

**AGREEMENT
BETWEEN
CENTRAL ARIZONA WATER CONSERVATION DISTRICT
AND
ARIZONA ELECTRIC POWER COOPERATIVE, INC.
FOR
TRADING, SCHEDULING, IMBALANCE AND INTERCHANGE
SERVICES**

**AGREEMENT
 BETWEEN
 CENTRAL ARIZONA WATER CONSERVATION DISTRICT
 AND
 ARIZONA ELECTRIC POWER COOPERATIVE, INC.
 FOR
TRADING, SCHEDULING, IMBALANCE AND INTERCHANGE SERVICES**

Table of Contents

<u>Section</u>	<u>Title</u>	<u>Page No.</u>
1	Introduction.....	1
2	Explanatory Recitals	1
3	Agreement.....	3
4	Effective Date and Term	3
5	Definitions.....	4
6	Conditions Precedent to Agreement.....	7
7	Trading Services and Coordination of Risk Management Policies.....	8
8	Scheduling	10
9	Related Services.....	12
10	Energy Imbalance and Energy Interchange.....	14
11	Ancillary Services.....	17
12	Compensation for Services.....	19
13	Billing and Payment.....	21
14	Consultation and Coordination.....	22
15	Notices.....	22
16	Relationship of Parties.....	23
17	Representatives	23
18	Exhibits.....	23
19	Assignment.....	23
20	Liability and Indemnity.....	23
21	Dispute Resolution.....	25
22	Confidentiality.....	26
23	Governing Law, Venue, No Jury Trial.....	27
24	Entire Agreement; Modifications	28
25	Audits	28
26	Compliance with Arizona Employers Sanctions Laws	28
27	Waivers	30

28	Amendments and Modifications.....	30
29	Counterparts	30
30	Authority to Execute	30
31	Signatures.....	31
Exhibit A	CAWCD Load and CAWCD Resources	32
Exhibit B	AEPCO Mobilization Plan and Schedule	37
Exhibit C	Electricity Transaction Authority	39
Exhibit D	Trading/Interchange Practices	41
Exhibit E	Charges for Trading and Scheduling Services	44

**AGREEMENT
BETWEEN
CENTRAL ARIZONA WATER CONSERVATION DISTRICT
AND
ARIZONA ELECTRIC POWER COOPERATIVE, INC.
FOR
TRADING, SCHEDULING, IMBALANCE AND INTERCHANGE SERVICES**

1. **INTRODUCTION:**

This Trading, Scheduling, Imbalance and Interchange Services Agreement ("Agreement") is made this ____ day of _____ 2011, by and between the Central Arizona Water and Conservation District, Arizona ("CAWCD"), a multi-county water conservation district and political subdivision of the state of Arizona organized pursuant to and existing under the laws of the State of Arizona, and Arizona Electric Power Cooperative, Inc. ("AEPCO"), a non-profit cooperative corporation organized and existing under the generation and transmission electric cooperative laws of the State of Arizona. CAWCD and AEPCO are also hereinafter referred to individually as "Party" or collectively as "Parties".

2. **EXPLANATORY RECITALS:**

- 2.1 AEPCO provides electric capacity and energy to six distribution cooperatives that comprise its Class A members, and AEPCO and its Arizona Class A members operate their electric systems within the Balancing Authority Area (as hereinafter defined) of the Western Area Power Administration's Desert Southwest Region ("WALC");
- 2.2 Southwest Transmission Cooperative, Inc. ("SWTC") is the Transmission Provider for AEPCO and its Class A members, and operates its transmission system and controls AEPCO generation as a metered subsystem within the Balancing Authority Area of WALC.
- 2.3 The Central Arizona Project ("CAP") is a water resource and development project authorized under the Colorado River Basin Project Act of 1968, 82 Stat. 885

(1968 Act) and constructed by the United States Department of the Interior's Bureau of Reclamation ("Reclamation"). The CAP consists of canals and pumping stations to enable water from the Colorado River to flow to water users located in Maricopa, Pinal and Pima Counties in the State of Arizona. CAP has water pumping load in multiple Balancing Authority Areas in the State of Arizona, including that of WALC.

- 2.4 By Contract No. 7-07-30-WO167 between the United States and CAWCD dated August 5, 1987 (the OM&R Agreement), the care, operation, and maintenance of certain CAP project works was transferred to CAWCD.
- 2.5 Reclamation maintains contract rights in the Navajo Project for the use and benefit of the CAP. The Navajo Project consists of the Navajo Generating Station, the Navajo Western Transmission System (Navajo Switchyard to McCullough Substation) and the Navajo Southern Transmission System (Navajo Switchyard to Westwing Substation).
- 2.6 Pursuant to the OM&R Agreement and a certain Stipulation and Order for Judgment from CAWCD vs United States, CAWCD entered into the Operating Agreement Between the United States of America and the Central Arizona Water Conservation District for Operation and Maintenance of the Central Arizona Project dated June 15, 2000 (CAWCD CAP Operating Agreement), which provides among other things that CAWCD is the operating agent on behalf of the United States for certain CAP project works named in the OM&R Agreement. The CAWCD CAP Operating Agreement remains in effect until modified by mutual consent of the United States and CAWCD or until OM&R responsibility of CAWCD for such CAP project works is terminated pursuant to the provisions of the CAWCD CAP Operating Agreement. AEPCO has been provided a copy of the CAWCD CAP Operating Agreement.
- 2.7 Currently, the scheduling of CAWCD Resources to serve CAWCD Load is provided by Salt River Project ("SRP") as one of the services provided pursuant to a four party agreement among CAWCD, SRP, Reclamation and Western, dated March 15, 1994 ("Four Party Agreement"), which expires on September 30, 2011.

This Agreement will provide portions of the services necessary for CAWCD to manage its loads and resources upon expiration of the Four Party Agreement.

2.8 The Parties desire to enter into this Trading, Scheduling, Imbalance and Interchange Services Agreement in order for AEPCO to provide certain of such services (as further defined herein) to CAWCD in support of its role as operating agent for such CAP project works.

3. **AGREEMENT:** The Parties agree that the foregoing Explanatory Recitals reflect their common understanding, and further agree to the terms and conditions set forth hereinafter.

4. **EFFECTIVE DATE AND TERM:**

4.1 This Agreement will become effective and binding on each Party on the date of execution and delivery by the last Party to sign, and shall continue in effect through September 30, 2016 ("Initial Term"), and thereafter shall automatically be extended for one or more additional one year term(s) commencing as of October 1 of 2016 (and extending through September 30, 2017) and as of October 1 of each subsequent calendar year, unless first terminated as provided in this Section 4. Either party may terminate this contract as of October 1, 2016, or any date thereafter, with or without cause, by giving the other Party no less than two years prior written notice of such termination. For example, a Party desiring to terminate as of April 1, 2017 shall give written notice no later than March 31, 2015. Any other termination date shall be subject to mutual agreement of the Parties as set forth in writing.

4.1.1 During the Initial Term CAWCD may terminate this Agreement upon 6 months prior written notice to AEPCO as of the first day of any calendar month commencing on or after April 1, 2013 and prior to September 30, 2016; provided that in the event of such termination by CAWCD, CAWCD shall pay AEPCO the Demobilization Charge set forth in Section 12.5 hereof as of the date of such termination.

- 4.1.2 CAWCD may elect to terminate this Agreement pursuant to Section 20.3 hereof.
- 4.2 All obligations pursuant to this Agreement incurred prior to its termination shall be preserved until satisfied.
- 4.3 Unless otherwise agreed as set forth in writing, the date upon which AEPCO will begin to provide services to CAWCD pursuant to Sections 7, 8, 9, 10 and 11 of this Agreement shall be as of October 1, 2011, commencing at the beginning of the Hour Ending (HE) 0100, MST ("Service Start Date"); provided, however, that the services described in Sections 9.2 through 9.4 shall be made available after this Agreement is executed by the Parties. Prior to the Service Start Date, the Parties shall mobilize their respective organizations to enable all services to begin on the Service Start Date pursuant to Section 6 hereof.
5. **DEFINITIONS:** For purposes of this Agreement, capitalized terms shall have the meaning set forth in this Section, whether used in the singular or plural:
- 5.1 **Ancillary Services** means those services defined in Western's Open Access Transmission Tariff (OATT), as revised, that are necessary to support the transmission of capacity and energy from CAP Resources to CAP Load, while maintaining reliable operation of a Transmission Provider's transmission system in accordance with good utility practice.
- 5.2 **Automatic Generation Control (AGC)** means equipment that automatically adjusts the output of generating units in a Balancing Authority Area as loads and generation outputs in that BAA change, in order to maintain the Balancing Authority's scheduled interchange and electric system frequency.
- 5.3 **Balancing Authority or BA** is the entity responsible for maintaining scheduled interchange and electric system frequency in its Balancing Authority Area.
- 5.4 **Balancing Authority Area or BAA** means the metered area containing generation, transmission, and loads for which the Balancing Authority is responsible to maintain scheduled interchange and electric system frequency.

