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SOUTHWEST RESERVE SHARING GROUP
PARTICIPATION AGREEMENT

Execution Copy

SOUTHWEST RESERVE SHARING GROUP

PARTICIPATION AGREEMENT

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1 SOUTHWEST RESERVE SHARING GROUP

2 PARTICIPATION AGREEMENT

3 1. PARTIES:

4 The Parties to this SOUTHWEST RESERVE SHARING GROUP PARTICIPATION
5 AGREEMENT are: ARIZONA ELECTRIC POWER COOPERATIVE, INC., an
6 incorporated cooperative association organized and existing under the laws of the
7 State of Arizona (hereinafter called "AEPC"); ARIZONA PUBLIC SERVICE COMPANY,
8 an Arizona corporation (hereinafter called "APS"); CITY OF FARMINGTON, an
9 incorporated municipality existing as a political subdivision under the laws of the State
10 of New Mexico (hereinafter called "FARM"); EL PASO ELECTRIC COMPANY, a Texas
11 corporation (hereinafter called "EPE"); INCORPORATED COUNTY OF LOS ALAMOS,
12 a political subdivision of the State of New Mexico (hereinafter called "LAC"); NEVADA
13 POWER COMPANY, a Nevada corporation (hereinafter called "NEVP"); PLAINS
14 ELECTRIC GENERATION AND TRANSMISSION COOPERATIVE, INC., an
15 incorporated cooperative association organized and existing under the laws of the
16 State of New Mexico (hereinafter called "PEGT"); PUBLIC SERVICE COMPANY OF
17 NEW MEXICO, a New Mexico corporation (hereinafter called "PNM"); SALT RIVER
18 PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, an agricultural
19 improvement district organized and existing under the laws of the State of Arizona
20 (hereinafter called "SRP"); TUCSON ELECTRIC POWER COMPANY, an Arizona
21 corporation (hereinafter called "TEP"); and THE UNITED STATES OF AMERICA,
22 WESTERN AREA POWER ADMINISTRATION, DESERT SOUTHWEST REGION
23 represented by the officer executing this Agreement, a duly appointed successor or a
24 duly authorized representative, pursuant to the Acts of Congress dated June 17, 1902
25 (32 Stat. 388), and August 4, 1977 (91 Stat. 565), and acts amendatory thereof or
26 supplementary thereto (hereinafter called "WALC"). The entities listed above are

1 hereinafter referred to collectively as "Parties" and individually as "Party."

2 2. RECITALS:

3 2.1 Parties from Arizona, Nevada, New Mexico, and West Texas have developed a
4 conceptual framework for a regional reserve sharing group that for some
5 Parties will replace their Inland Power Pool membership when the Amended
6 and Restated Inland Power Pool Agreement expires on December 31, 1997.

7 2.2 The Southwest Reserve Sharing Group (SRSG) will allow for sharing of
8 Contingency Reserves among the Parties in order to realize a more efficient
9 and economic power system operation while maintaining the reliability of the
10 interconnected system. Any other reserve obligation necessary to meet North
11 American Electric Reliability Council (NERC) and Western Systems
12 Coordinating Council (WSCC) criteria will continue to be the responsibility of
13 each Party.

14 2.3 It is the intent of the Parties to meet or exceed all WSCC and NERC reliability
15 criteria, as such criteria may be amended, modified, or revised.

16 2.4 The Parties believe that this Agreement will yield important benefits to their
17 respective customers or members. Such benefits include the following:

18 2.4.1 The combined Loads of the Parties can be supplied and protected with
19 less aggregate Contingency Reserve resulting in a net savings in
20 operating expenses.

21 2.4.2 Emergency conditions can be met with less likelihood of curtailment or
22 impairment of electric service to customers or members of the Parties.

23 2.4.3 The Parties can promote, facilitate, and coordinate the operation of the
24 respective Systems of the Parties, to the benefit of the interconnected
25 system.

26 2.5 Each Party is willing to utilize its respective electric generation and

1 transmission systems to the extent of its respective obligations which are set
2 forth in this Agreement.

3 3. AGREEMENT:

4 **In consideration of the mutual covenants and promises herein set forth, the**
5 **Parties agree as follows:**

6 4. DEFINITIONS:

7 The following terms, whether in the singular or in the plural, when initially capitalized in
8 this Agreement, shall have the meanings specified:

9 4.1 Administrative Costs - Costs incurred by the SRSG Administrator in performing
10 ongoing administrative functions assigned pursuant to Section 8.1 herein.

11 4.2 Administrator Site System - A computer application system, operated and
12 maintained by the SRSG Administrator, that (i) contains the data provided by
13 each Party, (ii) provides tools for the maintenance of such data, and (iii)
14 provides a means to determine and allocate reserve quotas, Emergency
15 Assistance, reserve penalties and settlements to each Party.

16 4.3 Agreement - This Southwest Reserve Sharing Group Participation Agreement,
17 together with the Service Schedules, attachments thereto, and Exhibits.

18 4.4 Agreement Developmental Fee - A fee charged to new members which reflects
19 costs incurred by the Parties in the formation of the SRSG. Such fee shall be
20 determined in accordance with Exhibit C attached hereto.

21 4.5 Area Control Error (ACE) - The instantaneous difference between actual and
22 scheduled interchange, taking into account the effects of frequency bias (and
23 time error or unilateral inadvertent interchange if automatic correction for either
24 is part of the system's automatic generation control).

25 4.6 Capacity - The rated continuous load-carrying ability, expressed in megawatts
26 (MW) or megavoltamperes (MVA) of generation, transmission, or other

- 1 electrical equipment.
- 2 4.7 Capital Expenditures - All capital costs incurred by the SRSG in association
- 3 with making enhancements to, or the replacement of, the initial hardware and
- 4 software system of the SRSG.
- 5 4.8 Contingency Reserve - A portion of Operating Reserve, sufficient to reduce
- 6 ACE to meet the NERC Disturbance Control Standard following the Most
- 7 Severe Single Contingency. Contingency Reserve consists of both Spinning
- 8 Reserve and Non-Spinning Reserve; however, at least fifty percent (50%) of
- 9 this Contingency Reserve shall be Spinning Reserve. Any Spinning Reserve in
- 10 excess of a Party's Spinning Reserve quota may count towards its remaining
- 11 Contingency Reserve quota.
- 12 4.9 Control Area - An area comprised of an electrical system or systems, bound by
- 13 interconnection metering and telemetry, capable of controlling generation to
- 14 maintain its interchange schedule with other Control Areas and contributing to
- 15 frequency regulation of the interconnection.
- 16 4.10 Developmental Costs - All costs incurred in the initial development of the
- 17 hardware and software systems associated with the Administrator Site System.
- 18 4.11 Disturbance - The sudden loss of a Party's transmission or generation Capacity
- 19 that causes an ACE of a magnitude that requires immediate action to meet
- 20 NERC performance criteria.
- 21 4.12 Emergency - An abnormal system condition which requires immediate manual
- 22 or automatic action to prevent loss of Firm Load, equipment damage, or to
- 23 prevent tripping of system elements that could adversely affect the reliability of
- 24 the electric system.
- 25 4.13 Emergency Assistance - Energy furnished to a Party under Emergency
- 26 conditions when power supply to the Party's Firm Commitments is threatened

- 1 or curtailed.
- 2 4.14 Energy - The accumulated amount of power delivered over a stated time
- 3 interval; usually expressed in megawatt hours (MWh).
- 4 4.15 Executive Committee - That committee established pursuant to Section 8
- 5 herein.
- 6 4.16 Exhibits - Exhibits A, B, and C attached hereto, as they may be amended,
- 7 modified, or revised.
- 8 4.17 Firm Commitment - The Load associated with wholesale and retail power
- 9 customers on whose behalf the Party, by statute, franchise, regulatory
- 10 requirement, or contract, has undertaken an obligation to operate the Party's
- 11 system to meet the reliable electric needs of such customers. For SRSG
- 12 purposes, Firm Commitment shall be calculated as the sum of Firm Load, plus
- 13 SRSG Firm Deliveries, less SRSG Firm Receipts.
- 14 4.18 Firm Load - Power and Energy requirements (including system losses) of
- 15 customers which a Party is obligated to supply at all times.
- 16 4.19 Funding Agreement No. 2 - The Southwest Reserve Sharing Group Funding
- 17 Agreement No. 2 executed by the Parties on July 2, 1997.
- 18 4.20 Interim Funding Agreement No. 1 - The Southwest Reserve Sharing Group
- 19 Interim Funding Agreement No. 1 executed by the Parties on February 28,
- 20 1997.
- 21 4.21 Load - An end-use device or customer that receives power from the electric
- 22 system.
- 23 4.22 Most Severe Single Contingency - That Single Contingency which results in the
- 24 most adverse system performance under any operating condition or anticipated
- 25 mode of operation.
- 26 4.23 NERC Disturbance Control Standard (DCS) - The NERC Disturbance Control

- 1 Standard established in accordance with NERC Policy 1, as it may be
2 amended, modified, or revised.
- 3 4.24 Non-Spinning Reserve - That portion of Operating Reserve not connected to
4 the system but capable of serving demand within ten (10) minutes, or
5 interruptible Load that can be removed from the system within ten (10) minutes.
- 6 4.25 Operating Committee - That committee established pursuant to Section 8
7 herein.
- 8 4.26 Operating Procedure - Written procedures, developed and approved by the
9 Operating Committee pursuant to Section 8 herein, to implement specific
10 provisions of this Agreement.
- 11 4.27 Operating Reserve - That capability above firm system demand required to
12 provide for regulation, Load forecasting error, forced and scheduled outages,
13 and local area protection. Operating Reserve consists of Spinning Reserve
14 and Non-Spinning Reserve.
- 15 4.28 Peak Commitment - The highest hourly Firm Commitment during a designated
16 time period.
- 17 4.29 Service Schedule - A specific written agreement among the Parties for the
18 purposes of dictating or specifying methods of coordination, operation,
19 maintenance, or planning of the respective Systems, for improving the reliability
20 of power supply and achieving economics for the customers or members
21 served by the Parties.
- 22 4.30 Single Contingency - The loss of a single system element under any operating
23 condition or anticipated mode of operation.
- 24 4.31 Spinning Reserve - Unloaded generation which is synchronized and ready to
25 serve additional demand.
- 26 4.32 SRSG - The Southwest Reserve Sharing Group.

