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**TEE CONTINGENCY RESERVE SHARING GROUP AGREEMENT**

**Dated**  
**as of**  
**November 20, 2009**

## TEE CONTINGENCY RESERVE SHARING GROUP AGREEMENT

This TEE Contingency Reserve Group (“TCRSG”) Agreement (“Agreement”) is entered into as of this 20<sup>th</sup> day of November, 2009 (“Effective Date”) by and among East Kentucky Power Cooperative, Inc. (“EKPC”), a Kentucky corporation, Louisville Gas & Electric Company and Kentucky Utilities Company (jointly, “LGEE”), corporations organized pursuant to the laws of the Commonwealth of Kentucky, and the Tennessee Valley Authority (“TVA”), a corporation created by and existing under and by virtue of the Tennessee Valley Authority Act of 1933, as amended (“TVA Act”), (collectively, “TEE”). EKPC, LGEE, and TVA may each individually be referred to below as a “Party” or collectively as “Parties.”

### WITNESSETH:

**WHEREAS**, each Party is a Balancing Authority under the Functional Model maintained by the North American Electric Reliability Corporation (“NERC”) as the Electric Reliability Organization (“ERO”) pursuant to Section 215 of the Federal Power Act (“FPA”);

**WHEREAS**, each Party is required to comply with certain Reliability Standards regarding contingency reserves approved by the Federal Energy Regulatory Commission (“FERC”) and enforced by NERC and the SERC Reliability Corporation (“SERC”); and

**WHEREAS**, the Parties desire to operate as a Reserve Sharing Group under the Functional Model maintained by NERC, consistent with certain operating protocols established in the Operating Protocols, that will ensure full compliance with the applicable Reliability Standards;

**NOW THEREFORE**, in consideration of the mutual promises contained herein, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties hereby agree as follows:

## ARTICLE 1

### Definitions and Interpretation

- 1.1 Definitions. Capitalized terms used in this Agreement, including Attachment A, shall have the meanings assigned below. It is the intent of the Parties that any capitalized terms used in this Agreement that are defined in the NERC “Glossary of Terms Used in Reliability Standards,” (the “Glossary”) shall have the same meanings as defined in the Glossary, as such meanings may be modified from time to time.
- 1.1.1 “Administrator” shall mean the entity designated by the Operating Committee to perform the Functions set forth in Article 5 and in the Administration Agreement

certain contingency reserve services and administrative functions to be provided by the Administrator.

- 1.1.3 “Administrative Fee” shall mean the annual fee proposed by the Administrator under Section 5.2, which shall include all the Administrator’s compensation, costs, and expenses, but shall exclude ARS System Costs, Special and Non-Recurring Costs, and Shared Costs.
- 1.1.4 “Affected Party” and “Affected Parties” shall mean the Party or Parties who are affected or who may be affected by an event, as set forth in Sections 8.4, 12.3, 13.4, 15.3 and 15.5.
- 1.1.5 “Agreement” shall mean this TEE Contingency Reserve Sharing Group Agreement, together with all appendices, exhibits, and schedules hereto, and the Operating Protocols, as they may be revised from time to time.
- 1.1.6 “Alternate” shall have the meaning set forth in Section 4.3.1.
- 1.1.7 “Area Control Error” (or “ACE”) shall mean the instantaneous difference between a Balancing Authority’s net actual and scheduled interchange, taking into account the effects of Frequency Bias and correction for meter error.
- 1.1.8 “ARS System Costs” shall mean the actual costs associated with the development, implementation, testing, operation, and maintenance of the ARS System, a backup process, and any new system(s), consistent with Section 3.2 of the Administration Agreement.
- 1.1.9 “Authorized Purchaser” shall have the meaning set forth in Section 3.2.
- 1.1.10 “Automatic Reserve Sharing System” or “ARS System” shall mean the computer process, software, and related applications used by the Parties and the Administrator to implement a Contingency Reserves Activation and any backup process(es) and to perform certain administrative duties.
- 1.1.11 “Balancing Authority Area” shall mean the collection of generation, transmission, and loads within the metered boundaries of the Balancing Authority. The Balancing Authority maintains load-resource balance within this area.
- 1.1.12 “Balancing Authority” (or “BA”) shall mean the responsible entity that integrates resource plans ahead of time, maintains load-interchange-generation balance within a Balancing Authority Area, and supports Interconnection frequency in real time
- 1.1.13 “Breaching Party” shall mean a Party that has failed to perform any material obligations in this Agreement (including the Operating Protocols), the Administration Agreement, the MOU, the ISA or any agreement that specific Parties use as a basis for selling and purchasing Contingency Energy hereunder.

- 1.1.14 "Business Day" shall mean any day except a Saturday, Sunday, or a Federal Reserve Bank holiday.
- 1.1.15 "Commencement Date" shall have the meaning set forth in Section 2.2.
- 1.1.16 "Contingency" shall mean the unexpected failure or outage of a system component, such as a generator, transmission line, circuit breaker, switch, or other electrical element. For the purposes of this Agreement, the Protocols and the Administration Agreement, "Contingency" shall mean the Loss of Generation, Loss of Schedule, or Other Extreme Conditions.
- 1.1.17 "Contingency Energy" shall mean the energy supplied by a Party as a result of the implementation of a Contingency Reserves Activation, and may be used whenever there is an abnormal system condition that requires automatic or immediate manual action to limit the adverse effect on the electric system.
- 1.1.18 "Contingency Reserves" shall mean the provision of capacity deployed by the Balancing Authority to meet the applicable Reliability Standards. Contingency Reserves consists of Spinning Reserves and Non-Spinning Reserves.
- 1.1.19 "Contingency Reserves Activation" shall mean the deployment of Contingency Reserves under this Agreement.
- 1.1.20 "Contingency Reserves Obligation" shall mean the total obligation established by the TCRSG to meet applicable Reliability Standards.
- 1.1.21 "Contingency Reserves Requirement" shall mean that portion of the Contingency Reserves Obligation that a Party is obligated to provide under this Agreement.
- 1.1.22 "Contingent System" shall mean the Balancing Authority Area that is experiencing or has experienced a Contingency.
- 1.1.23 "Data" shall mean all information, text, drawings, diagrams, images, or sounds which are embodied in any electronic or tangible medium and which: (i) are supplied or to which access is granted to the Administrator by the TCRSG Parties under this Agreement; (ii) are supplied or to which access is granted to the TCRSG Parties by the Administrator under this Agreement; or (iii) any compilations thereof, including all studies, reports, or other work product incorporating such Data generated by the Administrator.
- 1.1.24 "DCS" or "Disturbance Control Standard" shall mean the applicable Reliability Standard that sets the time limit following a Disturbance within which a Balancing Authority must return its Area Control Error to within a specified Range.
- 1.1.25 "Default" shall mean a Party's failure to perform any material obligation under this Agreement (including the Operating Protocols), the Administration Agreement, the MOU, the ISA, or any agreement that specific Parties use as a

basis for selling and purchasing Contingency Energy hereunder, and has not cured such failure within the applicable cure period.

- 1.1.26 “Deficiency Letter” shall mean written notification sent by the Administrator after Operating Committee approval to a Party in a penalty situation under the Operating Protocols documenting the failure of the Party to maintain its Contingency Reserves Requirement and/or Penalty Contingency Reserves in a manner that is consistent with the Operating Protocols for any hour(s) during the immediately preceding calendar month.
- 1.1.27 “Delivery System” shall mean the Balancing Authority Area of the Party that has the responsibility to deliver Contingency Energy in response to a request for a Contingency Reserves Activation.
- 1.1.28 “Disturbance” shall mean: (1) an unplanned event that produces an abnormal system condition; (2) any perturbation to the electric system; or (3) the unexpected change in ACE that is caused by the sudden failure of generation or interruption of load.
- 1.1.29 “FERC” shall mean the Federal Energy Regulatory Commission.
- 1.1.30 “Firm Point-To-Point Transmission Service” shall mean firm transmission service provided pursuant to the rates, terms, and conditions set forth in the applicable open access transmission tariff or transmission service guidelines.
- 1.1.31 “Forced Outage” shall mean: (a) the removal from service of any generating unit, transmission line, or other facility for emergency reasons; or (b) the condition in which the equipment is unavailable due to unanticipated failure.
- 1.1.32 “Force Majeure” shall mean any cause beyond a Party’s control, including but not limited to, any act of God, labor disturbance, act of public enemy, war, terrorism, cyber attack, insurrection, riot, fire, storm flood, explosion, or any curtailment, order, regulation, or restriction imposed by governmental, military, or lawfully established civilian authorities; provided, however, that a Party’s economic and operational constraints caused by failure to exercise Good Utility Practice shall not be considered Force Majeure.
- 1.1.33 “Functions” shall mean the duties delegated to the Administrator by the Parties under Article 5, as set forth with more specificity in the Administration Agreement.
- 1.1.34 “Good Utility Practice” shall mean any of the practices, methods, and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period, or any of the practices, methods, and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety, and expedition. Good Utility Practice is not intended to be limited to the optimum

practice, method, or act to the exclusion of all others, but rather is intended to include acceptable practices, methods, or acts generally accepted in the region, but are not necessarily codified. Good Utility Practice includes SERC supplemental requirements.

- 1.1.35 “ISA” shall mean the Information System Agreement dated October 30, 2008, among the Parties, as it may be extended and modified from time to time, and which shall be deemed terminated on the Commencement Date pursuant to Section 15.10.
- 1.1.36 “KPSC” shall mean the Kentucky Public Service Commission.
- 1.1.37 “Load Serving Entity” or “LSE” shall mean an entity, registered with NERC, that secures energy and transmission service (and related Interconnected Operations Services) to serve the electrical demand and energy requirements of any applicable end-user customers.
- 1.1.38 “Loss of Generation” shall mean the unexpected operational loss of a Party’s generating unit(s), not exceeding the capability of such generating unit(s).
- 1.1.39 “Loss of Schedule” shall mean the unexpected operational loss or cancellation of a firm agreement to transfer energy into a Party’s Balancing Authority Area.
- 1.1.40 “Most Severe Single Contingency” shall mean the largest amount of MWs of supply that can be lost immediately due to the failure of one element (i.e., a single piece of equipment such as a breaker, transformer, or generator, or a single facility such as a transmission line, bus bar, or other component of a Transmission Facility) in a Balancing Authority Area.
- 1.1.41 “MOU” shall mean the Memorandum of Understanding between the TCRSG Parties, dated September 22, 2008, as it may be modified and extended from time to time, and which shall be deemed terminated on the Commencement Date pursuant to Section 15.10.
- 1.1.42 “MW” shall mean megawatt(s) of power.
- 1.1.43 “MWh” shall mean megawatt-hour(s) of energy.
- 1.1.44 “NERC” shall mean the North American Electric Reliability Corporation.
- 1.1.45 “Non-Spinning Reserves” shall mean: (1) that generating reserve not connected to the transmission system but capable of serving demand within a specified time; and (2) Qualified Interruptible Load that can be removed from the transmission system in a specified time.
- 1.1.46 “Notice” shall have the meaning set forth in Article 10.

- 1.1.47 “Operating Committee” shall mean the committee established pursuant to Article 4, acting in its collective capacity pursuant to the provisions of Article 4.
- 1.1.48 “Operating Protocols” shall mean the TEE Contingency Reserve Sharing Group Operating Protocols dated of even date herewith, as may be amended from time to time by the Operating Committee, and which are made part of and attached to this Agreement as Attachment A.
- 1.1.49 “Operating Reserves” shall mean that capability above firm system demand required to provide for regulation, load forecasting error, equipment forced and scheduled outages, and local area protection. Operating Reserves consist of Regulating Reserves and Contingency Reserves.
- 1.1.50 “Other Extreme Conditions” or “OEC” shall mean any condition other than the Loss of Generation or Loss of Schedule which, if such condition is not alleviated, would require the Contingent System to curtail firm load or take other measures to restore its ACE within acceptable limits as required to maintain compliance with applicable Reliability Standards.
- 1.1.51 “Qualified Interruptible Load” shall mean load (including pumped storage hydroelectric generation in the pumping mode) subject by contract to interruption by a Party and meeting criteria that may be established by SERC or NERC.
- 1.1.52 “Regulating Reserves” shall mean an amount of reserve responsive to Automatic Generation Control, which is sufficient to provide normal regulating margin.
- 1.1.53 “Reliability Coordinator” shall mean the entity that is the highest level of authority who is responsible for the reliable operation of the Bulk Electric System, has the Wide Area View of the Bulk Electric System, and has the operating tools, processes and procedures, including the authority to prevent or mitigate emergency operating situations in both next day analysis and real-time operations.
- 1.1.54 “Reliability Standards” shall mean the reliability requirements for planning and operating the North American Bulk Electric System approved by FERC pursuant to Section 215 of the Federal Power Act (“FPA”).
- 1.1.55 “Reserve Group Reportable Disturbance” shall mean a Disturbance that is equal to or greater than the level established in the Operating Protocols.
- 1.1.56 “Reserve Sharing Group” shall mean a group whose members consist of two or more Balancing Authorities that collectively maintain, allocate, and supply operating reserves required for each Balancing Authority’s use in recovering from contingencies within the group. Scheduling energy from an Adjacent Balancing Authority to aid recovery need not constitute reserve sharing, provided that the transaction is ramped in over a period the supplying Party could reasonably be expected to load generation in (e.g., ten minutes). If the transaction is ramped in

quicker (e.g., between zero and ten minutes), then for the purposes of Disturbance Control Performance, the Areas become a Reserve Sharing Group.