- 5.5 **CAWCD Load** means the capacity and energy requirements, expressed in maximum and minimum megawatts, to operate those certain CAP project works for which CAWCD is operating agent pursuant to the CAWCD CAP Operating Agreement, together with certain CAWCD facilities, which CAP project works and CAWCD facilities are named, and for which CAWCD Load is set forth, in Exhibit A hereto.
- 5.6 **CAP Operator** means those CAWCD employees in the Water Control Center at CAWCD who operate the various aspects of the CAP system on a 24 hour basis.
- 5.7 **CAP Transmission** means transmission facilities constructed, or transmission rights obtained in transmission facilities of third parties, as described in Exhibit A hereto, which are for purposes of delivery of CAWCD Resources to CAWCD Load or to CAWCD counterparties.
- 5.8 **CAWCD Resources** means capacity and energy from generating units available to CAWCD as described in Exhibit A hereto, or from CAWCD Transactions made by or on behalf of CAWCD, including any load shedding capability of CAP Load that can be used in lieu of using or obtaining such capacity and energy, which are used to serve CAWCD Load while minimizing Energy Interchange.
- 5.9 **CAWCD Transactions** means physical electricity purchase or sale transactions as described and defined in Section 7 hereof, entered into by CAWCD or by AEPCO on behalf of CAWCD pursuant to Section 7 hereof, and delivered to CAWCD Load or to CAWCD counterparties across CAP Transmission.
- 5.10 **Contingency Reserve** means Ancillary Services known as Spinning Reserve and Non-Spinning Reserve (at least half of which must be Spinning Reserve) to be available from an entity's generating units sufficient to return, after an electrical system disturbance, AGC to neutral or to its pre-disturbance setting within the time periods specified in the North American Electric Reliability Corporation's Disturbance Control Standard, as in effect from time to time.
- 5.11 **Energy Imbalance(s)** means the hourly energy difference between the total of AEPCO load plus CAWCD Load compared to the total output of AEPCO Resources plus CAWCD Resources committed for delivery to such total load,

either positive (more resources than load) or negative less resources than load). Such difference becomes an hourly energy imbalance between the SWTC Metered Sub-system and the WALC BA.

- 5.12 **Expanded SWTC Metered Sub-System** shall mean the SWTC Metered Sub-system as expanded to include CAWCD Resources and CAWCD Load.
- 5.13 **Energy Interchange** means the hourly energy difference within the SWTC Metered Sub-system between the total energy requirements of CAWCD Load and the total of the output of CAWCD Resources committed for delivery to CAWCD Load, either positive (more CAWCD Resources than CAWCD Load) or negative (less CAWCD Resources than CAWCD Load).
- 5.14 **Operating Emergency** is an unplanned or unexpected operational event, series of operational events or operational circumstances, or any restriction or condition imposed by a governmental authority, that (a) causes a loss or interruption of (i) a generating resource or transmission facility (ii) a pumping unit or units (iii) water control structures, or (iv) purchase of firm power; and (b) in the reasonable judgment of the affected Party's operator, requires the taking of immediate action to (i) preserve, maintain, or reestablish the safety, integrity, or operability of the facilities that have been affected, and (ii) meet the required power demands of the Expanded SWTC Metered Sub-system or the water demands of the Central Arizona Project water system, as the case may be.
- 5.15 **SWTC Metered Sub-System** refers to the area within the BAA of WALC for which SWTC is responsible to maintain a balance between AEPCO and other third party loads and resources under parameters agreed to between WALC and SWTC, as in effect from time to time.
- 5.16 **Transmission Provider** refers to an entity which owns, controls or operates the facilities used for the transmission of electric energy in interstate commerce and provides transmission services.
- 5.17 **WECC** means Western Electricity Coordinating Council or its successor agency, a regional electric reliability organization of the North American Electric Reliability Organization (NERC).

6. **CONDITIONS PRECEDENT TO AGREEMENT:** In order to meet the obligations of the Parties as set forth in this agreement, the following arrangements among AEPCO, SWTC, WALC and SWTC will necessarily precede the Service Start Date and are conditions precedent to be satisfied in order for service to be provided pursuant to this Agreement:

6.1 **Expansion of SWTC Metered Sub-system:** AEPCO shall make arrangements with SWTC, and assist SWTC in making arrangements with WALC, including modifications to communications and software in respective energy management systems as required, to include CAWCD Resources and CAWCD Loads set forth in Exhibit A, attached hereto and made a part hereof, within the Expanded SWTC Metered Sub-system. CAWCD shall cooperate to encourage Western to allow such expansion.

6.2 **AEPCO Mobilization:** CAWCD acknowledges that AEPCO requires additional scheduling staff and needs to make changes in AEPCO's information systems to accommodate CAWCD's service needs. The Parties acknowledge the importance of being ready to commence operations under this Agreement sufficiently prior to the Service Start Date to enable scheduling to be in effect on such Service Start Date, to which end the Parties have agreed as follows:

6.2.1 AEPCO has provided CAWCD with a mobilization plan and schedule, attached hereto as Exhibit B, and made a part hereof ("AEPCO Mobilization Plan and Schedule") summarizing timing and cost requirements for acquiring additional staff and providing for staff training, programming of AEPCO's energy management system, developing procedures to extract data from AEPCO's energy management system, and developing reports and spreadsheets in MCG Trading Software or its equivalent, all of which is needed prior to the Service Start Date. CAWCD shall pay AEPCO for such mobilization ("Mobilization Fee") in accordance with Sections 6.22 and 6.23 below, which payment shall not exceed \$700,000.

6.2.2 In the event the Parties have not executed this Agreement on or before February 28, 2011, and to enable AEPCO to begin its staffing process as early as March 1, 2011, CAWCD will enter into a separate letter agreement that precedes the execution of this Agreement by February 28, 2011, by which CAWCD will provide \$60,000 in initial funding required to complete Sections 2.1, 2.2 and 2.3 of Exhibit B as a part of the \$700,000, but that will not be subject to refund in the event this Agreement is not executed.

6.2.3 AEPCO shall bill CAWCD for the Mobilization Fee in the following month for any month during which costs pursuant to the AEPCO Mobilization Plan and Schedule have been incurred, beginning with the month in which this Agreement is executed and continuing through the month of October 2011. Such Mobilization Fee shall not exceed \$640,000 if the initial funding of \$60,000 set forth in Section 6.2.2 had earlier been paid by CAWCD.

7. **TRADING SERVICES AND COORDINATION OF RISK MANAGEMENT**

POLICIES: Both Parties have energy risk management policies governing the extent of energy transactions, limitations on authority to transact and requirements for counterparty credit arrangements. In order to accomplish the services of Section 10 herein, the following provisions shall apply:

7.1 **Forward Purchase or Sale Transactions:** CAWCD shall normally arrange and execute in its own name as the counterparty and on its own behalf all CAWCD Transactions that are beyond the next Pre-schedule day, including any CAWCD Transactions for the balance of any month, (“CAWCD Forward Transactions”) under CAWCD's energy risk management policy. At the request of CAWCD Power Pre-schedulers, AEPCO may assist in arranging CAWCD Forward Transactions but AEPCO shall not execute any CAWCD Forward Transactions, due to Internal Revenue Service limitations on non-member revenues required to

preserve AEPCO's status as a non-profit organization ("AEPCO Non-Taxable Limitations").

- 7.2 **Day Ahead Purchase or Sale Transactions:** Either AEPCO or CAWCD may arrange CAWCD Transactions for the next Pre-schedule day(s) ("CAWCD Day-Ahead Transactions) and CAWCD shall normally execute such CAWCD Day-Ahead Transactions in its own name and on its own behalf; provided that, for the convenience of CAWCD at its express written consent or as consented verbally, confirmed through recorded telephone conversation, AEPCO may execute CAWCD Day Ahead Transactions if not otherwise affected by AEPCO Non-Taxable Limitations. In the event CAWCD so consents and AEPCO is otherwise able to, AEPCO shall have the same authority for any such CAWCD Day-Ahead Transactions as set forth for CAWCD on Section 2.0 of Exhibit C, attached and made a part hereof, as such Section 2.0 of Exhibit C may be amended as set forth in writing from time to time by CAWCD in its sole discretion.
- 7.3 **Real-time Purchase or Sale Transactions:** In order to fulfill its responsibilities to both CAWCD and as part of the Expanded SWTC Metered Sub-system under the WALC Balancing Authority, AEPCO shall employ the Trading/Interchange Practices set forth in Exhibit D, attached and made a part hereof, which require that AEPCO shall have the authority to arrange and execute on behalf of CAWCD real-time physical electricity purchases ("CAWCD Real-Time Purchase") or sales ("CAWCD Real-Time Sale") for delivery to CAWCD Load or to CAWCD counterparties, respectively, within 24 hours of transaction confirmation ("CAWCD Real-Time Transactions"). AEPCO authority to make CAWCD Real-Time Purchases and CAWCD Real-Time Sales ("CAWCD Real-Time Transactions") shall be the lesser of the limits set forth in Section 2.0 of Exhibit C, or the similar limits set forth for the Manager of Power Trading under AEPCO's energy risk management policy as set forth in Section 3.0 of Exhibit C, as it may be amended from time to time. Exceptions to the limits set forth on Exhibit C to AEPCO's authority to enter into CAWCD Real-Time Transactions

shall be made only by CAWCD verbally as confirmed through recorded telephone conversation.