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- 4.33 SRSG Administrator - That Party or entity designated to perform duties as provided for in Section 8 herein.
- 4.34 SRSG Emergency Assistance Matrices - Those matrices depicting the allocation of Emergency Assistance among the Parties.
- 4.35 SRSG Firm Deliveries - Deliveries which are not recallable in less than ten (10) minutes.
- 4.36 SRSG Firm Receipts - Receipts which are not recallable in less than sixty (60) minutes.
- 4.37 System - The integrated electrical facilities, which may include generation, transmission and distribution facilities, that are controlled by one organization.
- 4.38 WSCC Minimum Operating Reliability Criteria - WSCC Minimum Operating Reliability Criteria dated March 11, 1997, as such criteria may be amended, modified, or revised.

5. EFFECTIVE DATE AND TERM:

- 5.1 This Agreement shall become effective on the later of: (i) when duly executed by all Parties, (ii) when filed with the Federal Energy Regulatory Commission for acceptance, or (iii) January 1, 1998. This Agreement shall continue in effect for a period of ten (10) years from said effective date and thereafter on a year to year basis until terminated by the Parties; provided, however, that any Party may withdraw its participation at any time after the effective date of this Agreement by providing written notice to the Executive Committee at least one (1) year in advance of its effective date of withdrawal, unless a shorter period of time is agreed to by all Parties.
- 5.2 As of the effective date of withdrawal, the withdrawing Party shall have no further rights or obligations under this Agreement, except payment of amounts then or previously due. Such amounts shall include any financial obligation

1 incurred hereunder prior to the effective date of withdrawal and any amounts
2 incurred by the SRSG Administrator in processing the withdrawal of such Party.

3 5.3 Neither expiration, termination nor voiding of this Agreement shall relieve a
4 Party of its obligation to make payment of amounts due hereunder.

5 5.4 No Party shall oppose before any regulatory agencies having jurisdiction, a
6 Party's withdrawal from this Agreement, so long as the provisions of Sections
7 5.1 and 5.2 herein have been met.

8 6. RESOLUTION OF CONFLICTS:

9 In the event of a conflict between the terms and conditions of this Agreement and a
10 Service Schedule, the terms and conditions of the Service Schedule shall prevail.

11 7. PARTY OBLIGATIONS:

12 7.1 It is the intent of the Parties to meet or exceed the WSCC Minimum Operating
13 Reliability Criteria and the NERC Control Performance And Disturbance Control
14 Standards, as they may be adopted, modified, or revised.

15 7.2 The SRSG has been formed for the purpose of sharing Contingency Reserves.
16 Each Party shall maintain, or cause to be maintained, an amount of
17 Contingency Reserve equal to or greater than its Contingency Reserve
18 requirement, as such requirement shall be determined in accordance with
19 Service Schedules A and B attached hereto.

20 7.3 Each Party shall activate and provide its Contingency Reserves to other
21 Parties, as requested, in accordance with Service Schedule B attached hereto.

22 7.4 Each Party shall operate its System continuously in parallel; provided, however,
23 that each Party shall have the right to temporarily separate the facilities of its
24 System from the System of any other Party when, in the judgment of the
25 separating Party, abnormal operating conditions exist which require such
26 separation to prevent damage to its facilities, injuries to personnel or

1 impairment of service to its customers or members; and for necessary
2 inspection, maintenance, repair or replacement of its facilities, or additional
3 construction.

4 7.5 Each Party shall exercise reasonable efforts to construct, operate and maintain
5 its System to avoid the likelihood of a Disturbance originating within its System
6 causing an impairment of service in the Systems of other Parties and to
7 minimize the exposure to damage resulting from Disturbances on the System of
8 other Parties.

9 7.6 The Parties shall comply with all SRSG Operating Procedures.

10 7.7 Any Party within a Control Area may make arrangements with the host Control
11 Area to provide or share reserve responsibilities between themselves or third
12 parties, to include billings for reserve deficiency, or any other services
13 rendered, so long as the total reserve responsibility is accommodated.

14 7.8 Each Party shall be responsible to provide and maintain hardware and software
15 which is compatible with the Administrator Site System for complying with the
16 reporting requirements of this Agreement.

17 7.9 Each Party is responsible for any financial obligation derived from its
18 membership herein.

19 7.10 Each Party shall be responsible for its share of costs and expenses attributable
20 to the SRSG Administrator performing its functions pursuant to this Agreement.

21 7.11 Each Party shall cooperate with the SRSG Administrator and provide the SRSG
22 Administrator information necessary for the performance of its duties herein.

23 8. ORGANIZATION AND ADMINISTRATION:

24 As a means of securing effective and timely cooperation within the activities of the
25 SRSG and a means of facilitating the administration, coordination, operations and
26 problem solving, the Parties hereby establish (i) the role of a SRSG Administrator, (ii)

1 an Executive Committee, and (iii) an Operating Committee.

2 8.1 SRSG Administrator

3 8.1.1 The SRSG Administrator shall be designated by the Operating
4 Committee from among the Parties of the SRSG; provided, however,
5 that the Operating Committee, with the approval of the Executive
6 Committee, may designate an entity other than a Party to serve as
7 SRSG Administrator.

8 8.1.2 The SRSG Administrator may resign by providing written notice to both
9 the Executive Committee and the Operating Committee at least one (1)
10 year in advance of the effective date of its resignation, unless a shorter
11 period of time is agreed to by all Parties.

12 8.1.3 The SRSG Administrator may be removed at any time by the Executive
13 Committee, with or without cause.

14 8.1.4 Upon resignation or removal of the SRSG Administrator pursuant to
15 Section 8.1.2 or Section 8.1.3 herein, the outgoing SRSG Administrator
16 shall:

17 8.1.4.1 Transfer and provide technical training regarding all hardware,
18 software, and all other material owned by the SRSG or owned
19 on behalf of the SRSG to the new SRSG Administrator; and

20 8.1.4.2 Settle all outstanding financial obligations corresponding with
21 its term as SRSG Administrator and transfer any remaining
22 SRSG funds to the new SRSG Administrator.

23 8.1.5 The SRSG Administrator shall be responsible for performing its
24 assigned duties in accordance with Operating Procedures established
25 by the Operating Committee. Such duties shall include, but not be
26 limited to the following:

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8.1.5.1 Data - Data collection, data monitoring, and data processing.

8.1.5.2 Preparation and Consolidation of Reports

8.1.5.2.1 Maintenance and preservation of all records (including both the Executive Committee and Operating Committee meeting minutes and Operating Procedures) reasonably necessary for the performance of the duties hereunder.

8.1.5.2.2 Submission of an annual budget to the Operating Committee and the tracking of SRSG related expenses.

8.1.5.2.3 Preparation and distribution of SRSG reports required by NERC, WSCC, and the Operating Committee.

8.1.5.3 Administrator Site System - The SRSG Administrator shall be responsible for the procurement, operation, maintenance, and the coordination of the Administrator Site System.

8.1.5.4 Payments - The SRSG Administrator shall be responsible for the payment of invoices and the distribution of funds in accordance with this Agreement.

8.1.5.5 Other Duties as Assigned - Such other duties shall include but not be limited to the following:

8.1.5.5.1 Training and consulting for the Parties in association with questions or problems relating to SRSG reserves and SRSG data reporting;

8.1.5.5.2 Certify that an applicant has met all membership eligibility criteria as set forth in Section 9 herein;

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- 8.1.5.5.3 Notify the Executive Committee and all Parties that an applicant has met all membership criteria and is now a Party to the SRSG;
- 8.1.5.5.4 Notify all Parties when an existing Party(ies) is not in compliance with this Agreement.
- 8.1.5.5.5 Bill each Party for its share of expenses incurred pursuant to Section 13 herein.
- 8.1.5.5.6 Cooperate with an audit request of the Operating Committee pursuant to Section 14 herein.
- 8.1.5.5.7 Make available during its normal business hours all the records and accounts maintained by the SRSG Administrator pertaining to the requesting Party(ies) and pursuant to activities and responsibilities hereunder. Such records shall be made available in a timely manner and at the requesting Party's expense.

8.2 Executive Committee

The Executive Committee shall consist of one representative from each Party designated pursuant to Section 8.4 herein. The responsibilities of the Executive Committee are as follows:

- 8.2.1 To establish additional subcommittees as it may from time to time deem necessary;
- 8.2.2 To review at least annually the activities of all committees to ensure their activities are coordinated and consistent with the spirit and intent of this Agreement;
- 8.2.3 To review unresolved disputes which may arise within the SRSG and

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- resolve the disputes pursuant to Section 15 herein;
- 8.2.4 To review and approve the annual budget of the SRSG;
- 8.2.5 To review and recommend to the Parties for approval additions or amendments to this Agreement;
- 8.2.6 To receive, review, and process an applicant's written request to become a Party, in accordance with Section 9 herein and where applicable, notify entities of their SRSG eligibility in accordance with Section 10.2 herein;
- 8.2.7 To establish, review, approve, and maintain procedures for the determination and recertification of creditworthiness for new applicants and existing members respectively;
- 8.2.8 To establish procedures for the allocation to and payment by any new Party to the existing Parties for the past, current and future cost of facilities, equipment, services, or other costs such as software that are of benefit to all Parties;
- 8.2.9 To review and process, in accordance with Section 5 herein, the notice by a Party to withdraw as a Party to this Agreement;
- 8.2.10 To review and process the termination of a Party's rights and obligations under this Agreement;
- 8.2.11 To provide minutes for all Executive Committee meetings and distribute copies of such minutes to all committee members and to the SRSG Administrator; and
- 8.2.12 To do such other things and carry out such duties as specifically required or authorized by this Agreement.