- 1.1.57 “SERC” shall mean the SERC Reliability Corporation, which serves as a regional entity with delegated authority from NERC for the purpose of proposing and enforcing Reliability Standards within the SERC region, or any successor regional entity.
  - 1.1.58 “Shared Costs” shall mean costs that are to be shared equally among the Parties as set forth in Articles 6 and 7.
  - 1.1.59 “Special and Non-Recurring Costs” shall mean those costs for which prior approval by the Operating Committee is required pursuant to Section 3.3 of the Administration Agreement.
  - 1.1.60 “Spinning Reserves” shall mean the portion of operating reserves consisting of: (1) generation synchronized to the system and fully available to serve load within the Disturbance recovery period following the contingency event; or (2) load fully removable from the system within the Disturbance recovery period following the contingency event.
  - 1.1.61 “TEE Contingency Reserve Sharing Region” or “TCRS Region” shall mean, collectively, the Balancing Authority Areas of the Parties.
  - 1.1.62 “Term” shall have the meaning set forth in Section 2.1.
  - 1.1.63 “TRM” shall mean the amount of transmission transfer capability necessary to provide reasonable assurance that the interconnected transmission network will be secure. TRM accounts for the inherent uncertainty in system conditions and the need for operating flexibility to ensure reliable system operation as system conditions change.
- 1.2 Rules of Interpretation. Defined terms in the singular shall include the plural and vice versa, and the masculine, feminine, and neuter gender shall include all genders. Whenever the words “include,” “includes,” or “including” are used in this Agreement, they are not limiting and have the meaning as if followed by the words “without limitation.” The word “Section” refers to the applicable section of this Agreement and, unless otherwise stated, includes all subsections thereof. The word “Article” refers to articles of this Agreement. In the event of any conflict between this Agreement and the MOU, the ISA, the Administration Agreement, or the Operating Protocols, this Agreement shall control. All references herein to the MOU and ISA shall be applicable only until such time as those agreements expire or are terminated. With respect to the EEI Master Agreement between EKPC and LGEE, which will govern the transacting, invoicing and netting of, and credit issues related to, Contingency Energy sales between EKPC and LGEE, the terms and conditions of such EEI Master Agreements shall control for those limited purposes.



## ARTICLE 2

### Term and Termination

- 2.1 Term. This Agreement shall become effective on the Effective Date (provided, however, that this Agreement shall not be effective as to any Party signing this Agreement until this Agreement is fully executed by all Parties and the Administration Agreement is fully executed by all parties thereto) and shall continue in full force and effect through December 31, 2010, and shall continue in effect for successive one (1) year periods thereafter, unless terminated in accordance with this Article. The initial term and any extensions shall be collectively referred to as the "Term."
- 2.2 Term Commencement. The Term shall begin on the Commencement Date, which shall be the date on which the Operating Committee determines that the following conditions precedent have been satisfied; provided, however, that the Commencement Date shall be no earlier than January 1, 2010; and provided further that the Commencement Date shall be no later than July 1, 2010, unless extended by vote of the Operating Committee:
- 2.2.1 By December 18, 2009, each Party shall confirm that as of the Commencement Date, its membership in another Reserve Sharing Group shall have terminated or expired;
  - 2.2.2 By December 1, 2009, each Party shall have obtained all necessary internal approvals;
  - 2.2.3 By December 1, 2009, each Party shall have performed the necessary deliverability studies and allocated sufficient TRM to ensure deliverability of its Contingency Reserves Requirement; and
  - 2.2.4 By December 1, 2009, the Administrator shall have certified to the Operating Committee that the ARS System is functional and that all key personnel are trained to operate and manage the ARS System.
- By vote of the Operating Committee, the dates applicable to any of the conditions precedent set forth above may be extended.
- 2.3 Termination and Withdrawal.
- 2.3.1 Individual Party Withdrawal. A Party may terminate its participation and withdraw from this Agreement at any time during the Term upon six (6) months' prior Notice to the other Parties.
  - 2.3.2 Termination for Cause. The Operating Committee, acting pursuant to Article 4, may terminate a Party's participation in this Agreement by determining that the Party has breached any of the material obligations set forth below and, with respect to any breach that is not designated herein as resulting in an immediate Default, and which is deemed capable of being cured by the Operating Committee, the Breaching Party has failed to cure

the breach within such cure period established by the Operating Committee, consistent with the severity and urgency of the circumstances, thereby resulting in a Default. The Operating Committee, in its sole discretion, shall establish (i) the cure period, (ii) the date of Default, and (iii) the date of the Breaching Party's termination, and shall provide Notice of all relevant determinations, including termination, to the Breaching Party. The material obligations that can give rise to Default shall be as follows:

2.3.2.1 Failure to exercise reasonable care to prevent the disclosure of, or access to, confidential information in violation of Article 13, which failure has a material adverse impact on one or more of the Parties;

2.3.2.2 A pattern of failure by a Party to comply with any of the standards of performance required under this Agreement (including the Operating Protocols), the Administration Agreement, the MOU or the ISA;

2.3.2.3 A Party dissolves or is dissolved or its legal existence is otherwise terminated, which breach shall result in an immediate Default;

2.3.2.4 A material breach of any obligation, or any failure to maintain the accuracy of the facts and circumstances set forth in the representations or warranties imposed on a Party, under this Agreement (including the Protocols), the Administration Agreement, the MOU, the ISA, or any agreement that specific Parties use as a basis for selling and purchasing Contingency Energy hereunder;

2.3.2.5 A Party receives four (4) monthly Contingency Reserves Deficiency Letters over a rolling sequential twelve (12) month period, which breach shall result in an immediate Default; or

2.3.2.6 A Party fails to pay any amount due, whether such amount is payable to the TCRSG, to the Administrator under this Agreement or the Administration Agreement, or to another Party pursuant to Section 8.4, or fails to maintain credit support pursuant to Section 8.5, within three (3) Business Days after receiving a Notice of non-payment or Notice for credit support, which breach shall result in an immediate Default.

In the event of a Default, the non-Defaulting Party(ies) may exercise any and all remedies available at law or in equity, in addition to terminating the Breaching Party's participation in this Agreement.

A Party will not be considered in breach or Default as to an obligation under this Agreement if, and only for as long as, the Party is prevented from fulfilling the obligation due to an event of Force Majeure; provided that the Party shall make all diligent, reasonable efforts within its control to remove and/or mitigate the event of Force Majeure; and provided further that the Default does not arise by operation of law or regulation without regard to such Force Majeure.

- 2.3.3 Withdrawal Due to Regulatory Action. In the event that FERC or any person takes any action related to this Agreement which leads to FERC's exercise of jurisdiction over TVA or TVA's activities under this Agreement other than pursuant to Section 215 of the FPA, TVA may withdraw from this Agreement under Section 15.5.
- 2.3.4 Withdrawal Due to FERC Modification of Agreement. LGEE, which is subject to the jurisdiction of FERC for purposes of Section 215 and other sections of the FPA, has concluded that this Agreement, at the time and in the form that exists on the Execution Date, need not be filed with FERC under the FPA and its implementing regulations. To the extent that (a) FERC, any other administrative or judicial body, or any other person requires this Agreement to be filed with FERC for acceptance and approval, or (b) if LGEE decides to file this Agreement with FERC for acceptance and approval, and subsequent to any filing under (a) or (b) above, FERC issues any order that requires this Agreement to be modified in a way that TVA determines, in its sole discretion, materially adversely affects TVA, TVA may withdraw from this Agreement under Section 15.5.
- 2.3.5 Survival. The applicable provisions of this Agreement shall continue in full force and effect after any termination of this Agreement to provide for any adjustments and payments, dispute resolution, and determination and enforcement of liability and indemnification arising from acts or events that occurred during the period this Agreement was in effect.

### ARTICLE 3

#### Contingency Reserve Sharing Group Established

- 3.1 Contingency Reserve Sharing Group Established. The TEE Contingency Reserve Sharing Group is hereby established by the Parties as a vehicle for sharing the Parties' Contingency Reserves Obligation to maintain electric system reliability consistent with applicable Reliability Standards.
- 3.2 Limitations on Transactions and Activities. The Parties recognize that pursuant to Section 15d(a) of the TVA Act, 16 U.S.C. § 831n-4(a), TVA may sell electric power (capacity and/or energy) that is surplus to its needs only to those power generating organizations with whom it had exchange agreements in place as of July 1, 1957 ("Authorized Purchasers"). The Parties shall not knowingly enter into any transactions or engage in any activities with the intent that such transaction or activity will result, either directly or indirectly, in TVA energy being sold to, or TVA capacity being utilized by, any entity that is not an Authorized Purchaser.
- 3.3 Obligations.
- 3.3.1 Each Party shall act in good faith and in accordance with Good Utility Practice in performing its obligations under this Agreement.

- 3.3.2 Each Party shall maintain any corporate or regulatory authority necessary to allow the Party to fulfill its obligations hereunder.
- 3.3.3 Each Party shall comply with the terms and conditions of the ISA.
- 3.3.4 Each Party shall maintain Contingency Reserves in an amount and of a type equal to or greater than its Contingency Reserves Requirement, which shall be calculated in accordance with the Operating Protocols.
- 3.3.5 Each Party shall have or make arrangements for the necessary metering and data recording capability to measure Contingency Reserves deployment.
- 3.3.6 Each Party shall ensure that its Contingency Reserves are deliverable in accordance with the Operating Protocols and confirmed through deliverability studies to the satisfaction of the Operating Committee.
- 3.3.7 Each Party shall respond to a Contingency Reserves Activation by providing Contingency Reserves to the Contingent System on the terms and conditions set forth in this Agreement and in the Operating Protocols.
- 3.3.8 Each Party shall cooperate with the other Parties in the coordinated planning and operation of its owned or contracted-for Contingency Reserves to obtain and maintain the level of reliability consistent with applicable Reliability Standards,
- 3.3.9 Each Party agrees to pay the other Parties for Contingency Energy supplied pursuant to the terms and conditions set forth in Article 8.
- 3.3.10 Each Party shall abide by the provisions of the Operating Protocols, as amended from time to time.
- 3.3.11 Each Party shall pay its share of any penalties and/or implement any sanctions imposed on the TCRSG by SERC, NERC, and/or FERC, and shall pay any performance-based penalties assessed by the Operating Committee.
- 3.3.12 The Parties shall not limit the amount of interruptible load a Party may use as Contingency Reserves pursuant to Reliability Standard BAL-002.
- 3.3.13 The Parties shall not count more than once the same portion of resource capacity (e.g., reserves from jointly-owned generation) as Contingency Reserves.
- 3.3.14 Each Party shall include TRM in its planning studies in order to maintain deliverability pursuant to the Operating Protocols.

- 3.4 Retained Rights of the Parties. Nothing in this Agreement shall preclude any Party from taking any position in any forum on any proposed modifications to Reliability Standards, or on any other business, legal, or regulatory issue that might be applicable to or impact the TCRSG, provided that such Party does not hold itself out as representing the views of the TCRSG.

## ARTICLE 4

### Operating Committee

- 4.1 Objectives and Responsibilities. The Operating Committee is hereby created to oversee the operation of the TCRSG and to ensure compliance with the applicable Reliability Standards and this Agreement. The obligations of this Agreement shall be managed and administered by the Parties through the Operating Committee, except as may be delegated to the Administrator in accordance with Article 5 and the Administration Agreement.
- 4.2 Duties and Responsibilities. The Operating Committee shall have the following duties and responsibilities under this Agreement:
- 4.2.1 Select and oversee the activity of the Administrator.
  - 4.2.2 Establish, direct, and oversee the activities of any working groups deemed necessary to carry out the purpose and intent of the TCRSG.
  - 4.2.3 Review the performance of the Parties for adherence to the Operating Protocols.
  - 4.2.4 Monitor and review SERC, NERC, and FERC activity regarding Reliability Standards applicable to the TCRSG.
  - 4.2.5 Review any non-compliance findings by SERC applicable to the TCRSG and manage any responses to such findings, including appeals, negotiations, involvement of outside counsel, settlements, implementation of sanctions, and payment of penalties.
  - 4.2.6 Determine whether to file any self-reports of non-compliance with applicable Reliability Standards with SERC.
  - 4.2.7 Review any changes to applicable Reliability Standards and make any necessary changes to the Operating Protocols to ensure full compliance.
  - 4.2.8 Establish, periodically review, and revise, from time-to-time as necessary, the Reserve Group Reportable Disturbance criteria to ensure full compliance with applicable Reliability Standards.
  - 4.2.9 Develop, implement, and revise, from time-to-time as necessary, Operating Protocols addressing: (i) the acceptance of Contingency Reserves; (ii) the revision of reserve allocations for Parties; (iii) adequate

TRM availability; and (iv) the practices, rules, and standards necessary to implement and operate under this Agreement.

