent Reallocation is made shall have only the right to receive and use  
21 the portion of TMTS represented by that Permanent Reallocation. All  
22 obligations under this Agreement with respect to a Permanent Reallocation  
23 to a third party shall remain with the reallocating SOT Member.

24 4.3.4 The TANC Commission shall revise Appendices B-1 and B-2 to reflect the  
25 Permanent Reallocation, with all third parties receiving Permanent  
26 Reallocations shown as footnotes in Appendices B-1 and B-2.

27 4.4 Charges for Reallocations - Charges for Reallocations of SOT Members' Allocations  
28 shall be as follows:

1 4.4.1 Short-Term Reallocations shall be charged an amount that is equal to the  
2 price agreed to by the SOT Member providing the Short-Term Reallocation  
3 and the SOT Member(s) receiving the Short-Term Reallocation, provided  
4 that the price shall not exceed, but may be less than, 100 percent of the SOT  
5 Short-Term Reallocation Rate pursuant to Appendix D. Such Short-Term  
6 Reallocations shall be billed by the SOT Member(s) providing the  
7 Reallocations to the SOT Member(s) receiving those Reallocations.

8 4.4.2 Long-Term Reallocations and Permanent Reallocations shall be charged an  
9 amount, as described in Section 12.1, which reflects their pro-rata share of  
10 the SOT Service Charge through a modification to Appendix B-1 or B-2, as  
11 appropriate, that reflects such Reallocations. Such Long-Term Reallocations  
12 and Permanent Reallocations shall be billed by TANC to its SOT Members  
13 pursuant to Section 12 of this Agreement.

14 4.5 For purposes of this Agreement, the SOT Members hereby covenant and agree that  
15 any Reallocation to third parties under this Agreement will not, in any way,  
16 adversely affect the exclusion of the interest on any of the TANC indebtedness from  
17 gross income for federal income tax purposes under Section 103 of the Internal  
18 Revenue Code of 1986, as amended, and the applicable regulations thereunder (or  
19 any successors to such statute and regulations), including without limitation, by  
20 reason of classification of such TANC indebtedness as a "private activity bond"  
21 within the meaning of said Code.

22  
23 5. VOTING

24 Actions, approvals or authorizations required under this Agreement shall be given or  
25 withheld by the TANC Commission using the general voting procedures described in the  
26 Joint Powers Agreement, subject to the following provision:

27 5.1 The TANC Commission shall exercise all the powers of TANC and shall require (1)  
28 for a quorum, the presence of TANC Commissioners who together represent a

1 majority of the Permanent Allocations, as shown in Appendix B-1, represented by  
2 the TANC Commissioners of SOT Members not in default under this Agreement at  
3 the time of the vote and (2) for any action requiring a vote of the TANC  
4 Commission, votes totalling not less than sixty-five (65) percent of the Permanent  
5 Allocations represented by the TANC Commissioners of SOT Members not in  
6 default under this Agreement at the time of the vote and no fewer than four of the  
7 SOT Members voting affirmatively.

8  
9 **REINFORCEMENT COSTS**

10 6.1 **Initial Reinforcements Cost Sharing** - TANC's share of the capital cost for the Initial  
11 Reinforcements has been provided for under the provisions of a letter agreement,  
12 dated December 30, 1991, between TANC and PG&E (attached as Appendix E). The  
13 SOT Members shall reimburse TANC for those costs in the form of a monthly  
14 payment as shown in Appendix D. To the extent that this Agreement terminates  
15 prior to the completion of the repayment by the SOT Members for those costs, the  
16 TANC Treasurer may be authorized by the TANC Commission to bill the SOT  
17 Members for the remaining costs in a manner to be determined by the TANC  
18 Commission.

19 6.2 **SOTR (Los Banos-Gates)** - In accordance with the voting provisions of Section 5 of  
20 this Agreement, TANC may elect in the future to participate in the SOTR. If such  
21 election is made, the following provisions shall apply:

22 6.2.1 **TANC's participation in the SOTR shall be offered to TANC Members as**  
23 **follows:**

24 (a) For the first three hundred megawatts (300 mw) of TANC's  
25 participation, each SOT Member not then in default shall be  
26 entitled to take up to at least an amount equal to its Permanent  
27 Allocation expressed in megawatts as set forth in Appendix B-1,  
28 which is in effect as of the date of TANC's election to participate

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in any subsequent South of Tesla transmission service provided by TANC to its SOT Members as a result of TANC's contribution to the SOTR.

(b) For amounts of TANC's participation above the first three hundred megawatts specified in part (a) above, TANC shall offer such remainder to all TANC Members, including those not currently SOT Members, on a pro-rata basis based on the participation percentages shown in column B of Appendix C of the TANC agreement entitled, "Transmission Agency of Northern California Project Agreement No. 3 for the California-Oregon Transmission Project."

(c) To the extent there remains any additional TANC's participation that has not been allocated after completion of the process described in subsection (b) above, such remainder will be offered to any other TANC Member(s) and third parties.

6.2.2 Those SOT Members who elect to take such service as a result of the SOTR shall establish procedures for the administration and obligations of such service.

6.2.3 Any SOT Member which elects not to take such service as a result of the SOTR shall continue to receive an equivalent amount of service from TANC for a period no longer than three (3) years from the date of the written notification of TANC's election to participate in the SOTR. Such non-electing SOT Member shall be financially obligated for its share of the costs, excluding any costs related to the SOTR, that TANC incurs as a result of continuing to provide this service during that period. In addition, at the end of such service, the non-electing SOT Member shall be billed, as a one-time lump-sum charge, for the remainder of its pro-rata share of the costs for the Initial Reinforcements.

1           6.2.4   No such election is required at the date of the execution of this Agreement;  
2                           therefore, this Agreement does not obligate either TANC, the SOT  
3                           Members, or any other TANC Members to participate in the SOTR.  
4

5   7.   AUTHORITY OF THE TANC TREASURER AND TANC CONTROLLER

6           At the direction of the TANC Commission, the following authorities are granted:

7           7.1   The TANC Treasurer and the TANC Controller are hereby authorized to render  
8                           monthly bills, in accordance with Section 12 of this Agreement and Appendix D, to  
9                           the SOT Members for the SOT Service Charge and for any replacement power  
10                          provided by PG&E to the SOT Members.

11          7.2   The TANC Treasurer is hereby authorized to make payments for TMTS Charges  
12                          pursuant to the TMTS Agreement provided that such invoices are approved for  
13                          payment pursuant to the procedures or policies adopted by the TANC Commission  
14                          including any expedited payment procedures for payment of invoices.

15          7.3   The TANC Controller is hereby authorized to adjust previous bills rendered to SOT  
16                          Members when necessary to reflect changes in cost components of the SOT Service  
17                          Charge.

18          7.4   The TANC Treasurer and TANC Controller may be authorized to perform additional  
19                          duties, as appropriate, to carry out the responsibilities of TANC under this  
20                          Agreement.  
21

22   8.   USE OF THE ALLOCATIONS

23          8.1   Member Power Scheduling Rights - During any scheduling period, each SOT  
24                          Member or its designated agent shall have the right to schedule power transactions  
25                          up to its Long-Term Allocation as shown in Appendix B-2, adjusted for any Short-  
26                          Term Reallocation, and subject to any Curtailment.

27          8.2   SOT Transmission Service Use Information Coordination - Each SOT Member or its  
28                          designated agent shall provide the TANC Commission with information required

1 to meet TANC's obligations under the TMTS Agreement. The TANC Commission  
2 shall submit such information to PG&E in accordance with the TMTS Agreement.

3 8.3 Curtailement - Curtailments, if any, of TMTS in either direction will be shared on a  
4 pro-rata basis among the SOT Members, consistent with the TMTS Agreement.

5 8.4 Curtailement Procedures - Other specific procedures which implement the provisions  
6 of this Section 8 shall be determined by the TANC Commission.

7  
8 9. WITHDRAWAL

9 9.1 Withdrawal from TANC - TANC and the SOT Members hereby agree that the 300  
10 MW of firm bidirectional TMTS is provided to TANC. If a SOT Member should  
11 withdraw from TANC, TANC shall cease to allocate TMTS to a withdrawing SOT  
12 Member, unless notified otherwise pursuant to Section 9.3 below.

13 9.2 The SOT Member withdrawing under Section 9.1 shall remain financially obligated  
14 to TANC for all costs associated with that SOT Member's Allocation until such time  
15 as another SOT Member(s) agrees to assume such financial responsibility.

16 9.3 A withdrawing SOT Member may, upon advance notice to the TANC Commission,  
17 request to continue to receive an Allocation of TMTS after having withdrawn from  
18 TANC. Such continued receipt of service will continue to be subject to the terms  
19 and conditions of this Agreement.

20  
21 10. DEFAULT

22 10.1 Upon the failure of any SOT Member to meet its obligations hereunder, TANC shall  
23 give written notice of the failure to such SOT Member or former SOT Member and,  
24 if such failure has not been cured within forty-five (45) days after the date of such  
25 notice, it shall constitute a default at the expiration of that forty-five (45) day period.

26  
27 10.2 If such default is not cured at that time, the SOT Member shall be considered to  
28 have permanently waived any and all rights to receive an Allocation of TANC's

1 TMTS. All SOT Members recognize and agree that no SOT Member has any  
2 ownership rights to TMTS. To the extent that a SOT Member, which has defaulted,  
3 has any remaining financial obligations to TANC for costs, including the TMTS  
4 Charge, such obligations remain with that SOT Member unless the obligations are  
5 satisfied by other SOT Member(s).

6 10.3 In the event that a SOT Member's default remains uncured, each SOT Member  
7 severally agrees that the Allocation of each non-defaulting SOT Member shall be  
8 increased by the product of the ratio of the non-defaulting SOT Member's Allocation  
9 to the sum of all non-defaulting SOT Members' Allocations, expressed as a  
10 percentage, times the Allocation of the defaulting SOT Member. Such an increase,  
11 which is limited to a cumulative maximum of twenty-five percent (25%) above the  
12 Permanent Allocations shown in Appendix B-1 as of the effective date of this  
13 Agreement, shall not require the consent of the non-defaulting SOT Member(s). To  
14 the extent that the Allocation of the defaulting SOT Member is greater than the  
15 increase in the non-defaulting SOT Members' Allocations provided for in the  
16 preceding sentence, any residual Allocation shall be offered in accordance with the  
17 Reallocation provisions in Sections 4.2 and 4.3.