8.3 Operating Committee

The Operating Committee shall consist of one representative from each Party

1 designated pursuant to Section 8.4 herein. The responsibilities of the
2 Operating Committee are as follows:

3 8.3.1 To establish Operating Procedures for the sharing of Contingency
4 Reserves such that the SRSG will meet or exceed the WSCC Minimum
5 Operating Reliability Criteria and NERC's Disturbance Control
6 Standards relative to Contingency Reserves, as they may be amended,
7 modified, or revised;

8 8.3.2 To establish, review, approve, and modify Operating Procedures,
9 consistent with the provisions herein, for the guidance of operating
10 employees in the Parties' Systems as to matters affecting the ability to
11 maintain Contingency Reserves, the delivery and receipt of Emergency
12 Assistance, and other similar operating matters;

13 8.3.3 To establish, review, approve, and modify Operating Procedures for
14 determining the ratings of the generating facilities of the Parties;

15 8.3.4 To establish, review, approve and modify Operating Procedures for
16 calculating Contingency Reserves within the SRSG;

17 8.3.5 To establish, review, approve, and modify Operating Procedures
18 relating to Contingency Reserve deficiencies;

19 8.3.6 To establish, review, approve, and modify Operating Procedures
20 relating to suspension or termination of a Party from this Agreement;

21 8.3.7 To establish a "Disturbance Review" task force to review all SRSG
22 Disturbances to ensure that all SRSG and individual Party reliability
23 obligations are being met;

24 8.3.8 To ensure the proper level and location of reserves;

25 8.3.9 To designate a SRSG Administrator to function under the direction of
26 the Operating Committee;

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- 8.3.10 To review and recommend, as necessary, the types and arrangement of equipment and associated communication facilities needed for SRSG operations;
- 8.3.11 To review and recommend approval of the annual budget, prepared by the SRSG Administrator, to the Executive Committee;
- 8.3.12 To develop, review, approve, and recommend changes to the SRSG Emergency Assistance Matrices;
- 8.3.13 To review and process the suspension of all benefits of reserve sharing and applicable reserve sharing obligations of a Party;
- 8.3.14 To recommend the termination of a Party from the Agreement to the Executive Committee ;
- 8.3.15 To provide minutes for all Operating Committee meetings and distribute copies of such minutes to all committee members and to the SRSG Administrator; and
- 8.3.16 To do such other things and carry out such duties as specifically required or authorized by this Agreement.

8.4 General

- 8.4.1 Each Party shall designate, in accordance with Section 18 herein, its representative and alternate representative (to act in the absence of the designated representative) on each committee within thirty (30) days after the execution of this Agreement. Notice of any change of representation shall be given by written notice to the other Parties and the SRSG Administrator. Each Party's designated representatives or alternate representatives will be authorized to act on its behalf with respect to those committee responsibilities provided herein.
- 8.4.2 Each committee shall meet at least annually.

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8.4.3 Each committee will elect a chairperson and establish a meeting protocol at its first meeting.

8.4.4 Each committee shall elect a new chairperson at least every two (2) years thereafter, provided, that a succeeding chairperson may not be from the same Party.

8.4.5 No committee shall have the authority to amend this Agreement.

9. MEMBERSHIP ELIGIBILITY AND CERTIFICATION:

An entity may apply and become a Party to this Agreement by submitting to the Executive Committee a written request for membership to the SRSG, accompanied by a non-refundable application fee of five thousand dollars (\$5,000), and by demonstrating to the satisfaction of the Executive Committee that the entity can continuously meet the criteria and certification requirements set forth below:

9.1 It is eligible to file a request for transmission service pursuant to Section 211 of the Federal Power Act.

9.2 It can maintain, provide and receive reserves, by contractual arrangement or otherwise, as required pursuant to this Agreement, and is able to deliver and receive Energy associated with these reserves at one or more of the following high voltage switchyards:

- (a) Four Corners 230 kV or 345 kV Switchyards;
- (b) Navajo 500 kV Switchyard;
- (c) Palo Verde 500 kV Switchyard;
- (d) San Juan 345 kV Switchyard;
- (e) Westwing 500 kV Switchyard;
- (f) Shiprock 345 kV Switchyard;
- (g) Mead 230 kV, 345 kV, or 500 kV Switchyards;
- (h) Greenlee 345kV Switchyard;

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- (i) West Mesa 345kV, Switchyard;
- (j) Other switchyards as may be determined by the Operating Committee.

9.3 It has established appropriate creditworthiness consistent with the criteria established in accordance with Section 8.2.7 herein.

9.4 It has the ability to provide documentation of an ACE or ACE equivalent measurement. The SRSG will operate using all individual Party's ACE data for Disturbance evaluation.

9.5 It has the ability to comply with all applicable terms and conditions established pursuant to Service Schedules A and B hereto.

9.6 Upon demonstrating to the satisfaction of the Executive Committee that such entity meets the criteria set forth in Sections 9.1 through 9.5 herein, the entity shall be deemed eligible to become a Party.

9.7 Once the entity has been deemed eligible to become a Party, the Executive Committee shall direct the SRSG Administrator to begin the certification process.

9.8 The certification process shall consist of the following: (i) execution of this Agreement or a counterpart hereof; (ii) verification from the SRSG Administrator that such entity is current with all its payment obligations relative to the SRSG, and (iii) verification from the SRSG Administrator that such entity has provided the required data to the SRSG Administrator and has in place the required facilities to effectively transmit and receive data with the Administrator Site System.

9.9 Upon successful completion of the certification process, the entity shall be deemed a Party and the SRSG Administrator shall provide notification to the Executive Committee and all Parties.

1 10. COST RESPONSIBILITIES:

2 10.1 The costs of the SRSG shall be allocated as follows:

3 10.1.1 All Developmental Costs and Capital Expenditures, approved by the
4 Executive Committee, will be allocated equally among all Parties.
5 Payments made by a Party pursuant to the Interim Funding Agreement
6 No. 1 and the Funding Agreement No. 2 shall be credited towards such
7 Party's share of Developmental Costs.

8 10.1.2 Annual Administrative Costs, as set forth in the annual operating
9 budget, will be allocated to the Parties as follows:

10 10.1.2.1 One-half (1/2) of the on-going Administrative Costs incurred
11 shall be allocated equally among all Parties;

12 10.1.2.2 One-half (1/2) of the on-going Administrative Costs incurred
13 shall be allocated to each Party in accordance with the ratio of
14 its Firm Commitments to the total Firm Commitments of the
15 SRSG at the time of the SRSG annual coincident Peak
16 Commitment for the previous calendar year.

17 10.2 Each entity eligible to become a Party shall be notified by the Executive
18 Committee and shall, as a condition of the certification process, pay, within
19 thirty (30) calendar days following such notification, an entrance fee equal to
20 the sum of:

21 10.2.1 Its share of Developmental Costs and Capital Expenditures in
22 accordance with Section 10.1.1 herein; plus

23 10.2.2 An Agreement Developmental Fee determined in accordance with
24 Exhibit C attached hereto; plus

25 10.2.3 Administrative Costs for incorporating the entity into the SRSG.

26 10.3 A new Party shall begin incurring its share of ongoing Administrative Costs

1 upon completion of the certification process set forth in Section 9.8 herein.

2 11. DISBURSEMENT OF FUNDS:

3 11.1 Application Fees - Application fees received from applicants pursuant to
4 Section 9 herein, shall be utilized to offset the SRSG Administrator's expenses
5 incurred in processing the application.

6 11.2 Entrance Fees - Entrance fees received pursuant to Section 10.2 herein, shall
7 be allocated equally to all Parties with the exception that the new Party shall not
8 participate in the allocated disbursement.

9 11.3 Penalty Funds - Penalty funds assessed by the SRSG Administrator shall be
10 allocated among the Parties using the same methodology utilized to allocate
11 Administrative Costs, with the exception that the penalized Party or Parties
12 shall not participate in the allocated disbursement of such penalty funds.

13 11.4 Administrative Costs - The initial payment of Administrative Costs received from
14 a new Party pursuant to Section 10.3 herein, shall be allocated among the
15 existing Parties using the same methodology utilized to allocate Administrative
16 Costs.

17 12. VOTING AND APPROVALS:

18 All matters requiring approval as provided in this Agreement, shall be approved
19 through the following procedures:

20 12.1 Amendments - Any amendments to this Agreement shall be approved by
21 unanimous vote of the Parties. Unless otherwise specified, amendments to this
22 Agreement shall become effective when all Party signatures have been
23 received subject to the provisions of Section 19 herein. The Executive
24 Committee chairperson shall be responsible for circulating the appropriate
25 signature pages to each Party, receiving executed counterparts, notifying the
26 Parties when all signatures have been received, distributing executed originals

1 to all Parties and the SRSG Administrator, and ensuring that appropriate
2 regulatory filings are made.

3 12.2 Operating Procedures - Modification of an Operating Procedure developed
4 under this Agreement, which has been expressly granted to a committee shall
5 become effective and apply to all Parties when the necessary affirmative votes
6 have been received.

7 12.3 Committee Voting - Unless otherwise stated in this Agreement, all matters
8 requiring committee approval shall be approved by a three-quarters (75%)
9 majority vote of committee representatives present at a meeting of the
10 appropriate committee; provided, that a quorum of at least seventy percent
11 (70%) of the respective representatives or their alternates are in attendance, in
12 person or represented by proxy. Provided further, that written notice be given
13 by the committee chairperson to each Party's designated committee
14 representative(s) at least two (2) weeks in advance of the meeting unless
15 otherwise agreed. Such notice shall include an agenda of the meeting.

16 12.3.1 A Party casting an abstention vote shall be deemed in attendance for
17 purposes of determining whether a quorum exists; provided, however,
18 that determination of whether a three-quarter (75%) majority agreement
19 of the Parties exists with respect to any issue shall be made by counting
20 the votes of only the non-abstaining Parties.

21 12.3.2 If a vote is taken by telephone or other direct communication at the
22 direction of the committee chairperson, all committee representatives or
23 alternate(s) shall be contacted and given an opportunity to vote. A
24 three-quarters (75%) majority vote shall be required for approval and
25 the results documented in writing by the committee chairperson. A
26 record of all such votes shall be distributed to all designated committee

representative(s) and the SRSG Administrator.

13. BILLING AND PAYMENTS:

All billing and payments associated with this Agreement, shall be in accordance with this Section 13, and as set forth in the applicable Operating Procedure(s).

13.1 The accounting and billing period associated with all charges shall be for one (1) calendar month, unless otherwise specified herein, or agreed to by the Parties in writing. Each bill shall include an itemized list of expenses. Bills sent to any Party shall be sent to the official billing address specified in Exhibit B.