- 4.2.10 Develop and implement performance-based penalties and sanctions for failure by a Party to satisfy its obligations under this Agreement.
- 4.2.11 Review the effectiveness of the Administrator in administering the Operating Protocols.
- 4.2.12 Review with the Administrator any hourly shortages of Contingency Reserves Requirement by any Party and, when appropriate, direct the Administrator to send a Deficiency Letter to such Party.
- 4.2.13 Perform such other tasks that the Parties deem necessary and desirable to carry out the intent and purpose of this Agreement.

4.3 Composition.

- 4.3.1 Each Party shall appoint to the Operating Committee one voting representative (a “Representative”) and an alternate representative (an “Alternate”) who may vote only in the Representative’s absence. The Administrator shall appoint one non-voting Representative and one non-voting Alternate to the Operating Committee. If the Administrator is also a Party, its non-voting Representative shall be a different person than the voting Representative.
- 4.3.2 A Party may change its Representative and/or Alternative by providing Notice to the other Parties in accordance with Article 10.

4.4 Meetings, Voting Procedures, and Resolutions.

- 4.4.1 Schedule and Procedure. The Operating Committee shall meet in person or by conference call no less often than once per calendar quarter and shall meet in person or by conference call at such other times upon ten (10) days’ prior Notice from any Party or the Administrator. All business will be conducted in closed meetings. The Operating Committee shall create guidelines for the attendance and/or participation at Operating Committee meetings of persons who are not Representatives or Alternates. All discussions of the Operating Committee shall follow Robert’s Rules of Order unless the Operating Committee determines otherwise.
- 4.4.2 Quorum. In order to transact any business, all Parties’ Representatives or Alternates must be present or on the conference call.
- 4.4.3 Voting. The Operating Committee shall act solely by resolutions approved by unanimous vote of the Operating Committee. Each Party shall have one vote, which may be cast only by that Party’s voting Representative or its designated Alternate. For the purpose of determining

an affirmative vote of Operating Committee voting representatives, abstentions shall not be considered as a vote. A Party shall not be allowed to vote on any matters before the Operating Committee regarding the investigation, audit, breach, Default, sanctions, or penalty responsibility of such Party, and any action taken by the Operating Committee on such matters shall be considered unanimous if the remaining Parties agree on such action.

- 4.4.4 Resolutions. All decisions of the Operating Committee shall be set forth in writing, with copies to be delivered promptly to each Party.
- 4.4.5 Leadership Positions. At its first meeting, the Operating Committee shall elect a chairperson and vice chairperson, each for concurrent terms of one (1) year. The chairperson and vice chairperson shall be selected from the voting Representatives or Alternates. The chairperson and vice chairperson shall be elected by majority vote.

## ARTICLE 5

### Administrator

- 5.1 Appointment of Administrator.
  - 5.1.1 As of the Effective Date, TVA shall act as the Administrator for the TCRSG in accordance with the Administration Agreement.
  - 5.1.2 The entity serving as Administrator may be replaced by action of the Operating Committee with not less than six (6) months' Notice, or may resign with at least six (6) months' Notice to the Operating Committee.
- 5.2 Duties and Responsibilities of Administrator. The Parties hereby delegate the following duties (the "Functions") to the Administrator, as more fully set forth in Articles 2 and 3 of the Administration Agreement:

#### ARS System

- 5.2.1 Maintain a secure and reliable application and backup process for the entry of a Contingency Reserves Activation request, including information on reserve levels in real-time, and related matters pertaining to the efficient administration of this Agreement.
- 5.2.2 Implement and maintain the Automatic Reserve Sharing System software and database requirements of this Agreement; provide training to the Parties on the use of the ARS System.
- 5.2.3 Implement procedures for acceptance of Contingency Reserves submittals, and maintain and update criteria established by the Operating Committee for controllable load resources.

NERC/SERC

- 5.2.4 Register with the NERC compliance registry with respect to all Reliability Standards -related to TCRSG matters and act as the point of contact for such matters.
- 5.2.5 Investigate and report to the Operating Committee any findings of non-compliance with applicable Reliability Standards; calculate the distribution of and administer any penalties and/or sanctions resulting from non-compliance with applicable Reliability Standards upon approval of the Operating Committee.

Operating Protocols

- 5.2.6 Implement the Operating Protocols and report any violations of the Operating Protocols to the Operating Committee.
- 5.2.7 Recommend to the Operating Committee changes to the Operating Protocols.

Data, Reports, Records, Studies, and Deficiency Letters

- 5.2.8 Compile, reproduce and supply Data such as the quarterly DCS reports, ensuring that the substantive content and format are appropriate for submission to the Operating Committee and designated regulatory entities.
- 5.2.9 Monitor and analyze the compliance of the Parties with their obligations under this Agreement, the Operating Protocols, and all applicable regulations, tariffs, and standards applicable to the TCRSG; report any deficiencies to the Operating Committee and implement any actions approved by the Operating Committee to report or remedy such deficiencies.
- 5.2.10 Maintain financial records, and invoice and collect any costs and charges due from and to the Parties as set forth under the Administration Agreement and the ISA, and distribute any funds in accordance with this Agreement or the Administration Agreement.
- 5.2.11 Review the hourly actual Contingency Reserves carried by each Party that is required to carry an additional assessment pursuant to the Operating Protocols, and issue a Deficiency Letter to any such Party that experienced a deficiency in its Contingency Reserves Requirement during one or more hours in the immediately preceding month, consistent with the criteria set forth in the Operating Protocols.
- 5.2.12 Collect, analyze and maintain the necessary Data regarding the Most Severe Single Contingency, Balancing Authority annual peak loads, ARS



System performance, relevant historical Data, and Contingency Reserves Activations.

- 5.2.13 Perform other studies or analyses required to administer this Agreement or as directed by the Operating Committee.

Other

- 5.2.14 Support the Operating Committee's development and implementation of the training programs, manuals, and practices, rules, and procedures for the operation, planning, and accounting requirements of the TCRSG.
- 5.2.15 Maintain and provide to the members of the Operating Committee, current membership rosters and the official list of persons authorized to receive Notice under this Agreement.
- 5.2.16 Facilitate and administer the Operating Committee meetings.
- 5.2.17 Calculate the distribution of and administer any penalties and/or sanctions associated with poor performance under this Agreement (other than those arising under Section 5.2.5), subject to review by the Operating Committee.
- 5.2.18 Support the activities of the Operating Committee and implement procedures and decisions of the Operating Committee.
- 5.2.19 Propose to the Operating Committee an annual Administrative Fee no later than June 1 for services for the next calendar year.
- 5.2.20 Evaluate all information submitted by applicants for membership in the TCRSG, perform all required calculations and studies, and provide the results to the Operating Committee.
- 5.2.21 Evaluate all information associated with changes in the membership of the TCRSG, perform and coordinate all required calculations and studies with the Parties, and make any adjustments as directed by the Operating Committee.
- 5.2.22 Ensure a smooth and orderly transition to new arrangements for any withdrawing or terminated Party and to any successor Administrator.

**ARTICLE 6**

**Contingency Reserves Requirements and Obligations**

- 6.1 Group Requirement and Contingency Reserves Obligations
- 6.1.1 The Contingency Reserves Obligation of the TCRSG shall be established by the Operating Committee, in accordance with the Operating Protocols, to meet

applicable Reliability Standards. The Contingency Reserves Obligation shall be set forth in the Operating Protocols.

- 6.1.2 A Party's Contingency Reserves Requirement shall be a share of the Contingency Reserves Obligation established by the Operating Committee in accordance with the Operating Protocols.
- 6.1.3 If after signing this Agreement, any then-existing Parties merge or consolidate their Balancing Authority Areas, the successor Balancing Authority's Contingency Reserves Requirement shall be the sum of the incumbent Balancing Authorities' Contingency Reserves Requirements, provided all criteria for membership in the TCRSG are met, including without limitation, the requirements set forth in Article 14.
- 6.2 Nature of Contingency Reserves. Each Party shall provide or arrange for Contingency Reserves that are capable of supplying that Party's Contingency Reserves Requirement, consistent with the Operating Protocols.
- 6.3 Compliance Audit of Parties
  - 6.3.1 Each Party shall make available for audit the records and supporting information related to its performance under this Agreement for any month during the Term. If the Operating Committee determines to require an audit, it shall inform the Administrator who shall provide the Party(ies) to be audited with a minimum of ninety (90) days' Notice.
  - 6.3.2 Any audit of a Party shall be confidential and shall be performed by an independent consultant to be selected by the Operating Committee. Such audit shall be limited to a review of the Party's compliance with the requirements of this Agreement.
  - 6.3.3 Prior to the completion of its audit, the independent consultant shall review its preliminary findings with the Party being audited to seek further comments and, upon the completion of its audit and the audited Party's review and comments, the independent consultant shall issue a final audit report detailing the results of the audit to the Party being audited, the Administrator, and the Operating Committee; provided, however, that no confidential data of any Party shall be disclosed through such audit reports. The costs associated with an audit shall be treated as Shared Costs unless the Operating Committee imposes a different allocation.
  - 6.3.4 If, based on a final audit report, the Operating Committee determines that an adjustment is required to any amounts due to or from the Parties, such adjustment shall be accounted for in determining the amounts due to or from the Parties during the month in which the adjustment is identified.

## ARTICLE 7

### Penalties and Charges

- 7.1 Non-compliance.
- 7.1.1 In the event that the TCRSG or the Administrator is found to be non-compliant with any applicable Reliability Standard and a financial penalty and/or sanction is imposed on the TCRSG, the Administrator shall investigate and recommend to the Operating Committee the cause(s) of such non-compliance (unless such cause has been or will be investigated and determined by SERC or NERC) and shall determine the allocation of responsibility for such penalties and/or sanctions based on cause pursuant to Article 2 of the Administration Agreement. The Administrator shall provide its findings and recommendations to the Operating Committee for review and final resolution and, upon approval of the Operating Committee, shall collect and pay any financial penalties and oversee the implementation of any sanctions.
- 7.1.2 Monetary penalties shall be treated as Shared Costs unless the cause of non-compliance dictates a different allocation pursuant to Section 7.1.1. Any monetary penalties imposed on the Administrator shall be Shared Costs, unless such penalties arise from the Administrator's willful misconduct or gross negligence. Each Party shall pay its allocated share of any penalties and/or implement any applicable sanctions.
- 7.2 Failure to Deploy Contingency Reserves. For Reserve Group Reportable Disturbances involving one or more Parties' failure to deploy Contingency Reserves in accordance with a Contingency Reserves Activation, such non-deploying Party(ies) shall be assessed a financial charge equal to the costs incurred by other Party(ies) in providing the requested energy which the non-deploying Party(ies) would have provided had Contingency Reserves been deployed as required by this Agreement and the Operating Protocols. Funds shall be charged and allocated pursuant to the Operating Protocols.
- 7.3 Other Performance-Based Charges. The Operating Committee may approve certain performance-based charges or other measures, based on the criteria set forth in the Operating Protocols, to be charged to or imposed on a Party for its failure to satisfy its obligations under this Agreement and/or the Operating Protocols other than for failure to deploy Contingency Reserves in accordance with a Contingency Reserves Activation. The Administrator shall collect such performance-based charges and monitor other measures that are imposed on a Party by the Operating Committee and shall disburse any funds to the other Parties as determined by the Operating Committee, taking into consideration the performance, or failure to perform, of the individual Parties.

