

8. Obligation to Interconnect or Construct Transmission Expansions & Facility Upgrades.

8.1 Participating TO Obligation to Interconnect.

The Participating TO shall, at the request of a third party pursuant to Section 10, interconnect its system to the wholesale generation or wholesale load of such third party, or modify an existing wholesale Interconnection. Interconnections under this TO Tariff shall be available to entities eligible to request Interconnection consistent with the provisions of Section 210(a) of the FPA. Interconnections requested by entities or individuals that are not so eligible shall be governed by the Local Regulatory Authority. The procedures for Interconnections of wholesale generation to the ISO Controlled Grid shall be governed by the ISO Tariff, and if applicable, Appendix VII to the TO Tariff.

8.1.1 Interconnection to Transmission System.

Interconnection must be consistent with Good Utility Practice, in conformance with all Applicable Reliability Criteria, all applicable statutes, regulations, and ISO reliability criteria for the ISO Controlled Grid. The Participating TO will not accommodate the Interconnection if doing so would impair system reliability, or would otherwise adversely affect the ability of the Participating TO to honor its Encumbrances existing as of the time a party submits its Interconnection Application. The Participating TO shall identify any such adverse effect on its Encumbrances in the System Impact Study performed pursuant to Section 10.7. To the extent the Participating TO determines that the Interconnection will have an adverse effect on Encumbrances, the party requesting Interconnection shall mitigate such adverse effect.

8.1.1.1 Letter Agreement.

Pursuant to Section 12 of Appendix DD of the ISO Tariff, prior to executing an Interconnection Agreement, a party seeking Interconnection may, in order to advance the implementation of its Interconnection, request, and the Participating TO shall offer the party, a Letter Agreement, a *pro forma* version of which is set forth in Appendix XIII to the TO Tariff, that authorizes the Participating TO to begin engineering, design, and procurement of long lead-time items, or construction necessary for the establishment of the Interconnection. However, Participating TO shall not be obligated to offer a Letter Agreement if the party seeking Interconnection is in Dispute Resolution as a result of an allegation that the party seeking Interconnection has failed to meet any milestones or comply with any prerequisites specified in the ISO Tariff. The Letter Agreement is an optional procedure. The Letter Agreement shall provide for the party seeking Interconnection to pay the cost of all activities authorized by the party and to make advance payments or provide other satisfactory security for such costs.

Following a party seeking Interconnection's request for a Letter Agreement, the Participating TO shall prepare and tender to the party seeking Interconnection a draft Letter Agreement in the form of the Participating TO's FERC-approved Letter Agreement as set forth in Appendix XIII to the TO Tariff, including draft exhibits that include the proposed scope of work, estimated costs, payments, financial security and milestones, as applicable. The party seeking Interconnection shall provide written comments, or notification of no comments, to the draft exhibits within thirty (30) Calendar Days. The Participating TO and the party seeking Interconnection shall negotiate concerning any disputed provisions of the exhibits to the draft Letter

Agreement for not more than ninety (90) Calendar Days after the Participating TO tenders the draft Letter Agreement to the party seeking Interconnection. If the party seeking Interconnection determines that negotiations are at an impasse, it may request termination of the negotiations at any time after tender of the draft Letter Agreement and request submission of the unexecuted Letter Agreement with FERC or initiate dispute resolution procedures pursuant to Section 14 of this TO Tariff. If the party seeking Interconnection requests termination of the negotiations, but within ninety (90) Calendar Days after the Participating TO tenders the draft Letter Agreement to the party seeking Interconnection, fails to request either the filing of the unexecuted Letter Agreement or initiate dispute resolution procedures, it shall be deemed to have withdrawn its request for a Letter Agreement and the Participating TO shall have no further obligation to enter into a Letter Agreement, unless an extension is mutually agreed to by the parties. The Participating TO shall provide to the party seeking Interconnection a final Letter Agreement within fifteen (15) Business Days after the completion of the negotiation process.

Following submission of the final Letter Agreement to the party seeking Interconnection, the party shall either: (i) execute two originals of the tendered Letter Agreement and return them to the Participating TO; or (ii) request in writing that the Participating TO file with FERC a Letter Agreement in unexecuted form. As soon as practicable, but not later than ten (10) Business Days after receiving either the two executed originals of the tendered Letter Agreement (if it does not conform with a FERC-approved Letter Agreement) or the request to file an unexecuted Letter Agreement, the Participating TO shall file the Letter Agreement with FERC, together with its explanation of any matters

as to which the party seeking Interconnection and the Participating TO disagree and support for the costs that the Participating TO proposes to charge to the party seeking Interconnection under the Letter Agreement. An unexecuted Letter Agreement should contain terms and conditions deemed appropriate by the Participating TO for the Interconnection request.

If the party seeking Interconnection executes the final Letter Agreement, the Participating TO and the party seeking Interconnection shall perform their respective obligations in accordance with the terms of the Letter Agreement, subject to modification by FERC. Upon submission of an unexecuted Letter Agreement, the party seeking Interconnection and the Participating TO shall promptly comply with the unexecuted Letter Agreement, subject to modification by FERC.