13.2 Charges associated with this Agreement are listed below, but are not limited to:

13.2.1 Administrative Costs - Administrative Costs shall be billed on an annual basis to each Party by the SRSG Administrator.

13.2.2 Capital Expenditures - Capital Expenditures shall be billed monthly to the Parties by the SRSG Administrator, or as otherwise agreed to by the Operating Committee.

13.2.3 Emergency Assistance - Emergency Assistance shall be billed between the Parties on a monthly basis, or as otherwise agreed to among the Parties in writing.

13.3 Bills issued by any Party, or the SRSG Administrator, shall be issued within the first ten (10) days of the month following the month(s) in which services were furnished. Payments for amounts billed shall be due and payable on or before the close of business on the twentieth (20) calendar day after the date of receipt of the bill.

13.4 Payments shall be made by electronic transfer to a bank designated by the Party to which payment is due, or any other method which provides immediately available funds on the date payment is due. Payments shall be considered paid when payment is received by the billing Party.

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13.5 Bills not paid in full on or before the due date shall thereafter accrue an interest charge equal to the prime rate of interest plus two percent (2%) per annum, or the maximum interest rate permitted by law, if any, whichever is less, prorated daily from the date due to the date the amount due is paid in full. The prime rate shall be as established by the Bank of America, or any other institution mutually agreed to by the Parties in writing, on the last business day of the month for which the bill was submitted.

13.6 In case any portion of any bill is in dispute, the entire bill shall be paid in full when due. Any excess amount, which as a result of a dispute may have been overpaid, shall be returned by the owing Party upon determination of the correct amount, with interest accrued at the rate specified in Section 13.5 herein, prorated by the number of days from the date of overpayment to the date of refund.

13.7 There shall be no interest accrued on overpayments resulting from inadvertent errors in payment. Refunds on overpayments shall be limited to a period of time not to exceed two (2) years from the date payment is received by the billing Party.

14. AUDITS:

14.1 Each Party, at reasonable times and at its normal places of business, shall at no charge make available its records and supporting documentation of any cost, payment, settlement, or data submittal, not subject to a confidentiality agreement with a third party, pertaining to any bill rendered to a Party hereunder for the inspection of that Party for a period of time not to exceed two (2) years from the date such bills were rendered, unless such data is the subject of an ongoing audit.

14.1.1 A Party requesting to review another Party's records will give such Party

1 sufficient notice of its intent, but in no event less than thirty (30) days
2 prior to the date of the review.

3 14.1.2 The requesting Party, using personnel from its own staff or its agent,
4 may perform this review.

5 14.1.3 All costs incurred in performing this review will be at the requesting
6 Party's expense.

7 14.1.4 The Party performing the review shall not release the other Party's
8 records or disclose any information contained therein to any other Party
9 or third party without written consent of the Party whose records were
10 reviewed, unless otherwise required by law.

11 14.2 The Operating Committee, at reasonable times and at its normal places of
12 business, may audit a Party's records and supporting documentation of any
13 information submitted to the Administrator Site System, and Disturbance data
14 when applicable. Unless such data is subject to an ongoing audit, no Party
15 shall be required to maintain its records and supporting documentation for any
16 data submitted hereunder for a period of time in excess of two (2) years from
17 the date such data was submitted. Audits shall be limited to a period of time
18 not to exceed two (2) years from the date of the audit request.

19 15. DISPUTE RESOLUTION:

20 15.1 Any controversy, dispute or claim arising out of, in connection with, or relating
21 to the interpretation of this Agreement, or the alleged breach hereof, shall:

22 15.1.1 First be submitted to the Operating Committee for resolution. If the
23 Operating Committee representatives are unable to reach resolution
24 within three (3) calendar months or if the aggrieved Party is not satisfied
25 with the resolution of the Operating Committee, such dispute,
26 controversy or claim shall be forwarded to the Executive Committee.

1 15.1.2 Upon receipt of a dispute, controversy or claim forwarded in accordance
2 with Section 15.1.1 herein, the Executive Committee shall meet or
3 confer within thirty (30) days (or such other period of time as mutually
4 agreed upon by the representatives of the Executive Committee) to
5 discuss and attempt to reach a resolution of the dispute controversy or
6 claim. If the Executive Committee cannot resolve the dispute,
7 controversy or claim within thirty (30) days after its initial meeting or
8 conference (or within such other period of time mutually agreed upon by
9 the representatives of the Executive Committee) or if the aggrieved
10 Party is not satisfied with the resolution of the Executive Committee, the
11 aggrieved Party may request and file a petition for arbitration within
12 thirty (30) days.

13 15.2 If all Parties to the controversy, dispute or claim consent to arbitration, such
14 arbitration shall be conducted in accordance with the Commercial Arbitration
15 Rules of the American Arbitration Association. Judgment upon the award
16 rendered by the arbitrator may be entered in any court having jurisdiction
17 thereof. The Parties agree to cooperate and use best efforts to arbitrate in a
18 timely manner. The arbitration is subject to the following:

19 15.2.1 The arbitration shall be heard by one arbitrator. Such arbitrator shall
20 have experience in the electric utility industry, shall not be a customer of
21 any Party involved in the dispute, and shall not have any current or past
22 substantial business or financial relationships with any Party involved in
23 the dispute.

24 15.2.2 The arbitrator shall have the discretion to order a pre-hearing exchange
25 of information by the Parties involved in the dispute, including, without
26 limitation, production of requested documents, exchange of summaries

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of testimony of proposed witnesses, and examination by deposition of Parties involved in the dispute.

15.2.3 The arbitration shall be conducted in accordance with the American Arbitration Association’s Commercial Arbitration Rules (“Rules”) in effect at the time of the arbitration.

15.2.4 The arbitrator shall have the authority to award any remedy or relief that a state or federal court which would have jurisdiction over the dispute could grant.

15.2.5 The arbitration award shall be in writing and shall specify the factual and legal basis for the award. The award shall be final and binding upon the Parties involved in the dispute except with respect to issues over which FERC, RUS, or other entities having jurisdictional authority have retained ultimate authority to resolve, in which case, an aggrieved Party may appeal the decision of the arbitrator to that entity having jurisdiction for review.

15.2.6 No Party nor the arbitrator may disclose the existence, content, or results of any arbitration hereunder without the prior written consent of all Parties involved in the dispute, unless otherwise required by law.

15.2.7 Each Party involved in the dispute shall pay for an equal share of the arbitrator’s fee including travel and lodging.

15.2.8 The arbitration shall be governed by the Federal Arbitration Act (“FAA”). If terms and conditions of this Section 15 conflict with the FAA, then the FAA shall prevail.

15.2.9 The prevailing Party in an arbitration proceeding shall be entitled to reasonable attorneys’ fees, expert witness fees, and other incidental costs incurred in the proceeding, as determined by the arbitrator.

1 15.3 In the event that all such Parties do not consent to arbitration, any one or more
2 of such Parties shall be free to seek resolution of the controversy, dispute or
3 claim in such manner as may be provided by law, or in equity.

4 15.4 To the extent a dispute, controversy or claim involves the SRSG Administrator,
5 this Agreement, and the rights and obligations hereunder shall be construed in
6 accordance with the applicable federal laws and laws of the state in which the
7 SRSG Administrator's principal headquarters is located.

8 16. UNCONTROLLABLE FORCES:

9 No Party shall be considered to be in default in performance of any of its obligations
10 under this Agreement, except to pay amounts due under this Agreement, when a
11 failure of performance is due to an uncontrollable force. The term "uncontrollable
12 force" means any cause beyond the control of the Party affected, including but not
13 restricted to flood, drought, earthquake, storm, fire, lightning, epidemic, war, riot, civil
14 disturbance or disobedience, labor dispute, sabotage, changes in law or regulation,
15 restraint by court order or public authority and action or non-action by or failure to
16 obtain the necessary authorizations or approvals from any governmental agency or
17 authority which by exercise of due diligence such Party could not reasonably have
18 been expected to avoid and which by exercise of due diligence it has been unable to
19 overcome. No Party shall, however, be relieved of liability for failure of performance if
20 such failure is due to causes arising out of its own gross negligence or willful
21 misconduct or due to removable or remediable causes which it fails to remove or
22 remedy within a reasonable time period. Nothing contained herein shall be construed
23 to require a Party to settle any strike or labor dispute in which it may be involved. A
24 Party rendered unable to fulfill its obligations under this Agreement by reason of an
25 uncontrollable force shall give prompt written notice of such fact to the other Parties
26 and shall exercise due diligence to remove such inability within a reasonable time

1 period. Nothing contained herein shall excuse a Party from all or any portion of its
2 obligations to maintain Contingency Reserve hereunder, so long as such Party is
3 serving Load.

4 17. WAIVERS:

5 A Party's waiver of its rights with respect to a default hereunder, or any other matter
6 hereunder, shall not be deemed a waiver with respect to any subsequent default of the
7 same or any other matter.

8 18. NOTICES:

9 18.1 A formal notice, demand or request provided for in this Agreement, shall be in
10 writing and shall be properly served, given or made if delivered in person, or
11 sent by either registered or certified mail, postage prepaid, or prepaid telegram
12 or facsimile or E-mail followed by a written original, to the persons specified in
13 Exhibit A attached hereto and hereby made a part of this Agreement.

14 18.2 The designation of any person specified in either Exhibit A or Exhibit B, or the
15 address of any such person, may be changed at any time with ten (10) days
16 prior written notice to the other Parties and to the SRSG Administrator given in
17 the same manner as provided in Section 18.1 herein, for other notices.

18 18.3 Notices and requests of a routine nature in connection with delivery or receipt
19 of power or Energy or in connection with operation of facilities shall be given in
20 such manner as the committees from time to time shall prescribe.

21 19. APPROVALS:

22 19.1 This Agreement is subject to valid laws, orders, rules and regulations of duly
23 constituted authorities having jurisdiction. Nothing contained in this Agreement
24 shall be construed as a grant of jurisdiction over any Party by a state, federal,
25 or regulatory agency not otherwise having jurisdiction by law.