**ARTICLE 8**

**Contingency Energy Charges, Other Costs, Settlements, and Credit Support**

- 8.1 Rate. Contingency Energy delivered during a Contingency Reserves Activation shall be priced as follows:
- 8.1.1 Payment shall be financial and accounting for Contingency Energy shall be in whole megawatt-hours and consistent with industry rounding principles (with .5 being rounded up to the next number).
  - 8.1.2 The Contingent System shall pay each Delivery System for Contingency Energy at a rate of the greater of: (i) \$100 per MWh; or (ii) 110% of the verifiable cost of the resource(s) used by that Delivery System to provide such Contingency Energy to the interface, as invoiced by the Delivery System; provided, however, that any Contingency Energy delivered as a result of Other Extreme Conditions shall be priced pursuant to the Operating Protocols.
  - 8.1.3 As used in this Article 8, the term “verifiable costs” shall mean the costs of fuel, operation and maintenance, energy provided for electric losses, redispatch costs (if applicable), purchased power, start-up costs, emissions allowances, and any other costs that would not have been otherwise incurred if the Contingency Energy had not been supplied. The term “verifiable costs” does not include the cost of transmission service.
  - 8.1.4 The Contingent System shall also pay to each Delivery System all applicable transmission charges, including losses incurred in the delivery of Contingency Energy.
  - 8.1.5 The point of delivery for Contingency Energy shall be the interface between the Contingent System and the Delivery System.
- 8.2 Billing for Contingency Energy. For each Contingency Reserves Activation, each Delivery System shall calculate the applicable billing determinants, bill each Contingent System that received Contingency Energy from the Delivery System, and collect amounts owed to it by the Contingent System.
- 8.3 Billing for Other Fees, Costs, and Charges. The Administrator shall bill each Party periodically for the Administrative Fee, ARS System Costs, any Special and Non-Recurring Costs, and any Shared Costs arising under this Agreement.
- 8.4 Payment
- 8.4.1 The following terms and conditions shall apply unless otherwise specifically agreed upon in writing by the relevant Parties (which writing shall not constitute a modification of this Agreement):

Payments for Contingency Energy purchases and sales between EKPC and LGEE will be invoiced, confirmed, netted and paid in accordance with the EEI Master Agreement dated September 14, 2006 between EKPC and LGEE, as it may be amended. To the extent the terms and conditions for payments set forth in this Section 8.4, are inconsistent with the terms and conditions of the EEI Master Agreement between EKPC and LGEE, the EEI Master Agreement shall control. Contingency Energy purchases and sales between the other Parties shall be invoiced and paid pursuant to this Article 8. :

Payments for Contingency Energy sales by LGEE to TVA will be invoiced, confirmed and paid pursuant to the EEI Agreement dated January 3, 2006 between LGEE and TVA, governing power sales by LGEE to TVA. To the extent the terms and conditions for such payments set forth in this Section 8.4, are inconsistent with the terms and conditions of the EEI Master Agreement between TVA and LGEE, the EEI Master Agreement shall control.

All invoices to be sent to TVA shall be addressed as follows:

Tennessee Valley Authority  
Attention: Accounts Payable Dept.  
(All invoices must have the contract number)  
P.O. Box 15500  
Knoxville, TN 37901-5500

Invoices forwarded by TVA to EKPC will be sent to EKPC's Representative at the address in Section 10, with a copy to:

Graham Johns  
East Kentucky Power Cooperative  
4775 Lexington Road  
PO Box 707  
Winchester, KY 40391  
Phone: (859) 745-9238  
Fax: (859) 744-6008  
graham.johns@ekpc.coop

8.4.1.1 The calendar month shall be the standard period for all payments under this Agreement. On or before the fifteenth (15<sup>th</sup>) day of the month, each Party will render to the other Party(ies) an invoice for any payment obligations incurred hereunder during the preceding month.

8.4.1.2 All invoices to a Party under this Agreement shall be due and payable in immediately available same-day funds, in accordance with the invoice instructions, on or before the later of the twenty-fifth (25<sup>th</sup>) day of each month, or the tenth (10<sup>th</sup>) day following the Party's receipt of the invoice (or, if such a day is not a Business Day, then on the next Business Day.

8.4.1.3 Each Party shall make payments by electronic funds transfer in the currency of the United States of America, or by other mutually agreeable method(s). Payments to and from TVA for Contingency Energy sales to TVA and purchases from TVA shall be made as follows:

Payments made to TVA by LGEE and EKPC shall be made via the Automated Clearing House (ACH) to the following account:

Cash Link – ACH Receiver  
401 14<sup>th</sup> Street, S.W.  
Washington, D.C. 20227  
Routing Transit No. 051036706  
Account No 349000, for the credit of TVA

Payments made by TVA to LGEE will be made pursuant to the EEI Agreement for power sales by LGEE to TVA.

Payments made by TVA to EKPC should be made to:

PNC Bank, N.A.  
Pittsburgh, PA 15222  
ABA No. 043000096  
For Credit to East Kentucky Power Cooperative, Inc.  
Account No. 1009562485

8.4.2 Interest on any unpaid amount (not including amounts placed in a cash collateral account as financial security), including refunds, shall be calculated in accordance with the methodology for interest on refunds in the FERC's Regulations at 18 C.F.R. § 35.19a(a)(2)(iii), as revised, accruing from the date of the invoice to the date payment is received.

8.4.3 If a Party objects to all or a portion of any invoice, that Party shall, on or before the date payment of the invoice is due, pay the full amount of the invoice and give Notice to the invoicing Party within thirty (30) days from the date the invoice is rendered, setting forth in specific details the basis for its objection and the amount in dispute. The Affected Parties shall use good-faith efforts to resolve the billing dispute. At any time, the Parties may choose to submit the billing dispute to the dispute resolution procedures set forth in Article 12, and the prevailing Party may receive interest on such amount from the date payment was received until the date upon which refund is made. Any refunds agreed to shall be paid, with interest, on or before the thirtieth (30th) day following the date such agreement is reached (or, if such a day is not a Business Day, then on the first Business Day following the due date).

8.5 Credit Support. Any Party (or the Administrator in accordance with the Administration Agreement), in the exercise of its sole discretion, may require another Party, by sending Notice to that Party under Section 2.3.2.6, to provide and maintain in effect credit support or an alternative form of security consistent with commercial practices that protect the Parties against the risk of non-payment. "Attachment L" of a Party's Transmission Service

Guidelines, if such attachment exists, shall be considered “consistent with commercial practices” for these purposes. The Party providing Notice shall copy the other Party(ies) and the Administrator on all Notices and shall promptly apprise the other Party(ies) and the Administrator on any change in status, including whether the breach has been cured. Failure to maintain such credit support shall constitute a breach that may result in Default under Article 2. For credit support issues related to Contingency Energy, EKPC and LGEE will also provide Notice to the credit and default contacts listed in the EEI Agreement between EKPC and LGEE, and TVA and LGEE will provide Notice to the credit and default contacts listed in the EEI Agreement governing sales by LGEE to TVA.

- 8.6 Failure to Pay. If a Party (or former Party) fails to pay its share of any costs, charges, or penalties (excluding charges for Contingency Energy, which shall be invoiced and collected by the relevant Parties) allocated under this Agreement or the Administration Agreement after the Administrator has made commercially reasonable efforts to collect such costs, charges, and penalties, the unpaid costs, charges, and penalties shall be allocated to and paid by the other Parties on an equal basis, and such other Parties shall be entitled to enforce any and all rights and remedies available at law or in equity against such non-paying Party (or former Party), in addition to terminating the non-paying Party’s participation under this Agreement pursuant to the Default process under Article 2. All Parties exercising their rights to enforce remedies for non-payment for Contingency Energy shall copy the other Parties and the Administrator on all Notices that have been sent to another Party and promptly apprise the other Parties and the Administrator on any change in status, including whether any breach has been cured. For non-payment issues related to Contingency Energy, EKPC and LGEE will also provide Notice to the payment and default contacts listed in the EEI Agreement between EKPC and LGEE, and TVA and LGEE will provide Notice to the payment and default contacts listed in the EEI Agreement governing sales by LGEE to TVA.

## ARTICLE 9

### Indemnification and Limitation of Liabilities

- 9.1 Limitations on Liability. Neither the Administrator nor any Party shall be liable to another Party for any claim for indirect, incidental, special or consequential damage or loss of such other Party including, but not limited to, loss of profits or revenues, cost of capital or financing, loss of goodwill, and cost of replacement power arising from such Party’s carrying out, or failure to carry out, any obligations contemplated by this Agreement; provided, however, that nothing herein shall be deemed to reduce or limit the obligation of any Party with respect to the claims of persons or entities not a party to this Agreement pursuant to Section 9.3.
- 9.2 Insurance. Each Party shall obtain and maintain in force during its participation as a Party under this Agreement a combination of self-insurance and such insurance coverage as may be required to fulfill its obligations under this Agreement, and as may be required by law or regulatory authorities and sound business judgment for the risks and business purposes set forth herein, in such types and amounts as are usual and customary in the industry for

similarly situated entities. Failure of any Party to enforce this requirement shall not relieve a Party of the responsibility for maintaining these coverages.

- 9.3 Indemnification. Each Party shall be liable for and shall indemnify and hold harmless each other Party for, from, and against any and all liabilities, demands, losses, claims, and damages of any kind on account of injury to or death of any person, damage to or loss of property, violation of law or regulation, or otherwise arising out of or attributable to such indemnifying Party's activities, actions, inactions, and operations related to or contemplated by this Agreement. The indemnity given by each Party shall survive the termination of this Agreement and the termination of such Party's participation in the TCRSG.

## ARTICLE 10

### Notice

- 10.1 Form of Notice. Except as otherwise expressly provided herein, any Notice required hereunder shall be in writing and shall be sent by overnight courier, hand delivery, telecopy, electronic mail, or other reliable electronic means to the relevant Party or Parties' Operating Committee Representative and Alternate at the following addresses, which may be changed through written Notice from time to time:

For TVA as Party:

Representative

Phillip R. Wiginton  
Manager, Balancing Authority  
1101 Market St., MR-BA  
Chattanooga, TN 37402-2801  
Phone: (423) 751-4182  
Fax: (423) 751-2141  
prwiginton@tva.gov

Alternate

Edmund R. Forsythe  
Manager, Asset Portfolio  
1101 Market St., MR-BA  
Chattanooga, TN 37402-2801  
Phone: (423) 751-7917  
Fax: (423) 751-2141  
erforsythe@tva.gov

For LGEE:

Representative

Charlie Freibert  
E.ON U.S. Services, Inc.  
220 West Market Street  
Louisville, KY 40202  
Phone: (502) 627-3673  
Fax: (502) 627-3613  
charlie.freibert@eon-us.com

Alternate

Charles Martin  
E.ON U.S. Services, Inc.  
220 West Market Street  
Louisville, KY 40202  
Phone: (502) 627-4242  
Fax: (502) 627-4655  
charlie.martin@eon-us.com



For EKPC:

Representative

Chuck Dugan  
East Kentucky Power Cooperative  
4775 Lexington Road  
PO Box 707  
Winchester, KY 40391  
Phone: 859-745-9650  
Fax: 859-744-4300  
chuck.dugan@ekpc.coop

Alternate

George Carruba  
East Kentucky Power Cooperative  
4775 Lexington Road  
PO Box 707  
Winchester, KY 40391  
Phone: 859-745-9438  
Fax: 859-744-4300  
george.carruba@ekpc.coop

For TVA as Administrator:

Representative

Stuart L. Goza  
Manager, Transmission System Services  
1101 Market Street, PCC-2A  
Chattanooga, TN 37402-2801  
Phone: (423) 697-4191  
Fax: (423) 697-4120  
slgoza@tva.gov

Alternate

Martha L. Dalloul  
Manager, Transmission and  
Interchange Services  
1101 Market St., PCC-2A  
Chattanooga, TN 37402-2801  
Phone: (423) 697-4154  
Fax: (423) 697-4120  
mldalloul@tva.gov

Notice so given shall be deemed to have been given: (i) upon delivery if given by overnight courier, hand delivery, or certified mail; or (ii) upon confirmation and acknowledgment by the recipient if given by facsimile or other reliable electronic means.

**ARTICLE 11**

**Representations and Warranties**

11.1 Representations and Warranties at Date an Entity Becomes a Party. Each Party represents and warrants to each of the other Parties that:

11.1.1 The Party is duly organized, validly existing, and in good standing under the laws of the jurisdiction where organized (if applicable);

11.1.2 The execution and delivery by the Party of this Agreement and the performance of its obligations hereunder have been duly and validly authorized by all requisite action on the part of the Party and do not conflict with any applicable law or with any other agreement binding upon the Party; this Agreement has been duly executed and delivered by the Party, and, upon receipt of any necessary regulatory approvals, this Agreement constitutes the legal, valid, and binding obligation of the

Party enforceable against it in accordance with its terms except insofar as the enforceability thereof may be limited by the applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium, or other similar laws affecting the enforcement of creditors' rights generally and by general principles of equity, regardless of whether such principles are considered in a proceeding at law or in equity;

- 11.1.3 There are no actions at law, suits in equity, proceedings, or claims pending or, to the knowledge of the Party, threatened against the Party before or by any federal, state, foreign or local court, tribunal, or governmental agency or authority that might materially delay, prevent, or hinder the performance by the Party of its obligations hereunder;
- 11.1.4 The Party has performed deliverability studies for specific conditions during Contingencies and has allocated adequate TRM to perform its obligations to deliver and/or take delivery of all Contingency Energy flows contemplated hereunder, to the satisfaction of the Operating Committee;
- 11.1.5 The Party has sufficient capability to deploy Contingency Reserves, including the necessary metering, data recording, and measuring capability; and
- 11.1.6 The Party has the necessary authority under applicable laws and regulations to make sales and purchases of Contingency Energy on the rates, terms, and conditions set forth in Article 8.