7.4 The Parties shall maintain in Sections 4.0 and 5.0 of Exhibit C hereto and update as needed from time to time the names and contact information for the persons and their positions in the respective organizations that are currently authorized to consent and/or perform CAWCD Real-Time Transactions pursuant to this Section 7. Each Party shall notify the other in writing of any updates to the names and contact information for such persons as soon as possible when such changes occur.

8. **SCHEDULING**: On behalf of CAWCD, AEPCO shall provide, as set forth in this Section 8, scheduling services for all CAWCD Resources and CAWCD Load including but not limited to: (i) CAWCD Resources to CAWCD Loads; (ii) CAWCD Resources to or from counterparties, when applicable, and (iii) energy related to repayment of transmission losses. AEPCO and CAWCD will prepare, and revise as needed through mutual agreement, procedures to schedule all CAWCD Resources, including CAWCD Transactions in accordance with WECC guidelines. The procedures shall address, but not be limited to the required WECC e-tagging, energy accounting and settlement, and transmission losses repayment, as set forth below.

8.1 **AEPCO Scheduling Responsibilities**

8.1.1 **CAWCD Day-Ahead and Forward Transactions**

AEPCO shall share market information with CAWCD's Power Pre-scheduler(s) set forth on Exhibit C as needed. AEPCO shall provide e-tags for CAWCD Day-Ahead and CAWCD Forward Transactions in accordance with WECC tagging guidelines and other applicable tagging requirements using AEPCO tagging software.

8.1.2 **CAWCD Real-Time Transactions**

AEPCO shall create e-tags pursuant to WECC tagging guidelines and other applicable tagging requirements for CAWCD Real-Time Transactions and monitor and make adjustments to resources and modify

such e-tags as needed to maintain an hourly Energy Imbalance in accordance with the requirements the Expanded SWTC Metered Sub-system of the WALC BA. AEPCO shall acquire additional transmission services and incur associated losses as needed for CAWCD Real-Time Transactions.

8.2 CAWCD Scheduling Responsibilities

8.2.1 CAWCD Day Ahead and Forward Transactions

CAWCD's Pre-scheduler shall share market information with AEPCO's pre-scheduler to assist CAWCD with its transaction decisions and to develop its pre-schedule plan. CAWCD's Power Pre-scheduler shall provide AEPCO with a day-ahead pre-schedule that balances forecasted CAWCD Loads and forecasted CAWCD Resources, including any CAWCD Day-Ahead Transactions and CAWCD Forward Transactions, hourly for the next pre-schedule day(s) pursuant to WECC e-tagging guidelines and other applicable tagging requirements. CAWCD shall provide AEPCO with all pertinent energy source and transmission information related to such CAWCD Day-Ahead Transactions and CAWCD Forward Transactions as needed by AEPCO to complete the e-tag.

8.2.2 CAWCD Real-Time Transactions

CAWCD shall notify AEPCO of any known real-time modifications to its day-ahead pre-schedules in accordance with Exhibit D. In the event such modifications require it, AEPCO shall arrange for a CAWCD Real-Time Transaction and acquire any transmission services and incur transmission losses as needed to deliver such CAWCD Real-Time Transaction.

8.3 Energy Accounting, Settlement and WECC Dues

8.3.1 AEPCO shall perform daily and monthly checkouts with all counterparties involved in CAWCD Transactions and all operators of CAWCD Resources and CAWCD Load. AEPCO will generate other energy and cost accounting reports as CAWCD reasonably requests.

8.3.2 AEPCO shall generate daily and monthly loads and resources energy and cost accounting reports to confirm deliveries to and receipts from CAWCD counterparties and from CAWCD Resources. AEPCO shall make available such reports regarding CAWCD Transactions via security-enabled internet access for CAWCD personnel to view on a read-only, download basis, utilizing the Minneapolis Consulting Group (MCG) Integrated Asset Manager (IAM) software package or equivalent as employed within AEPCO's Trading Department. CAWCD shall be responsible for all expenses in establishing information technology to allow CAWCD employees to access such energy accounting and settlement software.

8.3.3 AEPCO shall separately report CAWCD energy deliveries to WALC for purposes of establishing CAWCD's share of WECC dues for which CAWCD shall be solely responsible.

8.4 **Transmission Losses Repayment**

AEPCO shall coordinate on behalf of CAWCD with all Transmission Providers as required to account for, report to CAWCD, and schedule repayment of transmission losses from CAWCD Resources. AEPCO shall establish such transmission loss schedules on a day-ahead basis, and account for and report such losses as part of CAWCD Load.

9.0 **RELATED SERVICES:** On behalf of CAWCD, AEPCO shall provide certain related services, as follows:

9.1 **NERC and WECC Reliability Standards**

CAWCD is registered with NERC and WECC as a Purchasing-Selling Entity ("PSE"). As a PSE, CAWCD is responsible for adhering to several NERC and WECC reliability standards relevant to this Agreement. AEPCO shall provide the following services to CAWCD in conjunction with the standards identified in Sections 9.1.1, 9.1.2 and 9.1.3 below.

9.1.1 **Scheduling Standards**

AEPCO shall assist CAWCD in meeting its obligations for NERC Standards INT-001-3 (R1 and R1.1), Interchange Information, and INT-004-2 (R1 and R2, Dynamic Interchange Transaction Modifications, by providing access to CAWCD Transaction tagging and transaction information.

9.1.2 Voltage and Reactive Control Standard

AEPCO shall, pursuant to Section 10 hereof, use CAWCD Resources to satisfy CAWCD's obligation pursuant to NERC Standard VAR-001-2 (R5), Voltage and Reactive Control to provide reactive power for CAWCD Loads.

9.1.3 Future Standards

AEPCO shall assist CAWCD in meeting its obligations under future NERC/WECC standards that are applicable to CAWCD and relevant to this Agreement, subject to CAWCD agreement on additional compensation to AEPCO if additional costs would be incurred in providing such assistance.

9.2 Training and Consultation

AEPCO shall assist CAWCD in deriving benefits from optimizing operations of CAP pumping loads and the CAWCD Resources, by providing training and consultation to CAWCD staff.

9.2.1 Training On-site at AEPCO Facilities

AEPCO shall permit CAWCD employees to observe and receive training from AEPCO and SWTC staff at work during normal AEPCO and SWTC workdays, for up to three months per CAWCD employee. Shorter sessions of periodic refresher training, or training on new procedures, shall also be made available by AEPCO to CAWCD employees. CAWCD shall be responsible for all expenses associated with such training, including appropriate security arrangements.

9.2.2 Training in use of Settlement Software

AEPCO shall train CAWCD staff on the use of the energy accounting and settlement software described in Section 8.3 herein.

9.3 Market Consultation

AEPCO shall notify and discuss with CAWCD staff the market opportunities AEPCO finds in real-time, day ahead and forward markets.

9.4 Hoover Scheduling

AEPCO shall assist CAWCD staff in preparation of annual and monthly energy scheduling of CAWCD's share of Hoover generation pursuant to CAWCD's contract with the Arizona Power Authority.

10. ENERGY IMBALANCE AND ENERGY INTERCHANGE: Pursuant to Section 8.2.1, CAWCD provides a balanced pre-schedule of CAWCD Load and CAWCD Resources to AEPCO in accordance with WECC pre-scheduling guidelines. By submitting the balanced pre-schedule to AEPCO, CAWCD authorizes AEPCO to use CAWCD Resources pursuant to this Section 10 and Exhibit D hereto. Hourly, AEPCO shall jointly dispatch AEPCO resources and pre-scheduled CAWCD Resources to combined AEPCO load and CAWCD Load and perform CAWCD Real-time Transactions as needed to (i) minimize hourly Energy Imbalance between the Expanded SWTC Metered Sub-system and the remainder of the WALC BAA; and (ii) maintain Energy Interchange between CAWCD and AEPCO to within acceptable limits as may be agreeable to the Parties from time to time, as set forth in writing. At all times, on a forecast basis, AEPCO shall have secured or acquired sufficient resources to manage AEPCO's individual hourly imbalances between its loads and resources and CAWCD and AEPCO on CAWCD's behalf pursuant to Section 7 shall have secured or acquired CAWCD Resources sufficient to manage CAWCD's individual hourly imbalances between CAWCD Load and CAWCD Resources so that neither Party is unduly relying on the resources of the other Party to provide for its individual hourly imbalances.