26 19.2 This Agreement requires execution by the Parties, acceptance for filing by the

1 Federal Energy Regulatory Commission (FERC), or other regulatory bodies
2 having jurisdiction thereof, and with respect to any Party subject to the
3 jurisdiction of the Rural Utility Services (RUS), is subject to the approval of the
4 RUS. If a regulatory body having jurisdiction, grants or orders a hearing or
5 orders changes or modifications to this Agreement, then the Parties shall
6 negotiate in good faith to change or modify the Agreement, so as to be
7 acceptable to the Parties, the FERC, the RUS, or other regulatory bodies
8 having jurisdiction.

9 19.3 An amendment or change in rates established pursuant to this Agreement and
10 which is subject to the FERC, the RUS, or other regulatory bodies having
11 jurisdiction with regard to any Party, shall become effective hereunder upon
12 execution by the Parties. If a regulatory body having jurisdiction, grants or
13 orders a hearing or orders changes or modifications to such amendment or
14 change in rates, then the Parties shall negotiate in good faith to change or
15 modify such amendment, so as to be acceptable to the Parties, the FERC, the
16 RUS, or other regulatory bodies having jurisdiction.

17 19.4 Nothing contained herein shall be construed as affecting in any way the right of
18 the Parties furnishing service under this Agreement, to unilaterally make
19 application to the FERC for a change in rates, charges, classifications, or
20 service, or in any rule, regulation, contract, or provision of any appendix relating
21 thereto under Section 205 of the Federal Power Act and pursuant to the
22 FERC's rules and regulations promulgated thereunder. Provided, however,
23 that the Party making application to the FERC shall give the other Parties to the
24 Agreement at least sixty (60) days advance written notice of its intent to initiate
25 such filing so that the Parties can, if possible, reach a mutually acceptable
26 change to the Agreement through the negotiation of the Parties.

1 20. TRANSFER OF INTEREST IN AGREEMENT:

2 No voluntary transfer of interest, rights, or obligations of any Party under this
3 Agreement, shall be made without the written consent and approval of all other Parties
4 except to a successor in operation of the System, or any component thereof. Written
5 approval when required shall not be unreasonably withheld. Any successor or
6 assignee of the rights of any Party, whether by voluntary transfer, judicial or
7 foreclosure sale or otherwise, shall be subject to all the provisions and conditions of
8 this Agreement, to the same extent as though such successor or assignee were the
9 original Party hereunder, and no assignment or transfer of any rights hereunder shall
10 be effective unless and until the assignee or transferee agrees in writing to assume all
11 of the obligations of the assignor or transferor and to be bound by all of the provisions
12 and conditions of this Agreement; provided, that the execution of a mortgage or trust
13 deed or a judicial or foreclosure sale made thereunder, or if through the disposition by
14 the Administrator of the RUS, shall not be deemed a voluntary transfer within the
15 meaning of this Section 20. If, due to reorganization, sale/purchase, or other means, a
16 Party changes its relationship to the SRSG, its membership(s) will be evaluated by the
17 Executive Committee and any appropriate change in representation will be subject to
18 approval of the Executive Committee.

19 21. SEVERABILITY:

20 In the event that any of the terms, covenants or conditions of this Agreement, or the
21 application of any such term, covenant, or condition, shall be held invalid as to any
22 person or circumstance by any court having jurisdiction, all other terms, covenants, or
23 conditions of this Agreement, and their application shall not be affected thereby, but
24 shall remain in force and effect unless a court holds that the provisions are not
25 separable from all other provisions of this Agreement.

26 22. RELATIONSHIP OF PARTIES:

1 22.1 Nothing contained herein shall be construed to create an association, joint
2 venture, trust, or partnership, or impose a trust, partnership, covenant,
3 obligation, or liability on or with regard to any one or more of the Parties. Each
4 Party shall be individually responsible for its own covenants, obligations, and
5 liabilities under this Agreement.

6 22.2 All rights of the Parties are several, not joint. No Party shall be under the
7 control of or shall be deemed to control another Party. Except as expressly
8 provided in this Agreement, no Party shall have a right or power to bind another
9 Party without its express written consent.

10 23. NO DEDICATION OF FACILITIES:

11 Any undertaking by one Party to another Party under any provision of this Agreement,
12 shall not constitute the dedication of the System or any portion thereof of the
13 undertaking Party to the public or to the other Party, and it is understood and agreed
14 that any such undertaking, by a Party shall cease upon the termination of such Party's
15 obligations under this Agreement.

16 24. THIRD PARTY BENEFICIARIES:

17 This Agreement shall not be construed to create rights in, or to grant remedies to, any
18 third party as a beneficiary of this Agreement, or of any duty, obligation or undertaking
19 established herein.

20 25. LIABILITY:

21 25.1 Subject to any applicable state and federal law which specifically prevents a
22 Party from complying with the provisions hereof, and except for the obligation to
23 pay amounts due in accordance with Section 13 herein, no Party, its directors,
24 members of its governing bodies, officers or employees, shall be liable to any
25 other Party or Parties for loss or damage to property, loss of earnings or
26 revenues, personal injury, or any other direct, indirect, or consequential

1 damages or injury which may occur or result from the performance or non-
2 performance of this Agreement, including any negligence arising hereunder,
3 unless actions or claims and resulting liability, judgments and costs were
4 caused by or resulted from action taken or not taken by a Party or Parties at the
5 direction of its or their directors, members of its governing bodies, officers or
6 employees with management or administrative responsibility affecting its or
7 their performance under this Agreement, which is knowingly or intentionally
8 taken or not taken with conscious indifference to the consequences thereof or
9 with the intent that injury or damage would result or would probably result
10 therefrom. For the purposes of this Section 25 herein, a "Party" shall include
11 the SRSG Administrator; if the SRSG Administrator is a Party to this
12 Agreement.

13 25.2 The benefits of Section 25.1 herein, shall not extend to a Party prevented by
14 state or federal law from complying with the provisions thereof.

15 26. DEFAULTS:

16 26.1 A Party shall be in default in payment when payment is not received within ten
17 (10) days after its final due date. A default by any Party in its payment
18 obligations under this Agreement, shall be cured by payment of all overdue
19 amounts together with interest accrued at the rate set forth in Section 13.5
20 herein, prorated daily from the due date to the date the payment curing the
21 default is made.

22 26.2 Notwithstanding Section 25 herein, a defaulting Party shall be liable to the non-
23 defaulting Parties for all costs, including costs of collection and reasonable
24 attorney fees incurred by such non-defaulting Parties, plus interest as provided
25 in Section 26.1 hereof. The proceeds paid by a defaulting Party to remedy any
26 such default shall be distributed to the non-defaulting Parties in proportion to

1 the additional costs and expenses actually paid by the non-defaulting Parties
2 as a result of the default.

3 26.3 The rights of a Party who is in default of any of its payment or other material
4 obligations herein, may be suspended by a vote of the non-defaulting Parties'
5 representatives on the Operating Committee or terminated by a vote of the non-
6 defaulting Parties' representatives on the Executive Committee. This provision
7 allowing the non-defaulting Parties to suspend or terminate such rights is in
8 addition to any other remedies provided in this Agreement, at law, or in equity,
9 and shall in no way limit the non-defaulting Parties' ability to seek judicial
10 enforcement of the defaulting Party's obligations under this Agreement. Upon
11 the effective date of such suspension or termination of rights, all rights of the
12 defaulting Party and all obligations of non-defaulting Parties to the defaulting
13 Party imposed by this Agreement, except payment obligations, shall
14 immediately be suspended or terminated.

15 26.4 Upon suspension or termination of the rights of a defaulting Party under this
16 Agreement, the Operating Committee shall review reserve responsibility and
17 cost allocations of the non-defaulting Parties and make adjustments thereto as
18 it deems necessary.

19 27. OTHER AGREEMENTS:

20 No provision of this Agreement, shall preclude a Party from entering into other
21 agreements or conducting transactions under existing agreements with other Parties or
22 third parties. This Agreement, shall not be deemed to modify or change any rights or
23 obligations under any prior contracts or agreements between or among any of the
24 Parties.

25 28. PROPRIETARY INFORMATION:

26 All material of any nature originated or developed hereunder by the committees, SRSG

1 Administrator, or any Party including, but not limited to, reports and computer printouts,
2 shall remain the sole property of the Parties despite distribution, if any, to participating
3 Parties or third parties. It is hereby agreed that such material shall be deemed to
4 contain confidential or proprietary information and shall not be released by any Party to
5 any other Party or third party without the originating Party's consent, unless required by
6 law, or such material has subsequently been made available to the public by the Party
7 owning such material. Prior to releasing such records, to the extent applicable law
8 allows, at least ten (10) working days notice shall be given to the Party whose records
9 are being released.

10 29. PARTICIPATION BY THE UNITED STATES:

11 The participation by the United States in this Agreement is subject in all respects to
12 acts of Congress and to lawful and valid regulations established thereunder and rate
13 schedules promulgated by the delegates of the Secretary of Energy thereunder.
14 Reference to any Federal statute, regulation or executive order in this Agreement, shall
15 be for the purpose of identification only and all Parties agree that performance by the
16 United States will require compliance with all current laws, regulations, or executive
17 orders. Updates, revisions, reissuances, or a new enactment of law, regulation, or
18 executive order may also be applicable by the terms of such law, regulation, or
19 executive order to performance by the United States hereunder.

20 30. CONTINGENT UPON APPROPRIATIONS:

21 The United States shall make every effort to obtain appropriations as necessary for
22 continued participation in this Agreement; however, it is understood that the
23 participation of the United States is contingent upon obtaining the necessary
24 appropriations and, if such necessary appropriations are not obtained from Congress,
25 then the other Parties hereby agree to release and discharge the United States from
26 any financial liability or responsibility in connection with the continued participation and

1 associated rights in this Agreement; provided, that if the United States is unable to
2 continue participation as a result of non-appropriation of funds, the United States will,
3 at the time sufficient funds are appropriated, make payment to the appropriate Party or
4 Parties equal to the amount plus interest calculated pursuant to Section 13.5 herein,
5 which become due under this Agreement, if funds had been timely appropriated.
6 Payment by the United States shall constitute performance by the United States as if
7 funds had been appropriated and payment made as scheduled. Full reinstatement of
8 the United States under the terms of this Agreement shall be granted only if funds are
9 appropriated in amounts to cover any obligations which might arise by virtue of the
10 application of Section 26 herein.