18 10.4 Upon a default, in addition to the rights and remedies available to TANC pursuant  
19 to Section 10.3, TANC may protect and enforce its rights hereunder by suit or suits  
20 in equity or at law, whether for the specific performance of any covenant herein or  
21 for damages or in aid of the execution of any power granted herein or any other  
22 remedy available under any provision of applicable law.

23 10.5 The term "SOT Member", when used in this Section 10, shall include a former SOT  
24 Member that has withdrawn pursuant to Section 9.

25  
26 11. EFFECTIVE DATE AND TERM

27 11.1 This Agreement shall become effective sixty (60) days after the date on which the  
28 TANC Commission adopts a resolution authorizing execution of the Agreement on

1           behalf of TANC provided that SOT Members with Permanent Allocations totaling  
2           at least 95 percent of TANC's TMTS have executed the Agreement on or before that  
3           date.

4           11.2 If the SOT Members that have executed the Agreement total more than 95 percent  
5           of the Permanent Allocations, but less than 100 percent, each of those SOT Members  
6           severally agrees that the Permanent Allocation of each executing SOT Member shall  
7           be automatically increased, on a pro-rata basis as shown in Appendix B-1, until all  
8           of TANC's Permanent Allocations of TMTS have been completed, provided that the  
9           SOT Members may otherwise agree to different increases so long as the total SOT  
10          Members' Permanent Allocations equal 100 percent.

11          11.3 This Agreement shall remain in full force and effect as long as (A) the Joint Powers  
12          Agreement, and (B) a TMTS Agreement remain effective, provided however that this  
13          Agreement will no longer be in effect upon the date it is superseded by a successor  
14          agreement.

15          11.4 A successor agreement, as referenced in Section 11.3 above, shall contain the  
16          principles of Section 6.2 of this Agreement.

17  
18      12. BILLING AND PAYMENT

19          12.1 Determination of Bills - Bills rendered by the TANC Treasurer to the SOT Members  
20          shall reflect the basic cost sharing responsibility which is calculated by multiplying  
21          the SOT Long-Term Allocation (as shown in Appendix B-2, expressed as a  
22          percentage) by the SOT Service Charge. In addition, any SOT Member which  
23          receives replacement power from PG&E pursuant to the TMTS Agreement shall  
24          have the cost associated with its usage of replacement power reflected in its bill.

25          12.2 Monthly bills shall be rendered by the TANC Treasurer to SOT Members in a timely  
26          manner. Such bills shall be sent by either United States mail first class, postage  
27          prepaid or its equivalent, or by facsimile to the billing address specified in  
28

1 Appendix C-1. The designation of any person specified in Appendix C-1 may be  
2 changed at any time by advance notice given to the TANC Treasurer.

3 12.3 Billings for amounts payable shall be due on the twenty-fifth (25th) day after receipt  
4 of the bill. If the due date falls on a non-business day of either party, then the  
5 payment shall be due on the next following business day without interest.

6 12.4 Amounts of monthly billings not paid on or before the due date shall be payable  
7 with an Interest Charge calculated from the due date to the date of payment.

8 12.5 In case any portion of any monthly bill is in dispute, the entire bill shall be paid  
9 when due and the dispute referred to the TANC Commission for resolution. If the  
10 TANC Commission determines that an overpayment was made, the overpayment  
11 shall be refunded. If the refund exceeds five hundred dollars (\$500.00) and is more  
12 than one (1) month past due, it shall be paid with interest at a rate based on the  
13 Interest Charge less two (2) percentage points.

14  
15 13. INSURANCE

16 TANC shall maintain, or cause to be maintained in force, insurance as may be determined  
17 prudent in the judgment of the TANC Commission to effect the purposes of this  
18 Agreement.

19  
20 14. INDEMNIFICATION

21 TANC shall indemnify, defend, and hold harmless each SOT Member, and its governing  
22 board members, officers, employees, consultants, and agents, from any liability for personal  
23 injury, death, or property damage arising out of the negligent or willful misconduct of  
24 TANC pursuant to this Agreement, or the TMTS Agreement. TANC shall not be obligated  
25 to indemnify, and shall not be liable to, any SOT Member for economic loss arising out of  
26 any act or omission on the part of TANC while carrying out its obligations under this  
27 Agreement.

28

1 15. LIABILITY OF TANC OFFICERS

2 15.1 Release - Each SOT Member agrees that TANC's Commissioners, officers, and  
3 employees shall not be liable to the SOT Members for direct, indirect or  
4 consequential loss or damage suffered by the SOT Members as a result of: (i) the  
5 performance or nonperformance by TANC under the TMTS Agreement or (ii) the  
6 performance or nonperformance of TANC under this Agreement. Each SOT  
7 Member releases TANC's Commissioners, officers, employees, the Treasurer and the  
8 Controller from any claim or liability (whether based on negligence or otherwise)  
9 as a result of any actions or inactions of TANC under this Agreement or the  
10 performance or non-performance by TANC under the TMTS Agreement.

11 15.2 No Modification - The provisions of this Section 15 shall not be construed so as to  
12 relieve TANC of any obligations under the TMTS Agreement and the provisions of  
13 this Section 15 shall not be construed to modify or amend Paragraph 2 of the Joint  
14 Powers Agreement.

15  
16 16. NOTICE

17 16.1 Manner of Notice - Any notice or demand by a SOT Member to TANC under this  
18 Agreement shall be deemed properly given if deposited in the United States mail  
19 first class postage prepaid or its equivalent, or sent via facsimile or other electronic  
20 media and confirmed by telephone or in writing within twenty-four (24) hours,  
21 addressed to TANC at its operational office; any notice or demand by TANC to any  
22 SOT Member under this Agreement shall be deemed properly given if deposited in  
23 the United States mail first class postage prepaid or its equivalent, or sent via  
24 facsimile or other electronic media and confirmed by telephone or in writing within  
25 twenty-four (24) hours, addressed to the addressee as shown in Appendix C-2. The  
26 designations of the name and address to which any such notice or demand is  
27 directed may be changed at any time and from time to time by any party giving  
28 notice as above provided in this Section.

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16.2 Time Computation - In computing any period of time from such notice, other than for billing as specified in Section 12, such period shall commence on the date mailed or, if sent via facsimile or other electronic media, on the date sent.

17. APPLICABLE LAW

This Agreement is made under and shall be governed by the laws of the State of California.

18. SEVERABILITY

If any section, paragraph, clause, or provision of this Agreement, or any part thereof, shall be finally adjudicated by a court of competent jurisdiction to be invalid, the remainder of this Agreement shall remain in full force and effect as though such section, paragraph, clause, or provisions or any part thereof so adjudicated to be invalid had not been included herein and the parties shall renegotiate the terms and conditions of this Agreement so as to carry out the intent of the invalid provision.

19. APPENDICES

This Agreement includes Appendices A, B-1, B-2, C-1, C-2, D, and E attached hereto and are incorporated herein by this reference. Appendices B-1, B-2, C-1, C-2, and D may be amended, modified, or otherwise changed or rescinded by the TANC Commission in accordance with the voting provisions of Section 5 without effect on the remainder of this Agreement.

20. WAIVER

Any waiver at any time by any party of its rights with respect to a default under this Agreement, or with respect to any other matters arising in connection with this Agreement, shall not be deemed a waiver with respect to any subsequent default or other matter.

1 21. CAPTIONS

2 Except as used for definitions, all indexes, titles, subject headings, section titles and similar  
3 items are provided for the purpose of reference and convenience and are not intended to  
4 be inclusive, definitive, or to affect the meaning or scope of this Agreement.  
5

6 22. COUNTERPARTS

7 This Agreement may be executed in several counterparts, each of which shall be deemed  
8 to be an original and all of which, when taken together, shall constitute a single  
9 Agreement.  
10

11 23. SIGNATURES

12 TRANSMISSION AGENCY OF NORTHERN CALIFORNIA

13 By: \_\_\_\_\_

14 Date: \_\_\_\_\_

15  
16 CITY OF ALAMEDA

17 By: \_\_\_\_\_

18 Date: \_\_\_\_\_

19  
20 CITY OF HEALDSBURG

21 By: \_\_\_\_\_

22 Date: \_\_\_\_\_

23  
24 CITY OF LODI

25 By: Thomas A. Peterson  
Thomas A. Peterson, City Manager

26 Date: January 20, 1993  
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CITY OF LOMPOC

By: \_\_\_\_\_

Date: \_\_\_\_\_

MODESTO IRRIGATION DISTRICT

By: \_\_\_\_\_

Date: \_\_\_\_\_

PLUMAS-SIERRA RURAL ELECTRIC COOPERATIVE

By: \_\_\_\_\_

Date: \_\_\_\_\_

CITY OF REDDING

By: \_\_\_\_\_

Date: \_\_\_\_\_

CITY OF ROSEVILLE

By: \_\_\_\_\_

Date: \_\_\_\_\_

SACRAMENTO MUNICIPAL UTILITY DISTRICT

By: \_\_\_\_\_

Date: \_\_\_\_\_

CITY OF SANTA CLARA

By: \_\_\_\_\_

Date: \_\_\_\_\_

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TURLOCK IRRIGATION DISTRICT

By: \_\_\_\_\_

Date: \_\_\_\_\_

CITY OF UKIAH

By: \_\_\_\_\_

Date: \_\_\_\_\_

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APPENDIX A  
PRINCIPLES FOR TESLA-MIDWAY TRANSMISSION SERVICE

1  
2 PRINCIPLES FOR TESLA-MIDWAY TRANSMISSION SERVICE  
3

4 Whereas, certain California utilities and agencies signed the  
5 Memorandum of Understanding - California-Oregon Transmission  
6 Project dated December 19, 1984 ("MOU") which relates to the  
7 development of a new 500 kV AC transmission facility ("COTP")  
8 between the California-Oregon border and the Tesla Substation;  
9

10 Whereas, sections 2.2 and 2.3 of the MOU contemplate that Pacific  
11 Gas and Electric Company ("PG&E") will provide firm bidirectional  
12 transmission service between Tesla and Midway Substations under  
13 reasonable rates, terms and conditions up to specified amounts  
14 to: the Cities of Anaheim, Azusa, Banning, Colton, Riverside,  
15 and Vernon ("Southern Cities"), San Diego Gas & Electric Company  
16 ("SDG&E"), Southern California Edison Company ("Edison") and the  
17 Transmission Agency of Northern California ("TANC") (collectively  
18 "MOU Participants");  
19

20 Whereas, certain MOU Participants and certain other Designated  
21 Participants have executed the "Revised Principles", and TANC and  
22 PG&E have determined that the Revised Principles as modified for  
23 TANC pursuant to the terms and conditions herein will form the  
24 basis for negotiating a definitive transmission service agreement  
25 under the terms and conditions contemplated by the MOU;  
26

27 Now, therefore, these principles are agreed to as of Aug 25 1987,  
28 1989 by and between PG&E and TANC.

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1.0 DEFINITIONS

1.1 CPPA Board of Control - The Board of Control established under the July 20, 1964 "California Power Pool Agreement" among PG&E, Edison, and SDG&E.