10.1 AEPCO Interchange and Imbalance Responsibilities: AEPCO shall dynamically monitor CAWCD Load and CAWCD Resources using the metering and communication systems of SWTC and CAWCD. AEPCO shall manage

hourly Energy Imbalance between the aggregate of pooled AEPCO loads and CAWCD Load using either of pooled AEPCO resources and CAWCD Resources to regulate to the aggregate of pooled AEPCO loads and CAWCD Load, respectively, within each hour.

10.1.1 Normal Operations: When, during the hour, CAWCD Load exceeds CAWCD Resources, AEPCO may manage Energy Imbalance (between the Expanded SWTC Metered Subsystem and WALC BA) by making hourly CAWCD Real-Time Purchases or by providing energy from AEPCO resources to CAWCD Load. When, during the hour, CAWCD Resources exceed CAWCD Load, AEPCO may manage Energy Imbalance by making hourly CAWCD Real-Time Sales or by using pre-scheduled CAWCD Resources for AEPCO load. In either instance, AEPCO may also coordinate with CAP Operators to adjust CAWCD Load.

10.1.2 AEPCO Interruptions: AEPCO may interrupt or curtail scheduled energy deliveries to CAWCD Load during Operating Emergencies not to exceed five (5) times in any calendar year nor eight hours in duration per event, provided AEPCO does so only after AEPCO has made all reasonable efforts to restore the combined electric loads and resources of AEPCO and CAWCD to normal load and resource balance. In the same order of priority as the interruption or curtailment of AEPCO interruptible loads, if any, AEPCO shall request CAP Operators and CAP Operators shall comply to interrupt no more than one (1) pump operating at Mark Wilmer Pumping Plant, approximately 50 megawatts of CAWCD Load.

10.1.3 Balancing Authority Interruptions: As described in Exhibit A, CAWCD Loads reside in different Balancing Authority Areas. Interruption of CAWCD Load may occur pursuant to agreements CAWCD maintains with each Balancing Authority. For purposes of managing Energy Imbalance and Energy Interchange, AEPCO and

CAWCD will treat such balancing authority interruptions as a loss of CAWCD Load.

10.1.4 AEPCO will prepare a monthly Energy Interchange report to identify as of the end of each month the balance in Energy Interchange account between CAWCD and AEPCO by Peak and Off-Peak Hours (as such hours are defined within WECC) and any balance carried forward from prior months. If the balance of the Energy Interchange is outside limits acceptable to the Parties as set forth in the procedures established pursuant to Section 8, the Parties may agree to financially settle the imbalance using prices of Peak and Off-Peak Hours, as appropriate, based upon the historical ICE market price index as published for the months in which the imbalances occurred.

10.2 CAWCD Interchange and Imbalance Responsibilities

At all times, CAWCD shall maintain sufficient capacity in CAWCD Resources to serve CAWCD Load and satisfy associated regulating capacity and Contingency Reserve obligations as set forth in Sections 11.2 and 11.3 hereof. CAWCD shall not be required to operate within an hourly imbalance bandwidth. CAWCD, at its expense, shall provide metering and communication systems pursuant to standard utility practice as necessary for AEPCO to monitor CAWCD Load and CAWCD Resources to manage hourly Interchange Energy.

10.3 Imbalance and Interchange Procedures

AEPCO and CAWCD will prepare, and revise as needed through mutual agreement, procedures to coordinate operations between the Parties to minimize hourly Energy Imbalance between the Expanded SWTC Metered Sub-system and the remainder of the WALC BAA while maintaining Energy Interchange within acceptable limits. The procedures shall address, but not be limited to (i) loss of a CAP Navajo unit or other CAWCD Resource; (ii) loss of CAWCD Load; (iii) loss or de-rating of CAP Transmission; (iv) ramping or staging requirements of CAWCD Load; (v) use of ability to interrupt CAWCD Load upon declaration of

an Operating Emergency by SWTC; and (vi) any daily and monthly Energy Interchange limits between AEPCO and CAWCD.

10.4 **Cooperation**

To the extent practical, AEPCO real-time schedulers and CAWCD Power Pre-schedulers shall exchange information required by Exhibit D to assist AEPCO in hourly balancing of pooled AEPCO load and CAWCD Load and pooled AEPCO resources and CAWCD Resources, to promote efficient CAP water operations, and maintain the reliability of the Expanded SWTC Metered Sub-system and the WALC BAA system.

11. **ANCILLARY SERVICES:** AEPCO shall manage the scheduling of CAWCD Load and CAWCD Resources and AEPCO loads and resources on an hourly basis to assure that requirements for Ancillary Services, as defined by the Federal Energy Regulatory Commission, are met. The Parties will jointly prepare, authorize and revise as needed through mutual consent, procedures by which the Parties will cooperate in the use of CAWCD Resources and AEPCO resources to efficiently meet their joint ancillary services requirements. Such procedures shall include, but not be limited to: (i) developing metering and scheduling instructions to optimize the joint use of CAWCD's Hoover capacity; (ii) use of CAWCD Resources and AEPCO resources to over-generate with respect to CAWCD Load and AEPCO loads when WALC BA requires excess resources in the Expanded SWTC Metered Sub-system; (iii) use of AEPCO generation to under-generate with respect to CAWCD Load and AEPCO loads when WALC BA requires deficient resources in the Expanded SWTC Metered Sub-system; and (iv) Hoover energy limitations.

11.1 **AEPCO Ancillary Service Responsibilities**

AEPCO agrees to utilize AEPCO and CAWCD Resources including CAWCD's Hoover resource or equivalent to meet AEPCO's ancillary services requirements of the Expanded SWTC Metered Sub-system. AEPCO will coordinate with the Arizona Power Authority regarding Hoover monthly energy schedules matters or with other providers of ancillary services on behalf of CAWCD.

11.2 CAWCD Ancillary Service Responsibilities

CAWCD shall self-provide generation related ancillary services, such as regulating capacity and capacity for Contingency Reserves, through the term of this Agreement. CAWCD believes it has the ability to use CAWCD's Hoover resource as Contingency Reserves and the signal from Hoover as described in Section 5 of Exhibit A as regulating capacity. CAWCD will endeavor to establish AEPCO with the Arizona Power Authority as CAWCD's agent and scheduling entity for CAWCD's Hoover resource and recipient of the Hoover dynamic signal for use as regulating capacity. In the event CAWCD cannot use CAWCD's Hoover resource to self-provide regulating capacity, CAWCD will make available to AEPCO a resource capable of supplying such regulation as an ancillary service. The Parties agree that the provision by CAWCD of ancillary services substantially as described as "Product A" in the "Service Specifications" section of CAWCD's Request for Proposals for Ancillary Power Services (RFP NO. C1109, PROPOSAL DUE FEBRUARY 23, 2011), a copy of which has been received by AEPCO, shall be an acceptable alternative resource for provision of the ancillary services required to be supplied by CAWCD, in lieu of the Hoover resource. The provision of ancillary services by CAWCD, whether from its Hoover resource or from other resources, sufficient in amount to provide regulating capacity and capacity for Contingency Reserves for the CAWCD Load shall be a condition precedent to AEPCO's obligations to provide trading, scheduling, imbalance and interchange services hereunder.

11.3 Contingency Reserves

Subject to the acceptance by SRSG, AEPCO shall include appropriate portions of CAWCD Load as determined by CAP Operators as AEPCO firm load in AEPCO's reporting to the Southwest Reserve Sharing Group (SRSG), and AEPCO shall also register CAWCD's shares of the Navajo Generating Units with SRSG and report such shares as an AEPCO resource. AEPCO shall then be able to call on SRSG Contingency Reserves for the next hour as needed to serve CAWCD Load due to a Navajo unit trip or other loss of a CAWCD Resource (a

"CAWCD Resource Loss Event"). AEPCO and CAWCD agree to share the newly created AEPCO SRSG reserve obligation resulting from including CAWCD Load and CAWCD's shares of Navajo Generating Units as AEPCO load and resources, respectively, in SRSG reserve calculations. The sharing of such resulting reserve obligation will be determined based on the ratio of the reserve obligation of each Party as if that Party is a separate SRSG member with its separate loads and resources to the reserve obligation where both Parties are a single SRSG member with the aggregate of each Party's load and resources, as determined by AEPCO using procedures established for such purposes by SRSG members. During the first hour of an Operating Emergency, AEPCO and CAWCD Power Pre-schedulers shall confer regarding actions for the second and subsequent hours following such a CAWCD Resource Loss Event.