11 31. OFFICIALS NOT TO BENEFIT:

12 No Member of or Delegate to Congress or Resident Commissioner shall be admitted to
13 any share or part of this Agreement, or to any benefit that may arise herefrom, but this
14 restriction shall not be construed to extend to this Agreement if made with a
15 corporation or company for its general benefit.

16 32. EXECUTION BY COUNTERPART:

17 This Agreement may be executed in any number of counterparts, and upon execution
18 of this Agreement by all Parties, each executed counterpart shall be binding, and all
19 executed counterparts shall together have the same force and effect as an original
20 instrument as if all Parties had signed the same instrument. Any signature page of this
21 Agreement may be detached from any counterpart of this Agreement without impairing
22 the legal effect of any signature thereon, and may be attached to another counterpart
23 of this Agreement identical in form hereto but having attached to it one or more
24 signature pages.

25 33. SIGNATURE CLAUSE:

26 Each Party hereto represents and warrants that the person executing this Agreement

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has been duly authorized to act on its behalf.

ARIZONA ELECTRIC POWER COOPERATIVE, INC.

BY: _____
TITLE: _____
DATE: _____

ARIZONA PUBLIC SERVICE COMPANY

BY: _____
TITLE: _____
DATE: _____

CITY OF FARMINGTON

BY: _____
TITLE: _____
DATE: _____

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EL PASO ELECTRIC COMPANY

BY: _____
TITLE: _____
DATE: _____

INCORPORATED COUNTY OF LOS ALAMOS

BY: _____
TITLE: _____
DATE: _____

NEVADA POWER COMPANY

BY: _____
TITLE: _____
DATE: _____

PUBLIC SERVICE COMPANY OF NEW MEXICO

BY: _____
TITLE: _____
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SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT

BY: _____
TITLE: _____
DATE: _____

TUCSON ELECTRIC POWER COMPANY

BY: _____
TITLE: _____
DATE: _____

WESTERN AREA POWER ADMINISTRATION
DESERT SOUTHWEST REGION

BY: _____
TITLE: _____
DATE: _____

IMPERIAL IRRIGATION DISTRICT

BY: _____
TITLE: _____
DATE: _____

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GILA RIVER POWER, LP

BY: _____
TITLE: _____
DATE: _____

NEW HARQUAHALA GENERATING COMPANY

BY: _____
TITLE: _____
DATE: _____

TRI-STATE GENERATION AND
TRANSMISSION ASSOCIATION, INC.

BY: _____
TITLE: _____
DATE: _____

DYNEGY POWER MARKETING, INC.

BY: _____
TITLE: _____
DATE: _____

1 **SOUTHWEST RESERVE SHARING GROUP**

2 **PARTICIPATION AGREEMENT**

3 **EXHIBIT A**

4 **Official Mailing Titles and Addresses**
5 **of the Parties**

6 Arizona Public Service Company
7 c/o Secretary of the Company
8 Arizona Public Service Company
9 P. O. Box 53999
10 Phoenix, AZ 85072-3999

11 City of Farmington
12 c/o Electric Utility Director
13 800 Municipal Drive
14 Farmington, NM 87401

15 Dynegy Power Marketing, Inc.
16 Attn: Contract Administration
17 1000 Louisiana, Suite 5800
18 Houston, TX 88002-5050

19 El Paso Electric Company
20 c/o Secretary
21 P. O. Box 982
22 El Paso, TX 79960

23 Gila River Power, LP
24 c/o Entegra Power Group LLC
25 Attention: Ms. Lisa Wildes
26 100 S. Ashley
Suite 1400
Tampa, FL 33602

Imperial Irrigation District
c/o Javier Esparza
333 East Barioni Boulevard
Imperial, CA 92251

Incorporated County of Los Alamos
c/o Manager, Department of Public Utilities
P. O. Drawer 1030
Los Alamos, NM 87544

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Nevada Power Company
c/o Division Director, System Planning and Operations
6226 West Sahara Avenue (89102)
P.O. Box 230
Las Vegas, NV 89151

New Harquahala Generating Company
c/o Plant Manager
P.O. Box 727
Tonopah, AZ 85354

Public Service Company of New Mexico
c/o Secretary
Alvarado Square
Albuquerque, NM 87158

Salt River Project Agricultural Improvement and Power District
c/o Secretary
P. O. Box 52025
Phoenix, AZ 85072-2025

SRSG Administrator
c/o SRSG Administrator - MS: POB013
P.O. Box 52025
Phoenix, AZ 85072-2025

Southwest Transmission Cooperative
c/o Executive Vice President and General Manager
P.O. Box 2195
Benson, AZ 85602

Tri-State Generation and Transmission Association
Executive Vice President and General Manager
P.O. Box 33695
Denver, CO 80233-0695

Tucson Electric Power Company
c/o Michael Flores, Manager, Control Area Operations
P. O. Box 711
Tucson, AZ 85702

Western Area Power Administration - Desert Southwest Region
c/o Regional Manager
Western Area Power Administration
P. O. Box 6457 (615 S. 43rd Avenue)
Phoenix, AZ 85005-6457

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SOUTHWEST RESERVE SHARING GROUP

PARTICIPATION AGREEMENT

EXHIBIT B

Official Billing Addresses

Arizona Public Service Company

Attn: Mark Hackney
P.O. Box 53999, ms 2260
Phoenix, AZ 85072-3999
Phone: (602) 250-1128
FAX: (602) 250-1155

City of Farmington

Attn: Dean Chirigos
501 McCormick School Road
Farmington, NM 87401
Phone: (505) 324-3401
FAX: (505) 326-2315

Dynegy Power Marketing, Inc.

Attn: Accounts Payable – Power
1000 Louisiana, Suite 5800
Houston, TX 88002-5050
Phone: (713) 507-3997
FAX: (713) 507-3787

El Paso Electric Company

Attn: AVP - System Operations, m/s 751
P.O. Box 982
El Paso, TX 79960
Phone: (915) 543-5888
FAX: (915) 521-4763

Gila River Power, LP

c/o Entegra Power Group, LLC
Attention: Ms. Veronic Mudie
P.O. Box 172909
Tampa, FL 33601
Phone: (813) 228-4980
FAX: (813) 301-4991

Imperial Irrigation District

Attn: Javier Esparza
P.O. Box 937
Imperial, CA 92251

1 Incorporated County of Los Alamos

2 Department of Public Utilities

3 Attn: Holly Brown

4 P.O. Drawer 1030

5 Los Alamos, NM 87544

6 Phone: (505) 662-8004

7 FAX: (505) 662-8005

8 Nevada Power Company

9 Attn: Barbara Sztabnik, M/S 20

10 6226 West Sahara Avenue (89102)

11 P.O. Box 230

12 Las Vegas, NV 89151

13 Phone: (702) 227-2476

14 FAX: (702) 367-5096

15 New Harquahala Generating Company

16 Attn: Tom Jenkins

17 P.O. Box 727

18 Tonopah, AZ 85354

19 Phone: (928) 372-3200

20 FAX: (928) 372-3201

21 Public Service Company of New Mexico

22 Alvarado Square

23 Albuquerque, NM, 87158

24 ATTN: Supervisor, Energy Analysis, MS-EP11

25 Phone: (505) 241-2400

26 FAX: (505) 241-6891

Salt River Project Agricultural Improvement and Power District

Attn: Manager of Power Accounting Services

Mail Sta. ISB 253

P.O. Box 52025

Phoenix, AZ 85072-2025

Phone: (602) 236-4504

FAX: (602) 236-4579

Southwest Transmission Cooperative

Attn: Randall Welker

P.O. Box 2195

Benson, AZ 85602

Phone: (520) 586-5241

FAX: (520) 586-5279

Tri-State Generation and Transmission, Inc.

Attn: Carla Javornik

P.O. Box 33695

Denver, CO 80233-0695

Phone: (303) 254-3329

FAX: (303) 254-6030

1 Tucson Electric Power Company
Energy Accounting - SC209
P.O. Box 711
2 Tucson, AZ 85702
Phone: (520) 745-7173
3 FAX: (520) 745-3348

4 Western Area Power Administration - Desert Southwest Region
Manager, Billing and Scheduling
5 615 S. 43rd Ave.
P.O. Box 6457
6 Phoenix, AZ 85009-6457
Phone: (602) 352-2555
7 FAX: (602) 352-2569

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1 **SOUTHWEST RESERVE SHARING GROUP**

2 **PARTICIPATION AGREEMENT**

3 **EXHIBIT C**

4 **Agreement Developmental Fee**

5
6
7 The Agreement Developmental Fee allocated to new members shall be determined as follows:
8

9
10
$$\frac{\text{(Agreement Development Costs)}}{\text{(Number of Parties)}} = \text{Agreement Developmental Fee}$$

11
12 Where:

13 Agreement Development Cost = [Labor Cost + Travel Cost] X [(Number of Meetings)
14 X (Number of attendees) X (8-hours/day)]

15 Number of Meetings = Total number of meetings held in regards to the initial formation and
16 development of the SRSG.

17 Labor Cost = Average labor cost per man-hour (\$50/man-hour), this average includes labor
18 and overheads

19 Travel Cost = Average cost per man-hour (\$25/man-hour), this is based on an average of
20 \$200 per person per day for travel, room, and meals.

21
22 From July, 1996 through October 23, 1997, the Agreement Developmental Fee is:

23
$$\frac{\text{(\$405,600)}}{\text{(11)}} = \$36,873$$

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SERVICE SCHEDULE A
RESERVE OBLIGATIONS

1 **SERVICE SCHEDULE A**

2 **RESERVE OBLIGATIONS**

3 A-1. PARTIES:

4 This Service Schedule A is agreed upon as part of the Agreement.

5 A-2. GENERAL:

6 A-2.1 The purpose of this Service Schedule A is to define the aggregate reserve
7 requirements of the SRSG and to specify the apportionment thereof among the
8 Parties. Specific reserve requirements of the individual Parties are described
9 and settlement provisions for reserve deficiencies are also established herein.