1.2 COTP Terminus - The southernmost point of change in ownership of facilities between PG&E and the COTP Participants, or as otherwise agreed by the parties.

1.3 CPUC - The Public Utilities Commission of the State of California or its regulatory successor.

1.4 Designated Participants - The parties receiving transmission service in accordance with the Revised Principles or like agreements, including TANC under these principles.

1.5 Entitlements - The firm and non-firm transmission service to be provided to each Designated Participant. For TANC, three hundred (300) megawatts of firm, bidirectional transmission service provided by PG&E according to the terms and conditions of these principles unless increased in accordance with Section 5.3.

1.6 FERC - The Federal Energy Regulatory Commission or its regulatory successor.

1 1.7 Initial Reinforcements - Those transmission system  
2 reinforcements, other than South of Tesla  
3 Reinforcements, installed by PG&E according to the  
4 terms and conditions of Sections 4.1 and 5.2 to  
5 increase the Transmission Capability over PG&E's system  
6 between Tesla Substation/COTP Terminus and Midway  
7 Substation to meet the transmission requirements of the  
8 Designated Participants.

9  
10 1.8 Mitigation Measures - Changes by PG&E in its operations  
11 in order to avoid or eliminate transmission service  
12 curtailments even though these changes may be  
13 uneconomic to PG&E, provided that PG&E in its sole  
14 judgment determines that it can reasonably do so and is  
15 fully compensated for such actions as provided herein.  
16 Such actions shall include but not be limited to  
17 curtailment of third party loads if appropriate,  
18 uneconomic dispatch of hydro and pumped  
19 storage/generation resources, operation of higher cost  
20 generation and purchase of power from others. Such  
21 actions shall not include any change in the operation  
22 of Diablo Canyon Nuclear Power Plant.

23  
24 1.9 Pre-specified Mitigation - Mitigation Measures  
25 consisting of switching PG&E's AC Intertie schedules to  
26 PG&E's DC Intertie schedules when DC line capacity is  
27 available and increasing or decreasing Morro Bay  
28

1 generation to the extent available, for which PG&E is  
2 compensated as provided in Section 5.4.

3  
4 1.10 Priority Commitments - PG&E's obligations to meet load  
5 and load growth of its customers in northern  
6 California, and to transmit electricity, by reason of  
7 its status as a public utility and its existing  
8 contracts, including but not limited to, its  
9 interconnection contracts with utilities in northern  
10 California and the California Power Pool Agreement,  
11 the Pacific Intertie Agreement and the PG&E-DWR  
12 Comprehensive Agreement, and excluding transmission  
13 service provided by PG&E to Third Parties, and to  
14 Designated Participants under these principles, Revised  
15 Principles, and like agreements.

16  
17 1.11 Prudent Utility Practice - Those practices, methods,  
18 and equipment, including provisions for contingencies  
19 and reserves, as modified from time to time, that are  
20 commonly used to operate electric power facilities (a)  
21 reliably and safely to serve a utility's customers  
22 dependably and economically, with due regard for the  
23 state of the art in the electric power industry, (b) by  
24 utilities which have at least 200 MW of peak load, own  
25 or operate at least 100 MW of generation and are  
26 members of the WSCC, and which are located either in  
27 the retail service areas of PG&E and TANC Members or in  
28 the State of California, whichever represents the

1 better application of the considerations in subsection  
2 (a) above. The practices, methods, and equipment  
3 examined under this definition are not limited to those  
4 of PG&E.

5  
6 1.12 Revised Principles - The "Revised Principles for  
7 Tesla-Midway Transmission Service," executed by PG&E  
8 and certain MOU Participants or incorporated as part of  
9 agreements with other parties for such service, as they  
10 may be modified.

11  
12 1.13 South of Tesla Reinforcements - A new Los Banos-Gates  
13 line and directly associated facilities, unless PG&E,  
14 in accordance with Prudent Utility Practice, identifies  
15 another set of reinforcements which are as cost  
16 effective, comparable in scope with, and serve the same  
17 purpose as the Los Banos-Gates line and directly  
18 associated facilities, which may be installed by PG&E  
19 in accordance with Section 4.2 to increase Transmission  
20 Capability to meet the transmission requirements of the  
21 Designated Participants and PG&E as set forth under the  
22 terms and conditions of the Revised Principles, these  
23 principles, and like agreements.

24  
25 1.14 TANC Member - Any of the Cities of Alameda, Biggs,  
26 Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding,  
27 Roseville, Santa Clara, and Ukiah; the Sacramento  
28 Municipal Utility District; the Modesto Irrigation

1 District; the Turlock Irrigation District; or the  
2 Plumas-Sierra Rural Electric Cooperative, Inc. ;  
3 provided that such entity has not relinquished or  
4 assigned its rights and interests in TANC's entitlement  
5 in the COTP or, if the COTP is not constructed, has not  
6 relinquished or assigned its rights and interests in  
7 TANC's Entitlement under these principles or the  
8 definitive successor transmission service agreement.

9  
10 1.15 Third Party - An entity, to the extent that it is  
11 neither receiving services as a Designated Participant  
12 nor served under Priority Commitments or PG&E's  
13 entitlements referred to in Section 3.2. Nothing in  
14 these principles shall create any expectation or  
15 obligation of PG&E to provide any service to a Third  
16 Party.

17  
18 1.16 Transmission Capability - The transfer ability,  
19 expressed in megawatts, of PG&E's transmission  
20 facilities to transmit electric energy between Midway  
21 Substation and Tesla Substation/COTP Terminus, which is  
22 determined by PG&E in its sole judgment, consistent  
23 with Prudent Utility Practice, to be the maximum power  
24 transfer ability of the transmission facilities under  
25 operating conditions existing at the time of  
26 determination.

1 2.0 GENERAL TERMS

2  
3 2.1 Effective Date of Principles - These principles shall  
4 become effective upon execution by PG&E and TANC and  
5 shall remain in effect until a definitive successor  
6 transmission service agreement is executed by PG&E and  
7 TANC. PG&E and TANC shall use best efforts to complete  
8 a definitive successor transmission service agreement  
9 by September 1, 1989. PG&E shall use good faith  
10 efforts to file such agreement with FERC within sixty  
11 days after execution. TANC and PG&E agree that such  
12 definitive successor transmission service agreement  
13 shall reflect and implement Section 2.3 of the MOU  
14 fully, provided that any rights and obligations of the  
15 parties under Section 2.3 of the MOU shall not be  
16 satisfied fully until the South of Tesla Reinforcements  
17 are completed or such definitive successor transmission  
18 service agreement terminates in accordance with Section  
19 8 of these principles.

20  
21 2.2 Provision of Service - Beginning January 1, 1990, PG&E  
22 shall provide firm bidirectional transmission service  
23 in the amount of TANC's Entitlement between Midway  
24 Substation and points of receipt and delivery set forth  
25 in Section 2.4 pursuant to the definitive successor  
26 transmission service agreement embodying the terms and  
27 conditions of these principles, subject to the  
28 conditions in Section 2.6.

1           2.3 Effect on Other Agreements - PG&E and TANC agree that  
2           the present interconnection agreements and future  
3           similar agreements between PG&E and TANC Members and  
4           between PG&E and the Northern California Power Agency  
5           will be amended or will provide for receipt and  
6           delivery of power transmitted hereunder at the backbone  
7           level at no additional cost to TANC Members consistent  
8           with Section 5.1.  
9

10          2.4 Points of Receipt and Delivery - The points of receipt  
11          and delivery by PG&E shall be:

12  
13          2.4.1 Midway Substation to each TANC Member, to  
14          provide a complete transmission path from  
15          Midway Substation over system interconnect and  
16          backbone subfunction transmission facilities  
17          of PG&E's electric system; provided that for a  
18          given TANC Member, transmission service  
19          between PG&E's backbone facilities and that  
20          TANC Member shall be pursuant to an amendment  
21          to the existing agreement between PG&E and  
22          that TANC Member, if necessary, or a new  
23          agreement if that TANC Member does not have an  
24          existing agreement with PG&E. For purposes of  
25          Tesla-Midway transmission service for TANC and  
26          TANC Members related to Sections 2.2 and 2.3  
27          of the MOU, prior to January 1, 1999, or such  
28          earlier date as may be applicable in

1 accordance with Section 5.6, if PG&E changes  
2 the definition of backbone facilities, PG&E  
3 will only charge TANC whatever its charges  
4 would have been with the definition of  
5 backbone facilities in use as of January 1,  
6 1989. PG&E also agrees that any changes in  
7 its current definition of backbone facilities  
8 prior to January 1, 1999, or such earlier date  
9 as may be applicable in accordance with  
10 Section 5.6, will not be used to require any  
11 TANC Member to obtain transmission service  
12 between PG&E's backbone facilities and that  
13 TANC Member which it would not have had to  
14 obtain without the change in definition of  
15 backbone facilities.