## ARTICLE 12

### Dispute Resolution

- 12.1 Resolution of Disputes Concerning this Agreement. The purpose of the dispute resolution process is to provide a fair, efficient and equitable after-the-fact process for resolving disputes between the Parties arising under this Agreement. Any dispute between any Parties arising out of this Agreement shall be addressed in accordance with this Article 12; provided, however, that any Party raising a dispute arising from or relating to confidentiality under Article 13 of this Agreement shall be free to exercise whatever rights it may have in law or equity without resort to the procedures in this Article 12.
- 12.2 Costs. Each Party shall be responsible for its own costs incurred during any dispute resolution process unless and to the extent the Agreement or the tribunal may award attorneys' fees and costs otherwise.
- 12.3 Good Faith Effort at the Working Level. In the event of a dispute, the Party raising the dispute shall promptly give written notice of the dispute to the Affected Party or Affected Parties. The Parties shall make a good faith effort to resolve any disputes promptly at the working level. In the event that matters cannot be resolved at the working level within twenty (20) days of the receipt of the notice, the dispute shall be referred to the next level of management of the Parties on an informal basis.

- 12.4 Senior Management Involvement. If the dispute cannot be resolved pursuant to Section 12.3 despite the good faith effort of the Parties within twenty (20) days of referral, then the matter shall be submitted in writing to a senior manager responsible for such issues for each Party. All disputes involving invoices for transmission service shall be further governed by the transmission service dispute resolution procedures of the applicable transmission service provider. If the senior managers are unable to resolve the dispute within twenty (20) days of the referral, any Party may exercise whatever rights it may have in law or equity, including arbitration pursuant to Section 12.6 if agreed to by the Parties.
- 12.5 Information. In implementing the provisions of Sections 12.3 and 12.4, information pertaining to the dispute shall be forwarded in its entirety from the working level to a higher level for disputes that cannot be resolved at the working level. Individuals at the higher level who are requested to resolve disputes shall have the benefit of examining the work done to date at lower levels to attempt resolution.
- 12.6 Arbitration. If the Parties to a dispute elect to resolve the dispute through arbitration, the following procedures shall apply:
- 12.6.1 Any arbitration initiated under this Agreement shall be conducted before a single neutral arbitrator appointed by the Parties involved in the dispute. If the Parties involved in the dispute fail to agree upon a single arbitrator within ten (10) days of the referral of the dispute to arbitration, the Parties shall respectively choose one arbitrator per aligned side who shall sit on a three-member arbitration panel. The two arbitrators so chosen shall within twenty (20) days select a third arbitrator to chair the arbitration panel. The arbitrators shall be knowledgeable in electric utility matters, including electric transmission and bulk power issues, and shall not have any current or past substantial business or financial relationships with any Party involved in the arbitration (except a prior arbitration). The arbitrator(s) shall, except as otherwise provided herein, generally conduct the arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association and any applicable regulations.
- 12.6.2 Unless otherwise agreed, the arbitrator(s) shall render a decision within ninety (90) days of appointment and shall notify the Parties involved in the dispute in writing of such decision and the reasons therefore. The arbitrator(s) shall be authorized only to interpret and apply the provisions of the applicable tariff and this Agreement and shall have no power to modify or change any of the above in any manner. The decision of the arbitrator(s) shall be final and binding upon the Parties involved in the dispute, and judgment on the award may be entered in any court having jurisdiction. The decision of the arbitrator(s) may be appealed solely on the grounds that the conduct of the arbitrator(s), or the decision itself, violated the standards set forth in the Federal Arbitration Act, the Administrative Dispute Resolution Act or the Reliability Standards. The final decision must be filed with FERC if it and to the extent it affects

jurisdictional rates, terms and conditions of service or facilities of any of the Parties.

### ARTICLE 13

#### Confidentiality

- 13.1 Governing Provision. This confidentiality provision shall supersede any other confidentiality agreements between the Parties related to the subject matter of this Agreement.
- 13.2 Operating Committee Activities. All meetings, minutes and votes of the Operating Committee shall be confidential, unless the Parties determine otherwise, or unless such information is requested pursuant to Section 13.4.
- 13.3 No Right to Confidential Materials. No Party, its agents, nor its representative to the Operating Committee shall have a right hereunder to receive or review any documents, data or other information of another Party, including documents, data or other information provided to the Administrator, to the extent such documents, data or information have been designated as confidential pursuant to the procedures adopted by the Operating Committee or to the extent that they have been designated as confidential by another Party; provided, however, a Party may receive and review any composite documents, Data and other information that may be developed based on such confidential documents, data or information if the composite document does not disclose any individual Party's confidential data or information. Billing determinant information contained in invoices rendered for Contingency Energy supplied under Article 8 is deemed to be confidential with respect to the Party supplying the information to the Administrator.
- 13.4 Compelled Disclosure. Notwithstanding anything in this Agreement to the contrary, if a Party is required by applicable laws, or in the course of administrative or judicial proceedings is required or finds it necessary or desirable, to disclose information that is otherwise required to be maintained in confidence pursuant to this Agreement, that Party may make disclosure of such information; provided, however, that as soon as the Party learns of the disclosure requirement, and prior to making disclosure, that Party shall notify the Affected Party or Affected Parties of the requirement and the terms thereof and the Affected Party or Affected Parties may direct, at their sole discretion and cost, any challenge to or defense against the disclosure requirement, and the Party shall cooperate with such affected Parties to the extent practicable to minimize the disclosure of the information, consistent with applicable law. Each Party shall cooperate with the affected Parties to obtain proprietary or confidential treatment of such information by the person to whom such information is disclosed prior to any such disclosure.
- 13.5 Contractors. Any contract with a contractor retained to provide technical support or to otherwise assist any Party with the administration of this Agreement shall impose on that contractor a contractual duty of confidentiality that is consistent with this Article 13.

**ARTICLE 14**

**New Members**

- 14.1 Conditions for Membership. Upon unanimous vote of the Operating Committee, this Agreement may be extended to new members who have satisfied the following conditions:
- 14.1.1 Upon seeking membership, the applicant shall have executed a confidentiality agreement substantially similar in form and substance to the confidentiality agreement executed by the Parties;
  - 14.1.2 The applicant must be directly connected to, or have firm transmission service to, the interface of a Party;
  - 14.1.3 The applicant's activities must be compatible with any applicable rate schedules of the Parties;
  - 14.1.4 The Operating Committee shall have determined a level of Contingency Reserves Requirement and/or Contingency Reserves Obligation that would accommodate such applicant within the TCRSG;
  - 14.1.5 The applicant and the existing Parties shall have performed deliverability studies and have allocated sufficient TRM on all relevant flowgates to ensure deliverability of shared Contingency Reserves to meet the applicant's and each Party's Most Severe Single Contingency;
  - 14.1.6 Each Party shall have determined, in its sole discretion, that the participation of the applicant in the TCRSG and this Agreement shall not have a material adverse impact on such Party with respect to the economic and operational benefits conferred on such Party through its membership in the TCRSG;
  - 14.1.7 Each Party shall have determined that the applicant satisfies applicable creditworthiness standards;
  - 14.1.8 The applicant shall have certified that it can comply with the Operating Protocols and this Agreement on the effective date of its membership in the TCRSG, and has all necessary corporate and regulatory authority to enter into this Agreement;
  - 14.1.9 By executed written agreement, the applicant shall have agreed to the terms and conditions of this Agreement and the Operating Protocols; and
  - 14.1.10 The applicant shall have satisfied any other conditions imposed by the Operating Committee.
- 14.2 TVA Sales. Consistent with Section 3.2, acceptance of any new members in the TCRSG may require certain structures and procedures be implemented to ensure that TVA energy and capacity is not sold or utilized by a third party that is not an Authorized Purchaser.

**ARTICLE 15****Miscellaneous**

- 15.1 Successors and Assigns. This Agreement shall be binding on each Party's successors and permitted assigns. No Party shall assign this Agreement or its rights hereunder without the prior written consent of the other Parties, which consent shall not be unreasonably withheld; provided, however, any Party may assign this Agreement to any person or entity succeeding to all or substantially all of the Party's assets, subject to the assignee's satisfactory creditworthiness, satisfaction of the criteria for membership set forth in Article 14, and written assumption of the obligations of this Agreement.
- 15.2 Governing Law; Jurisdiction. This Agreement and the rights and duties of the Parties relating to this Agreement shall be interpreted, construed, and governed by the Federal laws of the United States without regard to the laws requiring the application of the laws of another jurisdiction, unless: (1) the subject matter of the dispute relates to the laws or regulations of another jurisdiction; or (2) the authority of a Party to enter into this Agreement, and disputes related thereto, shall expressly be governed by the law of the jurisdiction under which that Party is organized. Subject to the dispute resolution procedure set forth herein, any action arising out of this Agreement or the Parties' rights and duties under it shall be brought only in the United States District Court for the Eastern District of Tennessee provided that: (1) such court has jurisdiction of the subject matter; (2) one of the disputing Parties is TVA; (3) the subject matter of the dispute involves matters directly related to TVA's rights and obligations under the TVA Act; and (4) Section 15.3 is inapplicable. In all cases not encompassed by the foregoing provisos, each Party submits itself to the personal jurisdiction of the United States District Court for the Eastern District of Tennessee for the purposes of matters related to this Agreement. To the extent that such court does not have jurisdiction of the subject matter or the provisos set forth above are not applicable, then the matter may be brought in any court or forum of competent jurisdiction.
- 15.3 FERC and KPSC Jurisdiction. The Parties understand and acknowledge that if this Agreement or aspects of this Agreement are considered subject to review or approval, for purposes of LGEE or others, to the jurisdiction of FERC or the KPSC, no Party shall object, in writing or otherwise, to any such Affected Party's filing this Agreement with FERC or the KPSC, reporting it on Electric Quarterly Reports, or taking any other action reasonably determined by the Affected Party to be necessary to comply with the FPA's, FERC's, or the KPSC's rules or regulations with regard to this Agreement, subject to Sections 2.3.3 and 2.3.4. Any Party that is not subject to the jurisdiction of the FERC as a "public utility" under the FPA, or to the KPSC's jurisdiction over "utilities" as defined in KRS 278.010(3), shall not be required to take any action or participate in any filing or appeal that would confer FERC or KPSC jurisdiction over such Party. Nothing in this Agreement waives any objection to, or otherwise constitutes consent to, the jurisdiction by FERC or the KPSC over such non-Affected Party or its transmission service, facilities and rates.

- 15.4 Amendments. Except as provided in Section 15.1, no change, amendment or modification of this Agreement shall be valid or binding upon the Parties unless such change, amendment or modification shall be in writing and duly executed by the Parties; provided, however, that Attachment A may be modified from time to time without formal amendment of this Agreement.
- 15.5 Change in Law. In the case of a change or proposed change in law, regulation, or policy, or a decision by any regulatory agency or court, that (a) substantially affects the ability of a Party to perform under this Agreement, or (b) lacking a modification to this Agreement, would cause such Affected Party to be not in compliance with applicable law, regulation, or policy, or (c) has or is likely to have a material adverse effect on the Affected Party as determined by the Affected Party in its sole discretion, the Affected Party shall give Notice to the other Parties of the possible or actual impact as soon as reasonably practicable. After receiving such Notice, if time permits in the Affected Party's sole discretion, the Parties shall seek to modify this Agreement so that the Affected Party may perform under this Agreement, remain in compliance with applicable law, regulation, policy, or decision, and avoid a material adverse effect; provided, however, that if the Parties are unable to agree to such modification within a reasonable time not exceeding sixty (60) days of the Affected Party's notifying the other Parties of the need for such modification, or if time does not permit discussion or modification (as determined in the Affected Party's sole discretion), at the Affected Party's option, the Affected Party may withdraw by written Notice to the other Parties, to be effective on the date the law, regulation or policy causes any of the events in (a), (b) or (c) above to occur.
- 15.6 No Third Party Beneficiaries. This Agreement is intended solely for the benefit of the Parties hereto. Nothing in this Agreement shall be construed to create any duty to, or standard of care with reference to, or any liability to, any person not a Party to this Agreement.
- 15.7 No Association, Joint Venture, Trust or Partnership. This Agreement shall not be interpreted or construed to create an association, joint venture, trust, or partnership between and among the Parties or to impose any partnership obligation or liability upon any Party.
- 15.8 Severability. Each provision of this Agreement shall be considered severable and, if for any reason any provision is determined by a court or regulatory authority of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions of this Agreement shall continue in full force and effect and shall in no way be affected, impaired or invalidated, and such invalid, void or unenforceable provision shall be replaced with valid and enforceable provision or provisions which otherwise give effect to the original intent of the invalid, void or unenforceable provision.
- 15.9 Headings. The article, section, and other headings used in this Agreement are for convenience only and shall not affect the construction or interpretation of any of the provisions of this Agreement.