10 A-2.2 All reserve requirement calculations derived herein shall be rounded up to the
11 nearest whole Megawatt.

12 A-2.3 It is the intent of the Parties to meet or exceed the WSCC Minimum Operating
13 Reliability Criteria, and the NERC control performance and disturbance control
14 standards, as they may be adopted, modified, or revised.

15 A-2.4 The SRSG has been formed for the purpose of sharing Contingency Reserves
16 only. Any reserve obligation necessary to meet NERC and WSCC criteria for
17 regulation, interruptible imports, and on-demand contracts will continue to be
18 the responsibility of each Party.

19 A.3. TERM:

20 This Service Schedule A shall continue in effect concurrently with the Agreement
21 unless and until terminated by the Parties in accordance with the provisions of Section
22 5 of the Agreement.

23 A-4. SRSG CONTINGENCY RESERVE REQUIREMENT:

24 A-4.1 Consistent with this Agreement, the Parties shall ensure the proper level and
25 location of the Contingency Reserves. The scheduling of these Contingency
26 Reserves shall be in accordance with Operating Procedures established by the

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Operating Committee.

A-4.2 The amount of Contingency Reserve to be maintained jointly for the SRSG shall be the greater of either:

A-4.2.1 The loss of generating Capacity due to forced outage of generation or transmission equipment that would result from the Most Severe Single Contingency of the SRSG (at least half of which must be Spinning Reserve); or

A-4.2.2 The sum of five percent (5%) of the aggregate Firm Commitment responsibility served by the Parties with hydro generation, plus seven percent (7%) of the aggregate Firm Commitment responsibility served by the Parties with thermal generation (at least half of which must be Spinning Reserve).

A graphic representation of the SRSG Contingency Reserve calculation is depicted in Attachment 1 to this Service Schedule A.

A-5. SRSG SPINNING RESERVE REQUIREMENT:

The amount of Spinning Reserve to be maintained jointly for the SRSG shall be equal to fifty percent (50%) of the SRSG Contingency Reserve requirement determined in accordance with Section A-4.2 herein. All SRSG Spinning Reserve shall be responsive to WSCC frequency deviations.

A-6. RESERVE RESPONSIBILITY VALUE/RESERVE RESPONSIBILITY RATIO:

A-6.1 Reserve Responsibility Value (RRV)

A Party's RRV is equal to twenty-five percent (25%) of its Firm Commitment, plus one-hundred percent (100%) of the number of megawatts associated with its Most Severe Single Contingency.

\\

A-6.2 Reserve Responsibility Ratio (RRR)

1 A Party's RRR is equal to its RRV divided by the sum of the RRV's for each
2 Party.

3 *Graphic representations of the Reserve Responsibility Value and Reserve Responsibility Ratio*
4 *calculations are depicted in Attachment 2 to this Service Schedule A.*

5 A-7. PARTY RESERVE QUOTAS:

6 Each Party is responsible for supplying its quota for Contingency Reserve, which is
7 made up of Spinning Reserve and Non-Spinning Reserve, for all hours based on the
8 following reserve quotas. Contingency Reserves activated due to the occurrence of
9 any event shall be restored by the affected Party or Parties in as short a period of time
10 as possible, but not longer than sixty (60) minutes from the start of the event, unless
11 and until the Operating Committee shall establish a different time period.

12 A-7.1 Contingency Reserve -The hourly Contingency Reserve quota for a Party shall
13 be equal to the product of the SRSG Contingency Reserve requirement for that
14 hour, as determined in accordance with Section A-4.2 herein, multiplied by its
15 RRR, as determined in accordance with Section A-6.2 herein; provided,
16 however, each Party shall maintain at least 5 MW of Contingency Reserve at
17 all times.

18 A-7.2 Spinning Reserve - The hourly Spinning Reserve quota for a Party shall be
19 equal to fifty percent (50%) of its hourly Contingency Reserve quota, as
20 determined in accordance with Section A-7.1 herein; provided, however, each
21 Party shall maintain at least 3 MW of Spinning Reserve at all times.

22 *Graphic representations of the Party's Contingency Reserve and Spinning Reserve calculations*
23 *are depicted in Attachment 3 to this Service Schedule A.*

24 A-8. PENALTIES:

25 A-8.1 At the end of each hour, the SRSG Administrator shall compare the actual
26 amount of Contingency Reserve and Spinning Reserve carried by each Party

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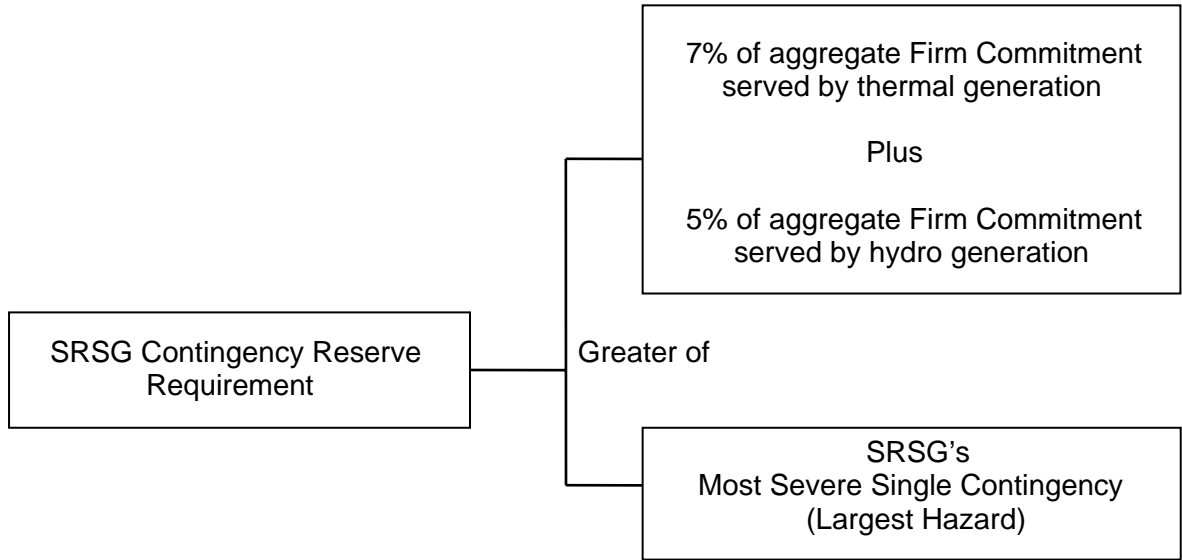
to that Party's respective reserve quotas. A Party shall be deficient in Contingency Reserve if the actual amount of reserve carried by the Party is less than that Party's respective reserve quotas. If a Party is deficient in the amount of Contingency Reserve, the deficient Party shall be assessed a penalty as set forth in the applicable Operating Procedure(s).

A-8.2 Penalties imposed by NERC or WSCC on the SRSG for failure to carry required Contingency Reserves shall be applied only to the Party(ies) that caused the Contingency Reserve deficiency in proportion to which such Party(ies) contributed to the Contingency Reserve deficiency.

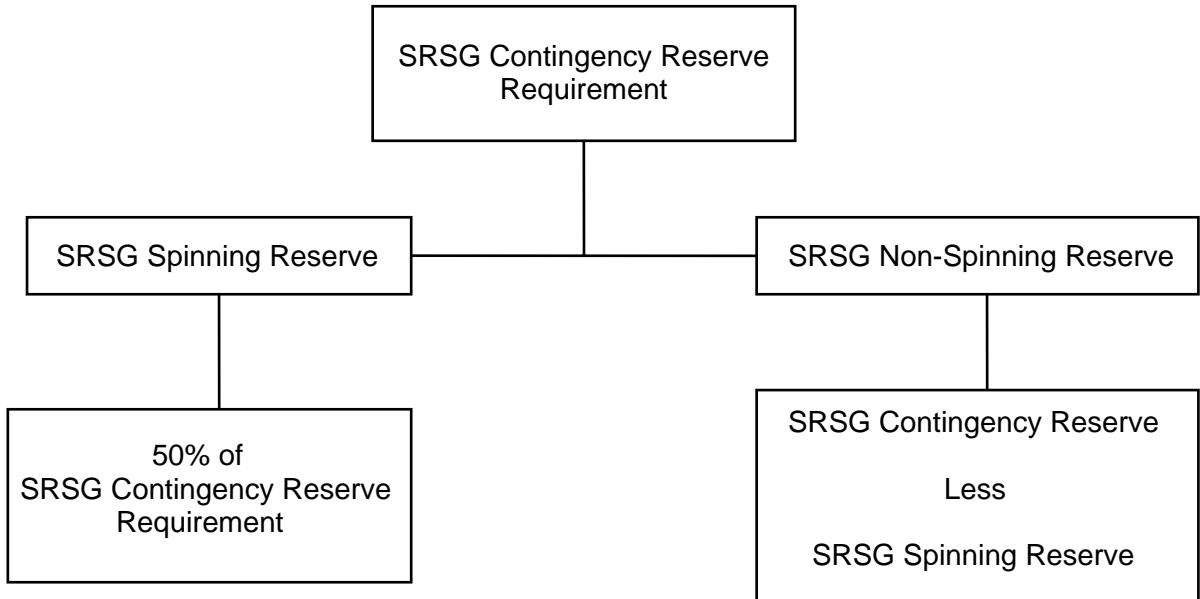
A-9. BILLING AND PAYMENT

All billings and payments associated with this Service Schedule A shall be made in accordance with Section 13 of the Agreement.