16  
17 2.4.2 Each TANC Member to Midway Substation, to  
18 provide a complete transmission path from each  
19 TANC Member's electric system over system  
20 interconnect and backbone subfunction  
21 transmission facilities of PG&E's electric  
22 system; provided that for a given TANC Member,  
23 transmission service between that TANC Member  
24 and PG&E's backbone facilities shall be  
25 pursuant to an amendment to the existing  
26 agreement between PG&E and that TANC Member,  
27 if necessary, or a new agreement if that TANC  
28 Member does not have an existing agreement

1 with PG&E. For purposes of Tesla-Midway  
2 transmission service for TANC and TANC Members  
3 related to Sections 2.2 and 2.3 of the MOU,  
4 prior to January 1, 1999, or such earlier date  
5 as may be applicable in accordance with  
6 Section 5.6, if PG&E changes the definition of  
7 backbone facilities, PG&E will only charge  
8 TANC whatever its charges would have been with  
9 the definition of backbone facilities in use  
10 as of January 1, 1989. PG&E also agrees that  
11 any changes in its current definition of  
12 backbone facilities prior to January 1, 1999,  
13 or such earlier date as may be applicable in  
14 accordance with Section 5.6, will not be used  
15 to require any TANC Member to obtain  
16 transmission service between PG&E's backbone  
17 facilities and that TANC Member which it would  
18 not have had to obtain without the change in  
19 definition of backbone facilities.

20  
21 2.4.3 Midway Substation to the COTP Terminus/Tesla  
22 Substation, only for delivery onto the COTP.  
23 It is TANC's intent to transmit power  
24 delivered onto the COTP to various points,  
25 including, but not limited to Tracy  
26 Substation, Olinda Substation, and Malin  
27 Substation utilizing TANC's COTP capacity.  
28 Since TANC's rights to use its COTP

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entitlement, like the rights of all COTP Participants, will be defined in the COTP Participation Agreement and perhaps other project agreements, these principles do not address the issue of rights to use the COTP.

2.4.4 COTP Terminus/Tesla Substation to Midway

Substation only for receipt from the COTP. It is TANC's intent to transmit power received from various points on the COTP including, but not limited to Malin Substation, Olinda Substation, and Tracy Substation to Midway Substation utilizing TANC's COTP capacity. Since TANC's rights to use its COTP entitlement, like the rights of all COTP Participants, will be defined in the COTP Participation Agreement and perhaps other project agreements, these principles do not address the issue of rights to use the COTP.

2.5 TANC Members, acting through TANC, and PG&E agree to use best efforts to amend or enter into the agreements described in Sections 2.3, 2.4.1 and 2.4.2 by September 1, 1989, and not to condition such amendments or agreements on the inclusion of any other terms and conditions which are unrelated to or inconsistent with these principles.

1           2.6 Regulatory Approvals - Implementation of these  
2           principles and the definitive successor transmission  
3           service agreement is subject to and conditioned upon  
4           PG&E obtaining in a form and manner satisfactory to it,  
5           which determination shall be made in good faith and  
6           shall not be arbitrary or capricious, all governmental  
7           approvals, including rate filings, permits and  
8           certificates required to carry out these principles and  
9           such transmission service agreement. These principles  
10          and the definitive successor transmission service  
11          agreement will be reexamined and reconsidered by PG&E  
12          and TANC to the extent either is found by any court or  
13          regulatory agency or body having competent  
14          jurisdiction, to be unlawful, unjust, unreasonable,  
15          imprudent or otherwise not in the public interest.  
16          Nothing in this Section 2.6 shall be construed to  
17          conflict with the time period specified in Section 6.3  
18          during which transmission service hereunder is deemed  
19          firm following PG&E's inability to install South of  
20          Tesla Reinforcements.

21  
22          2.7 These principles represent a compromise between PG&E  
23          and TANC concerning the meaning and implementation of  
24          Section 2.3 of the MOU. The parties agree that these  
25          principles establish no precedent with regard to any  
26          other entity or agreement, or to the meaning and  
27          implementation of Section 2.3 of the MOU if the  
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1 definitive successor transmission service agreement  
2 does not become effective.

3  
4 3.0 CONTINUITY OF SERVICE

5  
6 3.1 General - PG&E shall maintain continuity of  
7 transmission service for TANC subject to PG&E's use of  
8 Transmission Capability between Midway Substation and  
9 the points of receipt and delivery set forth in Section  
10 2.4 and transfer capability between PG&E and Edison's  
11 system (including PG&E's share of the Midway-Vincent #3  
12 line) for its Priority Commitments, provided that PG&E  
13 may as it determines necessary in its sole judgment  
14 curtail service to TANC pursuant to this Section 3 to  
15 maintain continuity of service to loads, system  
16 reliability and stability and to avoid or remedy  
17 conditions which may jeopardize its electric system or  
18 service thereon, or as is otherwise required for  
19 maintenance or Prudent Utility Practice. Any  
20 curtailment pursuant to this Section 3.1 shall be made  
21 in accordance with the priorities set forth in Section  
22 3.2, except as modified below. It is recognized that  
23 under system jeopardy conditions PG&E's priority will  
24 be to maintain the integrity of its electric system and  
25 there may be instances where it is not possible to  
26 curtail strictly in accordance with the priorities set  
27 forth in Section 3.2. In such cases, PG&E's system  
28

1 operators shall use good faith efforts to curtail  
2 consistent with the priorities set forth in Section  
3 3.2.

4  
5 3.1.1 In conjunction with maintaining continuity of  
6 service, PG&E shall coordinate with TANC its  
7 schedules for planned outages which would  
8 affect service to TANC.

9  
10 3.1.2 Prior to completion of the South of Tesla  
11 Reinforcements, PG&E shall implement Pre-  
12 specified Mitigation to the extent available  
13 up to a total of 200 MW south-to-north and 700  
14 MW north-to-south for TANC and other  
15 Designated Participants under the terms and  
16 conditions of these principles. Subsequent to  
17 the completion of the South of Tesla  
18 Reinforcements, the charges in Section 5.4  
19 shall cease, and service to TANC shall not be  
20 curtailed if curtailments can be mitigated or  
21 eliminated by PG&E implementing Mitigation  
22 Measures for which PG&E shall bear the costs.

23  
24 3.2 Curtailment Priorities - In the event that  
25 transmission line loading, based on daily preschedules,  
26 hourly schedules, or real time determination by PG&E  
27 dispatchers, is in excess of the amount of Transmission  
28 Capability, such excess loading may be curtailed by

1 PG&E under the terms and conditions of these principles  
2 for TANC and like agreements for Designated  
3 Participants and Third Parties in the following  
4 sequence:

5  
6 3.2.1 Non-firm and interruptible transmission  
7 service commitments except as otherwise  
8 specified below.

9  
10 3.2.2 Any firm transmission service for or on behalf  
11 of Third Parties who have not contributed to  
12 the Initial Reinforcements or the South of  
13 Tesla Reinforcements.

14  
15 3.2.3 Any use by PG&E in excess of PG&E's 500 MW of  
16 reserved Transmission Capability and Priority  
17 Commitments which also exceeds the amount of  
18 additional Transmission Capability PG&E has  
19 obtained through its contribution to the South  
20 of Tesla Reinforcements in accordance with  
21 Section 5.3.

22  
23 3.2.4 Non-firm Entitlements of the Designated  
24 Participants and any interruptible  
25 transmission service for or on behalf of Third  
26 Parties who have contributed to the Initial  
27 Reinforcements.

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3.2.5 Any use by PG&E of its 500 MW of reserved Transmission Capability, the firm Entitlements of the Designated Participants, and any firm transmission service for or on behalf of Third Parties when such entities (i) have contributed to the Initial Reinforcements, (ii) have not contributed to South of Tesla Reinforcements and (iii) do not request Mitigation Measures.

3.2.6 The firm Entitlements of Designated Participants and any firm transmission service for or on behalf of Third Parties when such entities (i) have contributed to Initial Reinforcements, (ii) have not contributed to the South of Tesla Reinforcements and (iii) do request Mitigation Measures or have agreed to Pre-specified Mitigation according to Sections 3.1.2 and 5.4; and, prior to completion of the South of Tesla Reinforcements, any use by PG&E of its 500 MW of reserved Transmission Capability for which it implements Mitigation Measures.

3.2.7 Transmission service for Designated Participants and Third Parties who have contributed to South of Tesla Reinforcements, any use by PG&E in excess of its 500 MW of

1 reserved Transmission Capability for which it  
2 has contributed to South of Tesla  
3 Reinforcements, and any use by PG&E of its 500  
4 MW of reserved Transmission Capability.  
5

6 3.2.8 Priority Commitments  
7

8 Curtailments in accordance with any of the foregoing  
9 categories shall be pro-rata among all entities in that  
10 category based on Entitlements, contract rights of  
11 Third Parties, and the uses reserved to PG&E in this  
12 Section 3.2.  
13

14 3.3 PG&E shall give TANC reasonable advance notice prior to  
15 curtailing transmission service pursuant to Section 3.1  
16 or 3.2. Provisions for determination of transmission  
17 line loading in excess of Transmission Capability shall  
18 be included in the definitive successor transmission  
19 service agreement.  
20

21 4.0 REINFORCEMENTS  
22

23 4.1 Initial Reinforcements - PG&E shall promptly complete  
24 its study and propose a plan of service pursuant to the  
25 terms and conditions of these principles for Initial  
26 Reinforcements to its transmission system between Tesla  
27 and Midway Substations. PG&E will meet with TANC and  
28 the other Designated Participants in order to discuss

1 any comments they may have on the proposed plan of  
2 service and thereafter, giving due consideration to  
3 their comments, adopt a plan of service and install  
4 reinforcements necessary to implement it. TANC shall  
5 accept its share of the cost responsibility for these  
6 Initial Reinforcements in accordance with Section 5.2.