12. **COMPENSATION FOR SERVICES:** AEPCO shall charge CAWCD for the services AEPCO provides pursuant to Sections 6, 7, 8, 9, 10 and 11 hereof as follows:

12.1 **Expanded SWTC Metered Sub-system:** AEPCO shall charge and CAWCD shall pay AEPCO for the charges that SWTC imposes on AEPCO pursuant to Section 6.1 hereof for including CAWCD Loads and CAWCD Resources within the Expanded SWTC Metered Sub-system.

12.1 **Mobilization Charges:** AEPCO shall charge and CAWCD shall pay AEPCO for AEPCO's actual costs incurred in AEPCO's mobilization pursuant to Section 6.2 hereof.

12.2 **Monthly Trading, Scheduling, Imbalance and Interchange Service Charges:** AEPCO shall also bill CAWCD monthly for expenses as incurred by AEPCO on behalf of CAWCD pursuant to terms and conditions herein and for acquiring transmission services in connection with CAWCD Transactions or in the performance of its obligations set forth in Exhibit D, and for any required purchases of ancillary services.

12.2.1 Monthly, AEPCO shall charge CAWCD for Trading, Scheduling, Imbalance and Interchange services performed by AEPCO pursuant to

Sections 7, 8, 10 and 11 hereof in accordance with Section 2.0 of Exhibit E, attached and made a part hereof. As AEPCO provides similar services to some of its members and other clients, charges to such customers, including CAWCD, will vary based on AEPCO's total budget of the coming year for its Trading Department and the total MegaWatt hours (MWh) of the present year's loads and sales for which AEPCO is responsible for providing such services (including loads of AEPCO members). CAWCD shall pay AEPCO at the same \$/MWh rate that AEPCO charges to all such customers and AEPCO members. The Parties shall revise Section 2.0 of Exhibit E no less than 15 days prior to the end of each calendar year to set forth the charges for Scheduling Services and Trading Services for the following calendar year, and otherwise revise Exhibit E as may be necessary from time to time as determined by agreement of the Parties.

12.2.2 If Energy Interchange balances are financially settled pursuant to Section 10 hereof, AEPCO monthly shall bill or credit CAWCD for net CAWCD Transactions executed by AEPCO on behalf of CAWCD.

12.2.3 Monthly, AEPCO shall bill CAWCD for cost of acquiring transmission services, including associated losses not repaid in kind, incurred by AEPCO in connection with CAWCD Transactions or for purchases of ancillary services, if any.

12.2.4 CAWCD shall pay its share of WALC's WECC dues directly to WECC based upon the billing from WALC resulting from data submitted by AEPCO to WALC pursuant to Section 8.3 herein.

12.3 **Related Services**

AEPCO's charges for Related Services set forth in Section 9.2 hereof shall be as follows:

12.3.1 For services provided pursuant to Section 9.2, AEPCO shall charge CAWCD for each hour spent based on the average hourly rate set forth in Section 4.0 of Exhibit E.

12.3.2 For services provided pursuant to Sections 9.1, 9.3 and 9.4, AEPCO deems such charges to be included in the charges set forth in Section 2.0 of Exhibit E.

12.4 SRSB Membership

All charges to AEPCO associated with SRSB membership will be allocated between the Parties based on the ratio determined in Section 11.3 above and CAWCD's share of such charges will be billed to CAWCD on quarterly basis.

12.5 Demobilization Charges: In the event of termination prior to October 1, 2016, pursuant to Section 4.1.1 hereof, CAWCD agrees to pay AEPCO demobilization charges per year or portion thereof that remains prior to October 1, 2016, based as follows.

12.5.1 Section 3.0 of Exhibit E identifies the number of positions that AEPCO would need to eliminate if termination pursuant to Section 4.1.1 hereof occurs prior to October 1, 2016.

12.5.2 Each position identified in Section 3.0 of Exhibit E pursuant to Section 12.5.1 herein shall include a job title, current annual salary and cost for vacation and benefits.

12.5.3 Charges to CAWCD for demobilization pursuant to termination prior to October 1, 2016 shall be the sum of current annual salary and benefit costs for each position identified in Sections 12.5.1 and 12.5.2.

13. BILLING AND PAYMENT: AEPCO shall prepare an invoice at the start of each month for the charges for services provided CAWCD in the prior month, and deliver such invoice to CAWCD for payment, and CAWCD shall pay AEPCO's charges as delineated on AEPCO's invoice pursuant to the following:

13.1 The billing period for charges herein shall be one calendar month and billing shall occur on or before the 10th day of the month following the billing period. If the Parties are each required to pay an amount on the billing date in the same month in accordance with this Agreement, such amounts with respect to each Party will be aggregated and the Parties will discharge their obligations to pay through

netting, in which case the Party owing the greater aggregate amount will pay to the other Party the difference between the amounts owed consistent with the billing date as set forth in Section 13.2 below.

- 13.2 The Party owing shall pay or cause to be paid the total amount billed by the later of the 20th day of the month or ten (10) days after receipt of the bill. For purposes of this Section 13.2, the date of receipt of the bill shall be the date the bill was sent by electronic mail or facsimile transmission with receipt confirmed, or in the absence of electronic mail or facsimile transmission, the date of the receipt as evidenced by return receipt of U.S. Mail First Class, postage prepaid, or the date otherwise mutually agreed to by the Parties. Payment shall be electronically wire transferred to a bank designated by the Party receiving payment, or by any other method which provides collected funds on or before the payment due date. Amounts not paid by the due date shall be payable with interest accrued on each calendar day from the due date to the date of actual payment. The interest shall accrue at the interest rate equal to the effective "Prime Rate" per annum as specified in the "Money Rates" section of the Wall Street Journal.

14. **CONSULTATION AND COORDINATION:** CAWCD authorized representative(s) and AEPCO authorized representative(s) will consult and coordinate scheduling and operating criteria for delivering CAWCD Resources to CAWCD Load pursuant to provisions of this Agreement. CAWCD and AEPCO may meet periodically as determined to be necessary by the Parties to (i) implement the provisions of this Agreement, and (ii) establish, review and/or modify procedures and standard practices.
15. **NOTICES:** Any notices to be given pursuant to this Agreement shall be provided in writing to the address set forth below.

Attention: Chief Operating Officer
Arizona Electric Power Cooperative, Inc.
P.O. Box 670

1000 South Highway 80
Benson, AZ 85602

Attention: General Manager
Central Arizona Walter Conservation District
P.O. Box 43020
Phoenix, AZ 85080-3020
[street address: 23636 N 7th St.
Phoenix, AZ 85024]

16. **RELATIONSHIP OF PARTIES:** This Agreement shall not be interpreted or construed to create an association, joint venture or partnership among the Parties or to impose any partnership obligations or liability upon any Party.
17. **REPRESENTATIVES:** Each Party shall appoint within five (5) days after execution hereof, one representative (Representative) who is fully authorized to act on its behalf with respect to the transactions contemplated hereunder. A Party may replace its Representative at any time by written notice to the other Party.
18. **EXHIBITS:** Exhibits A, B, C and D, and E as they may be amended or revised from time to time by mutual agreement of the Parties, are incorporated by this reference. New exhibits may be added in the future, as required, and shall be made part of this Agreement by mutual written agreement of the Parties.
19. **ASSIGNMENT:** A Party shall not transfer or assign or otherwise dispose of all or any part of its rights or interests under this Agreement without the prior written approval of the other Party.

20. **LIABILITY AND INDEMNITY:**

20.1 The Parties shall indemnify and save the other Party and the directors, agents, officers, and employees of the other Party, harmless from and against any liability, loss, damage, claims, costs, and expenses (including reasonable attorneys' fees and court costs through appeal) incurred or claimed on account of injury to persons (including death) or damage or destruction of property, occasioned by the act or omissions of the indemnifying Party or its directors, agents, officers, or employees in the performance of this Agreement, except to the extent that such liability, loss, damage, claim, costs, or expense results from the gross negligence or willful misconduct of the indemnified Party; provided however, that each Party shall be solely responsible to its own employees for all claims or benefits due for injuries occurring in the course of their employment or arising out of any workers' compensation law (except for claims due to the negligence of the other Party), and each Party shall indemnify and save the other Party harmless from and against any liability, loss, damage, claims, costs, and expenses (including reasonable attorneys' fees and court costs through appeal) relating to its own employees. Except for loss, injury, damages or destruction that result from a breach or default of a Party's duty or obligation as set forth herein, the Parties shall each bear their own respective risk of loss for any loss, injury, damage or destruction to their respective property, facilities, equipment and for the replacement or repair of such property. To the fullest extent permitted by law, neither Party shall have liability to the other Party for any indirect, consequential, multiple or punitive damages including, but not limited to, loss of earnings or revenues or cost of purchase power.

20.2 AEPCO shall not be liable to counterparties, and CAWCD shall indemnify AEPCO therefrom, to any CAWCD Transactions entered into by CAWCD and/or by AEPCO on behalf of CAWCD.