8.1.2 Costs Associated with Interconnection.

Each party requesting Interconnection shall pay the costs of planning, installing, owning, operating, and maintaining any Direct Assignment Facilities and, if applicable, any Reliability Upgrades required to provide the requested Interconnection. In addition, such party shall implement all existing operating procedures necessary to safely and reliably interconnect such party's wholesale load to the facilities of the Participating TO and to ensure the ISO Controlled Grid's conformance with the ISO Grid Planning Criteria, and shall bear all costs of implementing such operating procedures. Any additional costs associated with accommodating the Interconnection shall be allocated in accordance with the cost responsibility methodology set forth in the ISO Tariff for transmission expansions or upgrades.

8.1.3 Interconnection Agreement.

Pursuant to Section 10.4, 10.7.1, or 10.9.1, a party requesting Interconnection shall request in writing that the Participating TO tender to such party an Interconnection Agreement that will be filed with FERC, or the Local Regulatory Authority, in the case of a Local Publicly Owned Electric Utility. The Interconnection Agreement will include, without limitation, cost responsibilities and payment provisions for any engineering, equipment, construction, ownership, operation and maintenance costs for any Direct Assignment Facilities, any Reliability Upgrades, and for any other mitigation measures. For an Interconnection request to remain a Completed Interconnection Application, the party requesting the Interconnection shall execute the Interconnection Agreement and return it to the Participating TO within thirty (30) Business Days of receipt. Alternatively, if an Eligible Customer requesting the Interconnection requests the Participating TO to file an unexecuted Interconnection Agreement and commits to abide by the terms, conditions, and cost assignments determined to be just and reasonable under the ISO ADR Procedures, including any determination by FERC or on appeal of a FERC determination in accordance with that process, the Participating TO shall promptly file an unexecuted Interconnection Agreement. Provided, however, that if the ISO ADR Procedures concerns whether the requesting entity is an Eligible Customer, the Participating TO shall not be obligated to file an unexecuted Interconnection Agreement or commence construction of the Interconnection facilities or incur other costs under the Interconnection Agreement until a final order determining the just and reasonable rates, terms, and conditions for such Interconnection Agreement has been issued by the applicable court or regulatory authority. The Interconnection Agreement will set forth a

payment schedule that enables the Participating TO to recover its costs. If the applicant elects not to execute the Interconnection Agreement and does not request the Participating TO to file an unexecuted Interconnection Agreement, its Completed Interconnection Application shall be deemed withdrawn, and the applicant shall reimburse to the Participating TO all costs reasonably incurred in processing the application not covered by any System Impact Study Agreement or Facilities Study Agreement.

8.1.4 Due Diligence to Construct.

The Participating TO shall use due diligence to construct, within a reasonable time, any Direct Assignment Facilities and any Reliability Upgrades that it is obligated to construct pursuant to this TO Tariff. The Participating TO's obligation to build will be subject to:

1) its ability, after making a good faith effort, to obtain any necessary approvals and property rights under applicable federal, state, and local laws; 2) the presence of a cost recovery mechanism with cost responsibility assigned in accordance with the ISO Tariff or applicable FERC precedent; and 3) a signed Interconnection Agreement or a signed Expedited Interconnection Agreement or, by mutual agreement of the parties, FERC acceptance for filing of an unexecuted Interconnection Agreement.

8.1.5 Energization.

The Participating TO shall not be obligated to energize, nor shall the wholesale load be entitled to have its interconnection to the ISO Controlled Grid energized, unless and until an Interconnection Agreement has been executed, or filed at FERC pursuant to Section 8.1.3, and becomes effective and such wholesale load has demonstrated to the

ISO's reasonable satisfaction that it has complied with all of the requirements of the ISO Tariff and the requirements of this TO Tariff.

8.1.6 Coordination with ISO on Interconnection Requests.

The Participating TO shall coordinate with the ISO, pursuant to the provisions of the TCA, in developing Interconnection standards and guidelines for processing Interconnection requests under this TO Tariff.

8.2 Participating TO Obligation to Construct Transmission Expansions or Facility Upgrades.

The Participating TO shall be obligated to: (1) perform System Impact or Facility Studies where the Project Sponsor or the ISO agrees to pay the study cost and specifies the project objectives to be achieved, and (2) build transmission additions and facility upgrades where the Participating TO is obligated to construct or expand facilities in accordance with and subject to the limitations of Section 24 of the ISO Tariff and this TO Tariff.

8.2.1 Obligation to Construct.

A Participating TO shall not be obligated to construct or expand transmission facilities or system upgrades unless and until the conditions stated in Section 9.2.1 hereof have been satisfied.

8.2.2 Local Furnishing Participating TO Obligation to Construct.

A Local Furnishing Participating TO shall not be obligated to construct or expand transmission facilities or system upgrades unless and until the conditions stated in Section 9.3.3 hereof have been satisfied.

8.3 Request for FERC Deference Regarding Need Determination.

It is intended that FERC grant substantial deference to the factual determinations of the ISO, (including the ISO's ADR Procedures), the CPUC, WECC, or RTG coordinated planning processes as to the need for or construction of a facility, the need for full cost recovery, and the allocation of costs.