7  
8 4.2 South of Tesla Reinforcements - PG&E and TANC recognize  
9 that reinforcements to PG&E's system may be required  
10 to maintain the adequacy of PG&E's transmission service  
11 for TANC and other Designated Participants. When PG&E  
12 determines that South of Tesla Reinforcements are  
13 necessary, PG&E shall give notice to the Designated  
14 Participants at least six years in advance of the time  
15 when such reinforcements are to be completed. Once  
16 such determination is made, PG&E shall study and  
17 propose a plan of service for the South of Tesla  
18 Reinforcements. PG&E shall meet with the Designated  
19 Participants in order to discuss any comments they may  
20 have on the proposed plan of service and thereafter,  
21 giving due consideration to their comments, adopt a  
22 plan of service and install facilities and equipment  
23 necessary to implement it. TANC shall accept its share  
24 of the cost responsibility for South of Tesla  
25 Reinforcements in accordance with Section 5.3, unless  
26 (i) it elects not to contribute its share of the costs  
27 in accordance with Section 8.2.1 or (ii) the definitive  
28 successor transmission service agreement terminates in

1 accordance with Section 8.2.2, 8.2.3 or 8.2.4 before  
2 TANC has made its election in accordance with Section  
3 8.2.1 or contributed to the South of Tesla  
4 Reinforcements. TANC shall not be required to  
5 contribute to the cost of the South of Tesla  
6 Reinforcements prior to the time that the CPPA Board of  
7 Control, as presently constituted, determines by  
8 affirmative vote of at least PG&E and Edison that such  
9 reinforcements are necessary. In the event that PG&E  
10 has already initiated the South of Tesla Reinforcements  
11 when such determination is made by the CPPA Board of  
12 Control, the timing of TANC's cost contribution shall  
13 be the same as if PG&E had initiated such  
14 reinforcements after such determination was made by the  
15 CPPA Board of Control.

16  
17 4.3 Beneficial Use - To the extent TANC can demonstrate  
18 that PG&E or a Third Party is making beneficial use of  
19 the additional Transmission Capability created by the  
20 Initial Reinforcements, or that a Third Party is making  
21 beneficial use of the Transmission Capability created  
22 by the South of Tesla Reinforcements, and has not  
23 contributed to the cost of such reinforcements, PG&E  
24 or, if after PG&E's use of best efforts that Third  
25 Party agrees, that Third Party shall contribute a just  
26 and reasonable share of the costs of such  
27 reinforcements. To the extent TANC can demonstrate  
28 that PG&E is making beneficial use of the additional

1 Transmission Capability created by the South of Tesla  
2 Reinforcements beyond the 300 MW or more of additional  
3 Transmission Capability PG&E has paid for pursuant to  
4 Section 5.3, PG&E shall contribute a just and  
5 reasonable share of the cost of the South of Tesla  
6 Reinforcements in addition to the contribution already  
7 made pursuant to Section 5.3. If agreement on such  
8 cost sharing cannot be reached, then the matter shall  
9 be submitted to arbitration. Beneficial use shall not  
10 include PG&E's use for its 500 MW of reserved  
11 Transmission Capability or for Priority Commitments.

12  
13 4.4 Ownership - PG&E shall own, operate and maintain all  
14 reinforcements to its electric system in connection  
15 with these principles.

16  
17 4.5 Diligence - After the South of Tesla Reinforcements are  
18 determined by the CPPA Board of Control to be necessary  
19 in accordance with Section 4.2, PG&E shall use due  
20 diligence to install such reinforcements. In the event  
21 that PG&E is unable to obtain any approvals required  
22 for PG&E to install the South of Tesla Reinforcements,  
23 PG&E shall make such proposals as are, in its judgment,  
24 reasonable alternatives to installing such  
25 reinforcements itself, including giving due  
26 consideration to permitting TANC to install such  
27 reinforcements.

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4.6 TANC Alternative Project - In the event that TANC terminates the successor definitive transmission service agreement pursuant to Section 8.2.1 because TANC elects to construct facilities in lieu of contributing to the cost of South of Tesla Reinforcements, TANC shall offer PG&E the opportunity for joint ownership of a substantial portion of the amount of transmission capability from such facilities in excess of TANC's needs provided that (i) regulatory or other approvals required for PG&E's participation in TANC's facilities do not result in a delay in construction unsatisfactory to TANC, (ii) such participation by PG&E does not impair TANC's ability to finance such facilities or increase TANC's financing costs, and (iii) such opportunity does not preclude TANC from giving other utilities and agencies the opportunity to participate in ownership of such facilities. In the event that PG&E receives permission from the CPUC to participate once construction of such facilities has begun, TANC shall afford PG&E the opportunity to participate to the extent that there is remaining capacity in excess of TANC's and other Participants' needs, provided that such participation by PG&E does not adversely impact TANC's existing, pending, or future financing for such facilities.

4.7 Refund of Contribution to Reinforcements - In the event

1 that the successor definitive transmission service  
2 agreement terminates pursuant to Section 8 after TANC  
3 has contributed to the cost of the South of Tesla  
4 Reinforcements, PG&E shall refund to TANC its  
5 contribution as follows:

6  
7 4.7.1 TANC shall receive no refund until ten  
8 years after the commercial operation date of  
9 the South of Tesla Reinforcements, except to  
10 the extent that TANC demonstrates beneficial  
11 use of the South of Tesla Reinforcements by  
12 PG&E or a Third Party in accordance with  
13 Section 4.3.

14  
15 4.7.2 After the first ten years of commercial  
16 operation, or to the extent the demonstration  
17 is made in accordance with Sections 4.3 and  
18 4.7.1, PG&E shall pay TANC that portion of  
19 TANC's contribution toward the cost of South  
20 of Tesla Reinforcements equal to the book  
21 value of TANC's contribution, not including  
22 any adjustment for applicable taxes,  
23 depreciated using a useful life of thirty  
24 years.

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26 5.0 RATES AND CHARGES

27  
28 5.1 Transmission Service Charge - For transmission service

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pursuant to Section 2.2, TANC shall pay PG&E's current rates on file with the FERC. The combined rates (system interconnect and backbone) for each of the years 1990 and 1991 shall be \$0.74 per kW-month applied to TANC's Entitlement. Except as provided in Section 5.1.1, rates for subsequent periods shall be as mutually agreed or as may be unilaterally filed by PG&E with the FERC under Section 205 of the Federal Power Act. TANC shall have the right to intervene, protest, or otherwise oppose any such unilateral filing. In addition, after 1991 TANC retains all rights it may have under Section 206 of the Federal Power Act. Firm transmission service will be billed on a contract demand, take-or-pay basis for TANC's Entitlement. The parties acknowledge that PG&E and individual TANC Members have or may have separate agreements which provide for area, backbone, and system interconnect transmission charges. PG&E agrees to provide bidirectional transmission service between Midway Substation and the points of receipt and delivery as set forth in Section 2.4 for the charges under these principles and not to impose additional backbone or system interconnect charges in connection with service under these principles and under such separate agreements. Charges for area transmission service, where applicable, will be provided in accordance with such separate agreements between PG&E and TANC Members.

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5.1.1 Except as provided in Section 5.6, the rates applicable from January 1, 1992 through December 31, 1998 shall be PG&E's backbone and system interconnect charges reflecting system-average cost based functionalized rates, changed based only on changes in PG&E's costs.

5.2 Initial Reinforcement Charge - TANC shall pay, as further defined in the definitive successor transmission service agreement, its proportionate share of the costs of the Initial Reinforcements, adjusted for applicable taxes, and associated annual ownership charges. Such costs shall include the study costs, not to exceed \$2.6 million, associated with such reinforcements and the Los Banos-Gates Project. Such costs for Initial Reinforcements are estimated to be approximately \$7.2<sup>1</sup> million before taxes. This estimate is based on transmission studies and subject to revision following completion of such reinforcements. Such total costs shall be shared proportionately among the Designated Participants and Third Parties based on total subscriptions for such

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<sup>1</sup> This estimate is subject to modification for, among other things, the installation of additional shunt capacitors at Tesla Substation to the extent these costs are not covered under separate projects.

1 service. Designated Participants and Third Parties who  
2 contribute to the cost of the Initial Reinforcements  
3 shall receive appropriate reimbursement subsequent to  
4 similar contributions made at a later date by other  
5 Designated Participants or Third Parties. The annual  
6 ownership charge for the Initial Reinforcements is  
7 estimated to be \$386,400 in 1990 allocated  
8 proportionately to all contributing Designated  
9 Participants and Third Parties.

10  
11 5.3 South of Tesla Reinforcement Charge - The parties  
12 anticipate that the South of Tesla Reinforcements will  
13 increase the Transmission Capability by approximately  
14 1100 to 1200 MW. Subject to Section 8, TANC, PG&E and,  
15 subject to separate agreement with PG&E, Edison, each  
16 agree to pay for a share of the cost of the South of  
17 Tesla Reinforcements, adjusted as to TANC and Edison  
18 for applicable taxes, and associated annual ownership  
19 charges, as follows: TANC - 300 MW, PG&E - 300 MW,  
20 Edison - 281 MW. Such shares shall be divided by the  
21 total shares allocated to TANC, PG&E, Edison, other  
22 Designated Participants and Third Parties (e.g., for  
23 TANC, 300/total allocation), whether or not the total  
24 shares allocated to TANC, PG&E, Edison, other  
25 Designated Participants and Third Parties exceed the  
26 increased Transmission Capability resulting from the  
27 South of Tesla Reinforcements. To the extent that any  
28 portion of the cost of such reinforcements is not

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allocated to other Designated Participants or Third Parties in accordance with Section 5.3.3, TANC, PG&E and Edison shall each pay its proportionate share of such amount and receive a corresponding increase in Entitlement or transmission use. TANC, PG&E, and Edison also shall each pay its proportionate share of PG&E's associated annual ownership charges for the South of Tesla Reinforcements. PG&E shall amend the October 12, 1987 Revised Principles with Edison to reflect the provisions of this Section 5.3.

5.3.1 In the event that Edison is relieved of its obligation to contribute to the cost of the South of Tesla Reinforcements pursuant to separate agreement with PG&E, PG&E and TANC shall remain obligated to pay for 300 MW shares each; however, PG&E shall not be obligated to install the South of Tesla Reinforcements until and unless Edison's previous share of such reinforcements is assumed by PG&E, TANC, other Designated Participants or Third Parties.

5.3.2 In the event that PG&E's participation in the COTP terminates, PG&E shall be relieved of its obligation to contribute to the cost of the South of Tesla Reinforcements. In such event, TANC and, subject to separate agreement with

1 PG&E, Edison, shall remain obligated to pay  
2 for 300 MW and 281 MW shares, respectively;  
3 however, PG&E shall not be obligated to  
4 install the South of Tesla Reinforcements  
5 until and unless PG&E's previous share of the  
6 cost of such reinforcements is assumed by  
7 Edison, TANC, other Designated Participants or  
8 Third Parties.