20.3 In making CAWCD Transactions pursuant to Section 7 hereof, AEPCO shall be liable to CAWCD for any failure to follow the recorded or written directions of CAWCD representatives specified in Exhibit C hereof to the extent of one (1) month's fee as set forth in Section 2.0 of the Exhibit E in effect at the time. AEPCO shall not be so liable if no direction from CAWCD had been provided. Additionally, in its sole discretion, CAWCD may, after occurrence of such failure by AEPCO, choose to terminate this Agreement by giving written notice to AEPCO no later than two (2) months following the occurrence of such failure, such termination to be effective no earlier than the first day of the third month following such notice. In the event of such termination, AEPCO shall not be entitled to compensation pursuant to Section 12.5 hereof.

21. **DISPUTE RESOLUTION:** Should any material dispute arise between the Parties concerning a transaction pursuant to this Agreement, or the duties or obligations of the Parties under this Agreement, or the implementation or interpretation of this Agreement and remain unresolved for a period of fifteen (15) days after written notice to the other Party specifying the nature of the dispute, such dispute shall be forwarded to the Representatives of the Parties. Should the Representatives be unable to resolve such dispute by mutual decision within a period of fifteen (15) days from the submission of the dispute to them, CAWCD and AEPCO representatives shall forward the original notice of such dispute and its proposed resolution of the issue in dispute to the General Manager of CAWCD and the Senior Vice President and Chief Operating Officer of AEPCO, respectively, or their executive level representatives (hereinafter the "Executive" or "Executives"). Such Executives shall meet within ten (15) calendar days (or such shorter or longer time as agreed upon by the Executives) to discuss and attempt to reach a mutual resolution of the dispute. Any resolution agreed upon by the respective Executives shall be binding upon each of the Parties to this Agreement. If the Executives cannot resolve the dispute within ten (10) calendar days after their initial meeting or conference (or within such a longer time as may be mutually agreed upon by the respective Executives), the Parties may pursue, subject to the limitations set forth in Section 23 below, any

remedies available to them at law, in equity or under this Agreement to resolve the dispute, including alternate dispute resolution processes.

22. **CONFIDENTIALITY:** The Parties acknowledge that during the course of this Agreement, AEPCO may have access to Confidential Information of CAWCD and CAWCD may have access to Confidential Information of AEPCO. The Parties agree to take appropriate measures to protect the Confidential Information and prevent its disclosure.

22.1 For purposes of this Agreement, "Confidential Information" means any and all information that is not generally known by others with whom AEPCO or CAWCD does or plans to conduct business. Confidential Information includes without limitation such information, whether written or oral, related to: (i) development, research, testing, system operations, and production activities; (ii) all products invented, researched, developed, planned, tested, manufactured, sold, licensed, leased, or otherwise distributed, or put into use by either Party, together with all services provided or planned by either Party during the term of this Agreement; (iii) costs, sources of supply, strategic plans, resource plans, and capacity; (iv) pricing, cost of service, methods of allocation; (v) the identity and special needs of the customers and other organizations with whom either Party has business relationships and the nature of those relationships; (vi) sales contracts and their terms and conditions; and (vii) any marketing studies, surveys, plans, and projections. Confidential Information also includes such information that either Party receives as or has received as confidential, belonging to those with whom a Party conducts business, and, except to the extent disclosed by the other Party on a non-confidential basis, any intellectual property.

22.2. The receiving Party ("Recipient") may use Confidential Information of the disclosing Party ("Owner") only for, or in connection with, the purposes of this Agreement and shall protect such Confidential Information from disclosure to others, using the same degree of care used to protect its own proprietary information of like importance, but in any case using no less than a reasonable

degree of care. Recipient may disclosure Confidential Information received hereunder to (i) to its affiliates who agree, in advance, in writing, to be bound by this Agreement, and (ii) to its employees and consultants, and its affiliates' employees and consultants, who, in all such cases, have a need to know for the purposes of this Agreement, and who are bound to protect the received Confidential Information from unauthorized use and disclosure.

22.3. The restrictions of this Agreement on use and disclosure of Confidential Information shall not apply to information that:

- (a) is in the possession or control of Recipient prior to its receipt from Owner pursuant to this Agreement;
- (b) is or becomes publicly known, through no wrongful act of Recipient;
- (c) is received by Recipient from a third party free to disclose it without obligation to Owner; or
- (d) is developed independently by Recipient; or
- (e) is lawfully required to be disclosed to any governmental agency or is otherwise required to be disclosed by law; provided, however, that the Recipient shall notify Owner, as soon as reasonably practical, of any order or request to disclose Confidential Information, or that such an order is being sought, or request has been made, so that the Owner may have an opportunity to take appropriate action to maintain confidential handling of such information.

22.4 AEPCO understands that, as a political subdivision of the State of Arizona, CAWCD may be subject to certain disclosure requirements under the Arizona public records law (A.R.S. §39-101, *et seq.*)

23. **GOVERNING LAW, VENUE, NO JURY TRIAL:** This Agreement shall be governed by and construed in accordance with the substantive law of the State of Arizona, without regard to the application of such state's laws relating to conflict of laws. Venue for any dispute arising hereunder shall be in a state or federal court of competent jurisdiction located in Maricopa or Pima County, Arizona. Each of the participants waives to the

fullest extent permitted by law any right to a trial by jury in any action or proceeding to enforce or defend any rights under this agreement or arising from any relationship existing in connection with this agreement and agrees that any such action or proceeding shall be tried before a court and not before a jury.

24. **ENTIRE AGREEMENT; MODIFICATION:** This Agreement, including any schedules, exhibits, riders or attachments incorporated herein, and any Addenda or Modifications hereto constitute the entire agreement between the Parties, and no understandings or obligations not herein expressly set forth shall be binding upon them. No modification, amendment, or alteration of this Agreement shall be valid unless it is in writing and signed by each of the Parties. No verbal agreements with any officer, agent or employee of CAWCD or AEPCO shall affect or modify any of the terms or obligations set forth in the Agreement.
25. **AUDITS:** CAWCD shall have the right at its sole cost to audit AEPCO's records related to operations and billings to CAWCD hereunder with reasonable advance notice to AEPCO. Any such audit shall be made at AEPCO's offices during normal working hours, and CAWCD shall separately compensate AEPCO for AEPCO labor and expenses in assisting in such audit.
26. **COMPLIANCE WITH ARIZONA EMPLOYERS SANCTIONS LAW:** Pursuant to Arizona Revised Statutes ("ARS") Section 41-4401, Contractor AEPCO shall comply with and ensure that each subcontractor involved in AEPCO's performance under this Agreement complies with the federal immigration laws and regulations that relate to their employees and the provisions of ARS Section 23-214, subsection A. AEPCO agrees that it shall comply and ensure that each subcontractor complies with all of the following provisions:
- 26.1 AEPCO and each and every subcontractor warrants their compliance with all federal immigration laws and regulations that relate to their employees and their compliance with ARS Section 23-214, subsection A.

- 26.2 A breach of a warranty under this Section shall be deemed a material breach of this Agreement that is subject to penalties up to and including termination of this Agreement.
- 26.3 CAWCD retains the legal right to inspect the papers of any Contractor or subcontractor employee who works on the Agreement to ensure that Contractor or any subcontractor is complying with the warranty under this section.
- 26.4 AEPCO will cooperate with CAWCD to develop a process to verify the Contractor's and subcontractors' employment records to comply with this provision. CAWCD, at its sole discretion, will determine the method of verification. AEPCO shall comply and cooperate with any procedures established by CAWCD to conduct random verification of the employment records of Contractor and any subcontractor to ensure that the Contractor and subcontractors are complying with their warranties. If Contractor or any of its subcontractors employs any subcontractor(s) in performance of this Contract, Contractor shall notify CAWCD in writing and shall provide evidence of each subcontractor's agreement to the requirements of this Section by providing a certification satisfactory to CAWCD.
- 26.5 CAWCD shall not deem Contractor or any of its subcontractors in material breach of this Contract if Contractor or any affected subcontractor(s) establishes that it has complied with the E-verify program prescribed by sections 274a and 274b of the Federal Immigration and Nationality Act and the E-verify requirements prescribed by ARS Section 23-214, subsection A.
- 26.6 All costs necessary to verify compliance with this Section are the responsibility of the Contractor.
- 26.7 For the purposes of this Section: (1) "E-verify program" means the employment verification pilot program as jointly administered by the United States Department of Homeland Security and the Social Security Administration or any of its successor programs. (2) "Services" means the furnishing of labor time or effort in this state by a Contractor or Subcontractor.

27. **WAIVERS:** No delay in exercising any right or remedy will constitute a waiver unless such right or remedy is waived in writing signed by the waiving Party. A waiver by any Party of any right or remedy hereunder will not be construed as a waiver of any other right or remedy, whether pursuant to the same or a different term, condition or covenant.