Calculation of
SRSG Contingency Reserve Requirements

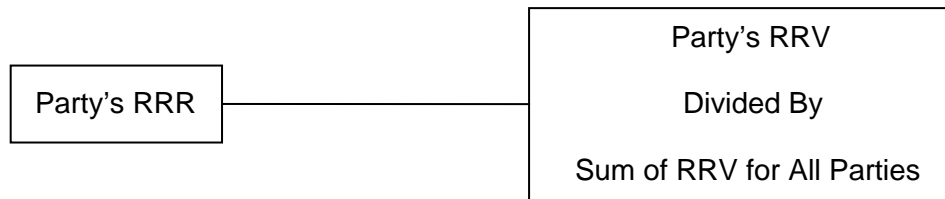


Where:

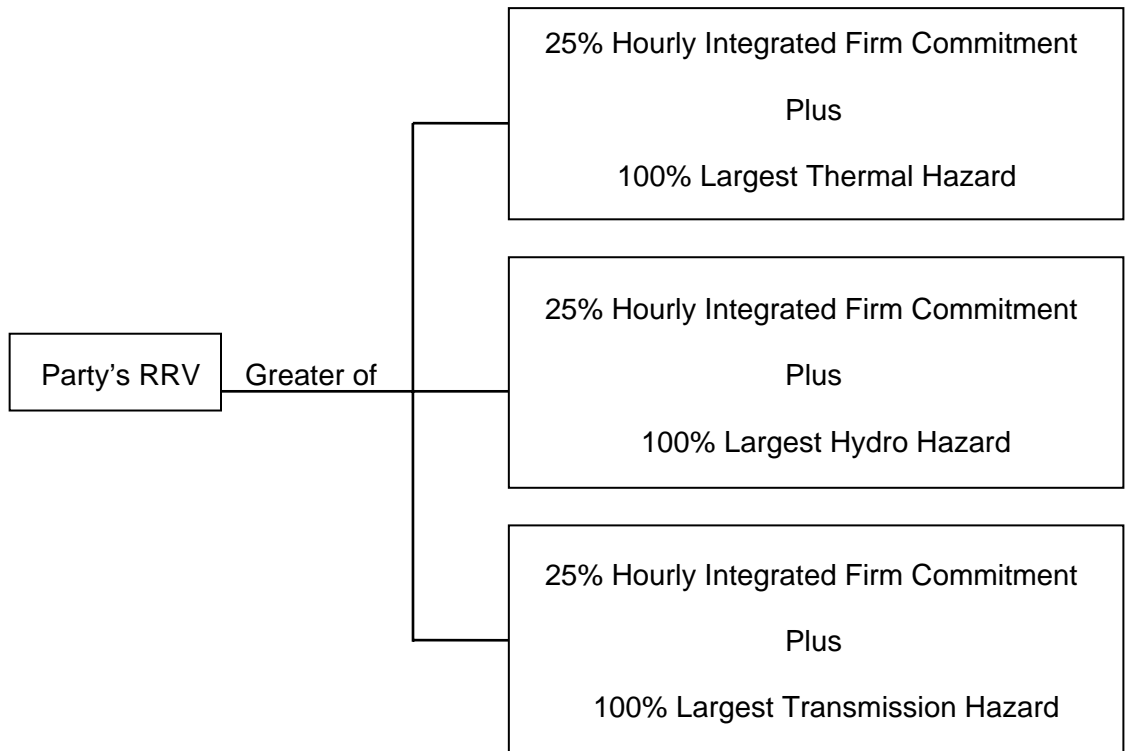


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Calculation of
Reserve Responsibility Ratio (RRR)
and
Reserve Responsibility Value (RRV)

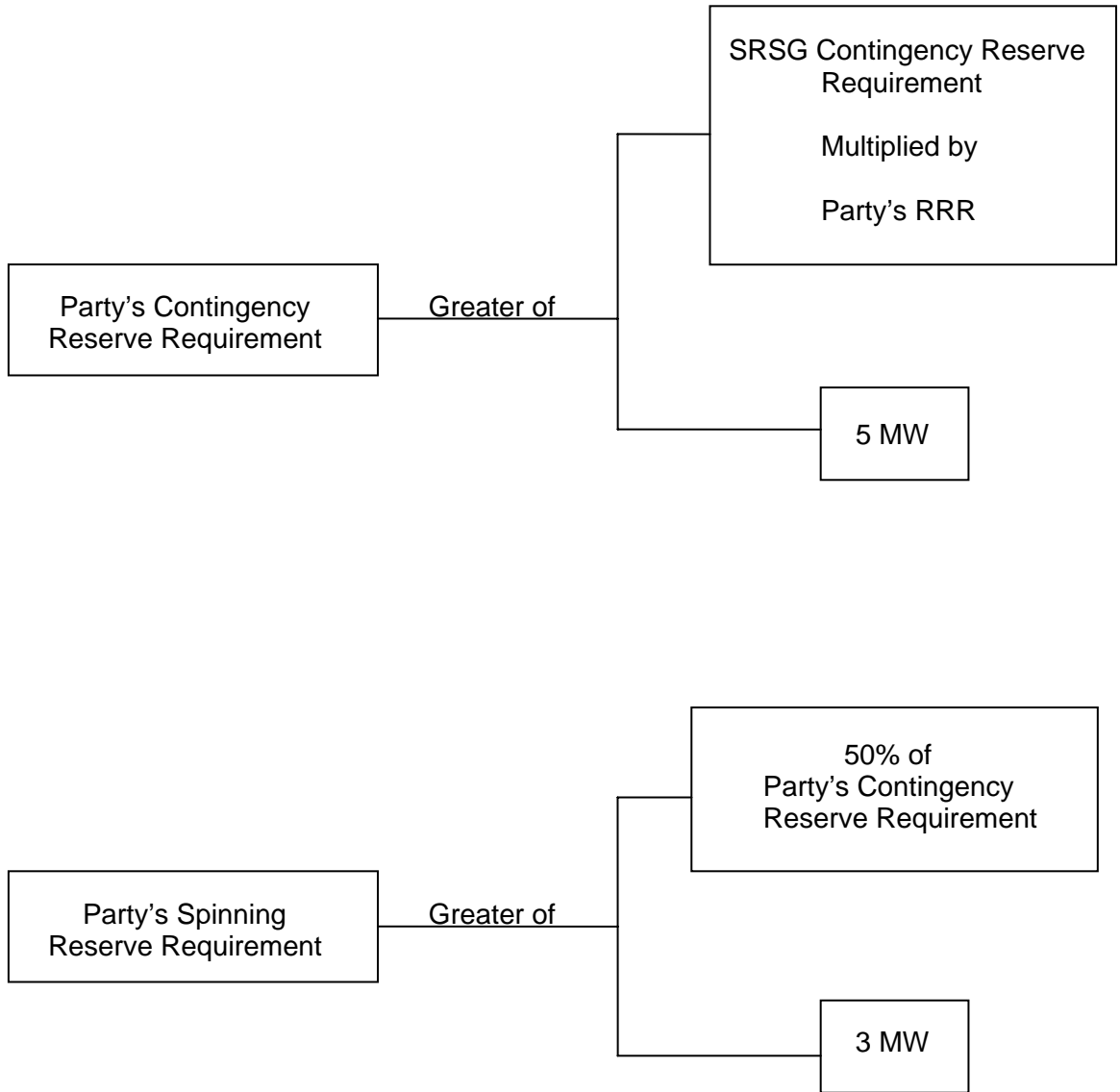


Where:



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Calculation of
Party's Contingency and Spinning Reserve Requirements



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SERVICE SCHEDULE B

ACTIVATION OF RESERVES

FOR

EMERGENCY ASSISTANCE

1 **SERVICE SCHEDULE B**

2 **ACTIVATION OF RESERVES FOR EMERGENCY ASSISTANCE**

3 B-1. PARTIES:

4 This Service Schedule B is agreed upon as part of the Agreement.

5 B-2. GENERAL:

6 The purpose of this Service Schedule B is to define the terms and conditions under
7 which a Party is obligated to activate its reserves for another Party requesting
8 Emergency Assistance.

9 B-3. TERM:

10 This Service Schedule B shall continue in effect concurrently with the Agreement
11 unless and until terminated by the Parties in accordance with provisions of Section 5 of
12 the Agreement.

13 B-4. PARTY OBLIGATIONS:

14 Each Party is responsible for the activation of reserves as follows:

15 B-4.1 Party Experiencing a Disturbance

16 The Party experiencing a Disturbance shall immediately activate its own
17 Contingency Reserves and initiate a system disturbance message (which shall
18 include a request for Emergency Assistance if required), in accordance with
19 Operating Procedures established by the Operating Committee.

20 B-4.2 Party Supplying Emergency Assistance

21 A Party supplying Emergency Assistance shall activate its reserves in
22 accordance with Operating Procedures established by the Operating
23 Committee.

24 B-4.3 All Parties

25 B-4.3.1 Each Party shall be required to complete the activation of its reserves
26 within ten (10) minutes from the time of the Disturbance.

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B-4.3.2 When supplying Emergency Assistance a Party has no obligation to supply more than its Contingency Reserve quota.

B-4.3.3 A Party has no obligation to supply Emergency Assistance to another Party beyond a period of sixty (60) minutes from the time of the Disturbance.

B-4.4 Pursuant to WSCC and NERC criteria, each Party shall maintain sufficient transmission to support the activation of its own Contingency Reserves and its Emergency Assistance obligations in accordance with the Agreement.

B-4.4.1 The amount of non-recallable transmission required to predetermined points of delivery shall be determined using matrices for all major contingencies specifying the transmission paths necessary to deliver SRSG reserves in accordance with the applicable Operating Procedures as established by the Operating Committee.

B-5. SETTLEMENT FOR EMERGENCY ASSISTANCE:

B-5.1 Transmission - Charges associated with the transmission utilized in accordance with Section B-4.4 herein, shall be the responsibility of the Party reserving such transmission.

B-5.2 Capacity - There shall be no Capacity (demand) charge associated with the supply or receipt of Emergency Assistance.

B-5.3 Energy - The Party receiving Emergency Assistance shall pay the supplying Party or Parties for the Energy received at a rate of one-hundred percent (100%) of the supplying Party's cost incurred. For the purpose of this Agreement, the term "cost incurred" shall mean the expense incurred by the supplying Party in supplying Emergency Assistance, as such cost is determined in accordance with the applicable Operating Procedures as established by the Operating Committee. Such costs shall include, but not be limited to, the

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following:

B-5.3.1 The cost of fuel which was consumed in generating Energy for
Emergency Assistance; plus

B-5.3.2 Startup and incremental cost of unit operation and maintenance.

B-6. PENALTIES:

Penalties imposed by NERC or WSCC on the SRSG for failure to recover from a
Disturbance shall be applied only to the Party(ies) that caused such failure.

B-7. BILLING AND PAYMENT

All billings and payments associated with this Service Schedule B shall be made in
accordance with Section 13 of the Agreement.