9  
10 5.3.3 Unless ordered otherwise by a court or  
11 regulatory agency of competent jurisdiction,  
12 PG&E agrees to condition any agreements for  
13 new firm transmission service longer than 10  
14 years, including contract renewals, between  
15 Tesla Substation/COTP Terminus and Midway  
16 Substation to Designated Participants or Third  
17 Parties on agreement to pay a corresponding  
18 share of the costs of the Initial  
19 Reinforcements and the South of Tesla  
20 Reinforcements. Firm transmission service  
21 provided by PG&E to Third Parties for 10 years  
22 or less between Tesla Substation/COTP Terminus  
23 and Midway Substation may be subject to  
24 payment of an appropriate share of the costs  
25 of such reinforcements in accordance with  
26 Section 4.3. Transmission service provided by  
27 PG&E which does not include a requirement to  
28 pay for Initial Reinforcements and South of

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Tesla Reinforcements shall not be considered by the CPPA Board of Control in determining the need for the South of Tesla Reinforcements. PG&E and TANC also agree to use their best efforts to obtain agreement by Designated Participants and Third Parties to whom PG&E has already committed, after execution of the MOU, to provide firm Tesla-Midway transmission service to pay a corresponding share of the costs of the Initial Reinforcements and, for service beyond 1999, the South of Tesla Reinforcements.

5.4 Pre-Specified Mitigation Charge - In accordance with Section 3.1.2, TANC shall pay PG&E as full compensation for Pre-specified Mitigation as follows:

- 5.4.1 January 1, 1990 through December 31, 1993 - \$0.10/kW-month;
- 5.4.2 January 1, 1994 through December 31, 1998 - \$0.20/kW-month;
- 5.4.3 January 1, 1999 through December 31, 2004 - \$0.30/kW-month.

1 Except as provided in Section 5.6, the foregoing rates  
2 shall be applied to TANC's Entitlement and shall not be  
3 subject to change before January 1, 2005.

4  
5 5.5 Losses - PG&E shall be compensated for transmission  
6 losses by an appropriate reduction to TANC's power  
7 deliveries based on functionalized system-average loss  
8 factors or as otherwise mutually agreed. The parties  
9 acknowledge that PG&E and individual TANC Members have  
10 or may have separate agreements which provide for area,  
11 backbone, and system interconnect transmission losses.  
12 PG&E agrees to provide bidirectional transmission  
13 service between Midway Substation and the points of  
14 receipt and delivery as set forth in Section 2.4 with  
15 losses as set forth in these principles and not to  
16 impose additional backbone or system interconnect  
17 losses in connection with service under these  
18 principles under such separate agreements. Losses for  
19 area transmission service, where applicable, will be  
20 assessed in accordance with such separate agreements  
21 between PG&E and TANC Members. The loss factors for  
22 the system interconnect and backbone subfunctions are  
23 currently 0.999534 and 0.981547, respectively. The  
24 combined loss factor is 0.9810896 (e.g., deliveries  
25 over the system interconnect and backbone are reduced  
26 to an amount equal to the amount of power scheduled at  
27 the contract point of origin within PG&E's system  
28 multiplied by 0.9810896). PG&E may revise these loss

1 factors from time to time, as appropriate, and shall  
2 submit an analysis to TANC supporting these revisions.  
3 If the parties agree on those revisions, they shall  
4 sign a separate letter agreement accepting those  
5 revisions which shall become effective immediately  
6 thereafter. If the parties cannot agree, PG&E shall  
7 have the right to file a revision with the FERC and  
8 such revision shall become effective on the date it is  
9 accepted for filing by FERC.

10  
11 5.6 Early Termination of Rates - In the event that the  
12 COTP is terminated or there is not substantial progress  
13 towards its completion by January 1, 1995, or PG&E's or  
14 TANC's participation in the COTP terminates, Sections  
15 5.1.1 and 5.4.3 shall no longer be in effect.

16  
17 6.0 FIRMNESS OF TRANSMISSION SERVICE PRIOR TO SOUTH OF TESLA  
18 REINFORCEMENTS

19  
20 6.1 General - Transmission service provided hereunder shall  
21 be deemed firm by PG&E and, subject to separate  
22 agreement with TANC, by Edison, for purposes of imports  
23 to or exports from their respective control areas.

24  
25 6.2 Replacement Power - Replacement power pursuant to these  
26 principles is provided as an accommodation and in order  
27 to reach agreement on the package of terms and  
28 conditions for Tesla-Midway transmission service in

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these principles. In accordance with Section 2.7, by agreeing to these principles the parties do not intend that anything in these principles requires, or may be used as a basis for requiring, that any replacement power or similar service be made available or supplied (1) to any TANC Member other than under the definitive successor transmission service agreement, or (2) to any other entity. The parties acknowledge that PG&E is able to provide replacement power under the terms in these principles only because: (1) this service is expected to be needed only occasionally in off-peak periods and infrequently, if at all, in on-peak periods based on TANC's anticipated use of south-to-north transmission service; (2) this service will be provided only to TANC Members and only in accordance with the conditions and limitations of these principles; (3) this service is to be provided in connection with curtailment of Tesla-Midway transmission service and not for unavailability of any power resource or other transmission service; and (4) PG&E will not be required to add or purchase power to its system, or reduce the integrity and reliability of service to Priority Commitments in order to supply replacement power to TANC.

South-to-north transmission service shall be deemed firm by PG&E for all purposes under the various interconnection, integration, and sales and service

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agreements between TANC Members and PG&E; however, before the South of Tesla Reinforcements are installed, to the extent that Pre-specified Mitigation for south-to-north service is insufficient and TANC's Entitlement is curtailed in accordance with Section 3.1 or 3.2, PG&E shall provide replacement power, to the extent available and up to the amount of TANC's Entitlement, if requested by a TANC Member. Replacement power under this Section 6.2 shall not be provided by PG&E to the extent that curtailments are required and implemented by PG&E during on-peak periods as a result of: (1) emergency conditions, including Tesla-Midway transmission facility outages and partial outages; or (2) actions taken by PG&E during system jeopardy pursuant to Section 3.1. On-peak periods shall be designated by PG&E, consistent with general industry definitions and the load characteristics of PG&E's electric system, and shall include 50% of the hours in a week. Initially, on-peak periods shall be Monday-Friday 7 a.m. to 10 p.m., Saturdays 1 p.m. to 10 p.m., subject to change with adequate notice given to TANC.

The price formula used in any given month through December 31, 2004 shall be the quantity of replacement power provided in kWh in a given month times 10,500 Btu/kWh times PG&E's monthly average fuel cost (weighted average of oil and gas) for electric

1 generation at PG&E's conventional steam plants. PG&E's  
2 average fuel cost for electric generation is currently  
3 defined as the sum of:

4 (i) The annual average G-UEG transportation rate  
5 calculated based on the currently effective  
6 G-UEG gas transportation tariff or its  
7 successor. (The annual average G-UEG  
8 transportation rate is the current  
9 CPUC-adopted annual revenues for utility  
10 generation divided by the current CPUC-adopted  
11 annual utility electric generation volumes);  
12 and

13 (ii) The core and/or non-core gas procurement rates  
14 (G-PC and/or G-PN, or their successor rates,  
15 as applicable based on the gas procurement for  
16 the month concerned), except when PG&E uses  
17 oil rather than gas for some or all of its  
18 power plants. In the latter case, PG&E may  
19 use its weighted average price of oil and gas  
20 instead of the applicable gas procurement  
21 rate.

22 After December 31, 2004, replacement power shall be  
23 priced as agreed by PG&E and TANC or as filed with the  
24 PERC by PG&E pursuant to Section 205 of the Federal  
25 Power Act.

26  
27 6.3 Term of Firmness - For purposes of Sections 6.1 and  
28

1 6.2, transmission service hereunder shall be deemed  
2 firm prior to the completion date of the South of Tesla  
3 Reinforcements; if, however, after the South of Tesla  
4 Reinforcements are determined by the CPPA Board of  
5 Control to be necessary in accordance with Section 4.2,  
6 PG&E is unable to install such reinforcements after  
7 exercising due diligence in accordance with Section  
8 4.5, transmission service hereunder shall be deemed  
9 firm only until the later of (i) January 1, 2004 or  
10 (ii) 8 years following the date the CPPA Board of  
11 Control makes such determination.  
12

13 6.4 Limited Effect on Nature of Power Resources - Nothing  
14 in these principles shall be construed to define or  
15 determine that any power resource is firm except to the  
16 extent that firm transmission is an element of such  
17 definition or determination.  
18

19 7.0 UNCONTROLLABLE FORCES  
20

21 The obligations of any party under these Principles and successor  
22 agreements thereto, except for payment obligations, shall be  
23 subject to uncontrollable forces. Further, such obligations  
24 shall be subject to PG&E's discretion in allocating time and  
25 materials during periods of shortage in order to avoid jeopardy  
26 to its retail customers.  
27  
28

1 8.0 TERM OF SUCCESSOR DEFINITIVE TRANSMISSION SERVICE AGREEMENT

2

3 8.1 General - The successor definitive transmission service  
4 agreement shall become effective when permitted to do  
5 so by FERC and shall remain in effect for the longer of  
6 (i) the term of the COTP Participation Agreement or  
7 (ii) the date specified in Section 8.2.3, unless  
8 terminated in accordance with Section 8.2.

9

10 8.2 Early Termination - The successor definitive  
11 transmission service agreement shall terminate upon the  
12 earliest of the following events or dates:

13

14 8.2.1 The later of (i) the completion of the South  
15 of Tesla Reinforcements or (ii) three years  
16 after the CPPA Board of Control makes the  
17 determination that such reinforcements are  
18 necessary in accordance with Section 4.2;  
19 provided that South of Tesla Reinforcements  
20 are determined to be necessary by the CPPA  
21 Board of Control pursuant to Section 4.2 and  
22 TANC gives written notice to PG&E within  
23 ninety (90) days of such determination that it  
24 elects not to contribute to the cost thereof  
25 in accordance with Section 5.3.