28. **AMENDMENTS AND MODIFICATIONS:** This Agreement may not be amended or modified by either Party except by subsequent mutual written agreement duly executed by the Parties.

29. **COUNTERPARTS:** This Trading, Scheduling, Imbalance and Interchange Services Agreement may be executed in several counterparts, including by facsimile signature, each of which will be deemed to be an original and all of which, when taken together, will constitute a single agreement.

30. **AUTHORITY TO EXECUTE:** Each individual signing the Agreement certifies that the Party represented has duly authorized such individual to execute this Agreement that binds and obligates the Party.

31. **SIGNATURES:** The Parties have caused this Trading, Scheduling, Imbalance and Interchange Services Agreement to be executed by their duly authorized officials.

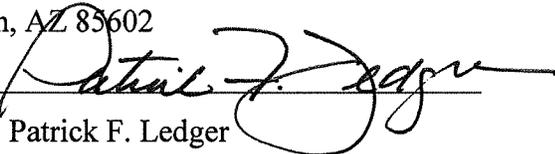
ARIZONA ELECTRIC POWER COOPERATIVE, INC.

1000 S. Highway 80

PO Box 670

Benson, AZ 85602

By:


Patrick F. Ledger

Title: Executive Vice President and Chief Executive Officer

Date:

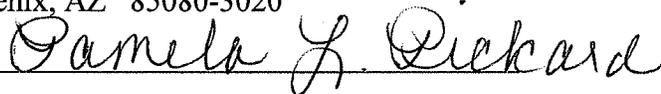
4/19/2011

CENTRAL ARIZONA WATER CONVERSATION DISTRICT

P.O. Box 43020

Phoenix, AZ 85080-3020

By:



Title:

Board President

Date:

April 21, 2011

EXHIBIT A To Trading, Scheduling, Imbalance and Interchange Services Agreement

CAWCD LOAD AND CAWCD RESOURCES

1.0 This Exhibit A, CAWCD Load and CAWCD Resources, to the Trading, Scheduling, Imbalance and Interchange Services Agreement (“Agreement”) shall become effective upon the execution of the Agreement and shall remain in effect until superseded by another Exhibit A; provided this Exhibit A or any superseding Exhibit A shall terminate upon termination of the Agreement.

2.0 **CAWCD LOAD** refers to CAP pump load(s) and other load(s) combined in an integrated hourly fashion.

2.1 CAP pump loads are in two Balancing Authority Areas:

Typical CAWCD Load – WALC BAA			
Mark Wilmer, Bouse Hills, Little Harquahala, Hassayampa, New Waddell, Brady, Picacho, Red Rock, Twin Peaks, Sandario, Brawley, San Xavier, Snyder Hill and Black Mountain Pumping Plants			
	Maximum MW	Minimum MW	Energy, MWhrs
January	468	72	267,776
February	445	132	239,179
March	459	112	267,225
April	468	123	262,134
May	465	101	254,230
June	459	41	157,881
July	383	50	136,749
August	265	47	134,112
September	408	83	233,200
October	375	95	210,208
November	335	80	208,784
December	389	228	235,604
From meter data for 2009			

Typical CAWCD Load – SRP BAA			
Salt-Gila Pumping Plant			
	Maximum MW	Minimum MW	Energy, MWhrs
January	7	0	3,163
February	10	5	4,561
March	16	7	8,458
April	15	10	9,677
May	20	10	11,224
June	24	12	13,852
July	22	8	12,111
August	23	0	11,783
September	18	4	8,726
October	10	2	5,340
November	4	0	2,004
December	6	1	1,971
from meter data for 2009			

2.2 Other CAWCD Loads: Pursuant to its mission, other CAWCD loads may be undertaken, for example, recovery of water from underground storage for delivery to CAWCD's customers.

3.0 **CAWCD RESOURCES:**

- 3.1 Navajo Generating Station: up to 182.25 megawatts per hour from each of the three 750 megawatt units.
- 3.2 Contract with Arizona Power Authority: Hoover Schedule B – up to 161.6 megawatts and up to 182,235 megawatthours, and Hoover Schedule C energy, when available.
- 3.3 Forward and other purchases from counterparties in the wholesale electricity market.

4.0 **CAP TRANSMISSION:**

- 4.1 Navajo Project – Southern Transmission System
 - 4.1.1 2264 MW of total transmission capacity south from NGS to Westwing Substation located just northeast of Sun City West
 - 4.1.2 24.3% of 2264 MW North to South rating or 550 MW available for CAP pumps
- 4.2 Navajo Project – Western Transmission System
 - 4.2.1 356 MW of east to west transmission capacity from NGS to McCullough Substation
 - 4.2.2 McCullough Substation – Transformation from 500kv to 230kv
- 4.3 On CAWCD/CAP's behalf, Reclamation holds 122 MW of transmission capacity rights from LADWP for the path from McCullough to Mead.
- 4.4 Transmission for Hoover B and C
 - 4.4.1 85 MW of transmission capacity from Mead Substation to Parker Substation
 - 4.4.2 76 MW of transmission capacity from Mead Substation to Liberty Substation – Transmission Rights subject to terms of contract CAWCD has as a customer of the Arizona Power Authority
- 4.5 CAP Owned Transmission
 - 4.5.1 240 MW north to south in McCullough to Davis Dam to Parker Dam.
 - 4.5.2 Parker Switchyard – Mark Wilmer Pumping Plant – CAP has rights to capacity sufficient to operate Mark Wilmer.
 - 4.5.3 Parker Dam to Liberty Substation (Buckeye area) – CAP has rights to capacity sufficient to operate the pumps attached to this line.
 - 4.5.4 Harcuvar 230/115 kV Substation (located on Parker to Liberty line) to Bouse Hills Pumping Plant line – CAP has rights to capacity in this line sufficient to operate the Bouse Hills pumps.
 - 4.5.5 Harcuvar 230/115 kV Substation to Little Harquahala Pumping Plant line – CAP has rights to transmission capacity in this line sufficient to operate the Little Harquahala pumps.

- 4.5.6 Hassayampa Tap (located on Parker to Liberty line) to Hassayampa Pumping Plant line – CAP has rights to transmission capacity sufficient to operate the Hassayampa pumps.
- 4.5.7 Westwing 500/230 kV Substation to Raceway Substation to New Waddell Dam – CAP has rights to transmission capacity in this line sufficient to operate the New Waddell pumps.
- 4.5.8 SRP Thunderstone Substation to Fannin-McFarland (formerly Salt-Gila) Pumping Plant – 69kv interconnection with Salt River Project under its Open Access Transmission Tariff, line operated and maintained by SRP at 69kV
- 4.5.9 ED#2 Substation to Saguaro Switchyard – CAP has rights to transmission capacity sufficient to operate the pumps at Brady, Picacho and Red Rock Pumping Plants.
- 4.5.10 Rattlesnake Tap to Del Bac Switchyard – CAP has rights to transmission capacity sufficient to operate the Tucson pumping plants from Twin Peaks through Black Mountain.
- 4.5.11 CAWCD has rights by Contract with Western Area Power Administration to transmission capacity over the Parker-Davis Transmission System and the Pacific Intertie Transmission System sufficient to operate all CAP Pumps interconnected by CAP Owned Transmission to such Western Transmission Systems.
- 4.5.12 Future additional transmission contracts as may be required to meet CAWCD/CAP delivery requirements.

5.0 **Power Resources Available to CAWCD to Self Provide Ancillary Services:**

- 5.1 161.6 megawatts of Hoover pursuant to CAWCD's contract with the Arizona Power Authority (APA) giving CAWCD the "right to use previously scheduled Synchronized Generation for regulation, ramping and spinning reserves upon the terms and conditions provided in the Boulder Canyon Project Agreement."

5.2 In the event CAWCD and APA do not reach agreement in order for CAWCD to use the Hoover dynamic signal for regulation, ramping and reserves, CAWCD will provide alternative ancillary services resources for AEPCO's use.

6.0 This Exhibit A may be modified in accordance with Section 18 of the Agreement.

Exhibit B to Trading, Scheduling, Imbalance and Interchange Services Agreement
AEPCO Mobilization Plan and Schedule

1.0 This Exhibit B, effective under and as a part of the Trading, Scheduling, Imbalance and Interchange Services Agreement (“Agreement”) shall become effective upon execution of the Agreement, and shall remain in effect until superseded by another Exhibit B; provided this Exhibit B or any superseding Exhibit B shall terminate upon termination of the Agreement.