- 15.10 Entire Agreement; Related Agreements. Except with respect to other agreements referenced herein, this Agreement constitutes the entire understanding and agreement among the Parties with respect to the subject matter hereof, and supersedes any and all previous agreements and understandings, whether oral or written, with respect to the subject matter hereof, including the MOU and ISA, both of which agreements will be terminated as of the Commencement Date; provided, however, that this Agreement is not intended to modify or otherwise affect the EEI Master Agreements, which will govern the transacting and invoicing of Contingency Energy sales between EKPC and LGEE. If any Party withdraws from this Agreement prior to the Commencement Date, such Party's rights and obligations under the Administration Agreement, the MOU and the ISA shall automatically terminate as to such Party, subject to the survival of obligations as set forth in the relevant agreements.

In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by all Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of authorship of any of the provisions of this Agreement.

- 15.11 No Implied Waivers. The failure of a Party to insist upon or enforce strict performance of any of the provisions of this Agreement shall not be construed as a waiver or relinquishment to any extent of such Party's right to assert or rely upon any such provisions, rights and remedies in that or any other instance; rather, the same shall be and remain in full force and effect.
- 15.12 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument, binding upon all Parties, notwithstanding that all of such Parties may not have executed the same counterpart.

[SIGNATURES ON FOLLOWING PAGE]



IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their respective authorized representatives effective as of the date first above written.

**East Kentucky Power Cooperative, Inc.**

By \_\_\_\_\_

Name (type or print) \_\_\_\_\_

Title (type or print) \_\_\_\_\_

Date (type or print) \_\_\_\_\_

**Louisville Gas & Electric Company and Kentucky Utilities Company**

By  \_\_\_\_\_

Name (type or print) David S. Sinclair

Title (type or print) VP Energy Marketing

Date (type or print) 11-17-09

**Tennessee Valley Authority**

By \_\_\_\_\_

James R. Dalrymple

Vice President, Transmission and Reliability

Date (type or print) \_\_\_\_\_

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their respective authorized representatives effective as of the date first above written.

**East Kentucky Power Cooperative, Inc.**

By James C Lamb Jr  
Name (type or print) James C Lamb Jr.  
Title (type or print) Senior Vice President, Power Supply  
Date (type or print) November 10, 2009

**Louisville Gas & Electric Company and Kentucky Utilities Company**

By \_\_\_\_\_  
Name (type or print) \_\_\_\_\_  
Title (type or print) \_\_\_\_\_  
Date (type or print) \_\_\_\_\_

**Tennessee Valley Authority**

By \_\_\_\_\_  
James R. Dalrymple  
Vice President, Transmission and Reliability  
Date (type or print) \_\_\_\_\_



*Keep*

*Received 11/16/09 10:20AM*

*File @ other originals  
in Back Office once all have signed!*

*Cuf*

November 13, 2009

Charles Freibert  
E.ON U.S. Services, Inc.  
220 West Main Street  
Louisville, KY 40202

Charlie,

Enclosed are original signature pages from EKPC for the TEE Reserve Sharing Agreement and the Administrative Agreement.

Thanks,



Chuck Dugan  
Manager, Power Supply Operations

4775 Lexington Road 40391  
P.O. Box 707, Winchester,  
Kentucky 40392-0707

Tel. (859) 744-4812  
Fax: (859) 744-6008  
<http://www.ekpc.coop>

A Touchstone Energy Cooperative 

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their respective authorized representatives effective as of the date first above written.

**East Kentucky Power Cooperative, Inc.**

By \_\_\_\_\_

Name (type or print) \_\_\_\_\_

Title (type or print) \_\_\_\_\_

Date (type or print) \_\_\_\_\_

**Louisville Gas & Electric Company and Kentucky Utilities Company**

By \_\_\_\_\_

Name (type or print) \_\_\_\_\_

Title (type or print) \_\_\_\_\_

Date (type or print) \_\_\_\_\_

**Tennessee Valley Authority**

By  \_\_\_\_\_

James R. Dalrymple

Vice President, Transmission and Reliability

Date (type or print) 11/20/09

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TEE Contingency Reserve Sharing  
Group  
(TCRSG)

**Operating Protocols**

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These Operating Protocols set out additional terms and conditions pursuant to which the Parties to the TEE Contingency Reserve Sharing Group Agreement (“Agreement”) will make Contingency Energy available to other Parties when conditions on one or more of the systems require that such assistance be made available.

Capitalized terms used in these Operating Protocols and not otherwise defined herein shall have the respective definitions provided in the Agreement or in the NERC Glossary. In the event of a conflict between terms and conditions in the Operating Protocols and the Agreement, the Agreement shall control.

The Parties and the Administrator shall comply with, and the Administrator shall apply, as applicable, the following procedures and criteria for implementing a Contingency Reserves Activation under the Agreement, unless and until such Operating Protocols are modified in writing by action of the Operating Committee.

## 1. OBLIGATIONS

- 1.1 The TCRSG shall comply with the applicable Reliability Standards, including DCS requirements, as a single Reserve Sharing Group.
- 1.2 Each Party within the TCRSG Region shall comply with the DCS requirements under the Reliability Standards for its Balancing Authority Area by returning its ACE to the lesser of zero or its pre-disturbance level within the default Disturbance Recovery Period.
- 1.3 The Contingency Reserves Obligation for the TCRSG shall equal the Most Severe Single Contingency of the TCRSG. The Contingency Reserves Obligation shall be allocated among the TCRSG Parties as shown in Attachment A. The Most Severe Single Contingency and the Contingency Reserves Obligation shall be reviewed at least annually and updated accordingly.
- 1.4 The Contingency Reserves Obligation shall be allocated among the Parties on a load ratio share basis using the coincident peak load levels of all LSEs in each Party’s Balancing Authority Area for the immediately preceding calendar year as described in Attachment A. The Most Severe Single Contingency for the TCRSG shall be allocated by pro-rating each Party’s coincident peak load MW amount for the preceding calendar year against the sum of the coincident peak load levels for each Party for the same year. Attachment A shall be updated by the Administrator by January 31 of each calendar year to reflect any changes in the allocation of the Contingency Reserves Obligation and when circumstances warrant or when instructed to do so by the Operating Committee.

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- 1.5 Contingency Reserves shall be made available by each Party as necessary to satisfy the applicable Reliability Standards in an amount equal to each Party's Contingency Reserves Requirement established in Attachment A.
- 1.6 At any time, any Party may offer Contingency Reserves in addition to its Contingency Reserves Requirement ("Extra Contingency Reserves"), which shall be accessible only by the offering Party until the TCRSG Parties have fully deployed all available Contingency Reserves in accordance with their respective Contingency Reserves Requirements. After the Contingency Reserves Requirements of all the Parties are fully deployed, any unfulfilled and subsequent requests for Contingency Reserves Activation shall be allocated a pro-rated amount of Extra Contingency Reserves, if any.
- 1.7 In order to ensure full deployment of the Contingency Reserves allocation within the Disturbance Recovery Period, each Party shall take into consideration: (a) the maximum time delay for Contingency Reserves Activation requests stated in Section 2.1.3 (up to three minutes), (b) the processing time between the Contingency Reserves Activation request and the Party receiving the request, and (c) any additional time required for the receiving Party to deploy its Contingency Reserves.
- 1.8 The minimum Operating Reserve-Spinning requirement shall be established by the Operating Committee and shall be the amount required by the applicable Reliability Standard or 0% of each Party's Contingency Reserves Requirement, whichever is greater.
- 1.9 A Party may use Qualified Interruptible Load in meeting its Contingency Reserves Requirement, provided that each Qualified Interruptible Load resource meets the applicable NERC and SERC criteria and applicable tariff requirements of the Party. Qualified Interruptible Load resources that are designated by a Party as Contingency Reserves resources shall be load that is capable of being removed from the system within the Disturbance Recovery Period and remaining removed for the duration of the Contingency Reserves Activation Period or until replaced by equivalent resources following the Contingency event. The TCRSG will not limit the amount of interruptible load a Party may use as Contingency Reserves.
- 1.10 The Reserve Group Reportable Disturbance level shall be determined in accordance with applicable Reliability Standards and included in Attachment A. The Operating Committee must approve any changes to the Reserve Group Reportable Disturbance level.
  - 1.10.1 The Administrator, on behalf of and on the direction of the TCRSG, shall report in accordance with the applicable NERC DCS Reliability Standards as a Reserve Sharing Group if any Party(ies) within the TCRSG Region experiences a Reserve Group Reportable Disturbance (which is comprised of one Disturbance or multiple Disturbances within

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one minute that equal or exceed the Reserve Group Reportable Disturbance level) and such Party(ies) requests Contingency Reserves Activation from the TCRSG.

1.10.2 If a Party(ies) experiences a Disturbance or multiple Disturbances within one minute that equal or exceed the Reserve Group Reportable Disturbance level and does not request a Contingency Reserves Activation, such Party shall report its DCS compliance under BAL-002 relative to the Reserve Group Reportable Disturbance level, and will be measured against the applicable NERC DCS Reliability Standards as a single Party.

- 1.11 The Parties shall provide all data necessary to determine compliance with the applicable Reliability Standards to the Administrator as set forth in the TCRSG Administration Agreement. The Administrator shall compile the data and provide the necessary reports to SERC to demonstrate compliance with the applicable Reliability Standards.
- 1.12 The Administrator shall implement and maintain a backup process for failure of the primary ARS System. In the event of a failure of the ARS System, the Administrator shall manually communicate the requirement for each Party to deploy its Contingency Reserves and the amount requested.
- 1.13 The Parties shall not count more than once the same portion of resource capacity (e.g., reserves from jointly owned generation) as Contingency Reserves.
- 1.14 A Party's ability to deliver Contingency Energy is subject to deliverability constraints as indentified in the deliverability report.
- 1.15 Any Party carrying Penalty Contingency Reserves (as defined in Section 2.3.2) shall use all of its Spinning Reserves and Non-Spinning Reserves plus any Penalty Contingency Reserves before requesting a deployment of Contingency Reserves from the TCRSG.

## 2. CONTINGENCY RESERVES ACTIVATION REQUIREMENTS

### 2.1 TCRSG Disturbances

2.1.1 In accordance with the applicable NERC DCS Reliability Standard, each Party shall meet, and be measured against, the requirements of each Reserve Group Reportable Disturbance.

2.1.2 When a Party experiences a Disturbance that is equal to or greater than the Reserve Group Reportable Disturbance, or utilizes any of its



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Contingency Reserves set aside for the TCRSG, such Party shall enter the Disturbance in the ARS System and call for a Contingency Reserves Activation for the amount needed, which may be less than the loss or none at all.

2.1.3 If the Contingent System fails to request assistance within 3 minutes of the start of the Disturbance, any Delivery System which does not meet 100% compliance under BAL-002 for that Disturbance shall have that Disturbance excluded from its performance for the reporting quarter. The Delivery Systems that meet 100% compliance for that Disturbance shall include that Disturbance in their performance for the applicable reporting quarter. If the TCRSG is non-compliant with respect to a Disturbance where the Contingent System calls upon reserve assistance after 3 minutes, the ACEM of the Contingent System shall be adjusted by the sum of MW deficiencies of the Delivery Systems not meeting 100% compliance for that Disturbance, and the resulting adjusted value for the Contingent System(s) shall be included in its applicable quarterly performance report.

2.1.4 The maximum amount of Contingency Reserves that can be requested through the ARS System for multiple Contingency Reserves Activations is the sum of each Party's available Contingency Reserves (consisting of such Party's Contingency Reserves Requirement and Extra Contingency Reserves, if any) as reflected in the ARS System. If such total available Contingency Reserves for all Parties drops below the Most Severe Single Contingency, the ARS System shall alarm the Parties and the Administrator 15 minutes after a Contingency Reserves Activation has occurred of the need for the Parties to voluntarily make available Extra Contingency Reserves to cover the Most Severe Single Contingency. If the ARS System does not alarm the Parties of the shortage of Contingency Reserves, the Administrator will notify the Parties as necessary through other means.