26

27 8.2.2 The termination date specified in a written

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notice given by TANC to PG&E at least sixty (60) days in advance of termination, following a change by PG&E, accepted or approved by FERC, in its methodology for computing or developing transmission service charges, rates or prices under Section 5.1 if such change in methodology is reasonably estimated to increase charges, rates or prices for transmission service under Section 5.1 by 35 percent over four years or less from the date such changed methodology becomes effective. If TANC has contributed to the cost of South of Tesla Reinforcements in accordance with Section 5.3, TANC shall have the option to continue service until the date on which TANC receives a refund in accordance with Section 4.7, or any shorter period when the termination date specified in written notice given by TANC to PG&E is at least 180 days after such notice is given, in which case PG&E agrees not to increase the transmission service charges, rates or prices under Section 5.1 by more than 35 percent in any four year period prior to the expiration of the ten year period described in Section 4.7; provided, however, for purposes of Section 4.7, TANC shall be entitled to receive its refund at the

1 same time as it would have if TANC had not  
2 elected to continue service.

3  
4 8.2.3 The later of (i) January 1, 2010 or (ii) 10  
5 years after completion of the South of Tesla  
6 Reinforcements if TANC contributes to the cost  
7 of such reinforcements in accordance with  
8 Section 5.3; provided that the COTP is  
9 terminated or is not in commercial operation  
10 by January 1, 2000, or PG&E's or TANC's  
11 participation in the COTP terminates. PG&E  
12 shall not unreasonably withhold its consent to  
13 extend for up to one year the above January 1,  
14 2000 trigger date if substantial progress  
15 toward completion of the COTP has been made  
16 and is then underway.

17  
18 8.2.4 The termination date specified in a written  
19 notice given by TANC to PG&E at least ninety  
20 (90) days in advance of termination; provided  
21 that PG&E does not initiate installation of  
22 the South of Tesla Reinforcements within two  
23 years of the determination by the CPPA Board  
24 of Control that such reinforcements are  
25 necessary in accordance with Section 4.2,  
26 because (i) either PG&E or Edison has been  
27 relieved of its obligation to contribute to  
28 the cost of such reinforcements pursuant to

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Section 5.3.1 or Section 5.3.2 and (ii) PG&E's or Edison's previous share of the cost of such reinforcements is not assumed by PG&E, Edison, Designated Participants or Third Parties.

9.0 SIGNATURES

The signatories to these principles represent that they have been appropriately authorized to enter into this agreement on behalf of the party for whom they sign.

Pacific Gas and Electric Company

By: *Robert J. Hayward*  
Vice President *RFJ*  
Power Planning and Contracts

Transmission Agency of Northern California

By: *Joseph B. Mantel*  
Chairman

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APPENDIX B-1  
PERMANENT ALLOCATIONS

	(A)	(B)
	Expressed in Percentages	Expressed in Megawatts
City of Alameda	2.104	6.31
City of Healdsburg	0.236	0.71
City of Lodi	2.069	6.21
City of Lompoc	0.266	0.80
Modesto Irrigation District	34.000	102.00
Plumas-Sierra Rural Electric Cooperative	0.235	0.70
City of Redding	10.333	31.00
City of Roseville	1.786	5.36
Sacramento Municipal Utility District	15.333	46.00
City of Santa Clara	27.000	81.00
Turlock Irrigation District	6.334	19.00
City of Ukiah	0.304	0.91
TOTAL	100.000	300.00

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APPENDIX B-2  
LONG-TERM ALLOCATIONS<sup>1</sup>

	(A)	(B)
	Expressed in Percentages	Expressed in Megawatts
City of Alameda	5.000	15.00
City of Healdsburg	0.236	0.71
City of Lodi	5.788	17.37
City of Lompoc	0.266	0.80
Modesto Irrigation District	34.000	102.00
Plumas-Sierra Rural Electric Cooperative	0.235	0.70
City of Redding	0.000	0.00
City of Roseville	5.504	16.51
Sacramento Municipal Utility District	15.333	46.00
City of Santa Clara	27.000	81.00
Turlock Irrigation District	6.334	19.00
City of Ukiah	0.304	0.91
TOTAL	100.000	300.00

<sup>1</sup> This Appendix represents a summary of the impacts of Long-Term Reallocations upon Permanent Allocations for the period beginning March 1, 1992 and ending December 31, 1993.

APPENDIX C-1

ADDRESSES OF THE PARTIES FOR BILLING

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City of Alameda  
Bureau of Electricity  
P. O. Box H  
Alameda, CA 94501  
FAX #: 510/748-3975

City of Healdsburg  
c/o Northern California Power Agency  
180 Cirby Way  
Roseville, CA 95678  
FAX #: 916/783-7693

City of Lodi  
P. O. Box 3006  
Lodi, CA 95241-1910  
FAX #: 209/333-6795

City of Lompoc  
100 Civic Center Plaza  
Lompoc, CA 93438  
FAX #: 805/736-5347

Modesto Irrigation District  
P. O. Box 4060  
Modesto, CA 95352  
FAX #: 209/526-7575

City of Redding  
Attention: Electric Department  
760 Parkview Avenue  
Redding, CA 96001-3396  
FAX #: 916/224-4389

City of Roseville  
Electric Department  
2090 Hilltop Circle  
Roseville, CA 95678  
FAX #: 916/784-3797

Sacramento Municipal Utility District  
Attention: Accounts Payable MS-27  
P. O. Box 15830  
Sacramento, CA 95852-1830  
FAX #: 916/732-6587

1 City of Santa Clara  
Electric Department  
2 Attention: Accounts Clerk  
1500 Warburton Avenue  
3 Santa Clara, CA 95050  
FAX #: 408/241-8291

4  
5 Turlock Irrigation District  
Attention: Power Resources Department  
P. O. Box 949  
6 Turlock, CA 95381  
FAX #: 209/632-8181

7  
8 City of Ukiah  
300 Seminary Avenue  
Ukiah, CA 95482  
9 FAX #: 707/463-6204

10 Plumas-Sierra Rural Electric Cooperative  
P. O. Box 2000  
11 Highway 70, 3 Miles West of Portola  
Portola, CA 96122-2000  
12 FAX #: 916/832-5761

13 Transmission Agency of Northern California  
P. O. Box 15129  
14 Sacramento, CA 95851-0129  
FAX #: 916/852-1073

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APPENDIX C-2

ADDRESSES OF THE PARTIES FOR NOTICES

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General Manager  
City of Alameda  
Bureau of Electricity  
P. O. Box H  
Alameda, CA 94501  
FAX #: 510/748-3975

General Manager  
City of Healdsburg  
c/o Northern California Power Agency  
180 Cirby Way  
Roseville, CA 95678  
FAX #: 916/783-7693

Electric Utility Director  
City of Lodi  
P. O. Box 3006  
Lodi, CA 95241-1910  
FAX #: 209/333-6762

Public Works Director  
City of Lompoc  
100 Civic Center Plaza  
Lompoc, CA 93438  
FAX #: 805/736-1261

Chief Operations Officer  
Modesto Irrigation District  
P. O. Box 4060  
Modesto, CA 95352  
FAX #: 209/526-7574

Director, Electric Department  
City of Redding  
760 Parkview Avenue  
Redding, CA 96001-3396  
FAX #: 916/224-4389

Electric Utility Director  
City of Roseville  
Electric Department  
2090 Hilltop Circle  
Roseville, CA 95678  
FAX #: 916/784-3737

- 1 Assistant General Manager  
Sacramento Municipal Utility District
- 2 MS-41  
P. O. Box 15830
- 3 Sacramento, CA 95852-1830  
FAX #: 916/732-6562
- 4
- 5 Director of Electric Utility  
City of Santa Clara  
1500 Warburton Avenue
- 6 Santa Clara, CA 95050  
FAX #: 408/241-8291
- 7
- 8 General Manager  
Turlock Irrigation District  
P. O. Box 949
- 9 Turlock, CA 95381  
FAX #: 209/632-8181
- 10
- 11 City Manager  
City of Ukiah  
300 Seminary Avenue
- 12 Ukiah, CA 95482  
FAX #: 707/463-6204
- 13
- 14 General Manager  
Plumas-Sierra Rural Electric Cooperative  
P. O. Box 2000
- 15 Highway 70, 3 Miles West of Portola  
Portola, CA 96122-2000
- 16 FAX #: 916/832-5761
- 17
- 18 Executive Director  
Transmission Agency of Northern California  
P. O. Box 15129
- 19 Sacramento, CA 95851-0129  
FAX #: 916/852-1073
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APPENDIX D

PRICING FOR SOT TRANSMISSION SERVICE

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1. The TANC Commission shall determine, from time to time, the SOT Service Charge and the SOT Short-Term Reallocation Rate to be in effect for SOT transmission service to SOT Members. The SOT Service Charge shall be used for billing purposes by the TANC Treasurer when preparing the monthly bill to SOT Members. The SOT Short-Term Reallocation Rate shall be used as the maximum rate for Short-Term Reallocations pursuant to Section 4.4.1 of the Agreement.

2. SOT Service Charge - The SOT Service Charge shall be determined by including all costs that TANC incurs to provide the service, provided however, that charges for replacement power provided pursuant to the TMTS Agreement shall be billed by the TANC Treasurer directly to the SOT Member which uses that service. The SOT Service Charge shall include, but not be limited to, (i) the TMTS Charge plus, (ii) an amortized monthly amount designed to fully recover the SOT costs for SOT-related litigation and the Initial Reinforcements plus, (iii) any routine TANC administrative, legal, consulting, and other costs related to SOT transmission service that TANC has occurred during the billing period.

For illustrative purposes, the SOT Service Charge shall be determined as follows:

$$\text{SOT Service Charge} = (A + B + C)$$

Where: A = The total dollars that TANC has been charged by PG&E during the current billing period, pursuant to the TMTS Agreement, excluding any replacement power.

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B = The monthly charge which reflects the amortization of certain SOT costs. Those costs shall include, but are not limited to, (i) all SOT litigation costs as accrued, capitalized, and placed into debt service by TANC and (ii) TANC's contribution for the Initial Reinforcements. The amortization period for those accrued costs shall be over a time period beginning March 1, 1992 and ending May 1, 2024. The interest rate shall reflect TANC's true interest costs as determined by the appropriate bonds or their successor(s).