2.0 Scope of Work for AEPCO Mobilization

2.1 Work to be performed by Southwest Transmission Cooperative (SWTC) personnel:

AEPCO shall coordinate with SWTC to perform work on the following systems of Southwest Transmission Cooperative, Inc. (SWTC) to receive CAP load and resources data:

- EMS Databases and Screens
- ITS Schedule Templates
- MV90 Meter Readings

2.2 Work to be Performed by Minneapolis Consulting Group (MCG) personnel:

AEPCO shall coordinate with MCG to perform the following work:

- Develop appropriate reports and display screens

2.3 Work to be performed by AEPCO personnel:

AEPCO shall develop the following items to prepare for training of personnel in prescheduling functions pertinent to CAP loads and resources:

- Tagging Templates
- Transaction Templates
- Scheduling Spreadsheet Templates

2.4 Hiring and Training of New Personnel:

- a. Post positions March 2011
- b. Interviews March thru April 2011
- c. Start date April thru May 2011
- d. Training May thru Sept 2011

Exhibit C to Trading, Scheduling, Imbalance and Interchange Services Agreement

ELECTRICITY TRANSACTION AUTHORITY

1.0 This Exhibit C to the Trading, Scheduling, Imbalance and Interchange Agreement (“Agreement”) shall become effective upon execution of the Agreement and shall remain in effect until superseded by another Exhibit C; provided this Exhibit C or any superseding Exhibit C shall terminate upon termination of the Agreement.

2.0 CAWCD Table of Transaction Authority

ENTITY	PRODUCT	TERM	MW LIMIT	DOLLAR/PRICE PER TRANSACTION LIMIT
CAWCD Pre-Scheduler	Electricity and Transmission	Hour, Day, Month		
CAWCD Water Operations Manager or Designee	Electricity and Transmission	Hour, Day, Month, Year	150	\$2,000,000
CAWCD Transmission Planner	Transmission	Hour, Day, Month	100	\$500,000
AEPCO	Electricity and Transmission	Up to 24 hours	100	\$100 / MWh

3.0 Current AEPCO Authority Matrix

Mgr of Power Trading & Power Trading Services Mgr *1	Electric Power & Transmission	31 Days	3 Month	75	\$90	\$65	165,600	\$10,000,000
			1 Month	100	\$100	\$75	74,400	
			1 Week	175	\$150	\$125	29,400	
			1 Day	300	\$250	\$250	7,200	
			1 Hour	430	\$275	\$275	10,320	
Term Traders *2	Electric Power & Transmission	7 Days	1 Week	175	\$125	\$100	29,400	\$5,000,000
			1 Day	250	\$250	\$250	6,000	
			1 Hour	430	\$275	\$275	6,880	
Real Time Traders *3	Electric Power & Transmission	7 Days	1 Hour	430	\$275	\$275	6,880	\$2,500,000

Footnote:

*1 Per Day Limits and Maximum Exposure includes Term Traders and Real Time Traders' transactions

*2 Per Day Limits and Maximum Exposure equals the sum of the Term Trader/Scheduler, Term Trader/Real Time Trader and Power Trading Administrator transactions

*3 Per Day Limits and Maximum Exposure equals the sum of the 5 Real Time Traders activities.

4.0 AEPCO personnel authorized to trade on behalf of AEPCO:

Manager of Power Trading and Scheduling	Walter Bray
Power Trading Services Manager	Kristine McMinimy
Term Traders	Daniel Unrast
	Ron Goodman
Power Trading Coordinator	Robert Tracy
Power Traders	Tara Davis
	John Shaver
	Bedford Rodriquez
	Myron Fristad
	Jason Herron
	5 new Traders

4.0 CAWCD personnel authorized to trade on behalf of CAWCD:

Water Control Manager	Tim Kacerek
Power Programs Manager	Gary Ijams
Power Pre-scheduler	New Position

5.0 This Exhibit C may be modified in accordance with Section 18 of the Agreement.

Exhibit D to Trading, Scheduling, Imbalance and Interchange Services Agreement

TRADING PRACTICES

- 1.0 This Exhibit D, effective under and as a part of the Trading, Scheduling, Imbalance and Interchange Services Agreement (Agreement) shall become effective upon execution of the Agreement, and shall remain in effect until superseded by another Exhibit D; provided this Exhibit D or any superseding Exhibit D shall terminate upon termination of the Agreement.
- 2.0 AEPCO shall make CAWCD Real Time Transactions, i.e. sales and purchases, for CAWCD on an hourly basis as required to optimize the use of CAWCD's regulation resource. AEPCO may execute CAWCD Real-Time Sales to creditworthy counterparties including AEPCO itself. Price settlement for such sales to AEPCO will be made monthly pursuant to Section 2.1.1 of this Exhibit D. AEPCO may execute CAWCD Real-Time Purchases from creditworthy counterparties including AEPCO itself. Price settlement for such purchases from AEPCO will be made monthly pursuant to Section 2.1.2 of this Exhibit D. The resulting CAWCD Transactions with third parties will be settled pursuant to Section 2.2 of this Exhibit D.
- 2.1 Once the scheduling hour begins, AEPCO will pool CAWCD Load and CAWCD Resources with AEPCO's loads and resources and maintain hourly Energy Imbalance within bandwidths in accordance with the requirements of its BA using the regulating capacities of CAWCD's Hoover resource or the alternative resource designated by CAWCD for such purposes and AEPCO resources. After the scheduling hour, AEPCO shall determine the hourly Energy Interchange between AEPCO and CAWCD by calculating the difference between CAWCD Load and CAWCD Resources for that hour. Price settlement between AEPCO and CAWCD for the resulting CAWCD Real-Time Transactions shall be settled as follows:
- 2.1.1 For CAWCD sales to AEPCO
- AEPCO shall record the price of an hourly CAWCD sale to AEPCO as equal to the average purchase price of AEPCO's other third party

purchases within the hour. If AEPCO has no other third party purchases during the same hour, AEPCO Power Traders will price the CAWCD sale to AEPCO based on the most current phone recorded market price and will also log such price for record purposes.

2.1.2 For CAWCD purchase from AEPCO

AEPCO shall record the price of an hourly CAWCD purchase from AEPCO as a price equal to the average sale price of AEPCO other third party sales within the hour. If AEPCO has no other third party sales during the same hour, AEPCO Power Traders will price the CAWCD purchase from AEPCO based on the most current phone recorded market price and will also log such price for record purposes.

2.2 Sales from CAWCD Resources to third parties and purchases from third parties against CAWCD Resources will be made in the name of CAWCD.

2.2.1 Such sales and purchases made in the name of CAWCD will be separately accounted for and CAWCD will be solely responsible for the cost of the purchases and will be assigned the revenues from the sales.

2.2.2 AEPCO shall make such third party sales and purchases in accordance with AEPCO risk management practices, using CAWCD's authority limits as currently in effect pursuant to Exhibit C of the Agreement and AEPCO's performance and results will be monitored by AEPCO's on site Indianapolis risk management staff at the Alliance for Cooperative Energy Services Power Marketing, LLC (ACES).

3.0 To facilitate scheduling, CAP Operators shall notify AEPCO Real-time Traders of known changes to the Pre-schedules of both CAWCD Load and CAWCD Resources that are greater than plus or minus 10 MWs. Notification shall be by phone and notification shall be given at least 30 minutes prior to the next scheduling hour. To ensure complete communications, AEPCO Real-time Traders shall notify CAWCD Real-time Operators of any changes to CAWCD Load or CAWCD Resources (including CAWCD Transactions) observed or made know to AEPCO that are greater than 10 MWs.

Notification shall be by phone and notification shall be given at least 30 minutes prior to the next scheduling hour.

- 4.0 This Exhibit D may be modified from time to time by mutual agreement of the Parties in accordance with Section 18 of the Agreement.

Exhibit E to Trading, Scheduling, Interchange and Imbalance Services Agreement

CHARGES FOR TRADING AND SCHEDULING SERVICES

- 1.0 This Exhibit D, effective under and as a part of the Trading, Scheduling, Interchange and Imbalance Services Agreement (“Agreement”) shall become effective upon execution of the Agreement, and shall remain in effect until superseded by another Exhibit E; provided this Exhibit E or any superseding Exhibit E shall terminate upon termination of the Agreement.
- 2.0 AEPCO shall bill and CAWCD shall pay the following monthly charges for scheduling and trading services:

2011 Monthly Charges	
October 2011	\$143,610
November	\$121,434
December	\$100,231
January 2012*1	\$125,875
February	\$113,237
March	\$128,077
April	\$126,278
May	\$123,325
June	\$79,784
July	\$69,175
August	\$67,780
September	\$112,394
October	\$100,140
November	\$97,928
December	\$110,373

*1 2012 fees are estimates, actual fees will be calculated when 2012 budget numbers become available.

3.0 List of positions filled within AEPCO's Trading Department pursuant to Section 9.3 of the Agreement that are subject to severance upon termination of the Agreement pursuant to Section 4.2 of the Agreement (to be filled in prior to October 1, 2011):

<u>Position Description</u>	<u>Annual Salary</u>	<u>Annual Cost of Benefits</u>

4.0 This Exhibit E may be modified from time to time by mutual agreement of the Parties, in accordance with Section 18 of the Agreement.