## 2.2 Conditions Precedent to Contingency Reserves Activation

2.2.1 Loss of Generation. A Party may request a Contingency Reserves Activation if such Party experiences a Loss of Generation (i.e., the loss of a specific generating unit(s) not exceeding the capability of such generating unit(s)). After the initial Contingency Reserves Activation request based on Loss of Generation, any subsequent Contingency Reserves Activation requests, other than an extension due to the original Contingency, will be submitted as Other Extreme Conditions (or OEC).

2.2.2 Loss of Schedule. A Party may request a Contingency Reserves Activation if a Party experiences a Loss of Schedule. The Administrator

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shall handle the request in the same manner as the Loss of Generation in Section 2.2.1. After the initial use of Loss of Schedule, any subsequent Contingency Reserves Activation requests other than an extension due to the original Contingency, will be submitted as OEC.

2.2.3 Other Extreme Conditions. The ARS System may be activated when such Contingency Reserves Activation is needed by a Party for OEC such as to prevent the curtailment of firm load, or to restore its ACE within acceptable limits as required to maintain compliance with applicable Reliability Standards. The use of OEC more than once in the same day by the Contingent System Party for events that do not meet or exceed the Reserve Group Reportable Disturbance level is only allowed after the TCRSG has re-established its Contingency Reserves Obligation, which means that the Contingent System must have restored its Contingency Reserves Requirement. If the Contingent System Party cannot restore its Contingency Reserves Requirement, it must declare an Emergency Energy Alert Level 2 (“EEA2”) or higher.

After any occasion in which a Party’s use of OEC for a Contingency Reserves Activation that is less than the Reserve Group Reportable Disturbance level exceeds three hours in a day (a 24 hour period starting at midnight and ending at 23:59 Central Prevailing Time), the Party will be required to add 25% to its original Contingency Reserves Requirement for a 90-day period. This additional Contingency Reserves Requirement will not exceed 100% of a party’s original Contingency Reserves Requirement and will be applied on the first day of the next month that is more than 10 days after the occurrence. The Administrator will send a Notice to such Party.

The price of Contingency Energy will be increased for multiple uses of OEC for Contingency Reserves Activation that is less than the Reserve Group Reportable Disturbance level during any calendar month as follows:

Normal pricing for OEC events 1 through 4 as calculated per Attachment B.

Double the normal pricing (as calculated per Attachment B) for OEC events 5 through 9.

Triple the normal pricing (as calculated per Attachment B) for OEC event 10 and above.

## 2.3 Contingency Reserve Allocation

2.3.1 The “BA Adjustment” field in the ARS System allows Parties to adjust the amount of available Contingency Reserves. Acceptable uses of

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this field include: (1) reduction in a Party's Contingency Reserves Requirement due to declaration of an EEA2, as defined in Section 2.2.3, or an Emergency Energy Alert Level 3 ("EEA3"); or (2) to change the mix of Spinning Reserves and Non-Spinning Reserves carried by a Party.

2.3.2 The Administrator will enter additional Contingency Reserves into the ARS System ("Penalty Contingency Reserves") for any Party required to carry an amount of Contingency Reserves that is greater than its Contingency Reserves Requirement due to non-compliance with Reliability Standards pursuant to Section 6.1.1, or with the TCRSG Operating Protocols as in Section 2.2.3 above.

2.3.2.1 When a penalized Party requests deployment of Contingency Reserves, such penalized Party shall use all of its Spinning Reserves and Non-Spinning Reserves comprising its Contingency Reserves Requirement, plus Penalty Contingency Reserves, before accessing the Contingency Reserves of the TCRSG.

2.3.2.2 Penalty Contingency Reserves may be used only by the penalized Party and may not be deployed to other Parties.

2.3.2.3 A Party required to carry Penalty Contingency Reserves may not deploy such reserves unless it is responding to its own Contingency Reserves Activation or its own declaration of an EEA2 or EEA3.

2.3.3 A Party may voluntarily offer Extra Contingency Reserves, which shall be considered part of such Party's Contingency Reserves and available to all Parties, subject to the following conditions:

2.3.3.1 Extra Contingency Reserves shall be deployed and subject to the terms and conditions of the Agreement and the Operating Protocols.

2.3.3.2 Extra Contingency Reserves may be offered in response to a request from the Administrator for additional Contingency Reserves.

2.3.3.3 A Party may offer Extra Contingency Reserves into the ARS System to allow the TCRSG to cover the Most Severe Single Contingency after Contingency Reserves have been deployed for a Disturbance.

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2.3.3.4 Extra Contingency Reserves may be used in response to a Party's own request for a Contingency Reserves Activation.

2.3.3.5 Extra Contingency Reserves shall be available for another Party's request for Contingency Reserves Activation when the Contingency Reserves Requirements of all Parties in the TCRSG are fully deployed.

2.3.3.6 A Party providing Extra Contingency Reserves will not be assessed performance penalties if such Extra Contingency Reserves are not deliverable

2.3.3.7 A Party shall consider deliverability when offering Extra Contingency Reserves to the TCRSG, except in instances when the TCRSG is deficient due to an ongoing Contingency Reserves Activation.

2.4 Contingency Reserves Deployment

The Administrator shall ensure that the ARS System shall deploy the Contingency Reserves as follows:

2.4.1 The Contingency Reserves (including any offered Extra Contingency Reserves) of the Contingent System are utilized first toward meeting the amount of Contingency Energy required by the Contingent System. Next, the Contingency Reserves of the TCRSG Parties will be utilized on a pro rata basis. If necessary to meet the Contingency Reserves Activation Request, any Extra Contingency Reserves will be deployed on a pro rata basis.

2.4.2 Deployment of Contingency Reserves for any Party required to carry Penalty Contingency Reserves will be in accordance with Section 2.3.2 above. Penalty Contingency Reserves may be used only by the penalized Party and may not be deployed to other Parties.

2.4.3 Each Party shall acknowledge a Contingency Reserves Activation on the ARS System and respond with its allocation of its Contingency Reserves Requirements and Extra Reserves as determined by the ARS System.

2.4.4 Contingency Reserves allocated and deployed under a Contingency Reserves Activation cannot be recalled or reallocated until expiration of such Contingency Reserves Activation.

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2.5 Contingency Reserves Activation

2.5.1 A Contingent System Party shall request a Contingency Reserves Activation by identifying the Contingency type (Loss of Generation, Loss of Schedule or OEC) and the MW amount of the reserve request, and entering the information in the ARS System. The ARS System shall calculate the share of the total megawatts of Contingency Reserves to be provided by each Party and will notify the Contingent System and each Delivery System of their respective requirements.

2.5.2 Unless a request is submitted in the ARS System, or as a result of a Contingent System Party's declaration of an EEA2 or EEA3, such Party has adjusted its Contingency Reserves Requirement, the Contingent System Party shall retain its Contingency Reserves Requirement obligation to the other Parties. Upon receipt of a Contingency Reserves Activation request, schedules for Contingency Energy shall immediately be implemented utilizing an instantaneous or zero (0) Ramp. The minimum schedule shall be 30 minutes and the schedule shall end on the nearest half or top of the hour immediately following the conclusion of the 30 minute minimum requirement.

2.5.2.1 Contingency Energy shall be supplied to any Party making a Contingency Reserves Activation using the ARS System.

2.5.2.2 Each Party shall be responsible for providing Contingency Energy under the Operating Protocols up to the maximum amount specified herein.

2.5.2.3 The Administrator shall ensure the implementation of Contingency Reserves is in accordance with the Operating Protocols.

2.5.3 The Administrator will configure the ARS System and any back-up system so that it achieves the following:

2.5.3.1 If a Contingency Reserves Activation is requested when a prior Contingency Reserves Activation is still in effect, the ARS System shall calculate additional allocations to attempt to accommodate the later Contingency Reserves Activation without modifying any previously determined allocations for the prior Contingency Reserves Activation.

2.5.3.2 Such additional allocations shall include the amount of remaining Contingency Reserves Requirement, including Extra

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Contingency Reserves, plus Penalty Contingency Reserves (if applicable to the requesting Party) that were not deployed in connection with the prior Contingency Reserves Activation(s).

2.5.3.3 The ARS System shall compare the total Contingency Reserves Activations then in effect to the total Contingency Reserves Obligation to ensure that the total requests for Contingency Energy do not exceed the Contingency Reserves Obligation, plus any Extra Contingency Reserves, plus Penalty Contingency Reserves (if applicable to the requesting Party).

2.5.3.4 If a Delivery System experiences a sudden unscheduled loss of a resource while it is providing Contingency Energy to a Contingent System, it shall continue to provide such Contingency Energy in accordance with the Operating Protocols.

## 2.6 Contingency Reserve Extensions

2.6.1 The Contingent System Party may request only one extension of the Contingency Reserves Activation no later than 10 minutes prior to the termination of such Contingency Reserves Activation, at an end time to be selected by the Party, provided that:

2.6.1.1 Such extension shall end on a quarter hour and shall not extend the total Contingency Reserves Activation to greater than 105 minutes to ensure that Contingency Reserves are replenished within the 90-minute Contingency Reserve Restoration Period after the 15-minute Disturbance Recovery Period.

2.6.1.2 With regard to any extension of a Contingency Reserves Activation, the requesting Party shall not request an increase, decrease, or cancellation of an existing Contingency Reserves Activation. If the Contingent System Party needs additional assistance during the extension, such Contingent System Party may make a second Contingency Reserves Activation request for the additional amount of Contingency Reserves.

2.6.2 The extension of a Contingency Reserves Activation event does not constitute a new Contingency Reserves Activation event.

## 2.7 Contingency Reserves Activation Cancellations

2.7.1 A Party shall not cancel an initial request or an extension of a Contingency Reserves Activation, except that the Contingent System may

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request that the Administrator cancel a Contingency Reserves Activation if no other Party is participating in such Contingency Reserves Activation and the Contingent System has restored its Contingency Reserves.

2.7.2 The Administrator may cancel a Contingency Reserves Activation for ARS System problems or at the direction of the TVA Reliability Coordinator.

2.7.3 Any findings associated with non-compliance of applicable NERC Reliability Standards due to the cancellation of a Contingency Reserves Activation at the direction of the TVA Reliability Coordinator shall be reviewed and considered for submittal to NERC for exclusion in the calculation of Reserve Group Reportable Disturbance compliance requirements.

## 2.8 Contingency Reserve Termination

2.8.1 The ramp rate used for terminating a Contingency Reserves Activation shall be: 10 minutes ramp out across the ending quarter, half or top of the clock hour.

## 3. **REQUIRED DATA**

To perform the studies required to determine the Contingency Reserves Obligations, the Contingency Reserves Requirements, and compliance with the obligations imposed by the Operating Protocols, each Party shall submit data requested by the Administrator to the Administrator in conformance with the following minimum requirements:

- 3.1 All data submitted shall satisfy the requirements, as they may change from time to time, of any procedures adopted by the Operating Committee.
- 3.2 Data shall be submitted in an electronic format, or as otherwise specified by the Operating Committee and/or Administrator.
- 3.3 On or before January 20 of each calendar year, each Party's BA coincident peak load level of all LSEs in the BA for the preceding calendar year and the Most Severe Single Contingency for that calendar year shall be submitted to the Administrator. Such data shall be updated at any time for any known material changes. Based on each Party BA's Most Severe Single Contingency, the TCRSG's Most Severe Single Contingency will be reviewed and updated as necessary, but no less frequently than annually.

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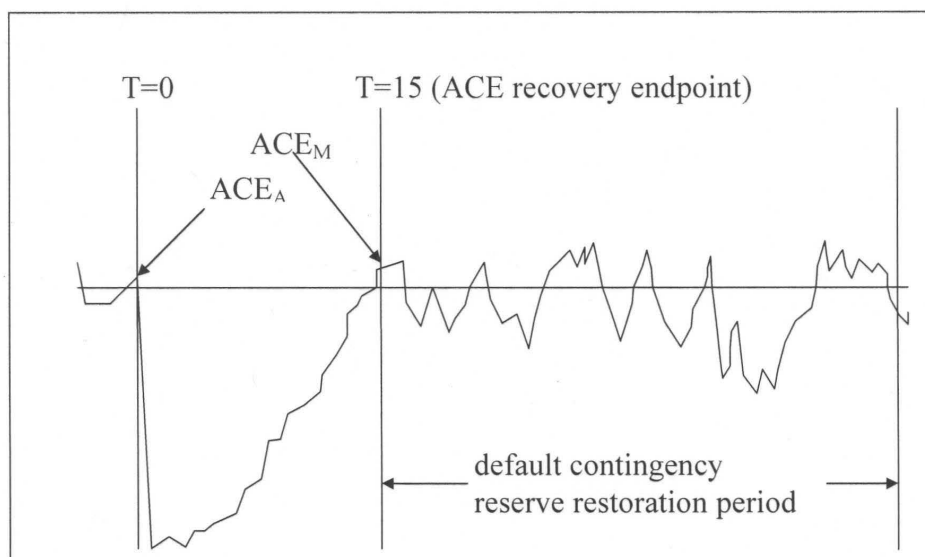
- 3.4 The Parties acknowledge that additional information required to determine the Contingency Reserves Requirement shall be provided by the Parties to the Administrator in accordance with the provisions of the Agreement.
- 3.5 For any month in which a Party is required to carry Penalty Contingency Reserves as per Section 2.3.2, such Party shall submit its actual hourly average Contingency Reserves that were available for the preceding month by the 15<sup>th</sup> day of the following month to the Administrator. The Administrator will issue a Deficiency Letter to any Party required to carry Penalty Contingency Reserves, if that Party was non-compliant on one or more occasions during the preceding month.