C = TANC's routine administrative, legal, consulting costs related to SOT transmission service, and other SOT costs, based on TANC's annual budget.

The SOT Service Charge shall be applied to any Long-Term Reallocations or Permanent Reallocations pursuant to Section 4 of the Agreement.

3. SOT Short-Term Reallocation Rate - The SOT Short-Term Reallocation Rate shall be determined using the most recent monthly SOT Service Charge as its basis. For illustrative purposes, the rate shall be determined as follows:

$$\text{SOT Short-Term Reallocation Rate}^{k+1} \text{ (\$/kW-day)} = \frac{\text{SOT Service Charge}^{k+1}}{300,000 \text{ kW} \cdot 30.42}$$

Where k = is the most recent billing period

The TANC Commission shall review the rate design for the SOT Short-Term Reallocation Rate in Section 3 of this Appendix D by December 1st of each year. Any revision to the rate design shall be in effect beginning January 1 of the following year, or as otherwise determined by the TANC Commission.

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APPENDIX E  
INITIAL REINFORCEMENTS LETTER AGREEMENT

December 30, 1991



Mr. Joseph B. Marcotte, Chairman  
Transmission Agency of Northern California  
P.O. Box 15129  
Sacramento, CA 95851-0129

Dear Mr. Marcotte:

This letter sets forth the agreement between Pacific Gas and Electric Company (PG&E) and the Transmission Agency of Northern California (TANC) regarding the construction by PG&E of the South-of-Tesla Initial Reinforcements and the contribution by TANC in aid of construction of such Initial Reinforcements as contemplated by Sections 4.1 and 5.2 of the Principles for Tesla-Midway Transmission Service (TANC Principles) entered into between PG&E and TANC on August 25, 1989. Nothing in this letter agreement shall represent agreement on any other issues currently the subject of settlement discussions between the parties in conjunction with FERC proceedings (Docket Nos. EL91-8-000, ER91-344-000, and ER91-505-000) regarding South-of-Tesla transmission service for TANC.

1. **Payment:** TANC shall pay to PG&E a lump sum of \$5,000,000 before the close of business on December 31, 1991. This amount consists of a \$3,906,250 capital contribution to the Initial Reinforcements, and \$1,093,750 (28 percent) for federal tax on Contributions In Aid of Construction (CIAC). It is intended and agreed that the payment made by TANC hereunder for its pro-rata share of the Initial Reinforcements shall constitute payment in full of TANC's obligation in connection with the construction and installation thereof. In the event that PG&E subsequently constructs the more extensive project referred to as the South-of-Tesla Reinforcements (SOTR), and TANC elects to contribute to the cost of the SOTR, none of the costs related to the Initial Reinforcements shall be included or assessed to TANC as part of its pro-rata share of the costs of the SOTR unless the Parties agree at the time to include such costs. If payment of the \$5 million is received after December 31, 1991, a six percent surcharge to account for state taxes on CIAC shall be added to the lump sum amount and TANC shall pay such additional amount. In addition, payment received in 1992 shall include interest at 10 percent on an annualized basis accruing from January 1, 1992 up to and including the date payment is received by PG&E. TANC will receive no tax depreciation benefits associated with the Initial Reinforcements that may accrue to PG&E.



2. Conditional Refund of Payment for Tax on CIAC: Should TANC choose to challenge the application of the federal or state tax on the CIAC made by TANC, PG&E agrees to cooperate with TANC in preparing and supporting such application. TANC shall bear the expenses of any such filing. If such a ruling is received from the appropriate federal or state authority, PG&E shall apply to the appropriate authority for a refund. If PG&E makes such an application, TANC shall reimburse PG&E for a pro-rata part of the actual administrative and clerical costs incurred. Should it be determined that PG&E is not required to pay federal or state tax on the CIAC made by TANC and such tax is not collected or is refunded, PG&E shall return TANC's pro-rata share of such refund. In the event that PG&E receives a refund of such tax which includes interest to PG&E, PG&E shall return TANC's pro-rata share of any associated interest on such payment to TANC. However, TANC shall pay PG&E an amount to make it whole (on a net present value, after tax basis) for any taxes and interest PG&E may incur at a later date, which are attributable to TANC's contribution. Because this amount will be difficult to compute, and its determination will be subject to significant controversy, the parties agree that TANC shall pay PG&E the following sum, such amount being a reasonable approximation of the amount described in the preceding sentence: the sum of (i) the total amount includable in PG&E's gross income attributable to TANC's contribution multiplied by the "gross-up" percentage for contributions-in-aid-of-construction, as set forth in PG&E's CPUC Electric Tariffs, as applicable to contributions received on the last day of the taxable year for which such amount is so includable in PG&E's gross income, plus (ii) interest with respect to the total amount described in (i) computed at the "CPUC Rate" from the due date (without extensions) of the federal tax return for the taxable year in which such amount is includable, until the date TANC pays to PG&E the total amount described herein. The "CPUC rate" is interest at the average three-month commercial paper rate as published in the Federal Reserve Bulletin, or such other rate as the CPUC may establish from time to time to replace the rate in paragraph 18 of its conclusions of law in Decision 87-09-026.
3. Refunds for Future Contributions: TANC shall be entitled to reimbursement from contributions made at a later date by other participants in the Initial Reinforcements Project. Such contributions may be made by existing participants who increase their participation, or new participants, who may make a capital contribution to the cost of the Initial Reinforcements to obtain service. In calculating the equivalent contribution for such a reimbursement, neither interest nor the six percent state tax on CIAC shall be included (if TANC's payment is received by PG&E on or before December 31, 1991), but federal tax on CIAC at 28 percent shall be included unless a determination is made by the IRS that the CIAC is non-taxable, in which case, the contribution will include no tax component. Reimbursement to TANC shall be pro-rata.



based on the MW share of each participant, and shall be limited to contributions actually received by PG&E from new participants or existing participants who increase their Initial Reinforcements Project participation. To the extent that a new participant pays for a pro-rata share of the entire study costs (without a \$2.6 million study cost cap), the portion contributed above the cap (including tax gross-up) will not be reimbursed to TANC since TANC has not paid such costs. PG&E and TANC will make good faith efforts to collect a full pro-rata contribution from any new participant or any existing participant which requests or obtains firm South-of-Tesla transmission service.

4. No Audit Rights: In return for PG&E's agreeing to accept a lump sum from TANC as payment in full for TANC's share of the costs of the Initial Reinforcements, TANC agrees to waive, for the limited purpose of this Initial Reinforcements settlement, all claims it may have to an audit, a final construction accounting, and a review of supporting documents for a final cost accounting if PG&E undertakes such an accounting for the Initial Reinforcements -- and PG&E shall have no obligation to provide such rights to TANC in connection with the Initial Reinforcements.
5. Completion of Construction: PG&E agrees to construct the Initial Reinforcements, as described in the Project Plan of Service attached hereto as Appendix A, and to complete and have the same ready for service within twenty-eight (28) months from date of the full execution of this letter agreement. PG&E shall be responsible for obtaining all necessary governmental and regulatory permits and approvals to construct and operate the Initial Reinforcements. In the event the Initial Reinforcements are not completed and ready for service within twenty-eight (28) months after the full execution of this letter agreement, unless TANC otherwise agrees, PG&E shall refund to TANC its full contribution made hereunder with interest at 10 percent on an annualized basis accruing from January 1, 1992; provided that, PG&E has made a good faith effort to complete the Initial Reinforcements and has failed to do so, the refund would be pro rata based on actual benefits versus anticipated benefits. TANC shall not unreasonably withhold its consent to extend for up to four (4) months the time period for completion of construction without refund if substantial progress toward completion of the Initial Reinforcements has been made and is then underway.
6. TANC's Monthly Payment for Special Facilities for the Initial Reinforcement: TANC's monthly payment for Special Facilities (also sometimes referred to as Annual Ownership Charge) shall begin on the first of the month following commercial operation of the Initial Reinforcements. The amount of this monthly payment shall be as set forth in the settlement agreement currently being negotiated by the Parties or the TRS, whichever becomes effective.

Mr. Joseph B. Marcotte, Chairman  
December 30, 1991  
Page 4 of 4

If you agree with the terms set forth above, please sign both duplicate originals and return one to me.



Sincerely,

A handwritten signature in cursive script that reads 'Robert J. Haywood'.

PACIFIC GAS AND ELECTRIC COMPANY

Handwritten initials 'RAM' above a signature that appears to be 'JW'.

Robert J. Haywood  
Vice President  
Power Planning and Contracts

A handwritten date 'Dec 30 '91' written over a horizontal line.

Date

Accepted:

TRANSMISSION AGENCY OF NORTHERN CALIFORNIA

By: A handwritten signature in cursive script that reads 'Joseph B. Marcotte'.  
Joseph B. Marcotte, Chairman

December 30, 1991

Date

## PLAN OF SERVICE

SOUTH OF TESLA INITIAL REINFORCEMENTS PROJECT

The project has three construction components, as follows:

(1) Upgrade Existing Series Capacitors At Los Banos Substation

Upgrading the existing series capacitors at Los Banos Substation, in the Los Banos-Midway #1 and #2 500 kV lines from 1,600 amp to 1,800 amp. This upgrade includes:

- a) Installing capacitor units at Los Banos Substation.
- b) Rebalancing capacitor groups and strings.
- c) Installing bracing for the capacitor bank platform.

(2) 230 kV Station and Line Work

Establish two separate 230 kV circuits between Gates and Panoche Substations. This upgrade includes:

- a) Connecting to 230 kV the section of the Gates-Panoche 230 kV DCTL currently used for the Gates-Coalinga No. 2 70 kV line.
- b) Installing new 230 kV circuit breakers at Gates and Panoche Substations.
- c) Reconductoring the 230 kV bus at Panoche Substation.
- d) Relocating the Panoche-Kearney 230 kV line termination.

(3) 70 kV Line Work

Replace the 70 kV line currently using the Gates-Panoche 230 kV DCTL. This includes:

- a) Acquire right-of-way for construction of the line.
- b) Construct 11 miles of 70 kV line section to make available the section of the Gates-Panoche 230 kV DCTL being operated at 70 kV.