**4. COMPLIANCE DATA SUBMITTAL**

- 4.1 The Administrator shall collect the data and perform the calculations necessary for each Reserve Group Reportable Disturbance event to determine TCRSG and individual Party compliance under this Agreement.
- 4.2 No later than the following business day after each Contingency Reserves Activation, the Contingent System shall provide the Administrator with the actual time of the disturbance (“T<sub>0</sub>”) in hour, minute, and second detail in Central Prevailing Time (“CPT”), indication of whether or not the disturbance is a Reserve Group Reportable Disturbance, and the MW amount of the Disturbance
  - 4.2.1 The Contingent System is responsible for the accurate determination of T<sub>0</sub> in accordance with the applicable Reliability Standards and shall bear all responsibility for any associated non-compliance of the TCRSG for incorrectly determining the actual loss time, T<sub>0</sub> for the Disturbance.



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4.3 Based upon the actual time of the Disturbance,  $T_0$ , each Party shall determine the following for each Reserve Group Reportable Disturbance:

4.3.1  $ACE_A$ , the pre-disturbance ACE.

4.3.2  $ACE_M$ , the maximum ACE of a) the Contingent System over the 15-minute DCS recovery period, or b) the Delivery System between the time its Contingency Reserves Activation schedule is reflected in the calculation of ACE, and the end of the DCS recovery period.

4.3.3 Percentage recovery for reserve event  $i$  (" $R_i$ "), calculated as follows:

$$\text{If } ACE_A < 0 \text{ then } R_i = 100\% \times (MW_{Loss} - \max(0, ACE_A - ACE_M)) / MW_{Loss}$$

$$\text{If } ACE_A \geq 0 \text{ then } R_i = 100\% \times (MW_{Loss} - \max(0, -ACE_M)) / MW_{Loss}$$

where  $MW_{Loss}$  for the Contingent System is the MW amount of the resource loss on the Contingent System, minus the reserve assistance received, or for the Delivery System is the MW amount of the reserve assistance requested of the Delivery System.

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- 4.4 In a format agreed to by the Operating Committee, each Party shall provide its ACE, Frequency Error, and other four-second data for the period starting 15 minutes prior to the Contingency Reserves Activation request time, and ending 45 minutes after the Contingency Reserves Activation request time. The data provided shall be from the same source data as used by the Party for determining compliance to the Reliability Standards.
  
- 4.5 Any additional Disturbances that occur after one minute of the start of a Reportable Disturbance but before the end of the Disturbance Recovery Period can be excluded from evaluation upon the approval of the Operating Committee. The Party or Parties, subject to the Operating Committee approval, shall:
  - 4.5.1 Provide its data as required in Section 4.4.
  
  - 4.5.2 Determine the DCS compliance of the initial Reserve Group Reportable Disturbance by performing a reasonable estimation of the response that would have occurred had the second and subsequent Disturbances not occurred and provide a second data file reflecting its reasonable estimation as an ACE adjustment to the four-second data provided under Section 4.4.
  
  - 4.5.3 Use the adjusted ACE provided under Section 4.5.2 in determining its  $ACE_A$  and  $ACE_M$  as required in Section 4.3.
  
- 4.6 The Party shall provide the Administrator with the information required in Section 4.3 and Section 4.4 within 7 calendar days after the request for data from the Administrator for each Reserve Group Reportable Disturbance event.
  - 4.6.1 All data provided to and generated by the Administrator may be subject to review under a NERC compliance audit.
  
  - 4.6.2 The Party is responsible for the accuracy of all data provided to the Administrator and shall bear all responsibility for any associated non-compliance of the TCRSG directly attributed to the quality or accuracy of the data provided.

## **5 CALCULATION OF TCRSG COMPLIANCE TO THE DCS**

- 5.3 The Administrator shall collect the data and perform the calculations necessary to determine the TCRSG compliance with the applicable Reliability Standards associated with DCS.

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- 5.4 The Administrator shall utilize the information provided by the Parties to determine:
- 5.4.1.1 The number of Reserve Group Reportable Disturbances;
  - 5.4.1.2 The average percentage recovery of the TCRSG;
  - 5.4.1.3 The percentage multiplier to the Contingency Reserves equal to 200% minus the average percentage recovery determined in Section 5.2.2;
  - 5.4.1.4 The adjusted Contingency Reserves Requirement calculated as the Most Severe Single Contingency for the calendar quarter plus any additional MW carried as a result of the prior quarter's Reserve Group Reportable Disturbance compliance, times the percentage multiplier determined in Section 5.2.3; and
  - 5.4.1.5 The MW increase in Contingency Reserves Requirement which is the difference between the adjusted Contingency Reserves Requirement determined in Section 5.2.4 and the prior quarter's minimum Contingency Reserves Requirement.

## **6 NERC AND SERC PENALTY ALLOCATION**

This section will outline the process for allocating NERC and SERC penalties for non-compliance with the Reliability Standards as they relate to the TCRSG and/or any Party's activities under the Agreement, the Administration Agreement or these Operational Protocols.

### **6.3 DCS Requirements**

- 6.1.1 According to applicable Reliability Standards, if the TCRSG does not meet the NERC DCS requirements for a calendar quarter, the Contingency Reserves for the TCRSG shall be increased. Any such Contingency Reserves increase shall be allocated to those Parties that did not satisfy the NERC DCS requirements for each Reserve Group Reportable Disturbance during that quarter. The Administrator shall calculate the allocation using a methodology pre-approved by the Operating Committee.

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- 6.1.2 For any calendar quarter in which the TCRSG is not DCS compliant, the Administrator shall provide a report detailing the calculation of the non-compliance penalty and increase in the amount of Contingency Reserves Requirement, and shall provide a Notice of such increase to all impacted Parties no later than the 10th calendar day following the end of the calendar quarter (i.e. April 10th, July 10th, October 10th, January 10th).
  - 6.1.3 Any change in the Contingency Reserves Obligation shall be implemented the first day of the calendar month immediately following the report month (i.e. May 1st, August 1st, November 1st, and February 1st) upon approval by the Operating Committee.
  - 6.1.4 In the event that the TCRSG receives a financial penalty associated with non-compliance with quarterly DCS performance requirements, the Administrator shall allocate the financial penalty pro-rated to each Party by the ratio of each Party's quarterly increase in Contingency Reserves Requirement due to the penalty associated with non-compliance event.
- 6.2 Any penalty not associated with Reserve Group Reportable Disturbance events that are incurred by TCRSG or any Party, which penalty is related to such Party's or the TCRSG's activities under the Agreement, the penalty will be allocated pursuant to the terms of the Agreement.

## **7 CONTINGENCY RESERVE DELIVERABILITY REQUIREMENTS**

### **7.1 Transmission Reliability Margin ("TRM") Determination**

- 7.1.1 Provision of TRM is the responsibility of the applicable Transmission Service Provider within the TCRSG Region. The Operating Committee and/or Administrator shall work with the applicable Transmission Service Providers to determine the proper amount of TRM to be used for Contingency Reserves Activations. Annual updates of deliverability studies will be performed by the applicable Transmission Service Provider as directed by the Operating Committee.
- 7.1.2 Each Party shall ensure the deliverability of its Contingency Reserves Requirement.
- 7.1.3 Each Party shall provide written certification ("Certification of Deliverability") stating that its Contingency Reserves Requirement is deliverable, generally describing the methodology utilized in its deliverability study and specifying the amount of TRM that has been set aside for the purpose of receiving and/or delivering Contingency Reserves.

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7.2 Maintaining Contingency Reserve Deliverability

7.2.1 The deliverability of Contingency Reserves is maintained through the withholding of TRM from firm transmission service usage. However, no transmission owner will be required to upgrade its transmission system solely to provide TRM for TCRSG purposes. Such conditions will be identified during the deliverability study process under Section 7.1 and communicated to the Parties in a timely manner.

7.2.2 In the real-time operations, the amount of TRM that is set aside for the purposes of deliverability of Contingency Reserves (as stated in the Certification of Deliverability) may be maintained through initiating redispatch and/or other operating actions.

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## Attachment A

TCRSG Most Severe Single Contingency (MSSC)		1270 MW	
Reserve Group Reportable Disturbance (80% TCRSG MSSC)		1016 MW	
TCRSG Party	2008 Peak Load	CONTINGENCY RESERVES	
EKPC	3051	93	
LGEE	6584	201	
TVA	32027	976	
Total	41662	1270	

## Attachment B

### Billing Process

#### Final Bill Determination

The cost of Contingency Energy provided under the TCRSG Agreement will be the greater of \$100/MWH or 110% of the verifiable cost as determined by the following TCRSG Costing Guidelines. Transmission costs (equal to the Transmission Provider's posted non-firm hourly point-to-point rate) incurred by the supplying Party will be added to the energy cost. This may include cost of redispatch for deliverability.

Multiple uses of OEC for Contingency Reserves Activation that is less than the Reserve Group Reportable Disturbance level during any calendar month can result in higher costs of Contingency Energy as per 2.2.3 of these Operating Protocols.

Billing and settlement between the Parties will follow the existing interchange settlement process, procedures and requirements.

#### TCRSG Costing Guidelines

This section provides guidelines for costing of energy supplied during a Contingency Reserves Activation event under the TCRSG. These guidelines represent generally accepted practices among TCRSG participants.

##### General Guidelines

The cost of Contingency Energy provided during Contingency Reserves Activation events shall be the verifiable cost of the resource(s) used to provide such service. This cost can either be from the units that actually responded to the event or based on an economic stacking of resources that assigns the highest cost units to the sale. Under either approach, actual unit cost is applied. Under an economic stacking approach, units online during the event (including units providing Non-Spinning Reserves) are stacked from highest to lowest cost and decremented down from the unit hourly output until the MW response has been covered.

In general, megawatts at or below minimum load from units that were online prior to the event are not assigned to the sale because this energy represents sunk commitment costs for pre-existing sales or native load. Actual cost for such units can include incremental fuel and O&M costs, environmental costs or other costs that otherwise would not have been incurred absent the Contingency Reserves Activation event.

For offline units started in response to the event, all MW produced including those below minimum load are assigned to the sale. Actual cost for these units can include average fuel and O&M costs, environmental costs, or other costs that otherwise would not have been incurred absent the Contingency Reserves Activation. Startup costs may be assigned to the sale for those units that were started to supply Non-Spinning Reserves or started in response to a subsequent Contingency Reserves Activation during the recovery period.

Costs for all units assigned to the sale should be aggregated to determine an average cost for all response MWs. This cost becomes the basis for comparison to the 110% of verifiable costs.

##### Non-Spinning Reserves Generation Considerations

For units started that have a minimum runtime longer than the reserve call duration, costs incurred beyond the end of the call should not be assigned to the sale. These costs are generally borne by the supplier.

If minimum load for a unit started for a Contingency Reserves Activation is greater than the Non-Spinning Reserves request from that participant, all costs for that unit can still be assigned to the sale. Excess energy from these units will reduce the MW response from units carrying Spinning Reserves.

##### Demand Response Considerations

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In general, pricing of reserves supplied from demand response resources should be based on the highest cost generation determined from the economic stacking process defined above. To the extent contracts for interruptible load used to supply Non-Spinning Reserves define payments for curtailment, those costs should only be used if they are less than or equal to the highest cost units in the stack for the Party that otherwise would have supplied the reserves. Avoided costs for Non-Spinning Reserves units not started due to reserves supplied from demand response should not be used.

Forward and Economic Purchase Considerations

Pricing of Contingency Reserves sales should not include costs associated with forward purchases of energy.

Under circumstances where a Party is able to purchase economic energy during the replenishment period of the reserve activation which reduces the response from the Party's resources, the cost of those units or units that remain in the Party's economic stack can be assigned to the sale for the remainder of the activation.